ECONOMIC AND PRIVATE SECTOR

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HELPDESK REQUEST

Effects of remittances and migration on migrant sending countries, communities and households

Dr Jessica Hagen-Zanker

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1 Overview[1]

The helpdesk response reviews the empirical literature to present the evidence on the effects of remittances and migration on migrant sending countries, communities and households.

1.1 Query

The objective of the research study is to understand the role of remittance and migration in economic development, and poverty reduction in least developed countries by exploring the best practices in this sector that has successfully maximised the impact of remittances. This will be done within three rapid reviews. The current rapid review will cover the following questions:

1. Effect of remittances in the context of least developed countries, wherein given the absence of credit and insurance markets in rural areas, remittances have a definitive impact on household, investment and labour allocation decisions
2. Long term effect of remittances on growth perspective, including the impact on labour force and participation.
3. Migration's influence on gender relations. For e.g. in countries experiencing outmigration of men, women are becoming farm managers. This has exposed them to risks, such as gender-based discrimination when they compete with male farmers as well as opportunities, such greater control over access to financial services, household resources, and improved socio- economic status.
4. The potential negative effects of remittances, especially
   i. Slow labour force growth and slackening
   ii. The Dutch disease
   iii. Policy slackening (defined as inflation from here on)
5. Explore the differential impact of remittances on rural vs urban poverty, on different sectors and sub-regions, and on women and socially excluded groups.
6. Returnee migrants (all skills' level) and the use of their acquired skills and knowledge.

1.2 Structure of this report

This review is on the effects of remittances and migration on migrant sending countries, communities and households. Migration can have direct and indirect effects on the households, communities and countries where migrants come from. For instance, a direct effect can be the loss of labour. An indirect effect could be the reorganisation of gender-roles as a result of the labour loss. Furthermore, migration can have effects at the micro (household), meso (community) and macro (country level). Effects can be financial (e.g. investment) or social (e.g. emotional wellbeing of children left behind). The literature on the effects of migration is vast and this review will be restricted to eight specific effects. These cover the questions described above, plus some additional effects, see Table 1 below.

Notwithstanding the often more substantial internal migration flows in many countries, for the purposes of this review, we will focus on *international* labour migration. Remittances are defined as the *monetary* transfers sent from overseas migrants to family and friends back home. These may be sent through formal channels (e.g. international money transfer

[1] Many thanks to Melissa Siegel, Jennifer Waidler, Yurendra Basnett and Nicholas Mathers for their helpful advice.

(IMI) or informal channels (e.g. hundi system). For the purposes of this review, we consider the effects of migration in terms of *absence of household members/ citizens*.

Table 1 below shows the specific effects that will be considered in this review. As it is often impossible to disentangle the effects of migration and remittances, they will be considered jointly. Cross-cutting across these themes will be the consideration of gender and impacts on specific groups, e.g. urban vs. rural households, minority groups (wherever covered in the literature).

Table 1: Effects considered in this review

	Micro-level	Meso-level	Macro-level
Effects of • migration (absence of household member) on … • remittances on …	Household income/ poverty Household labour allocation Access to services (including health and education services) Investment decisions	Gender relations	Labour market Economic growth Inflation Dutch disease

The next chapter will consider the effects of migration and remittances. The final chapter in this paper will review the use of skills and acquired knowledge of return migrants. A brief conclusion will be provided at the end.

The reference list provided at the end should be seen as a resource material for further analysis (it includes all studies referred to in this review including those cited by other authors).

1.3 A brief note on the methodology

This paper is a rapid review that will by no means cover the entire migration literature. The review was rapid and informal and did not follow a systematic structure. Nevertheless a number of tools were used to make the review rigorous, evidence-based and to cover as much of the academic, grey and policy literature, as possible[2]. The first track searched for the academic literature using Google Scholar and specifically searching the top migration journals[3]. The second track consulted involved actively seeking advice on relevant publications from key experts. These suggestions will then be reviewed and I also looked at the reference lists of those publications. This track is extremely useful to get a sense of which literature has been important and influential in the field and to get hold of non-published studies. Finally, I also consulted reference lists of seminal studies and tracked down further relevant studies on the reference list (this process is called snowballing).

The migration literature is vast and it would have been impossible to review the entire literature. Furthermore, a superficial treatment of the literature, would have meant the review had limited practical value. Therefore a number of means were used to keep the review manageable and informative. It has been restricted by considering eight specific effects of migration/ remittances (as shown in Table 1 above). Furthermore the following inclusion/ exclusion criteria were applied to potentially relevant studies:

- The study considers one of the outcome areas shown in Table 1 above
- The study was written in English

[2] See Hagen-Zanker and Mallett (2013) for further details on the review methodology.
[3] Migration and Development; International Migration; International Migration Review

- I did not assess studies on their research design or quality and included both qualitative and quantitative studies.
- The study focused on low or middle-income countries.
- The study is empirical (so disregarding theoretical studies)
- The study was accessible from ODI

1.4 Limitations of the review

There are a number of limitations, which need to be noted in drawing conclusions from this review.

- Given standard time constraints of EPS-PEAKS helpdesk response coupled with the scope of the helpdesk request, I have only been able to review a limited number of studies on the effects of remittances and migration on households, communities and countries of origin. This inevitably required a balancing of the trade-off (breadth vs. depth in the literature search and review).
- I have not assessed the adequacy and quality of research design and analysis of the studies included. This means that I have taken the findings of the authors at face value.
- Wherever, possible, I have located the original papers for papers summarised in review papers, but in some cases I have had to rely on the summary provided by other authors.
- I have given examples to illustrate some of the findings/ discussions in the literature, but in most cases these cannot be directly transferred to other contexts, so they should be reviewed with caution.
- I assume that I have managed to cover the most important studies on any particular topic discussed in this report. I assume that I have successfully summarised these studies.

2 The effects of migration and remittances

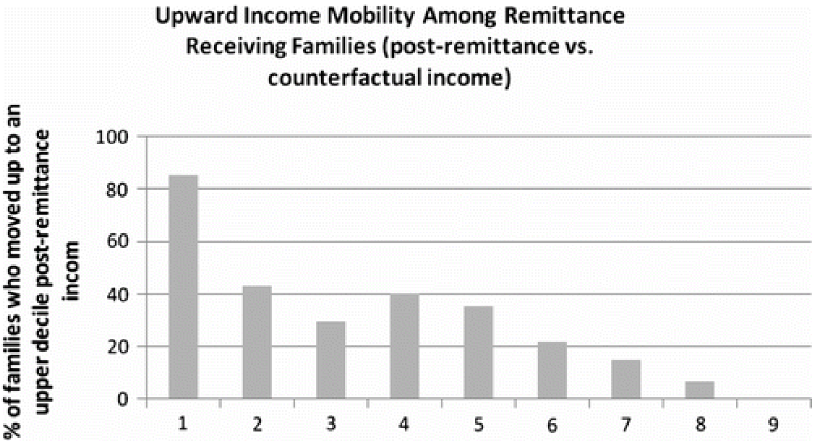
To recap, within this review, the effects of migration will be defined as the effect of the absence of household members/ citizens. This review considers *labour* migration. Remittances are defined the monetary transfers sent from overseas migrants to family and friends back home. In terms of outcomes we consider eight different outcomes, the first four are on the micro-level (household income/ poverty; household labour allocation, investment decisions and access to services), the second on the micro/ meso level (gender relations) and the final four on the macro-level (labour market, economic growth, policy slackening and Dutch disease).

2.1 Household income / poverty

It is expected and obvious that economic migration should have positive effects on migrant-sending households. Economic migrants migrate with the purpose of sending remittances – when they do so, this should lead to an increase in the household's income, and to a reduction of poverty. What does the empirical literature tell us?[4] There is a massive body of evidence on this question and this review has only been able to draw on a small fraction of the studies. **On the whole, the literature tell us that remittances reduce poverty.** There are numerous studies that show remittances increase the income of migrant households and reduce poverty. These are listed in Table 2 below.

For instance, a study by Lokshin et al. (2010) show that one fifth of the poverty reduction in Nepal that took place between 1995 and 2004 is due to labour migration and remittances. International migration had the biggest poverty-reducing impact, but domestic migration also played an important role. Likewise, Prabal and Ratha (2012) show that remittances in Sri Lanka have helped migrant households move up the income-ladder. This is illustrated in Figure 1 below. It shows that households from the poorest income deciles have the highest incidence of upward mobility.

Figure 1: Upward income mobility with projected counterfactual income



Source: Prabal and Ratha (2012)

[4] It should be noted that measuring the effects of remittances on income is a technically complicated question, as the decision to remit and how to remit are related to outcomes of interest. For example a household is *more* likely to remit if the income of the household staying behind is low. This means that if we just compare incomes of migrant and non-migrant households, the results are biased, because such a comparison does not take reverse causality into account. The economic literature has come up with a number of methodologies to reduce bias (see McKenzie and Saskin, 2007). However, not all studies apply these methods. As this review was unable to assess the appropriateness and quality of research design and analysis, we have included all studies including those that <u>may have not</u> corrected for potential biases.

There are a number of global/ cross-country studies that also consider this question. Adams and Page (2005), and World Economic Outlook (2005) find that globally, remittances do reduce poverty. For instance, Adams and Page (2005), in a study that includes 74 low and middle-income countries, find that a 10% increase in per capita remittances would lead to a 3.5% decline in the share of people living in poverty in the corresponding country. Gupta et al. (2009) show remittances have a direct poverty-mitigating effect in Sub-Saharan Africa. In a study that considers 11 Latin-American countries, Acosta, Calderon, Fajnzylber & Lopez (2007) find that migration reduces poverty, but the impacts tend to be quite small. They also show that in countries, where migrants are concentrated in the bottom income deciles, the poverty-impacts are *larger*. These countries – having poorer migrants and greater poverty-reducing effects – are also those countries that have more established migration networks. This is because more established migration networks reduce the cost of migration and allow poorer households to afford the costs of migration. The latter is also emphasised in other studies (e.g. Gupta et al., 2009): The poverty-reducing impact depends on the country and type of migration flows: <u>remittances are more likely to have a poverty-reducing effect when they are received by poorer households</u>.

Table 2: Overview of studies on the effects on income/ poverty

Studies that show remittances have <u>positive</u> effect on income/ poverty	Studies that show remittances have a <u>negative</u> effect on income/ poverty
• Acosta, Calderon, Fajnzylber & Lopez (2007) • Adams (2004) • Adams (2006a) • Adams & Page (2003) • Adams & Page (2005) • Gupta, Patillo & Wagh (2009) • Itzingsohn (1995) • Lokshin, Bontch-Osmolovski & Glinskaya (2010) • Maitra & Ray (2003) • Prabal & Ratha (2012) • Pfau & Giang (2009a) • Pfau & Giang (2009b) • Taylor et al. (2005) • Tesliuc, & Lindert (2002) • Van den Berg, & Viet Cuong (2011) • World Economic Outlook (2005)	• Adams (2006a) (poverty headcount) • Hagen-Zanker et al. (upcoming): to some extent

However, there are a number of reasons for being cautious about these findings. First, as indicated above, the extent to which migration has poverty reducing impacts, depends on the distribution of migration and remittances within the sending-country population (Taylor et al, 2005; Gupta et al; 2009; Adams & Page, 2005). In **countries where remittances tend to be received by better-off households, they will have lower poverty-reducing impacts**.

Second, it is always assumed that all migrants are able or willing to send remittances. However, this is not always going to be the case. For instance, a recent study on migrants in the Netherlands showed that only between 13% (migrants from Afghanistan) and 51% (migrants from Ethiopia) sent remittances (Bilgili, 2013). <u>The better the migrants were integrated in the labour market, the more likely they were to remit</u> (ibid). Likewise, in Hagen-Zanker et al. (upcoming) we show that only 30% of migrant households in Rolpa, Nepal and 50% of migrant households receive remittances. **This means that not all migrant-sending households receive remittances and that migration will not always have positive, poverty-reducing impacts on a household-level**.

Third, and related to the last point, one should not underestimate the burden of financing migration on migrant-sending countries. **Migrant-sending households often take up huge loans to finance migration and these can take years to repay, at often large interest rates**. If a migrants is unable to send remittances or send less than expected, this can have devastating effects on migrant households. This is illustrated with some quotes from Hagen-Zanker et al. (upcoming), a study on migration from Rolpa, Nepal.

Box 1: The effects of loans on migrant-sending households

> We have not paid the loan. If we would have been able to pay the loan, it would be easier. The loan and daily expenses is increasing day by day. [N5]
>
> *Has [the son overseas] sent the money?* He has not sent the money till now. He had gone in last Bhadau. The interest rate over here is 3%...Each year the interest becomes 36,000 [NPR]. If they cannot earn abroad, the same loan becomes devastating. [N8]

Source: Hagen-Zanker et al. (upcoming)

2.2 Household labour allocation

By definition, migration affects household labour allocation, as migration implies the absence of one or more household members, often the main breadwinner. Beyond the availability of able-bodied adults, this often has repercussions on gender relations within the household (see Section 2.5) or on access to school and education services for children (see section 2.4).

What are the potential impacts of migration and remittances on household labour allocation? The literature finds a number of <u>positive and negative effects</u>.

1. Migrants leaving the household, means there is a "**lost labour effect**", i.e. there are fewer people to work locally, to tend the land or to look after children. In the short-run, these negative effects may outweigh the positive effects of remittances. For instance, Lucas (1987) concludes that in the short-run, migration from six Sub-Saharan African countries has negative effects on domestic crop-production, but it enhances crop-productivity in the long-run through remittances. Taylor (1999) also finds negative effects in the short-term and other studies (e.g. Cox-Edwards and Ureta, 2003; Davis, 2007; Hagen-Zanker et al., upcoming) also find an increase in the workload for the household members staying behind.
2. Secondly, a migrant remitting to his/her family back home without visiting frequently could potentially affect the labour/ leisure balance of the remaining household members. If remittances are periodically sent to cover living expenses, the family might decrease their labour force participation and **opt for more leisure**, as Gubert (2000) finds for Mali, Germenji and Swinnen (2004) find for Albania, Hanson (2007) finds for Mexico and Itzingsohn (1995) finds for a number of Caribbean countries.
3. There may be a **change in the type of work done**, for instance an increase in self-employment of the household members staying behind, if remittances are used to invest in a business, see also section 2.3. Funkhouser (1992) finds that remittances reduced labour force participation in Nicaragua, but increased self-employment. Likewise, Davis (2007) described a ten-country study at a roundtable that showed migrant households diversified their livelihood activities and shifted from labour-intensive agriculture to livestock.
4. There may be a **decrease in child-labour**, due to the higher income. A number of studies show this, including Yang (2005) and Joseph and Plaza (2010), who show that children in households receiving international remittances are 6% less likely to

participate in the labour force. However, other studies are less promising, for instance Panday (2011) finds that international remittances have not had a significant effect on child labour in Nepal, as do Nguyen and Nguyen (2013) for Vietnam.

The brief review of the migration literature on the effects on household-labour allocation has shown that the migration of household members can fundamentally change the labour allocation within households – both as a direct effect through lost labour and indirectly through remittances. These effects can be positive, negative or neutral and seem to depend on a number of factors:

- Opportunities for investment and livelihood diversification – if these do not exist, the household staying behind is stuck in agriculture (broadly speaking)
- Frequency and size of remittance payments – if households can rely on remittances and these are adequate to meet the household's needs, opting for more leisure or reducing child labour is a possibility.
- The poverty status of the household staying behind and the status quo of (a possible) migration loan – households struggling to make ends meet and having to repay a loan are less likely to opt for more leisure and less able to reduce child labour.

2.3 Investment decisions

The question on how remittances are spent is a much debated question in the international literature. Are migrant households more or less likely to spend their income – including remittances - on (unproductive) consumption? As summarised by Adams et al. (2008), there are three points of view in the literature:

1. The 'neutral' view: Remittances are just like any other money (i.e. they are fungible) and they are spent in exactly the same way as other income sources. Migrants are neither more likely nor less likely to spend money on investment/ consumption than non-migrant households. All remittances does is increase their income.
2. The 'pessimistic' view: Migration and remittances change household's spending behaviour in a way that is *less* beneficial for development. As summarised by Chami, Fullenkamp and Jahjah (2003) migrant household's save/ invest a smaller proportion of their income, are more likely to spend on 'status-oriented' consumption and the kind of investment that is done, is often not productive to the economy as a whole (e.g. housing, jewellery). This literature will be discussed in more detail in this section.
3. The 'optimistic' view: Migrant households are more likely to invest in productive investment, e.g. human capital. The literature on education expenditure will be discussed in the next sub-section. Investment in assets or businesses will be discussed in this section.

Before summarising the empirical literature, a note of caution: as previously, there are a number of methodological concerns. First, the extent to which remittances are spent on investment, not just depends on potential money available for investment, but also the investment opportunities available in a country and the extent to which a household is 'enterprising' or more risk-taking (World Bank, 2006). Second, asking how remittances are spent, ignores the fact that money is fungible, so even if remittances *are* spent on investment, this may have freed up other income to spend on consumptive purposes, and on the margin, remittances may have no effect. This review has not assessed the appropriateness and quality of research design of studies and all relevant studies have been included.

On the whole studies, do find that migrant households are more likely to invest, (part) of their income, for instance on land and businesses, see Table 3 below. While spending on food and other basic needs is a top priority for households (Hagen-Zanker et al. (upcoming); Lipton, 1980; Ahlburg, 1991), there are few studies that show migrants are more likely to spend remittances on unproductive or 'status-oriented' consumption (e.g. as do Castaldo and Reilly, 2007). For instance:

- Yang and Martinez (2006) finds that remittances ease credit constraints on new business formation in the Philippines
- Massey and Parrado (1998) find that remittance-receiving households are more likely to found businesses and engage in 'productive investment'

However, other studies find no impact. For instance Adams et al. (2008) find that at the margin, households in Ghana, spend remittances income in exactly the same way as other households. In other words, they are not more likely to invest. The literature suggests that households are less likely to invest when remittances are sent to poorer households that (have to) prioritise consumption and they are sent to households that are experiencing adverse shocks (World Bank, 2006).

A particularly contested area is expenditure on housing and land. Many studies (some of which are summarised in Box 2), show that **migrants do invest more in housing**. But can we classify this as investment? Some evidence shows that migrant houses often stand empty for large parts of the year and are often seen as status symbols of the migrant's success (Jokisch, 2002). Arguably, investment in housing is less beneficial to the development of communities and countries of origin and in the worst case, may drive up land or housing prices. However, other evidence suggests that investments in housing only take place during a certain period in the migration cycle. De Haas (2003) cited in de Haas (2007) showed that for southern Morocco, housing investments occur relatively early in the migration cycle and peak five to 14 years after initial migration. Other investments (e.g. in agriculture or businesses) occur much later in the migration, for instance investments in business peak after 25-29 years of migration (ibid).

Box 2: Spending on housing

- Mohapatra and Ratha (2011), summarising the literature, note that a significant part of remittances is spent on housing investment and the purchase of land, particularly in situations where other investment assets are not available
- Adams (1991) finds that a large share of income of migrant households used for housing
- Jokisch (2002) finds that in many households in Ecuador, remittances are overwhelmingly invested in housing and land
- Osili (2004) find that older migrants and those with higher incomes are more likely to invest in housing

Table 3: Overview of studies on investment

More likely to invest	No difference	Less likely to invest
Adams (1991) Adams (2006a) Adams (1998) Adams & Cuecuecha (2010) Hagen-Zanker et al. (upcoming) Jokisch (2002) Massy & Parrado (1998) Mohapatra and Ratha (2011) Yang (2006) Woodruff and Zenteno (2007)	Adams et al. (2008) Prabal & Ratha (2012)	Taylor et al., 1996 Durand and Massey, 1992

To conclude this section, what are some of the determinants of spending remittances on investment, rather than consumption? The World Bank (2006) suggests there are a number of factors that may lead to higher investment rates:

4. When remittances are seen by the household as transitory, rather than permanent income.
5. The sender attaches conditions to the remittances being sent. Most often these conditions would involve investing the remittances (e.g. on human capital).
6. The remittances are sent to household members that are more likely to use the funds for investment purposes (e.g. women may be more likely to spend remittances on education).
7. Households mentally separate remittances income from other income and use it for different purposes, such as investment (i.e. remittances not seen as fungible income)
8. When there are promising investment opportunities in the area of origin. A study by Durand et al. (1996) showed that high level of inflation increased the odds of Mexican migrants spending remittances on housing, rather than other more productive investments.

2.4 Access to services

This section considers the effects of migration and remittances on education and health services.

In terms of education, there are two types of effects to consider. 1) Effects on *access* to schooling (i.e. school enrolment, student retention rates, spending on education) and 2) Effects on schooling *outcomes* (that is educational attainment). Table 4 summarises a fraction of the large body of literature available on this topic. It is clear that **migration mostly has a positive effect on investment in education, but not always a positive effect in terms of educational attainment**. One of the reasons, why migration and remittances may have a less positive impact is because of supply-side constraints: while remittances may allow households to pay for school attendance, the low quality of schooling in areas of origin constrains potential impacts on outcomes.

Table 4: Effects of migration and remittances on schooling

Study	Effect on access to schooling	Effect on schooling outcomes
Edwards and Ureta (2003) (El Salvador)	Positive	
Yang (2005) (Philippines)	Positive	
Prabal & Ratha (2012) (Sri Lanka)	Positive	
Adams, 2006 (Guatemala)	Positive	
Adams & Cucheata (2010) (Indonesia)	Positive	
Acosta (2006) (El Salvador)	Positive	
Hanson & Woodruff (2003) (Mexico)		Positive (if mothers have low education level)
Mansuri (2006) (Pakistan)	Positive, especially for girls	
Acosta, Calderon, Fajnzylber & Lopez (2007) (Latin-America)		Mixed (larger effects if mothers have low education levels)
McKenzie and Rappaport (2011) (Mexico)	Mixed	Mixed (positive effect for younger girls with uneducated mothers)
Lopez-Cordova (2005) (Mexico)	Mixed	
Nguyen & Nguyen (2013) (Vietnam)	No effect	Positive

While the vast majority of the literature focuses on the direct effects *remittances* have on financing education, other literature highlights the **often negative effects of absence of specific household members have on children's education**. A fair number of studies have highlighted the negative repercussions of parental absence (in particularly fathers) on their children's school attendance (particularly for sons) (e.g. McKenzie and Rapoport, 2011; Herrera and Carrillo, 2005 cited in Siegel, 2012). This may be for a number of reasons: the need to supplement household income (as discussed in Section 2.2 above); the lack of authority of household members staying behind (Hagen-Zanker et al., upcoming), difficulties in the logistics of enrolment without (male) adults present (ibid) and an aspiration to migrate and a subsequent lack of motivation for schooling, given the fact that skills are seldom used abroad (McKenzie and Rapoport, 2011). Hence, **it cannot be taken for granted that an increase in remittances automatically translates into higher school enrolment or schooling outcomes**.

There is a much smaller body of literature on the effects of migration and remittances on health. A number of studies suggest migrant-sending households have a higher propensity to invest in health (e.g. Adams, 2005) have a positive impact on the number of out-patient health care contacts (Nguyen and Nguyen, 2013) and positive impacts on health outcomes (Prabal and Ratha, 2012; Hildebrandt and McKenzie, 2005; Mansuri, 2007). In short, **a number of studies show a positive correlation between remittances and expenditures on health/ health outcomes**. Hildebrandt and McKenzie (2005) analyse the channels through which these positive effects work and they could be the result of direct wealth effects, as well as greater health knowledge.

However, **migration may also have adverse effects on health outcomes, specifically of the children and elderly staying behind**, particularly if the migrants are caretakers. For example, Antman (2010) shows that parents of migrants in Mexico were more likely to suffer heart attacks, report mental health problems etc. Another study on Mexico by Kanaiaupuni and Donato (2009) shows higher rates of infant mortality immediately after migration. These negative effects could be caused by greater emotional stress, changes in the household labour allocation and less support of dependants staying behind.

2.5 Gender relations

Migration of a family member (often the head or a key household member) leads to the restructuring of households and relations within the household (Locke et al., 2013; Hagen-Zanker et al, upcoming; Deshingkar and Grimm, 2005). Changes in household structure have tangible impacts on households that include change the roles and responsibilities of household members staying behind (see Section 2.2 for the effects on household labour allocation) and changes in gender relations at the micro or meso-level. The *impact of migration on gender roles is highly context dependent* and the below examples are illustrations of possible effects that can take place (but that could be quite different in other contexts)[5].

With migrants mostly being male, it means that the **women staying behind often take up responsibilities within the men's domain**, for instance within agriculture. These new responsibilities can be seen as 'empowering' and some emerging evidence shows encouraging findings, e.g. that agricultural resources become more evenly redistributed (e.g. Biao, 2007, for China) and a number of studies reviewed by (Deshingkar and Grimm, 2005) showed wives staying behind gained power in the domestic sphere and can encourage the participation of women in community decision-making. Gulati (1993) cited in Kothari (2002) that migration may empower women staying behind by gaining control over certain types of decision-making within the household.

However, the new roles and responsibilities are often just superficial or temporary changes in terms of work performed, without having a sustainable impact on under-lying gender roles. Working may become active in agriculture, because it has become a more marginal sector, not because they are more powerful (Biao, 2007). At the same time, **women performing these new roles are often stigmatised and face social as well as physical challenges in carrying out the required tasks**. For instance, Olimova and Bosc (2003) show for Tajikistan that women face difficulties in purchasing plots of land for agriculture, obtaining credit for farming implements, are often not allow to sell livestock or crops on their own and arguments on sharing the proceeds often arise between women and their male relatives, who act as their brokers. Women may not have formal ownership of lands or other assets and may lose social or other support networks (Kothari, 2002).

A study on Rolpa, Nepal, shows that wives staying behind have an increased workload (Hagen-Zanker et al. upcoming). This includes harder physical labour, but also increasingly doing work that is considered socially unacceptable. For instance, respondents talked about having to plough fields – seen as a male task – due to lack of male adults present in the village, as shown in the quotes below. This is not only physically difficult for women staying behind, but also stigmatising in some communities.

> *Husband goes to manage the works out of home, and we bear the in-house works. Husband would do the difficult works, we would do the easier works. In*

[5] This discussion does not include effects of female migration on gender relations. It focuses exclusively on the family members staying behind.

> *his absence, we need to do every work. What work do you do that your husband used to do? Plough the field, cut wood, loads of work we do.*
> *Q: How do you plough the field? A: It was difficult at first, but later I learnt it.*
> *Q: Don't the community people back bite? A: They ask, why do you do such things. […] I have learnt it now. I don't feel any hesitation nowadays. We should do for our own living.*

Finally, in the context of some conservative societies, migration may lead to restrictions/ reductions in the mobility of female family members staying behind (shown in two studies on Pakistan: Farooq and Javed, 2009; Hagen-Zanker et al., upcoming). This means it is more difficult for spouses and their children to access education and health services and other public spaces.

2.6 Economic growth

I now turn to the macro-economic level, starting with effects on economic growth.

In theory, one would expect positive effects of remittances on economic growth. One channel through which this could happen is through increased aggregate demand, fuelled by increased spending financed by remittances (which may have a so-called multiplier effect – see Section 2.8). Second, remittances could alleviate credit constraints when financial systems are weak and third, they could finance investment in education and health (both of which in theory increase human capital). Also, remittances tend to be stable and counter-cyclical (World Bank, 2006). On the other hand, labour outflows could have negative outflows, especially if there is a brain drain.

As such, Gupta et al. (2009) argue that studies that consider the labour supply response of recipient households find that remittances decrease growth (Azam and Gubert, 2006 cited in Gupta et al., 2009; Chami, Fullenkamp, & Jahjah, 2003), whereas studies that focus on the alleviation of credit constraints and improvement of financial access conclude that remittances increase growth (Giuliano and Ruiz-Arranz, 2005; Toxopeus and Lensink, 2006 cited in Gupta et al., 2009)

The majority of empirical studies mainly focus specifically on the effect of *remittances* on economic growth. **The evidence on the effect of remittances on economic growth is inconclusive**, see below. One reason why this may be the case is because **investments in human and physical capital may only be realised in the long-term** (Ratha, 2007). Second, when remittances are received in challenging, under-developed contexts, remittances by themselves cannot be expected to overcome all barriers limiting growth.

Third, as on the micro-level, researchers are faced with methodological challenges that make it very difficult to disentangling causality (ibid): Remittances are often counter-cyclical, being sent as a response to low growth at home, which makes it difficult to draw conclusions when comparing growth rates to remittance patterns (as remittances seemingly lower growth, when in fact, causality may be the other way round). This means findings on the remittances-growth nexus should be considered with caution.

The following table presents some of the main cross-country studies that looked at the effects of remittances on economic growth.

Table 5: Studies on remittances and economic growth

Authors	Study details	Findings
IMF (2005)	101 developing countries, 1970 -2003	No effects of remittances on economic growth (possibly due to measurement difficulties)
Chami, Fullenkamp, & Jahjah (2005)	113 countries, 1970-1998	Negative correlation between remittances and economic growth
Giuliano & Ruiz-Arranz (2005)	116 developing counties; 1975-2002	Remittances have positive impact on growth in financially less developed countries
Mishra (2005) cited in World Bank (200)	13 Caribbean countries; 1980-2002	1 percent decrease in real GDP was associated with a 3 percent increase in remittances after a two-year lag
Faini (2002) cited in World Bank (200)		Impact of remittances on growth is positive
Catrinescu et al. (2009)	162 countries;1970-2003	Weak positive impact

Under which circumstances can remittances be more effective in increasing growth? The following conditions point to more beneficial growth effects (drawing amongst others on Ratha, 2007):

- When there is a good investment climate with a well-developed financial systems
- When institutions are functional and easily accessible, so that remittance receivers are more likely to invest in human and physical capital

2.7 Labour market

Section 2.2 considered effects migration and remittances may have on the household level. At the individual level, migration and remittances can affect labour force participation and supply in a number of ways: they can reduce labour supply and participation by increasing the *reservation wag*e for which individuals are willing to work. On the other hand, those staying behind, may have to increase their work efforts, at least in the informal or subsistence economy. Migration can also reduce unemployment when sizeable workers leave the country, resulting in higher wages for those staying behind. These effects at the individual/ household level can have repercussions at the aggregate level.

So what does the literature say on the effects of migration on the labour markets in sending economies? On the whole, the studies found show that **international migration and remittances tend to reduce household labour supply and participation, but that these effects are often influenced by gender**. This is shown in the following studies (however, it should be noted that most of these do in fact use household level data):

- Amuedo-Dorantes and Pozo (2012) show that male and female labour supply decreases with higher *levels* of remittance income in Mexico. However, with increased remittances volatility, the employment likelihood of both men and women increases, and for women the hours worked increase - suggesting that remittances are used as a buffer for remittance volatility.

- Funkhouser (2006) finds that for Nicaragua, international migration does indeed tend to reduce labour force participation (migrant households have fewer working members and less labour income).
- Acosta (2007) finds that both women and men reduce their labour supply upon receipt of remittances in El Salvador, but women do so to a greater extent.
- Hanson (2007) finds that for Mexico remittances tend to reduce labour supply of remittance-receiving women (and men to a lesser extent).
- Justino and Shemyakina (2012) find that individuals in remittance-receiving households in Tajikistan are less likely to participate in the labour market and work for fewer hours when they do.

Concerning the effects of emigration on *unemployment* in areas of origin, this review was unable to find any relevant empirical studies (beyond the famous theories, such as Harris and Todaro’s Dual Sector models). This is an important gap in the literature.

As a side-note, skilled migration may have entirely different impacts on the economy and labour market composition because of potential *brain drains*. This review will not cover the vast literature on brain drain vs brain drain. However, section 3 has a brief discussion of the use of skills and acquired knowledge of return migrants.

2.8 Inflation

The inflow of large remittances flows may also affect other macroeconomic variables, such as inflation rates in countries of origin. Remittances may increase the inflation rate through direct and indirect impacts. For instance, remittances expenditure can directly affect aggregate demand (see section 2.3) and can also have indirect multiplier effects, when remittances (even when not invested) stimulate the economy through their demand for goods and services that then increase aggregate output. As such, the effect on the economy as a whole is some multiple of the remittance income. However, this may then result in prices rises (i.e. inflation) in certain sectors or the economy as a whole.

Table 6 below, summarise some of the key studies on inflationary effects from the macro-economic literature. This review found a **fair number of studies that showed remittances do lead to increases in inflation in countries or origin**. However, it should be pointed out that this is not a comprehensive review of the entire literature on the subject and that the majority of existing studies appear to focus on Latin-American countries.

Table 6: Studies on remittances and inflation

Authors	Study details	Findings
Narayan et al. (2011)	54 developing countries; 1995–2004	Remittances generate inflation (with a stronger effect in the long-run)
Amuedo-Dorantes and Pozo (2004)	13 countries in Latin-America	Remittances do lead to higher inflation
Ball et al. (2013)	7 counties in Latin-America	Remittances increases inflation under a fixed exchange rate regime; remittances decreases inflation under a flexible exchange rate regime
Vacaflores (2012)	11 Latin American countries; 15 years	Remittances increase inflation
Khan and Islam (2013)	Bangladesh 1972-2010	Remittances increase inflation in long run, no short-term effect
Bourdet and Falck (2006)	Cape Verde	Remittances do lead to an increase in inflation
Balderas and Nath (2008)	Mexico 1995-2005	Remittances increase inflation in short run, taper off in long-run
Katseli and Glytos (1986) cited in Khan and Islam (2013)	Greece	Remittances lead to lower inflation

2.9 Dutch disease

As remittances can be large financial inflows in an economy, they have been linked to the so-called 'Dutch disease', creating a form of 'resource curse'. The ideas is that these large financial inflows can lead to an appreciation of the real exchange rate, which can subsequently lower competitiveness of the economy, especially the tradable sector.

The **empirical evidence on whether remittances cause Dutch disease is mixed** (HDR, 2009). Mongardini and Rayner (2009), in a study on 24 countries in Sub-Saharan Africa, find no links between remittances and rises in the exchange rate, as do Rajan and Subramanian (2005). However, studies on 13 countries in Latin America (Amuedo-Dorantes and Pozo, 2004), Makhlouf and Mughal (2013) for Pakistan, for Cape Verde (Bourdet and Falck, 2006) and Acosta (2009) for a panel of 109 developing countries give evidence that remittances do have Dutch-disease effects and reduce the competitiveness of the tradable sector.

However, there are a **number of reasons why it is unlikely that remittances lead to Dutch disease** (drawing amongst other on HDR, 2009; World Bank, 2006):

1. Remittances are distributed much more widely in the population than rents from natural resources.
2. Remittances tend to be quite stable and tend to grow gradually and steadily, unlike natural resources, which often display significant instability.
3. The effect depends on the proportion of such flows spent on domestic goods, in particular non-tradable good (Gupta, Powell, and Yang, 2006)
4. Remittances may be self-correcting as an over-valued currency deters remittances, and hence Dutch-disease effects are not sustained (Rajan and Subramanian, 2005).

However, the literature has identified **'risk factors' that increase the likelihood of Dutch disease** (HDR, 2009):

1. Remittance inflows are large, compared to the size of the economy. This is especially the case in small economies.
2. Supply constraints hinder the expansion of the non-tradables sector.
3. A significant share of remittances are spent on non-domestic goods (i.e. imported consumer goods)
4. The risk also seems to be higher in smaller developing countries (Kapur, 2004).

3 Use of skills and acquired knowledge of return migrants

This review is going to put the large and heated discussion of brain gain vs brain drain to one side, and instead focus on the use of skills and acquired knowledge of return migrants.

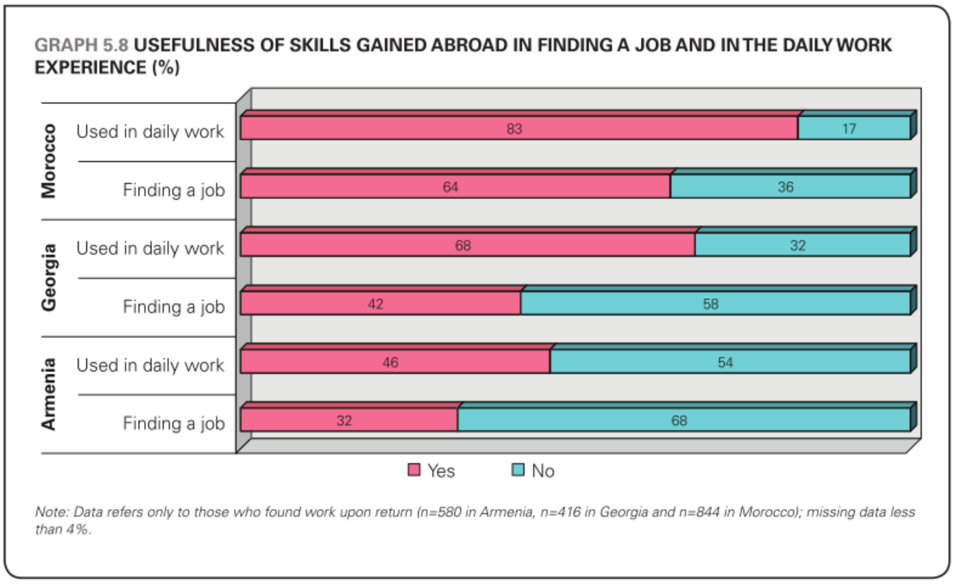
The extent to which skills and new knowledge can be applied in their home society, depends on three conditions (Ammassari, 2004):

1. That the migrants have learnt new skills and knowledge abroad.
2. That these new skills are useful in their areas of origin
3. That the migrants are willing and able to apply these new skills (Athukorala, 1990).

For unskilled migrants these conditions may not always be met. They may not have learned many new skills working in unskilled or semi-skilled construction work. Further, these skills may not be of use in rural areas of origin with few employment prospects beyond agriculture. Hence, **unskilled migrants are unlikely to use new skills and knowledge upon return**. This is confirmed in some of the early studies on migration from Southern Europe to Northern European countries (Gmelch, 1980; King, 1986) and some more recent ones (Thomas-Hope, 1999; Athukorala, 1990). These studies show that unskilled migrants doing unskilled/ semi-skilled work acquired few skills abroad. Those migrants that did receive some training found it of little use in rural areas of origin.

However, **some studies are a bit more optimistic**. Dustman and Kirchkamp (2002) show brain gain occurring in Turkey due to return of migrants from Germany. A study by Collyer et al. (2013) on return migration to Armenia, Georgia and Morocco showed that a considerable number of migrants have learnt new skills abroad (vocational and technical skills, language skills, work organisation skills and ethics) – hence meeting condition 1 above. Returnees have similar or higher employment levels than other population groups, this is particularly the case for female return migrants, and returnees to Morocco. However, they also point out that most of these new skills are never certified or truly visible in the domestic labour market when the migrants return. This means that they may be unable to apply these new skills in the labour market – hence not meeting condition 2 above. This is illustrated in Figure 2, for instance only 32% of return migrants to Armenia have found the skills gained abroad useful for finding a job and 46% have used them in their daily work. However, the findings from Morocco are more encouraging, where 83% of returnees have used the skills in daily work and 64% have used them to find a job.

Figure 2: Usefulness of skills gained abroad



Source: Collyer et al. (2013)

A number of studies highlight the **importance of pre-migration education** (e.g. Athukorala P. 1990). For instance, the study by McCormick and Wahba (2001) on return migration to Egypt looks at whether return migrants engage in entrepreneurial activity and considers to what extent savings, new knowledge and pre-migration skills help. They show that for literate returnees, the migration experience had the biggest influence on the likelihood of entrepreneurial activity (skills and ideas acquisition), in addition to savings; for illiterate returnees, the savings from overseas had the biggest influence.

What emerges from a number studies is that **generally highly skilled migrants have greater potential to use and apply their skills after migration** and hence contribute to development, because i) they are more willing to consider change, ii) return with different forms of capital and iii) often return to key positions in the public and private sector where they can apply these skills (Ammassari, 2004). Studies by the following authors show that skilled migrants were (more) able to use and apply their skills and knowledge after migration:

- Thomas-Hope (1999) for Jamaica
- Ammassari (2004) for 'elite' migrants returning to Ghana
- Iredale et al. (2002) for return migrants to China and Taiwan, but less so for Bangladesh and Vietnam
- Gibson and McKenzie (2013) show that return migrants to Tonga, New Zealand and Papua New Guinea working as scientific researchers are the main source of research knowledge transfer between international and local researchers

4 Conclusions

The helpdesk response reviews the empirical literature to present the evidence on the effects of remittances and migration on migrant sending countries, communities and households. It is a broad, rapid overview of the literature in this field and, while summarising seminal studies and review, only encompasses a fraction of the vast literature in this field. It should be seen as a resource document for further study and analysis.

Migration and remittances are hypothesized to have positive effects on sending households, communities and countries and the literature shows that on the whole, they do tend to have positive effects. The majority of studies show that migration reduces poverty at the household level. Poverty-reducing impacts are larger for those countries, where migrants are concentrated in the bottom income deciles. However, we should keep in mind that not all migrant-sending households receive remittances and that migration will not always have positive, poverty-reducing impacts on a household-level.

The literature on the effects on labour allocation within the household and the labour markets more generally is less conclusive. Migration and remittances are shown to have both positive and negative effects, but studies show quite consistently that international migration and remittances tend to reduce household labour supply and participation, for various reasons.

The question on how remittances are spent is a much debated question in the international literature. On the whole, studies do find that migrant households are more likely to invest, (part) of their income, for instance on land and businesses. There is relatively little evidence for 'status-oriented' consumption. Even remittances that are 'only' consumed and hence contributing to poverty reduction, as described above, can have positive multiplier effects on the economy.

Remittances are also spent on education and health services. Migration mostly has a positive effect on investment in education, but not always a positive effect in terms of educational attainment. A fair number of studies highlights the often negative effects of absence of specific household members have on children's education. Hence, it cannot be taken for granted that an increase in remittances automatically translates into higher school enrolment or schooling outcomes. There is less literature on effects on health access and outcomes, but a number of studies show a positive correlation between remittances and expenditures on health/ health outcomes.

Migration of a family member (often the head or a key household member) leads to the restructuring of households and relations within the household. Changes in household structure have tangible impacts on households that include change the roles and responsibilities of household members staying behind. With migrants mostly being male, it means that the women staying behind often take up responsibilities within the men's domain, for instance within agriculture. While these effects can be seen as empowering and there is a small body of encouraging literature that suggests so, the new roles and responsibilities are often just superficial or temporary changes in terms of work performed, without having a sustainable impact on under-lying gender roles. Women performing these new roles are often stigmatised and face social as well as physical challenges in carrying out the required tasks.

From a macroeconomic perspective, remittances provide developing countries with a means of relaxing external constraints on their growth, helping them finance imports and preserve the balance of payments, as well as providing a source of savings. In theory, one would expect positive effects of remittances on economic growth, through the channels outlined above. However, in practice the evidence on the effect of remittances on economic growth is inconclusive, see below. One reason why this may be the case is because investments in human and physical capital may only be realised in the long-term (Ratha, 2007). Further, when remittances are received in challenging, under-developed contexts, remittances by themselves cannot be expected to overcome all barriers limiting growth.

The inflow of large remittances flows can also have perverse macroeconomic effects, such as an appreciation of the real exchange rate (Dutch disease) and increase of inflation rates in countries of origin. A fair number of studies reviewed here that showed remittances do lead to increases in inflation in countries or origin. However, the evidence on whether remittances cause Dutch disease is mixed. These effects tend to be observed in small economies that are highly dependent on remittances.

Finally, what do we know about the use of new skills and knowledge of return migrants? The extent to which skills and new knowledge can be applied in their home society, depends on three conditions:

1. That the migrants have learnt new skills and knowledge abroad.
2. That these new skills are useful in their areas of origin
3. That the migrants are willing and able to apply these new skills.

The current literature is fairly pessimistic about whether these conditions can be met for unskilled migrants. They may not have learned many new skills working in unskilled or semi-skilled construction work. Further, these skills may not be of use in rural areas of origin with few employment prospects beyond agriculture. Hence, unskilled migrants are unlikely to use new skills and knowledge upon return. Generally highly skilled migrants have greater potential to use and apply their skills after migration. However, some studies are somewhat more encouraging (Collyer et al., 2013) and show that in some contexts, even unskilled/ semi-skilled return migrants may be able to use their skills and hence improve their employment prospects.

Lastly, a note of caution: migration clearly is a selective process, which means that the direct benefits of migration are also selective. The issue of selectivity has only been touched upon in this review, but it should be kept in mind that the direct benefits of migration tend <u>not</u> to be reaped by the poorest households in communities or poorest countries.

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