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Migration and development

A paper prepared for the Policy Analysis and Research Programme of the Global Commission on International Migration

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Introduction[1]

Of all the mutual impacts between countries – trade, aid, foreign investment, communication, transport, etc. – migration perhaps has the potential to have the most significant and lasting impacts. Migration can transform the individuals who move, the societies they move into and even the societies they leave behind. For that same reason, migration also has the potential to be the most politically controversial issue, especially in the societies where immigrants settle. As a result, it is very easy when discussing migration to focus solely on the impacts of immigration. Yet, we know that emigration can also have significant impacts, especially on some countries in the developing world. Therefore, good migration policies need to go beyond local impacts and take account of these mutual, global impacts.

These mutual impacts are often in sharpest relief in the context of economic development. Here, what we might call the 'development-migration-development' nexus becomes of great interest. Put simply, we know that migration is often motivated by relative disparities in the economic development of sending and receiving countries (though generally not in the case of those move to seek political asylum). Yet, there is also evidence to suggest that migration itself can have important impacts on economic development, especially on relatively poorer countries experiencing significant outflows of migrants. As the scale and complexity of migratory flows have grown, the mutual development impacts of the flows of people, skills, knowledge, and remittances have received considerable attention in recent years from researchers and policy makers. [1]

This paper synthesises some of the findings of this growing literature and seeks to draw out some key interventions that policy makers at both the national and multilateral levels might want to consider. While the paper is certainly concerned with empirical and theoretical issues arising from this literature, its primary focus is on policy options that optimise the instrumental benefits of migration for enhancing economic development and poverty reduction in developing countries. Adopting what some have called a 'nationalist' position (see Ellerman 2003), this paper assumes that the adverse impacts of migration on particular countries, even if that migration has benefited the individual migrant and improved global economic efficiency, are worth investigating and, where appropriate, doing something about.

Here, the parallels between migration and other mutual impacts, especially with international trade, are most relevant. While it is clear that trade almost always benefits all those involved in a transaction, policy makers at all levels still need to pay attention to particular outcomes where other public policy aims might be compromised and to ways in which the impacts of trade can benefit the most vulnerable stakeholders. This paper argues that the challenge of managing the migration-development nexus seems to be much the same.

There is also another important parallel between international trade and international migration. Some 50 years ago, the global trading system was just beginning the slow but steady process of liberalisation. At that time, the emergence of the current rules and governance systems for international trade would have been unimaginable to many involved. In many ways, the current rules governing international migration resemble the global trading

[1] The author is indebted to Bente Nielsen for providing invaluable research assistance for this paper, and to several colleagues at ippr and anonymous reviewers for comments.

system of 50 years ago. Those thinking about what a new international framework for managing migration would look like face remarkably similar challenges: how to design a system that leads to freer and fairer flows of people, skills and remittances.

This paper seeks to point the way in one aspect of that system, namely how to utilise the impacts of migration for economic development and poverty reduction. Three key areas that affect the relationship between migration and development are examined in detail:

- the immediate and long-term impacts of the emigration of people (the loss of skills, the potential for circulation and return migration);
- the impact of financial flows (remittances and investments); and
- the role of diaspora populations (other links).

The paper identifies both general measures that apply to all migrants in all countries (e. g. the cost of transferring money) and also specific contexts in which the relationship between migration and development is particularly relevant (e. g. low-income, high-emigration countries; countries experiencing 'brain strain'; post-conflict situations). Before turning to these policy options, the following section outlines some of the key features of the empirical landscape.

Some empirical observations

Migration is a complex phenomenon. Migrants move within their own country and between countries; some people move for short periods, others permanently; some are forced to move, others do so willingly; some people move with high levels of financial and human capital; others are not so well endowed; and so on. Making conclusive generalised observations about these migratory flows is not easy, let alone making observations about their impact on economic development. This paper recognises the empirical complexity of the subject being discussed but seeks, nevertheless, to identify possible policy interventions that could promote fairer flows of people, money, skills and knowledge.

Migration is a widespread and growing phenomenon. While flows can be controlled or managed to a degree, people will migrate, especially where there is war and persecution, where economic opportunities are distributed unevenly across borders, or where there are large inequalities in standards of living around the world. In the last few decades there has been significant growth in the numbers of international migrants (Table 1), especially in the developed countries.

Table 1. International migrants by region of destination, 1960-2000, millions

Region	1960	1970	1980	1990	2000
World	***75. 9***	***81. 5***	***99. 8***	***154. 0***	***174. 9***
Developed countries	32. 1	38. 3	47. 7	89. 7	110. 3
Developed countries (excl. USSR)	29. 1	35. 2	44. 5	59. 3	80. 8
Developing countries	43. 8	43. 2	52. 1	64. 3	64. 6
Africa	9. 0	9. 9	14. 1	16. 2	16. 3
Asia*	29. 3	28. 1	32. 3	41. 8	43. 8
Latin America & the Caribbean	6. 0	5. 8	6. 1	7. 0	5. 9
North America	12. 5	13. 0	18. 1	27. 6	40. 8
Oceania	2. 1	3. 0	3. 8	4. 8	5. 8
Europe**	14. 0	18. 7	22. 2	26. 3	32. 8
USSR (former)	2. 9	3. 1	3. 3	30. 3	29. 5

Source: UN/DESA 2004: viii. * Excluding Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. ** Excluding Belarus, Estonia, Latvia, Lithuania, the Republic of Moldova, the Russian Federation and Ukraine.
NB. These are net numbers; gross flows of migrants may be higher, meaning that the total stock of those who have been international migrants at some stage is likely to be much higher.

However, international migratory flows are relatively small compared to other flows such as trade or financial flows. Despite considerable deepening of global flows of money, goods, services and information, the mobility of people remains limited. While the share of merchandise exports and trade in services in world GDP roughly doubled between 1960 and 2000 (from around 10 to 20 per cent and 3 to 5 per cent respectively), the share of international migrants in world population has not risen that dramatically (from around 2. 5 to 3 per cent). As such, we should be careful not to exaggerate the importance of migration.

Economic disparities between countries influence the dynamics of international migration. People often move to seek economic opportunities in more prosperous countries. The fastest growth in immigrant numbers has taken place in developed countries (Table 1 above) and about a quarter of all international migrants are thought to have moved from non-OECD countries to OECD countries (Table 2). However, even amongst the more substantial movements between non-OECD countries, many people move from poorer to richer countries, for example from many parts of Sub-Saharan Africa to South Africa and from many parts of Southeast Asia to Singapore and Malaysia.

Table 2. International migration by region, millions and percentage.

	From OECD countries	From rest of the world	Total
To OECD countries	**22. 2m** (16. 2 %)	**34. 1m** (24. 9%)	**56. 3m** (41. 1%)
To rest of the world	**2. 5m** (1. 8%)	**77. 9m** (57. 0%)	**80. 4m** (58. 8%)
Total	**24. 7m** (18. 0%)	**112. 0m** (81. 9%)	**136. 7m** (100. 0%)

Source: Harrison *et al.* (2004:4).

Migration can have significant benefits for global economic welfare. When migrant workers move between differently endowed countries (e. g. from a country where there are large labour surpluses in one sector to another where there are labour shortages in that sector), that movement can enhance economic conditions in both sending and receiving countries. Indeed, one estimate suggests that if developed countries were to increase the proportion of migrant workers in the labour force equivalent to 3 per cent, world welfare would increase by over 150 billion dollars per annum (Winters 2002).

Migration can also have significant economic benefits for developed countries. Given the preferences of the resident workforce in developed countries, migrant workers are likely to fill vacancies in the so-called dirty, dangerous and difficult jobs. In the medium term, industries in developed countries that face critical vacancies can benefit from taping into excess labour supply from developing countries (e. g. health or IT sectors in recent years). Over the long term, as dependency ratios in developed countries rise, there will be a need to attract migrant workers to keep an economy dynamic.

Movements from poorer to richer countries can have adverse economic impacts on sending countries. Where these flows lead to a drain of highly skilled people from developing countries, the ability of those countries to develop may be compromised. The absence of these key workers hampers the ability ('brain strain') of these countries to come up with homegrown solutions to their problems. Where those migrants move and contribute to economic dynamism in destination countries, there is a risk that migration can widen the gap between richer and poorer countries.

These impacts are often worst in the poorest countries. For some poor countries that have high rates of permanent emigration, especially of highly skilled people, migration can be a significant threat. Where these countries have poor economic and financial infrastructure, the potential for emigrants to contribute to development through remittances, investment, and return/circulation migration is also hampered.

Yet, migration can also have positive economic impacts on countries of origin. The money that migrants send home (remittances) can contribute significantly to the recipients' welfare as well the receiving country's economic well-being. Where migrants return home, either permanently or for short periods, with new skills that they put to good use, they and their communities can benefit. Even when they don't return in person, members of a diaspora can contribute to the development of their erstwhile homes through trade, investment, networking, and skills transfer. Some of these effects are summarised in Table 3.

Table 3. A summary of the economic effects of emigration

Positive effects	Negative effects
• Provides opportunities to workers not available in the home country. • May ease effect on the domestic market of the supply of excess labour and reduce unemployment. • Inflow of remittances (that increase incomes and may lead to improved human development outcomes for recipients) and foreign exchange. • Technology, investments and venture capital from diasporas. • Can contribute to increased trade flows between sending and receiving countries. • Stimulus to investment in domestic education and individual human capital investments. • Return of skilled workers may increase local human capital, transfer of skills and links to foreign networks. • Charitable activities of diasporas can assist in relief and local community development.	• Loss of highly skilled workers and reduced quality of essential services. • Reduced growth and productivity because of the lower stock of highly skilled workers and its externalities. • Lower return from public investments in public education. • Selective migration may cause increasing disparities in incomes in the home country. • Loss of fiscal revenue from taxation of workers. • Remittances may diminish over time. • Inflationary potential of remittances, especially on real estate, in some areas. • A 'culture' of migration, disincentives to invest locally.

Source: adapted by author from UN/DESA (2004: 97) and other sources.

The net economic effect of migration depends on the context and is not well understood. Despite the best efforts of economists and others working in this area, there are no accurate models for estimating or predicting the net economic benefit of international migration on either sending or receiving countries. For sending countries, the net impact will depend to a great deal on the balance between temporary versus permanent migration, the balance between high-skill versus low-skill migration, the particular sectors and labour markets affected by emigration, the scale of remittances and so on.

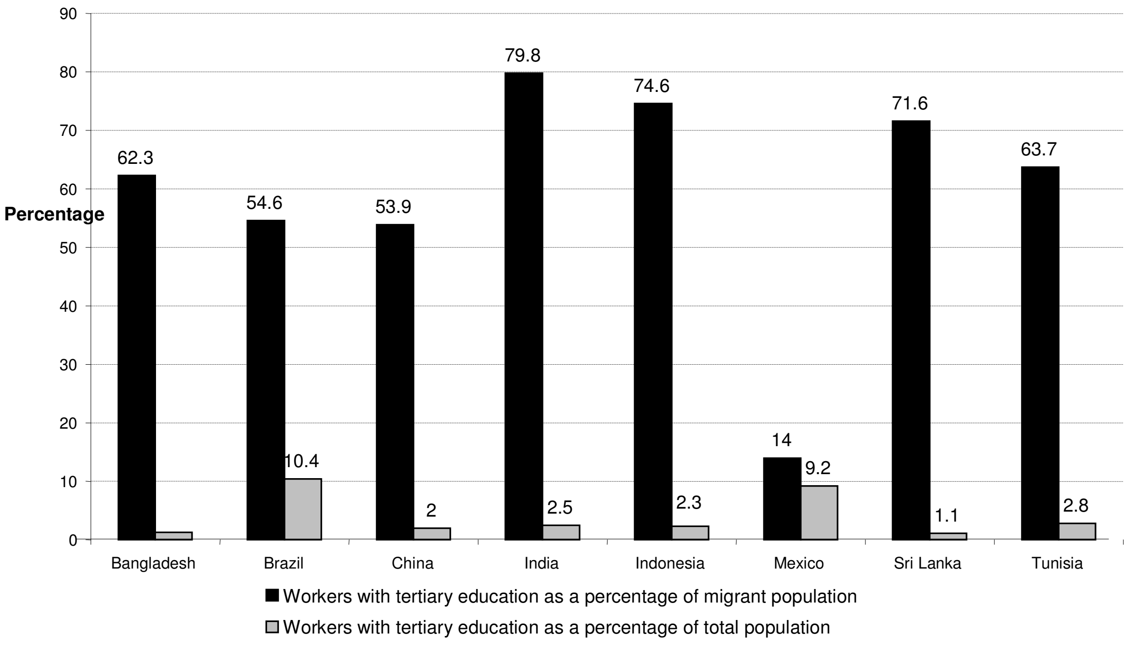
Managing the impacts of migration will require global interventions. Individual states often see migration in terms of local impacts and national interests. However, the global nature of flows means that managing the mutual impacts of migration will need a robust supranational framework. Moreover, managing the process for the mutual benefit of developed and developing countries will require partnership between states.

Optimising movements of people

Evidence of large numbers of highly-skilled people emigrating from the developing world is not hard to find:

- nearly one in ten tertiary-educated adults born in the developing world resided in North America, Australia or Western Europe (Lowell *et al.* 2004:9);
- between a third and half of the developing world's science and technology personnel live in the developed world;
- about 40 per cent of all African professionals have left the continent's shores in the post-colonial period (Africa Recruit 2003);
- by the end of the 1990s, Indians working in the US on working visas accounted for 30 per cent of the Indian software labour force (Commander *et al.* 2003);
- Jamaica loses about 20 per cent of its specialist nurses annually to mainly the US or the UK (Wyss 2004); and
- the proportions of tertiary educated people amongst emigrants from some developing countries is vastly higher than those in the resident population (Figure 1 shows, for example, that 79. 8 per cent of emigrants from India have a tertiary education while only 2. 5 per cent of the overall Indian population has a tertiary education).

Figure 1. Propensity of the highly-educated to migrate



Source: CPS, OECD, UNESCO cited in Kapur (2004).

These data confirm the fact that highly-skilled workers have a higher propensity to migrate than other workers. Skilled workers are attracted to developed countries not only because of higher wages, but also because of better working conditions with higher productivity. On the demand side, developed countries are keen to attract skilled workers, which can fill gaps in the labour force. The flight of skilled workers will further lower productivity and wages in developing countries, hence increasing the problems that cause emigration in the first place.

This vicious circle is compounded by the fact that countries with a lack of skilled workers will face difficulties attracting foreign direct investment.

However, the movement of highly-skilled workers itself is not something that we should necessarily be concerned about. Indeed, there is emerging evidence to suggest that many countries gain from the emigration of highly-skilled people (see, e. g. , Beine, Docquier and Rapoport 2003; Commander, Kangasniemi and Winters 2003). Instead, we should be concerned about the potential for these movements to have adverse *consequences* on the development of a sending country, especially where it undermines progress towards key public policy objectives such as the Millennium Development Goals (MDGs). We might label instances where these adverse impacts arise as ‘brain strain’.

Box 1. Migration *for* development in the Philippines?

The Philippines has now surpassed Mexico as the largest exporter of migrant workers, with about 8 million Filipinos (one tenth of the resident population) working abroad (Wehrfritz and Vitug 2004). Such a high rate of emigration has helped the Philippines in two ways:

- it has helped eased the structural employment problems brought on by a high population growth rate (around 2 per cent annually, with a population increase from 54. 3 million in 1985 to 81. 1 million in 2003 (ADB 2004)); and
- helped boost the Filipino economy through large-scale remittances (between US$14 billion and US$21 billion (Wehrfritz and Vitug 2004)).

The Filipino Government seeks to facilitate and promote temporary legal migration through subsidised benefits such as pre-departure training, life and medical insurance, and emergency loans (O’Neil 2004). It also encourages remittances to be sent through official channels: the Overseas Workers Welfare Administration issues identity cards, which double as Visa cards that can be used to access savings accounts and send home remittances for $3 or less per transaction.

The question of the net impacts of emigration is an open one. There has certainly been a seepage of highly skilled workers - the Philippine Software Association (PSA) estimates the migration rate for IT professionals at about 30-50 per cent per year while the rate for physicians going to foreign countries could be as high as 60 per cent (Alburo and Albella 2002). However, this must been seen against the fact that the unemployment rate for college graduates in general has remained high (ranging from 12 to 16 per cent in the 1990s (id.)). In other words, highly educated workers have not been absorbed in local labour markets and therefore migration is not necessarily a direct loss to the economy, especially when remittances are taken into account.

It is important to recognise that brain drain does not necessarily lead to brain strain. For example, highly-skilled migrant workers who would not have otherwise been employed effectively in the domestic labour market due to an oversupply of workers with those skills do not necessarily represent a loss to the economy when they migrate. The sector they left may be able to develop and thrive despite the leakage of these workers and the sending country’s economy may actually benefit from remittances that migrant workers send home. Early evidence from India’s IT sector suggests that the impact of mobility have not had clearly adverse impacts (Commander *et al.* 2004). Hence, the Philippines continues to encourage its skilled workers to migrate despite a very high proportion of the country’s workers already being abroad (see box). Similarly, there have even been calls India for a special ‘emigration ministry' whose sole purpose would be to 'export as many Indians as possible' because it is seen as in India's interest to have a large, prosperous, influential and skilled diaspora. [2] In other words, emigration of skilled workers must be seen in the context of the requirements of the country in question. This importance of context means that the first step in addressing the negative impacts of the emigration of highly-skilled workers is identification.

Box 2. Migration & the health MDGs

One of the clearest interactions between migration and the MDGs occurs in the area of health. This is also where brain strain is likely to be most clearly manifested in some developing countries. Apart from its implications for poverty reduction (goal 1), migration has important ramifications for health-related MDGs such as halting and reversing the spread of HIV/AIDS, reducing child mortality and maternal mortality. Mobility is often a key factor in the spread of sexually transmitted diseases (such as HIV/AIDS) and other communicable diseases (such as tuberculosis).

Also important though is the emigration of health professionals from developing countries. The departure of key workers can have adverse impacts on the health situation and seriously impede the delivery of health services. Both impacts can combine to undermine progress towards the MDGs. In some Sub-Saharan African countries, this impact is particularly acute. For example, Ghana, which is estimated to have lost 50 per cent of its nurses to the US, UK and Canada within the last decade, increasing expenditure on the health sector by nearly 30 per cent in recent years has not prevented increases in infant and child mortality (Nyonator *et al.* 2004). It is very likely that the depletion of trained staff through emigration is a contributing factor.

What can be done to address these adverse impacts of migration? First, what evidence that does exist on why health professionals migrate suggests that it is not just wage disparities that need to be addressed. Other, non-financial factors such as working conditions, teamwork, good supervision and training, and the opportunity to have study leave are also important (Stilwell *et al.* 2004). Any successful policy interventions to promote skills retention in developing countries must address these non-financial factors also.

Secondly, One way of helping to address these challenges that is advocated by the IOM and other international organisations is mobilizing diaspora communities to return temporarily to former home to work and train locals in health and other sectors (IOM 2004). Such programmes could also be broadened to include non-diaspora members moving temporarily to countries at risk.

Recommendation 1. Identify brain strain 'hotspots'

There is a pressing need to identify particular sectors in particular developing countries that risk being adversely affected by the emigration of skilled workers ('brain strain hotspots'). As discussed above, context is vital: one-size-fits-all solutions such as blanket bans on highly-skilled emigration may actually be counterproductive. Instead, we need to be able to identify the scale, nature and impact of brain strain where and when in occurs. Only then can suitable and effective interventions be designed and implemented. This, however, poses at least two major challenges; one methodological and one operational.

The challenge of identifying brain strain hotspots will require a coordinated effort to pull together a growing but disparate literature and develop a robust methodology. Understanding the complete picture of the impacts of emigration will require combining quantitative (e. g. modelling demand/growth in training in particular sectors, rate of growth in wages and conditions) and qualitative (e. g. surveying migration intentions) efforts. It will also need considerable context-specific evidence such as information on vacancy rates in key sectors, historical and comparative changes in the distribution of certain key workers (e. g. teachers per 1000 children), the size and nature of the sending economy, and the migration experience of those who leave (relative incomes, remittances, return). Understanding the impact of brain strain will only be possible through comparative analysis of progress towards achieving key public policy targets in sectors of concern (e. g. reducing mortality or increasing literacy) over time to see if particular outcomes are being compromised.

For such an exercise to fulfil its potential, it would also need fairly good coverage of developing countries across the world. This would require a methodology that was suitably robust but also a coordinated approach to assessing the extent of brain strain in different sectors in different countries. This would probably involve setting up a network of in-country experts who could monitor and report on worrying trends. Such a network could conduct a 'global audit' – something that would be an incredibly useful tool for policymakers.

Recommendation 2. Multilateral efforts to slow the flow from 'hotspots'

Slowing the flow of key highly-skilled workers from vulnerable sectors in some developing countries is a near impossible task: as more and more people leave, the demands on those who remain become greater, forcing more to leave, and so on. Slowing the flow can often be critical to stop haemorrhaging from some sectors in the immediate term and also an important step in achieving sustainable growth in that sector. Yet, efforts to do this must avoid two important pitfalls: compromising important public policy outcomes for the sake of preventing emigration and infringing the rights of those who seek to emigrate.

Relatively successful developing countries often face a difficult dilemma: on the one hand, education is an important aspect of achieving economic development, but the better an education system is, the more easily locally-trained skilled people will be able to find more lucrative work overseas. One temptation has been to change the education of workers to make them unsuitable for working abroad but still adequate for meeting the needs of the domestic economy. This has proved especially tempting in the health sector and some African countries such as Ghana, Malawi, Tanzania and Zambia have toyed with this approach. While this may seem like a sensible and cost effective idea (indeed, it could actually save governments money), it may be unsustainable in the long-term and actually compromise the quality of the services being delivered by those under-trained workers.

Another, less problematic approach, might be for developing countries to shift overall resource allocation towards primary and secondary education rather than tertiary. Often, the highest subsidies are spent on college and university students and spending per student in tertiary education is much higher than in primary and secondary education. This is despite the fact that the highly skilled have a greater tendency to emigrate and that the return to investment in primary education and secondary is greater than that of tertiary education (Psacharopoulos 1985:591; Martin 2003:28).

Yet, whatever they do, it is difficult to see how developing countries alone can mitigate problem of brain strain given demand from developed countries for some types of workers and huge wage disparities. Here, again underlining the principle of mutuality, developed countries need to play a critical role. Since developed countries are currently benefiting from migration of highly skilled workers, they also have a responsibility to ensure that those benefits do not come at the detriment to the developing world. This can best be done through restrictions on the active recruitment of key workers from brain strain hotspots (appropriately identified as in Recommendation 1).

Establishing codes of practice, such as the Commonwealth Code of Practice for International Recruitment of Health Workers, which encourage countries and agencies to recruit responsibly and make sure that migrant-sending countries benefit in the form of overseas assistance and/or return migration. One of the most important principles of such a code should be to avoid recruitment of workers from *particular sectors in particular countries* with a shortage of skilled workers. Employers should be strongly encouraged if not required to sign up to this code and there needs to be cooperation within and between countries. If only some employers sign up to a code of practice, it will have a very limited effect. Similarly, if only some countries address the problem of brain drain while others continue to recruit indiscriminately, the desired effect will not be achieved. Hence, one of the strongest recommendations must be for the establishment of multilateral agreements on this issue

In doing this, governments will also need to work in partnership with the private sector, particularly international recruitment agencies, to ensure that codes of practice are adhered to. This would have the advantage of ensuring that ethical guidelines are followed in recruitment policies and also that migrant workers would be offered added safety against exploitation and a lack of rights.

Recommendation 3. Bolster training and retention in 'hotspot' sectors

Slowing the flows may not always be an effective way of preventing key workers from emigrating. On the other hand, preventing emigration opportunities may actually lead to fewer people being attracted to the sectors in question and therefore not serve the intended outcome of meeting the need for those key workers domestically.

Here, the obvious solution would be to boost investment in educating and training staff to fill vacancies in critical sectors. Yet, as Carrington and Detragiache (1999) note, simply improving educational opportunities to attract more people into a sector may be largely futile unless there are incentives to remain in the country. This means a dual approach of increased training and more incentives to stay must be undertaken.

Again stressing the principle of mutuality, this is perhaps the area where the need for developed countries stakeholders to play a role is most straightforward. Here, developed country governments (either bilaterally or through multilateral agencies) and business should increase financial support for:

- financing the education and training of additional key workers in those hotspots to meet local demand and, if appropriate, with a view to meet international demand in the future; and
- improving wages and conditions in hotspots so that more people are attracted into those sectors, more trained personnel choose not to migrate, and more of those who do migrate return either temporarily or permanently.

Where governments are involved, it is important that such finance does not 'crowd out' other development assistance, something that is unconscionable given that brain strain is often the result of developed country demand. Here, policy-makers may need to engage with wider debates about optimising the impacts of ODA, perhaps calling for exceptions to allow aid to be channelled into meeting recurrent government costs such as wages of health workers. If there is sufficient appetite (and the necessary technical capacity) in developed countries, such schemes could be overtly indexed to the taxes paid by migrant workers from particular countries.

For the private sector, there is an obvious interest in ensuring a sustainable supply of key workers, especially given an ageing population in many developed countries. Some form of creative tripartite partnership between sending country, receiving country and private sector stakeholders may be a useful way of sharing the burden of training key workers more fairly.

Recommendation 4. Promote circular migration

Migration is often viewed as a process in which migrants settle permanently in a new country with their family. However, there is evidence of more circular patterns emerging in which migrants return to their country of birth, once or many times over a period of time. Encouraging such circularity can make sense for several reasons:

- Return migration means that the sending country can benefit from skills learnt by the migrant and that human capital is not lost. Indeed, returning migrants with overseas experience can be vital to the growth and success of the sector they left and returned to (again, early evidence suggests that this may be the case for India's IT sector (Commander *et al.* 2004)).
- Migrants are more likely to remit if they have close links with their sending country. This is particularly the case if temporary migration results in family separation.
- Circular migration is likely to be more acceptable to voters in developed countries (HCIDC 2004:41). Hence effective temporary migration programmes may lead to more workers in the developing world being able to make use of migration.

Both the migrant sending and hosting countries can benefit from circular migration by implementing a range of policies:

- Making it easy for workers to obtain temporary work visas, as evidence shows that this actually promotes return migration. O'Neil (2004) mentions the example of Indonesian workers: of those who regularly cross the loosely-controlled border with Thailand, few settle for long but those workers who make it across the closely-guarded border with Malaysia tend to stay and even bring their families with them.
- Operating a centralised temporary visa-programme in which periods of work are a period of a few years. As Lowell *et al.* (2004:19) argue 'the terms of the working

agreement need to be clear at the outset and should not foster unreasonable expectations'. The US 'J' cultural exchange visa is an example of such a scheme. Migrants can work in various areas such as research or health care with the purpose of gaining experience but they are required to return to their home country for a minimum period of two years before being able to reapply for another visa.

- Providing financial incentives for return (rather than disincentives to stay) such as reimbursing part of income taxation upon return to the home country. This idea is supported by the UK HCIDC, which found that 'given that migrants who leave will not be making a claim on their contributions, … there is some sense of fairness in this suggestion' (2004:45).
- Promoting assimilation back into the migrant-sending country by providing loans for housing and cars and ensuring re-introduction into the local labour market at a level, which corresponds to the skills and experience acquired by the migrant.
- Developed country governments might also be wise to support more programmes for their nationals to spend time working in developing countries, especially in brain strain hotspots. This would bolster the idea of mutuality and facilitate greater cultural interaction.

An important aspect of circular migration that is not discussed very often is that of pensions. Along with other financial incentives, pensions are an important determinant of where migrants decide to work and obviously retire. The fear of losing pension entitlements from exiting a country or not being able to earn pension rights from a temporary period of work can be a significant obstacle circular migration. In recognition of this the European Union has implemented a set of rules for migrants within the European Economic Area regarding the entitlement to pensions in order to protect migrants and facilitate migration. However, apart from this, very little cooperation exists in this area, and this adds to the difficulties of migrating. Not only do migrants have to spend considerable effort in obtaining information about pension schemes and entitlements, they are also in a vulnerable situation, since they are rarely protected by an adequate legal framework or a body of representation. This is not an easy area to tackle as pension schemes in most countries are complicated and rely on a lifetime of work as a basis for how to calculate entitlement. However, in order to encourage return migration and protect migrants, it is essential that governments cooperate on finding a resolution to this problem. Temporary migrants should be able to both earn entitlements to state pensions and to be able to transfers savings from occupational and personal savings schemes to the country of retirement.

In addition to this, in order to encourage return migration in the long term, it is vital that many migrant-sending countries focus on implementing good governance, anti-corruption measures and sound policies that foster economic growth (HCIDC 2004:47). Countries wrought by civil war or oppressive political regimes will not be attractive to highly-skilled workers, despite strong family ties and other social links.

While promoting circular migration, it is also important to keep in mind that temporary workers are often vulnerable, and that they are unaware of their rights. Bilateral agreements of temporary migration between countries could be effective in protecting labour rights, as embassies and consulates could already provide representation of the country's citizens and because national administration has more bargaining power in ensuring that workers are treated properly. The agreement between Mexico and Canada on agricultural workers presents a good example of how temporary migration can benefit both countries (see Box 3).

Box 3. Temporary Mexican agricultural workers in Canada

Since 1974, Mexican agricultural workers have been able to work on a temporary basis in Canada through a formal circular migration programme (Igartua 2004). The number of migrants is strictly determined by demand of Canadian Employers, and a central agency in Mexico carries out administrative duties such as medical check-ups and matching workers with employers. The programme provides both work and income for the migrants. Despite average work duration of about 5 months per year, Mexican workers in Canada still earn more than they would if they were working during the whole year in Mexico. Almost all workers in the programme say that their family's well-being has improved as a result of the program and that they have been able to pay for schooling for their children, hoping that this will give them better employment opportunities outside of agriculture.

Generally, highly skilled migrants are more likely to settle permanently, perhaps because it is easier for them to assimilate in the new country, and because they are offered good working conditions and are often permitted to bring their families with them. This means that policies such as those mentioned above must be particularly well targeted at providing incentives for skilled workers to return. However, it is the case for all workers that if circular migration is to be successful, there must be both incentives and the potential for prosperity after return (Lowell *et al*. 2004:21). Again, this leaves the low-income countries or countries with stagnating economies in the most disadvantaged position, although they need the benefits of return migration the most. Hence, developed countries which cooperate with developing countries in difficult situations must be particularly focused at promoting return migration by readily issuing visas but also enforcing return rather than provide permanent status.

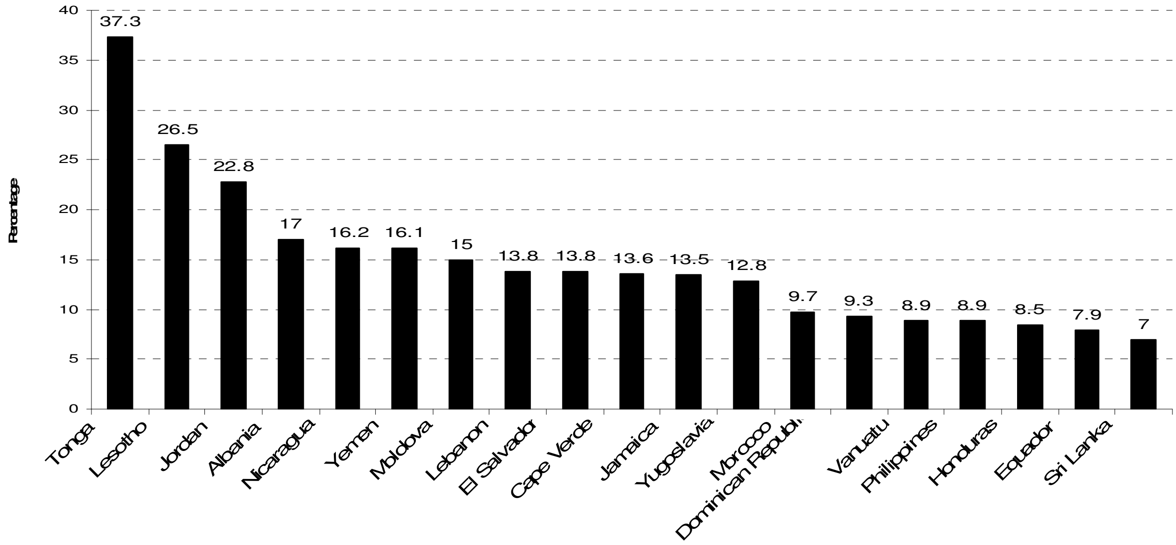
Optimising financial flows

Remittances from migrant workers to developing countries are:

- **large and rising**: in 2003 they were estimated to total US$93 billion dollars, up from US$88 billion dollars in 2002;
- an **important source of income and foreign exchange** earnings for many countries, especially for those with foreign-exchange constraints;
- now approximately **double the size of net official finance** (World Bank 2004:169) and **rising relative to FDI**;
- in Latin America and the Caribbean, the largest and fastest growing remittance-receiving region in the world, remittances now exceed the combined flows of all FDI and net ODA (IADB 2004);
- **usually less volatile than private capital flows** that tend to move pro-cyclically, and may even rise during recessions (Ratha 2003: 157) helping to stimulate vulnerable economies;
- more likely to reach areas of economies and societies that are left relatively untouched by ODA and private capital from overseas investors;
- **particularly important for some regions and countries**: Latin American countries and South Asia take the lion share of global remittances between them (while Sub-Saharan Africa only receives 4. 1 per cent); and Mexico, India and the Philippines are the largest recipients of remittances in absolute terms;

- **extremely important for some small countries with large diasporas**: as a percentage of national income, remittances account for as much as a third of GDP in some countries (Figure 2);
- likely to be acutely important in situations of conflict or post-war reconstruction (HCIDC 2004:56); and
- are difficult to estimate and more needs to be done to improve the accuracy of remittance data. [3]

Figure 2. Remittances as share of GDP, selected countries



Source: Ratha (2003).

Not much is known about remittance behaviour, though we can observe that remittances to developing countries are:

- often motivated by altruism (Lucas 2004:6);
- commonplace (as many as 7 out of 10 Latino migrants in the US report that they send remittances at least once a year (IADB 2004) and 85 per cent of Zimbabweans surveyed in South Africa and the UK said they remitted money home (Bloch 2005);
- usually sent in small amounts, around US$200-300 for US-Latin American remittances (Suro 2003; IADB 2004);[4]
- mostly sent to close relatives;
- likely to reduce over time for permanent migrants, though a substantial proportion of immigrants who have been away from home for long periods still send money back to their relatives (IADB 2004); and
- are predominantly used to pay for common household expenditures such as food, clothing and utilities (IABD 2004).

Table 4. Types of potential impacts of remittances and financial transactions

For individual remitter	For 'host' country of remitter
• Strengthens ties with former home. • May repay financial and other debts at home. • Risks being an excessive drain on often meagre disposable incomes.	• Relatively small leakage from developed countries (migrants on average remit a small percentage of total income earned). • May serve as indirect compensation for brain drain.
For recipients of remittances	**For country receiving remittances**
• Increased incomes. • Access to goods that migrants send or bring with them. • May fund increased human capital investment (e. g. education for family members). • May provide capital for entrepreneurs. • Remittances may provide insurance against risk. • Steady remittance income may act as economic disincentive.	• Important source of foreign exchange. • May boost financial sector and investment. • May push exchange rates up decreasing export competitiveness. • May help to alleviate poverty, especially in particular regions or during emergencies. • Opportunities for leveraging loans using expected remittances. • Migrants visiting home may bolster tourism and related industries. • Migrants' demand for 'nostalgia' products may create new export markets for domestic industry. • Migrants may help fund relief, development or community organisations.

Any set of policies that seek to shape remittance flows must recognise some the complex impacts of remittances on all those concerned (Table 4) but also some key principles:

- Remittances are almost always legitimate private transfers of post-tax income and therefore should not be subject to undue governmental regulation. Regulators cannot and should not seek to control the size, nature or use of remittances. At the very best all that policy-makers can hope for is to expand the choices open to remitters to put their money to good use.
- Formal, recorded transfers are to be preferred to informal flows to avoid clandestine laundering networks, minimise risk of exploitation, improve our ability to account properly for flows, and because deepening formal financial institutions can have other positive economic impacts.
- It is better to use carrots rather than sticks to make sure that remittances are declared because sanctions may reduce flows or increase the likelihood of informal transfers.
- The goal of remittance policies should not be to maximise remittances *per se* (there is no clear economic argument to justify this) but rather to facilitate their transfer and *optimise* their impact.

It is critical to acknowledge that there is no one-size-fits-all approach to increasing the scale and improving the effectiveness of remittances. Areas for action range from improving information available to low-wage temporary migrants to making inward investment into a country more attractive to wealthier members of a diaspora.

Recommendation 5. Lower the cost of remittances

The cost of transferring remittances varies greatly depending on country of origin, country of destination, means of transfer and amount sent (Orozco 2003). However, there is evidence that migrants who remit relatively small amounts often end up paying disproportionately high transfer costs, thereby eating into their income and/or the incomes of the remittance receiver. For small amounts, fees sometime account for 20 per cent of the total sent (World Bank 2004:171).

Given the global scale of remittance flows, even a small decrease in transfer fees will result in larger receipts for developing countries. Suro (2003) estimates that for remittances from the US to Latin American countries alone, lowering those fees to about 5 per cent of total remittances would free up an extra one billion dollars, which would benefit many poor households. The high cost of transfer is usually ascribed to a lack of competition, lack of information and high fixed costs for the banking sector (Suro 2003; HCIDC 2004). In addition, a lack of access to the formal banking system by migrants hinders choice and a move towards greater competition. [5]

Recognising this, the Inter-American Development Bank has committed to working with a network of participating stakeholders to help reach two goals by 2010: reducing by 50 per cent the average cost of LAC remittance market transactions by promoting increased competition, and increasing to 50 per cent the number of families receiving remittances through the financial system (as opposed to less-formal means).

Box 4. Falling prices in the US market for transfers

Only a few years ago, the average transfer cost of remittances was around 15 to 20 per cent of the amount sent (IADB 2004; *Business Week* 2003). A more recent study found that, in February 2004, the average transfer cost from the US to Latin America and the Caribbean stood at 7. 9 per cent for sending US$200 (IADB 2004). While transfer costs vary between recipient countries, greater competition and better technology generally push transfer costs down. If we assume that this has taken place across the world, then reduced transaction costs could save remitters several billion dollars per year. Given that overall remittance volumes are increasing, further reductions in transaction costs are likely to result in more billions being saved.

The market for the transfer of remittances from US to Latin America has traditionally been dominated by Western Union. Its reputation and number of branches has meant the company has been able to charge commissions of 10% or more on the value of transactions, but it is now facing stiff competition from other companies who see remittances as profitable business. Major banks such as Bank of America and Citibank are cooperating with Mexican banks in order to ease the process of and lower the costs of transfer. This also means that relatives of migrants can now use the ATMs of local banks to access remittances sent via major banks in the US.

Some US banks have also been allowed to use the Federal Reserve's National Automated Clearing House to transfer money to Mexico, and this means that transfer fees are almost as low as for transfers within the US. In total, the increase in competition has meant that prices have fallen. In 1999, 'the average $300 transfer from the U. S. to Mexico cost $60 -- or 20%. Of that, about half was commission for the transfer and the remaining half was the cost of exchanging dollars for pesos at the unfavourable rate charged by the companies. Today, it costs only $10 to send the same $300. And prices are likely to fall even further. ' As shown by this example, increased competition and deregulation in the market for transfers can indeed free up large amounts of funds to be used by the families of migrants.

Recommendation 6. Use remittances to strengthen financial systems

Remittances can be sent through many channels with varying levels of regulation and opacity: banks, money-transfer organisations, hand delivery/couriering, or transfers that occur as part of other commercial or charitable activities. Some of these latter channels have become labelled as 'informal' (commonly known as *hawala* or *hundi*). These are flows are variously estimated (roughly) to account for about a third of all remittances sent from the EU (Hussain 2005); half of all flows out of some countries (Puri and Ritzema 1999:10-11); and more than half globally (World Bank 2004: 170). A common recommendation in the literature on remittances is to encourage formal transfers over informal transfers, especially as there is concern, especially since the events of 11 September 2001, that informal remittances are being used to finance terrorism.

However, as Pieke, van Hear and Lindley (2005) usefully point out, the distinction between 'formal' and 'informal' remittances flows is blurred, changing and sometimes unhelpful. They also point out that there seems to be no systemic difference in the developmental impact of one sort of transfer over another, with 'informal' systems often offering considerable financial and other advantages for migrants themselves. As such, we should not prioritise only the so-called 'formal' avenues. Finally, they suggest (pp. 34-5) that governments should adopt a 'a firm but light touch in regulating money transfer' so as not to squeeze out small operators who may provide a specific niche in facilitating transfers to particularly vulnerable, often going the 'last mile' that more regulated organisations may not be able to. That said, the more we encourage recorded remittances of any kind, the better for data collection and understanding the exact scale and nature of remittances.

What is perhaps more important than the *route* of transfer is the *impact* that transfer has on the financial system of the recipient country. Here, basic economic theory tells us that a robust, healthy financial infrastructure is a prerequisite for a healthy economy. In general, it is clear that good financial infrastructure is essential for ensuring economic development. In the financial sector in developed countries savings are used as investment funds. However, in the case of remittances to developing countries, the relationship is not so clear-cut, especially where money is sent through non-banking channels.

A greater use of the banking sector for transfers also opens up sources of finance for the migrant-recipient, and it allows remittances kept as savings to be used as funds for investment. Hence, there is a clear link between developing the banking sector in order to capture informal flows of remittances, and channelling those flows towards investment (Puri and Ritzema 1999:25). From the discussion above, it is clear that recommended policies to encourage a switch away from informal transfer methods must focus on providing the means and incentives for migrants to remit formally. Hence, these policies would include:

- Making it easier for migrants to access the formal banking system (HCIDC 2004:59). A greater number of transfers would lower average fixed costs faced by banks and give migrants greater choice and hence increase competition.
- Encouraging greater transparency such that migrants are able to compare costs of transferring money (*Ibid*:59). Increasing the amount of information available to migrants is important, especially since there is evidence that their knowledge of the banking sector and the actual cost of transferring is very limited. This role could be filled by NGOs who are better positioned than government institutions to collect, analyse and distribute information on specific remittance service providers (Carling 2004:5). Pre-departure financial training for migrants may also be useful (de Bruyn, and Kuddus 2005).
- Facilitating cooperation between major international banks and smaller banks in developing countries in order to connect networks of branches in migrant-hosting and migrant-sending countries. One way of achieving this is to ensure that such cooperation is legal (World Bank 2004:172).

At the same time, micro-entrepreneurs in developing countries cannot obtain credit at a reasonable interest rate due to an underdeveloped banking network, and lack of bank accounts and assets that can be offered as guarantees. This lack of access to credit can hamper economic growth and create the dependency on remittances described above. Here, there may be an important role for channelling remittances through micro-finance schemes that supply the type of credit required by small-scale entrepreneurs (Puri and Ritzema 1999) (see Box 5).

Box 5. Linking remittances and micro-finance

One example of linking remittances to finance is the Inter-American Development Bank's Multilateral Investment Fund that seeks to cooperate with Latin-American micro-finance institutions to help them enter the market for remittances in order to create such links. [6] Another interesting and pioneering project is that of the Microfinance International Corporation (MFIC), which was initially set up to cater for migrants from El Salvador in the US but will be extended to other Latin American countries. Remittances are collected by the firm to such a scale that they constitute a pool of low-cost funds, which can then be used in lending programs by partner micro-finance institutions. MFIC also uses software which not only allows instant access to remittances by the receivers, but which also provides the sender with the opportunity to use remittances for school fees, utility bills or savings. Hence, MFIC provides an excellent example of a profit-making firm, which nevertheless contributes to economic growth and development in developing countries. [7] There are also clear opportunities for encouraging established micro-finance institutions to extend their savings and credit services to migrants and their families, or even for other organisations to offer these sorts of services.

See also the International Remittance Network (IRNET) established by the World Council of Credit Unions: http://www. woccu. org/prod_serv/irnet/.

Remittances should also be seen in the context of the broader financial context affecting many developing countries. For a start, decisions on how to remit are affected by factors such as the existence of parallel exchange rate markets and tariffs on the import of goods carried by returning migrants. Secondly, there is considerable scope for leveraging finance using expected remittances as collateral. While there are relatively few formal arrangements for this in place, agencies like the IDB are looking into it. Thirdly, there is considerable scope for financial institutions in recipient countries to securitise against expected remittances earnings. This goes some way in overcoming the currency and emerging market risks that many countries face by establishing an offshore collection account for foreign currency receipts. The advantages of monetising future flows in this way is rarely discussed by the migration research scholars, though banks in Latin America and Turkey have gone down this route and agencies like the IMF, World Bank and regional development banks are advocating its use. [8]

Recommendation 7. Maximise development impacts of remittances

Remittances usually constitute small payments sent by individual migrants to their relatives. Since remittances are person-to-person flows, they are well targeted to meet the needs of the recipient (World Bank 2004) and they have the ability to lift people out of poverty. Based on a study of panel-data, Page and Adams (2003:20) conclude that 'on average, a 10 per cent increase in the share of international migrants in a country's population will lead to a 1. 9 per cent decline in the share of people living on less than $1. 00 per person per day'.

At the same time, remittances have been thought to increase inequality, since wealthier workers are better able to pay the costs of migrating (Ratha 2003). However, well-educated migrants are less likely to remit as they tend to settle permanently and bring their families with them. [9] In addition, even if the poor do not receive remittances, they can still benefit indirectly through increased demand for their labour, and this can explain the positive correlation between remittances and alleviation of poverty described above. Hence, a number of different factors are at play and the empirical evidence on this issue is very mixed (Lucas forthcoming 2005).

Although remittances may have a positive effect on poverty within a country, the impact of remittances on inequality between countries is problematic. As already noted, there are initial costs of migrating, and the very poor countries tend to have a low number of migrants for this reason. Indeed, since lower middle-income countries often have relatively high rates of emigration, compared to the poorest countries (sometimes called the 'migration hump'), these countries stand to gain the most from remittances while very poor, low-emigration countries stand to miss out on the potential economic benefits of migration. This can partly explain why the share of global remittances received by Sub-Saharan Africa is so low. Although low-income countries can arguably be said to need migrant remittances the most, they do not receive nearly as much as middle-income countries. Therefore, remittances cannot be viewed as an adequate substitute for ODA.

However, even considering the arguments above that remittances spent on consumption generate multiplier effects and that it is difficult to distinguish between consumption and investment, there is still a concern about the effect of remittances on long-term growth. In particular, remittances, which are unearned income for the recipients, might have a negative impact on the incentive to find work in the domestic economy. Levitt (1996: 7) studied the impact of migration to the US on a town in the Dominican Republic. Remittances sent by parents to their children still at school reduced the incentive to do well at school, since the remittances was seen as a guarantee that there would be a continuous flow of income. In addition, although the town relied on agriculture, young people were unwilling to become agricultural workers and were planning to emigrate to the US to a life of easier work with higher financial rewards.

Based on a study of Mexican villages with a large number of migrants in the village population, Ojeda (2003: 13) argues that there is a causal relationship between the way that remittances are spent and a continuous flow of migrants from Mexico to the US: low productivity in agriculture in Mexico results in low local wages and pressure to migrate to the US; when remittances are spent on consumption goods, there is greater chance of inflation that will precipitate lower returns to investment in productive uses; this in turn reduces the likelihood of new jobs being created, which then increases the pressure to migrate to the US.

Hence, in the long run, the impact of remittances on the effort level and quantity of workers can potentially have a negative effect on economic growth. Chami *et al.* (2003) use panel-data from 113 different countries to test the assumption that the disincentive to work from remittances will indeed have a negative impact on economic growth. They find a negative correlation between the size of remittances and economic growth, and this should be a cause for concern. However, as already noted above, remittances can increase during times of economic hardship, since they are based on altruism from the migrant, and this could also explain the direct relationship between remittances and negative economic growth. Whether or not the disincentive effect does indeed exist is difficult to examine, especially at a global level since this is likely to be determined by a number of factors such as cultural influence, family structures and gender of the sender and recipient.

The majority of remittances are spent on consumption goods such as food, clothing and health care. Money is also spent on improving housing and buying durable consumer goods, but generally only a small part is spent on investing in productive uses. One survey suggests that only 6 per cent of remittances sent home by the African diaspora is reinvested (Banjoko 2004). Investment spending tends to have large 'multiplier effects' since money spent on productive use will increase the number of jobs and output of the economy, and hence this has been a matter of concern to many policy-makers. Although multiplier effects are also present in consumption spending, it is generally thought to be smaller, and this is particularly the case if remittances are spent on imported goods or if the increased demand for consumption leads to inflation because it is not matched by an increase in supply. Thus, if migrant remittances can somehow be geared towards productive investment, the economic gains are likely to be greater (van Doorn 2002).

However, remittances are private funds and as argued by the HCIDC (2004:60):

> 'we should be wary of using our ideas about what constitutes productive and unproductive expenditure as a template for assessing decisions made by poor households in desperate situations…the recipients of remittances are in a better position than we are to make rational decisions based on the risks and opportunities they face'.

In addition, goods which are usually viewed as consumption goods such as food and education can also be considered investment, which will increase human capital. Hence, the insistence on using classifications of goods used in economics can distort the picture and make the economic impact of remittances appear less positive. Importantly, it is difficult, especially at this early stage, to assess the long-term effect on the usage of remittances. As an example, if remittances are spent on food, and this allows schoolchildren to focus more on schooling and increases their ability to concentrate during class time, it can have a profound effect on human capital in the future.

Given these parameters, two policy options emerge:

- **Remote control.** Asymmetric information between remitter and recipient often means that remitters cannot control whether their money is being spent most productively (Chami *et al.* 2003:4). The remitter may be led to believe that remittances are actually saved rather than being spent on consumer products and handouts to needy relatives. [10] By harnessing new opportunities offered by technologies such as the Internet we may be able to correct some of these asymmetries. More control by the remitter may be a worthy goal in itself but may also be a better way of ensuring that remittances are used effectively. There may also be options for offering remitters the opportunities to purchase goods or services directly (e. g. health insurance (Carling 2004:6) or even groceries (supermarkets in countries like Peru, Argentina and Senegal allow emigrants to shop online for goods that are then delivered to families in their country of origin (AMAP 2004)).

- **Matching funds.** Although migrants will spend remittances in such a way that their families benefit the most, this can coincide with aims of government policies to invest in education, healthcare and improved housing. One way to do this would be through governments in remittances-receiving countries (or even the governments of the countries where migrants work) promising 'matching-funds' to induce migrants to spend some of their remittances on productive or worthwhile areas. For example, a government could promise to match any remittance spent on school fees in the country of origin with extra investment in that particular school. This would provide an incentive to the migrant since government funding would increase, hopefully improving the quality of education (not just for their sponsor but all pupils) and perhaps even improve the esteem that the migrant is held in by the community. It would also mean that the local area could benefit from migration regardless of whether multiplier effects are present to distribute income. From the discussion above, it is also clear that information plays a crucial role. Governments and NGOs should be encouraged to provide information for migrants and their families on how best to spend remittances such that long-term benefits are gained.

- Assign money to support the entrepreneurial activities of returning migrants, perhaps on a semi-commercial basis. A venture capital fund, administered by and for returning migrants may help provide much-needed seed capital and also facilitate a social and commercial network. The IADB has recently funded such a project for workers returning from Japan to Brazil (IADB 2004: 25).

Optimising diasporic potentials

The involvement of migrant communities, or 'diasporas' more generally, in the life of their erstwhile homes goes well beyond financial flows. Diasporas can be the source of ideas, behaviours, identities, and social capital that flows between countries (something Levitt (1996:3) describes as 'social remittances'). Similarly, migrants can transfer knowledge and skills (sometimes called 'technological remittances') or even political identities and practices (which Golding (2004: 805) calls 'political remittances').

Despite the potential significance of diaspora involvement, many mainstream development institutions such as NGOs and governmental organisations have hitherto been reluctant to engage with diaspora communities. The HCIDC (2004:68) encourages increased cooperation between the diaspora and other players and argues that 'diaspora organisations must not be seen as marginal players in international development; rather, the Government, DFID, the private sector and mainstream NGOs should work harder to involve them more fully'.

In recent years, there has been great optimism in the potential for what diaspora organisations can do but, unfortunately, there seems to be very little systematic evidence of what role diasporas do play. Below are three options for how diaspora involvement can be optimised.

Box 6. Examples of diaspora engagement

Africa Diaspora Investment Forum: UK-based forum aimed at promoting investment into African economies, including through a new venture capital fund for SMEs in Africa. http://www. africadiaspora. com

Homecoming Revolution: a not-for-profit NGO set up to attract diaspora members back to South Africa and facilitate their resettlement. Provides a range of advisory and other services. http://www. homecomingrevolution. co. za

Jamaican Diaspora Canadian Foundation: set up with the help of Jamaican government to mobilise Jamaicans in the areas of law enforcement, development, education and health. http://www. jamaicandiaspora. org/articles/0030. html

Kenya Development Network Consortium: aims to create development and business opportunities and includes The Kenyan Edge Inc, an investor-owned organisation. http://www. kdnc. org/

Tamil Eelam Economic Development Organisation: 20 year-old multinational network assisting development projects in Northeast Sri Lanka, both during the civil war and since the ceasefire. http://www. teedor. org/

Recommendation 8. Encourage collective remittances

Although the majority of remittances are sent by individuals, a small part is sent by collective diaspora organisations, which can be linked by place of origin or religious or political beliefs. A common type of diaspora organisation is a Hometown Association (HTA), which is organised around links to a specific area such as a village. Despite the modest economic base of these organisations, there is evidence that villages connected to HTAs tend to have better roads, electricity and employment opportunities (Soerensen 2004:17). Hence, these associations should be encouraged, and one way of doing so is to provide 'matching funds', which, by adding to the funds already being spent by HTAs, provide an incentive to save and invest. 'One example is a project in the Mexican state of Zacatecas, where each dollar contributed in remittances is matched by three dollars (one from the municipality, one form the state and one from the federal government)' (Van Doorn 2002). As an indication of the success of this programme, it will be extended to cover the whole of Mexico (Goldring (2004:802) quoting Amador (2002)). Matched-funding programmes could also be carried out by NGOs or governmental organisations such as DFID or USAID. This would also strengthen the links between these players, which was called for in the above section.

Box 7. A diaspora university in Somaliland

'The development of the University of Hargeisa in Somaliland was a project spearheaded by the UK Somali community from that region. Against all odds and to much national and international acclaim, the newly developed University of Hargeisa (UoH) in Somaliland opened its doors in 2000 to the first batch of access course students in preparation for a full start in September 2000. Initiated in mid-1997, this effort united Somalis in Somaliland itself with Somalis in the diaspora as far-flung as Australia, Sweden, Kuwait, the United States, and Britain. The project enjoyed support by the government of Somaliland, a territory still without international recognition. A steering committee in London that combined Somali expertise and leadership with British know-how and experience worked in close collaboration with an interim council in Somaliland. Local businesses in Somaliland took full responsibility for rehabilitating the government-donated dilapidated old-school building that was in fact home to over 500 returned Somali refugees. Somalis in Sweden provided 750 chairs and tables; Kuwait-based Somalis sent computers. In the project's second year, the Somaliland Forum, a cyberspace-based global network of Somalis formed taskforces to tackle specific elements, raised money, maintained email groups, and hosted real-time e-conferences…

UoH threw a brain drain into sharp reverse. One-third of the students on the access course returned from the Gulf, the UK and Canada to attend. High school students who would either have had to leave Somaliland to pursue further studies or drop out now have the option to stay. The university's first vice chancellor, an eminent Somali scientist who worked in Canada for a number of years, took up post to work pro bono to oversee UoH's crucial first few years' (Chikezie 2000).

In addition, communication between the diaspora organisations and the government in the country of origin should also be promoted. As an example, the government could help to identify specific small-scale projects, which could then be sponsored by the diaspora. However, as Van Hear *et al.* (2004:22) write, diaspora members 'are primarily interested in the advancement of their own particular group or sectional interest'. As a consequence, policy-makers must be not loose sight of the impact on equity and equality in the country supported by the diaspora. As an example, if most migrants have come from a particular region of the country, relying heavily on the diaspora for both organisation and contacts can lead to aid assistance exacerbating inequality in e. g. infrastructure and services.

Recommendation 9. Facilitate diaspora trade and investment

Lucas (2004:3) argues that migrants can promote both trade and investment in their country of origin. Firstly, they are better informed about trading and investment opportunities and secondly, they are able to enforce contracts through a network of contacts at home. This can be important in countries where a legal framework for conducting business is missing. Some migrant-sending countries do indeed offer very good opportunities for migrants to become investors. As an example, a case study of foreign-born professionals in Silicon Valley showed that 76 per cent of Indian and 73 per cent of Chinese immigrants would consider starting a business in their country of birth, and a majority of them cited the availability of skilled labour as one of the most important reasons for doing so (Saxenian *et al.* 2002).

This finding highlights the fact that social ties are not enough to ensure that migrants choose their country of birth as a target for investment. More generally, in order to attract investment, a healthy business environment is important (Soerensen 2004:24). This includes adequate physical and financial infrastructure and a sound legal framework. A skilled labour force with low labour costs is also an important asset. This means that low-income countries with many obstacles to investment such as poor infrastructure and a lack of an adequate legal framework and skilled workers will struggle to make migrant workers in the developed world invest in their home country. As highlighted before, low-income countries that are already severely disadvantaged will be in a poor position to make use of migration and the consequent linkages as a strategy for development.

Even for countries that can offer an attractive business environment, other obstacles remain. Despite the information and contacts possessed by migrants, many of them lack the experience of entrepreneurship and knowledge of business methods. Hence, training programmes and business counselling could be a useful addition in trying to use the potential of migrants. However, Puri and Ritzema (1999:24-5) cite the case of such a programme launched in Sri Lanka in 1982 that showed that

> …return migrants belonging to higher occupational categories are suitable for an orientation program of this type leaving out unskilled return migrants. Second, the possibilities for guiding candidates into business are limited unless accompanied by measures to facilitate the access to capital. Third, the ability to identify and develop a project, as well as managerial skills needed to run a business, cannot be imparted only through a program of class instruction (*Ibid*:25).

Hence, a better approach might be to encourage migrants to invest indirectly, through savings. Presently, many migrants may keep their savings in bank accounts outside their home country, especially if overseas banks can offer higher interest rates on savings or a lower risk of inflation and exchange rate devaluations. If saved in the migrant-sending country, they could provide foreign currency and funds for investment. Various policies are described, which have been developed in order to try and encourage migrants to save in their home country (*Ibid*:19-22):

- Mandatory remittances: Migrants are required to send a certain percentage of their savings to their country of origin. This has only been successful in the case of Korean workers, who are mainly employed overseas by Korean companies for a limited period of time. As this is difficult to replicate, such a policy cannot be recommended.
- Foreign currency accounts and foreign currency-denominated bonds: These options pose no risk of exchange rate devaluations and can be offered in combination with an attractive premium over world interest rates, which can attract savings by migrants. However, as the authors note, ‘a major limitation of foreign currency accounts as a tool for stimulating remittances is that they, by their very nature, are attractive only to migrate belonging to professional and higher-skilled categories who earn relatively higher incomes’ (*Ibid*:21). It is also important to consider whether the premium that has to be paid to attract savings in this way is worth paying.

The case for providing micro-credit as a tool for economic development has already been presented in relation to remittances. However, another approach, which involves this type of finance, would be to encourage permanent migrants, who do not remit but who have both savings and the intention to contribute to economic development in the home country, to invest in micro-finance institutions. Such a scheme would make use of the intention to both help the country while generating a return on investment.

Recommendation 10. Consolidate knowledge networks

Networks of highly-skilled workers have been suggested as being one way of addressing brain strain. Meyer (1999) calls this the 'diaspora option' and examines several networks between nationals working mainly in science or engineering. The Internet is the main tool of communication for these networks and perhaps due to difficulties of organising a network before the use of the Internet became available, many of these networks are very recent. This also means that the empirical evidence on the effect of these networks on the economic development of the country of origin is very scarce. Nevertheless, attempts at projects in which expatriates and the national community cooperate have been made. These include research projects, technology transfer and expert consulting. Examples of initiatives to encourage cooperation between the diaspora, countries of origin and development institutions include the UNDP's Transfer of Knowledge Through Expatriate Nationals (TOKTEN) programme, IOM's Migration and Development in Africa (MIDA), and World Bank/IOM initiatives on return of qualified Afghans. TOKTEN is currently running successfully in 35 developing countries (Van Hear *et al.* 2004:28). On a smaller scale, individual diaspora communities are often actively involved in these sorts of networks. Within the Sri Lankan Tamil community, there have been important efforts to facilitate short-term diaspora return in the post-ceasefire context in that country (for example, the Tamil Eelam Consultancy House - http://www. techcanada. org/).

Despite the potential gain from these networks, it is important to keep in mind that not all countries are equally well poised to gain from these.

> 'It seems that for technology transfer through migrants and their networks to be a significant factor in economic development at home, three basic sets of conditions must hold: the migrants must be employed in sectors, occupations and countries that grant access to useful information; a knowledge network must emerge in some form, permitting transfer of that information; the home country must be in a position to take advantage of the new information' (Lucas 2004:15).

Therefore, even if there is a potential economic benefit from knowledge transfers, very poor countries are usually not in a position to make use of this.

Challenges ahead

It might be useful at this stage to outline some of the major challenges facing researchers and policy-makers in this area. This is by no means an exhaustive list; it is simply an attempt to flag up some key themes that need exploring.

Anticipating future flows

Demographic transition in developed countries throws the question of migration and development into sharp relief, and highlights most clearly the importance of mutuality in this area. Yet, one of the key questions is just what future flows of people will look like.

Given demographic booms in the low-wage sending regions compared to high-wage regions, and the likelihood of continued real wage gaps between sending and receiving regions, international migration is likely to remain a feature of the global economy (Hatton & Willamson 2003). Under conditions of successful development, poverty eradication and growing equality between rich and poor countries, we might expect that any poverty constraint on potential emigrants from the poorest parts of the world to ease, thus leading to greater migration. On the other hand, if levels of inter-country inequality do not diminish, the demand for emigration is likely to remain in place and needed to be kept in check by tighter controls guarding entry into the richer parts of the world. International migration is likely to play an increasingly important role regardless of which scenario emerges.

It is also a feature that is likely to result in greater global per capita consumption growth than further increases in the mobility of factors such as capital (IMF 2004: 164-7). As initiatives such as Mode 4 of the General Agreement on Trade in Services (GATS) take shape, more labour mobility may be inevitable. There are also likely to be larger flows between developing countries, especially as faster-growing countries suck in workers from slower-growing neighbours.

In a world in which economic and demographic characteristics point strongly towards greater international migration, immigration policies remain the important determining variable shaping where, when and how large actual flows are. Given that links between migration and development are likely to remain important for some time, getting these policies right will be incredibly important.

Promoting versus restricting mobility

A key choice facing policy-makers in designing such policies is whether to promote or restrict mobility. The apparently obvious solution to the development challenges thrown by migration – and one frequently espoused by 'compassionate racists' who want to 'help' the developing world – is to place severe restrictions on the movement of highly-skilled people from developing countries. But simply closing the door or clogging the drain could have deeply troubling implications for the human rights of the people involved, might not be effective, would limit the benefits that immigration can deliver for the receiving country (especially where migrant workers are instrumental in delivering critical services in that country) and may deny some countries access to the positive impacts to be gained from emigration (e. g. remittances and investment flows from diasporas).

A more sustainable response to these challenges should instead start from the recognition that migration can have positive impacts for those who move, the societies they move to and even the societies they leave behind. Managing migration then becomes less about limiting mobility and more about optimising mutual impacts (making sure that migration fuels growth in all countries involved while addressing brain strain in the sectors of countries where it is occurring or likely to occur).

A crucial guiding principle in optimising the migration-development nexus should be about promoting more real choices for migrants (and potential migrants) rather than limiting choice. This is a common theme that links almost all the positive approaches in this area. For example, it is better to give potential migrants a real choice between staying in their country of origin rather than feeling compelled to leave for economic (or political) reasons. Similarly, it is better for migrants to have a real choice between staying on in their current destination or returning home (rather than feel that they have no future in their country of origin). When it comes to remittances, opening up more choices for transfer will lead to more efficiency and more choices in where money can be invested productively will lead to better utilisation of the potential for remittances. Checking whether policy interventions promote or restrict choices for individuals concerned might be just the sort of simple but effective principle upon which good policies in this area can be built.

What apparatus?

For policy-makers, one of the critical decisions in this area is what sort of framework and institutions can best address the challenges of optimising the impact of migration on development and poverty reduction. The most obvious answer is that we need global approaches to tackling them.

There is much scope for creative approaches in this area, especially given that migration is one of the few areas of international public policy in which all (migrants themselves, sending countries and receiving countries) stand to gain if managed appropriately. While some of the policies recommended in this report and elsewhere could be pursued bilaterally, international coordination will be essential in overseeing such things as the identification of brain strain hotspots, creating and implementing restrictions on recruitment from those hotspots, and (ideally) financing the required activities.

Some form of international research, regulatory and financial apparatus for coordinating these efforts would seem appropriate. At the very least this could be some form of policy network that included, at the very least, relevant UN agencies and programmes, the IOM, the Bretton Woods institutions and major regional organisations. More ambitiously, such an apparatus could be a formal partnership not just between developed and developing country governments but also including the private sector, trades unions, migrant organisations and civil society. Such partnerships are exactly the sort of creative and effective initiatives that will be required to achieve the MDGs and other global policy challenges.

Who pays?

Assuming that extra funds are needed, at the very least, to address brain strain or, more ambitiously, to fund a formal apparatus for research and policy on migration and development, the question of who pays arises. It would seem that the notion of direct compensation to developing countries for the loss of skilled workers only has the support of a few and, if initiated, would likely only ever occur at a bilateral level and in particular sectors (the World Health Organization has suggested that a compensation scheme might be appropriate for migrant health workers). That said, other, more creative ways of funding policy interventions in this area might be receive more universal support and, in any case, be more effective. Here, at least three key questions emerge:

- Who pays - migrants themselves, their employers in host countries, the host government, or some combination of these three?
- Who benefits - the migrant's country of origin or at-risk developing countries in general; sending country governments or non-governmental organisations; particular sectors of the sending country's economy (e. g. education)?
- What channels are used - direct transfers to sending countries or indirect administration of funds collected by host country or intermediary institutions?

An extra tax on migrant workers that is then repatriated to the country of origin seems at first to be an attractive proposition, most famously articulated by Jagdish Bhagwati (1976). However, in general, *requiring migrants themselves to pay extra* (over and above any private remittances they send) to their country of origin as compensation for lost skills should be avoided for several reasons:

- extra tax burdens on migrant workers may create disincentives for migrants to migrate, work legally once they migrate, and/or declare their income;
- mandatory remittance schemes implemented by the Philippines, Thailand and Pakistan among others, have fared badly due to difficulties of implementation (Puri and Ritzema 1999:19); and
- taxing some workers higher than other could be in conflict with constitutional law (Martin 2003:28).

A more viable alternative might be for migrants to be taxed at the same rate as nationals of the country, but for part of that revenue to be repatriated to either sending-country governments or to fund particular development-related initiatives. In many countries (e. g. Netherlands, Denmark, Sweden) temporary workers pay a lower tax rate than residents, partly in order to attract foreign workers, but also partly because it is recognised that they are less of a drain on public expenditure in areas such as child care and pensions.

Conclusion

The relationship between migration and development is at once incredibly significant but also marginal in many ways. It is significant for all the reasons outlined above. Yet, it would be naïve not to recognise that the relationship is also somewhat marginal. Development is marginal to migration: when we consider all the various aspects of managing migration, the development impacts on countries of origin is rarely going to be as prominent a research or policy issue as issues such as immigrant integration, migrant rights and the economic impacts of immigration. Similarly, migration is marginal to development: of all the factors that shape the development potential of an economy, migration is almost always going to be relatively insignificant.

That said, it is clear that migration has the potential to shape significantly the economic development of some sectors in some countries. It is clear from the growing evidence in this area that whether the impacts of migration are positive or negative will depend very much on the context and how the situation is managed. Much will depend on the rate and nature of emigration. The complexity of migratory flows as noted at the very beginning mean that no one set of policies will be universally applicable. Table 5 shows a tentative sketch of what sort of policies might be appropriate for particular contexts.

Table 5. Managing threats and opportunities for developing sending countries

	Permanent emigration		Temporary emigration	
	High-skill/wage	Low-skill/wage	High-skill/wage	Low-skill/wage
Brain strain	Ensure depleted skills are replaced	N/A	Ensure key sectors are not depleted through limits	Need to maximise skills-acquisition while abroad
Remittances	High potential for remitting but may fall off after some time	Low and falling potential for remittances	Highest potential for remittances	High total remittance potential but at lower amounts
Diaspora/ Circulation	High potential, especially through circulation	Can lead to brain gain of emigrants gain skills while abroad and circulate	Ensure return migrants use skills and experience gained abroad	Potential for skills and information transfer

While it is important to recognise that all four combinations of these streams (e. g. temporary high-skill; permanent high-skill etc.) are likely to remain important into the future (albeit to different degrees for different countries), policy-makers face a choice of shaping the flows themselves and/or shaping the impacts of these flows. Here, the key question that emerges is whether migration should be both *focus* and *locus* for policy-makers. That is, while the impacts of migration on development may be worth understanding, it is not a given that appropriate policy interventions are best aimed at shaping migratory flows themselves. Though it may seem counterintuitive, it may actually be more efficient and straightforward to use levers such as trade, aid or foreign investment to correct for any adverse impacts of migration rather than, say, tamper with migration flows themselves (given that greater mobility is almost always a good thing). This is an area that deserves exploring further.

Some countries have recognised the potential held by migration while others risk losing out or, worse still, being adversely affected. One of the most striking yet under-researched aspects of the relationship between migration and development is the potential for migration to affect inequality between individuals and at a global level. While politically-stable, middle-income countries with a growing economy and financial infrastructure stand to benefit immensely from international migration, the very poorest countries stand to lose the most and gain the least from migration (brain strain, low return migration potential, poor environment for the productive use of what remittances flow in etc.). This differential impact of migration may compromise the ability to pursue poverty reduction and achieve the Millennium Development Goals (MDGs). Importantly, where migration leads to the depletion of key health and education workers in developing countries, their ability to make progress on critical MDGs may be compromised.

On the other hand, cooperation between states to manage migration may be an exemplar of the sort of partnership that will be required to achieve the MDGs and other global policy challenges. Individual states often see migration in terms of local impacts and national interests. However, the global nature of flows means that managing the mutual impacts of migration will need a robust supranational framework. Moreover, managing the process for the mutual benefit of developed and developing countries will require partnership between states.

Box 8. A Migration-Development Index (MDI)?

Akin to the UNDP's hugely successful Human Development Index (HDI), perhaps there is scope for a similar index to measure the development impacts of migration. While such a measure could never capture the complexity of what is involved (in the same way that the HDI does not capture all that human development is about), it could be a useful tool for researchers and policy-makers.

A Migration-Development Index (MDI) could be a composite index that sought to capture the scale and net economic impacts of migration. Analysis could include the net flows of migrants, human capital, remittances and other financial transactions for each country included and assess the impact of each on income, poverty, inequality and other development outcomes. While such a measure would require improvements in the quality and comparability of data across the world, the primary challenge would initially be methodological.

It is hoped that this paper has highlighted three fruitful exchanges that need to be pursued further. First, in research there needs to be more intellectual exchange between the growing field of 'migration studies', to which the issue of development in countries of origin is somewhat marginal, and development economics, to which the impact of migration is, at best, marginal. There is much to be done in order to present a comprehensive empirical picture of the nexus between migration and development. Global organisations such as the United Nations may have a unique and important role to play in generating good quality, comparable data and analysis that can inform policy-making.

Secondly, in policy-making, it is clear that there needs to be more effective dialogue between arms of governments that do not traditionally work together very often. In the developed world, this means departments responsible for home or immigrant affairs and those responsible for international development.

Finally, in terms of international cooperation, there is also a need for more productive partnerships between developed and developing countries to address areas of mutual interest in the management of migration. This is likely to require a considerable overhaul of the normative and institutional infrastructure of multilateral migration management. This may be some way off, but action on shared development objectives may be one relatively easy step forward. Given the global and interdependent scope of the challenges, it would seem wise to have global and interdependent approaches to tackling them.

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Endnotes

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http://www.migrationinformation.org/issue_jun03.cfm;
http://www.iom.int/en/what/migration_and_development.shtml; http://www2.gtz.de/migration-and-development/english/; www.publications.parliament.uk/ pa/cm200304/cmselect/cmintdev/79/79.pdf

[2] Editorial from *Times of India*,18 December 2002

[3] Current initiatives to collect better, more comparable data on remittances include an Inter-Agency Remittance Task Force, co-chaired by World Bank and DFID UK, an 'Action Plan' by G8 countries, and Technical Subgroup on the Movement of Natural Persons – Mode 4 by the UN Statistical Commission.

[4] US-Mexico remittances hit record high in 2004 totalling US$15 billion approximately, at US$327 per transaction on average.
http://www.el-universal.com.mx/pls/impreso/noticia.html?id_nota=8201&tabla=miami

[5] Suro (2003) describes how Latin American migrants use informal channels because they do not have the necessary information about the banking sector or because they are unable to open bank accounts due to lack of minimum income or identification papers.

[6]http://www.iadb.org/NEWS/Display/PRPrint.cfm?PR_Num=87_04andLanguage=English

[7]http://www.iadb.org/NEWS/DISPLAY/WSView.cfm?WS_Num=ws10204andLanguage=English

[8] See, e.g., http://www.adb.org/Documents/Events/2004/Private-Sector-Dev/securitization.pdf

[9] Faini (2003:7) shows that remittances decline as the proportion of migrants with a tertiary education increases.

[10] According to a study cited in Wehrfritz and Vitug (2004), the typical domestic worker in Saudi Arabia will remit most of her salary. Her husband then uses the money to buy consumer products and to support the extended family, and often the overseas worker only discovers that nothing has been saved on her return.