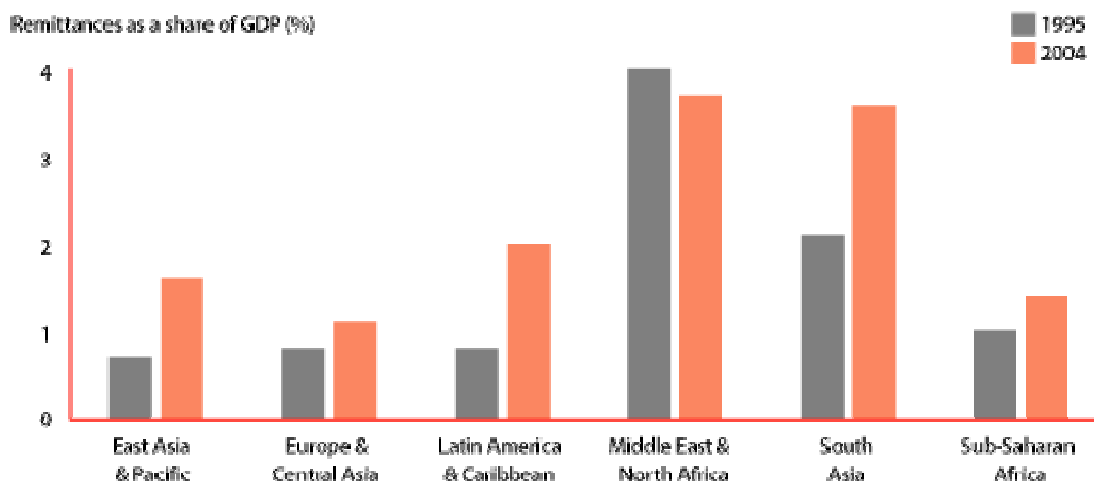




United Nations Office of the High Representative for the Least Developed Countries,
Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS)
and
Office of the Special Adviser on Africa (OSAA)

Migrant workers' remittances in Africa and LDCs: a new development paradigm ¹

In the last few years, migrant workers remittances have emerged as an important source of external financing in developing countries due to the dramatic increase in their volume. In 2004, migrant workers' remittances reached almost \$228 billion. They were by far larger than the Official Development Assistance (\$87 billion) and only second to the Foreign Direct Investment (\$ 625 billion). However, the true size of workers' remittances flows could be even larger when all unrecorded flows, both through formal and informal channels are included.



Officially recorded remittances have increased dramatically in all regions. As a share of GDP, remittances have more than doubled in East Asia and Pacific and Latin America and the Caribbean.

Source: *International Monetary Fund Balance of Payment database*

The recent surge of officially recorded remittances has been a result of a number of factors, including a) better data reporting; b) diversion of remittances from informal to formal channels amidst the concerns about money laundering and terrorist financing; c)

¹ This issues paper largely draws on the *Global Economic Prospects 2006: Economic implications of Remittances and Migration 2006*, World Bank and International Migration, *Remittances and Brain Drain*, World Bank and Palgrave Macmillan, 2006

lower transfer costs and expansion of the network of remittances service providers and d) growth of the number of migrants and their incomes. Although most of remittances flow from North to South, the share of South-South remittances has been significant: up to 30-45 per cent of all remittances.

Remittances proved to be stable financial flows, countercyclical to economic downturns in recipient countries due to financial crisis, natural disaster or civil conflict. At the macroeconomic level, remittances can generate foreign exchange earnings and improve creditworthiness of a country for external borrowing. Remittances can also improve its access to international capital markets and lower the costs of sovereign borrowing through securitization. At the same time, large and sustained remittances flows can lead to currency appreciation, lower export competitiveness and dampen growth. Heavy reliance on remittances makes a country economically vulnerable but so do other forms of dependence (aid, trade in commodities, external debt, investments). Remittances can also increase inequality and encourage the consumption of imported food.

At the microeconomic level, remittances are mainly used for consumption of recipients and addressing their basic needs in food, clothing, housing, transport, healthcare and education. They can be extended to secondary beneficiaries in the community through their employment or purchase of locally produced goods and services. Saved for future consumption workers remittances serve as safety nets for the poorest. Furthermore, savings and investment of remittances also increase credit availability. To the extent they finance health, education, create employment and provide access to credit for small entrepreneurs, remittances can increase growth. To the extent they are used for consumption, remittances can increase income levels and reduce poverty.

Due to the potential of workers remittances to reduce poverty they have been attracting increased attention of policy makers at the international level. The 2004 high-level segment of the Economic and Social Council “Resources mobilization and enabling environment for poverty eradication in the context of the implementation of the Programme for the Decade 2001-2010” and the Ministerial Conference of the Least Developed Countries “Enhancing the Development Impact of Migrant Remittances in the Least Developed Countries” held on 8 and 9 February 2006 in Cotonou, Benin were two major events at the international level that examined the situation of workers’ remittances and explored their potential for poverty reduction in LDCs.

Workers remittances in LDCs have increased significantly from \$6 billion in 2000 to \$10.4 billion in 2004 but they are much less than remittances in low income countries (\$44 billion) and high income countries (\$66.5 billion), let alone remittances in middle income countries (\$117 billion), the primary beneficiaries of workers remittances in the world. Worker’s remittances have also increased in sub-Saharan Africa (SSA) from \$4.9 billion in 2000 to about \$7.7 billion in 2004.

Despite the differences in income of various groupings of countries, remittances were the second largest source of external finance in high income countries, middle income countries and LDCs. In low income countries, remittances were the first largest source of

external finance. In the remaining groupings of countries the first largest source of external finance was FDI (high income and middle income countries) and ODA (LDCs). ODA also played an important role in the development of low income countries, being the second largest financial flow to those countries. The third in size was ODA for middle income countries and FDI for low income countries and LDCs.

\$billions

Flows	Groupings	2000	2001	2002	2003	2004
Workers remittances	High income	46.5	50.6	52.9	59.5	66.5
	Middle income	62.7	70	80	100	117
	Low income	22.6	26.7	33	40.8	44
	LDCs	6.1	6.7	8.4	9.5	10.4
Foreign direct investment (FDI)	High income	1346	616	540	431	413
	Middle income	158	164	145	147	194
	Low income	11	13	15	15	17
	LDCs	4	6.7	6	10	8.9
Official development assistance (ODA)	High income	0	0	0	0	0
	Middle income	24	23	26	27	32
	Low income	20	23	27	32	34
	LDCs	13	14	18	24	25

Source: *World Development Indicators* database <http://devdata.worldbank.org>

In 2004, remittances in LDCs (\$10.4 billion) were larger than FDI flows (\$8.9 billion) but only half of the size of ODA which reached \$ 25 billion. Similarly, in SSA, remittances are much smaller than FDI, representing only about one third of ODA and accounted for only about 1.5 per cent of GDP in 2004. However, in countries like Lesotho, Haiti, Samoa, Nepal, Kiribati and Yemen remittances accounted for 25.8, 24.8, 12.4, 11.7, 11.3 and 10.0 percent of GDP respectively in 2004 while Bangladesh with remittances flows of \$3.6 billion ranked 14 among 20 top recipient developing countries. Sudan and Yemen also received over a \$1 billion in remittances in 2004. However, 13 LDCs did not report remittances data: Afghanistan, Angola, Bhutan, Burundi, Central African Republic, Democratic Republic of Congo, Chad, Djibouti, Equatorial Guinea, Liberia, Somalia, Timor-Leste and Zambia. In addition, most of remittances to LDCs are channeled through the informal channels due to high costs, dual exchange rates of formal transfers, lack of legal documentation for formal transaction by a sending migrant, poor infrastructure and weak financial sector in LDCs. Thus, it is estimated that 54 per cent of remittances in Bangladesh and 80 per cent in Uganda are sent through informal channels.

The prime driver of remittances is migration. Migration of skilled workers has many positive aspects but in poor LDCs, with low human development capital, it led to a significant loss of skilled workers or 'brain drain'. It is estimated that 34 per cent of migrants from LDCs to OECD countries are skilled workers. By contrast, according to a study conducted by the Global Trade Analysis Project (GTAP), the increase of remittances in SSA is not due to the migration of skilled and highly-educated workers. In fact, low-skilled workers' transfers represent a relatively important share comparative to skilled workers' remittances to SSA. Geography and size of population matter: the share of skilled workers among migrants from landlocked developing countries (LLDCs) and

small island developing states (SIDS) is 37.1 per cent and 37.6 per cent respectively. Smaller (less than 2.5 million population) countries have higher rate (27.5 per cent) of skilled emigration and large share (34.7 per cent) of skilled workers among migrants. Large (over 25 million population) have lower rate (4.1 per cent) of skilled emigration but larger share (34.4 per cent) of skilled workers among migrants. Haiti, Samoa, Cape Verde, the Gambia, Sierra Leone, Mozambique and Liberia with emigration rates of 83.6 per cent, 76.4 per cent, 67.5 per cent, 63.3 per cent, 52.5 per cent, 45.1 per cent and 45.5 per cent respectively are among 30 top skilled emigration countries in the world.

EMPLOYMENT & EMIGRATION DATA						
	Share in the OECD stock (*)		Rate of emigration		Share of skilled workers	
	Total	Skilled	Total	Skilled	Among residents	Among migrants
By country size						
Large countries (Pop>25 million)	60.6%	63.9%	1.3%	4.1%	11.3%	36.4%
Upper-middle (25>Pop>10)	15.8%	15.2%	3.1%	8.8%	11%	33.2%
Lower-middle (10>Pop>2.5)	16.4%	15.7%	5.8%	13.5%	13%	33.1%
Small countries (Pop<2.5)	3.7%	3.7%	10.3%	27.5%	10.5%	34.7%
By income group						
High-income countries	30.4%	33.7%	2.8%	3.5%	30.7%	38.3%
Upper-middle income countries	24.3%	17.7%	4.2%	7.9%	13%	25.2%
Lower-middle income countries	26.6%	27.2%	3.2%	7.6%	14.2%	35.4%
Low-income countries	15.1%	19.8%	0.5%	6.1%	3.5%	45.1%
By group of special interest						
UN least developed countries	4.2%	4.2%	1%	13.2%	2.3%	34%
UN landlocked developing countries	2.1%	2.3%	1%	5%	6.8%	37.1%
UN small island developing states	6.8%	7.4%	13.8%	42.4%	8.2%	37.6
By region						
America	26.3%	22.6%	3.3%	3.3%	29.6%	29.7%
North America	2.8%	4.6%	0.8%	0.9%	51.3%	57.9%
Europe	35.7%	32.8%	4.1%	7%	17.9%	31.7%
Africa	7.6%	6.8%	1.5%	10.4%	4%	30.9%
Asia	25.5%	34.5%	0.8%	5.5%	6.3%	46.8%
Oceania	1.4%	1.8%	4.3%	6.8%	27.8%	45%

The most detrimental effect from brain drain is caused by the migration of the upper end of human capital distribution (scientists, professors, physicians, engineers), critical for institution building and development. The table below provides estimates of the brain drain from Africa, including 34 African LDCs (**in bold**).

Percentage of nationals of LDCs with university education living abroad, 2000	
>50	Cape Verde, Gambia, Seychelles, Somalia
25-50	Angola, Equatorial Guinea, Eritrea, Ghana, Guinea Bissau, Kenya, Liberia, Madagascar, Mauritius, Mozambique, Nigeria, Sao Tome and Principe, Sierra Leone
5-25	Algeria, Benin, Burundi , Cote d'Ivoire, Cameroon, Chad, Comoros, DRC, Djibouti, Ethiopia , Gabon, Guinea, Malawi, Mali, Mauritania, Niger , Morocco, Rwanda , South Africa, Senegal, Sudan , Swaziland, Tanzania, Togo , Tunisia, Uganda, Zambia, Zimbabwe
<5	Botswana, Lesotho, Burkina Faso, Central African Republic , Egypt, Libya, Namibia

Source: Devesh Kapur and John McHale. The global migration of talent: what does it mean for developing countries? See at www.cgdev.org

Issues to discuss:

1. Can remittances serve as a source of financing for development in LDCs or rather a supplement to ODA and FDI, based on the principle of self-help?
2. How could governments in LDCs to a) reduce transaction costs of remittances and b) increase their impact on poverty reduction at the household, community and national levels?
3. If governments can affect remittances, can remittances affect the governments, influence their policies and induce change?
4. How to ensure a comprehensive and long-term solution for workers remittances in LDCs?
5. Can remittances compensate brain drain? What should be government policy responses to skilled migration?

Annex. Remittances in LDCs (\$ million)

Country	2000	2001	2002	2003	2004
Afghanistan	..	..	..	..	..
Angola	..	..	..	..	..
Bangladesh	1968	2105	2858	3192	3584
Benin	87	84	76.2	55.4	55.4
Bhutan	..	..	..	..	..
Burkina Faso	67	50	50	50	50
Burundi	..	..	..	..	..
Cambodia	121	133	140	138	177.4
Cape Verde	87	81	85	92	92
Central African Republic	..	..	..	..	..
Chad	..	..	..	..	..
Comoros	12	12	12	12	12
Congo, Dem. Rep.	..	..	..	..	..
Djibouti	..	..	..	..	..
Equatorial Guinea	..	..	..	..	..
Eritrea	3	..	..	..	..
Ethiopia	53	18	33	46.5	133.4
Gambia, The	14	7	7	8	8
Guinea	1	9	15	111	42
Guinea-Bissau	2	10	18	23	23
Haiti	578	624	676	811	876
Kiribati	7	7	7	7	7
Lao DPR	1	1	1	1	1
Lesotho	252	209	194	288	355
Liberia	..	..	..	..	..
Madagascar	11	11	17	16	16
Malawi	1	1	1	1	1
Maldives	2	2	2	2	2.9
Mali	73	88	138	154	153.8
Mauritania	2	2	2	2	2
Mozambique	37	42	53	69	58
Myanmar	104	117	106.5	85.3	117.8
Nepal	111	147	678	771.1	822.6
Niger	14	22	19	25.5	25.5
Rwanda	7	8	7	9.6	9.8
Samoa	45	45	45	45	45
Sao Tome and Principe	0	1	1	1	1
Senegal	233	605	644	511	511
Sierra Leone	7	7	22	26	24.7
Solomon Islands	2	2	2	2	2
Somalia	..	..	..	..	..

Sudan	641	740	978	1,224	1,403
Tanzania	8	15.9	12.1	9.1	10.9
Timor-Leste	..	..	..	..	..
Togo	34	69	103	149	149
Uganda	238	338	415.1	286.2	306.1
Vanuatu	35	53	8	9	9
Yemen	1228	11295	11294	11270	1283
Zambia	..	..	..	..	..
Least Developed Countries	6146	6661	8420	9502	10370

Source: *World Development Indicators* database <http://devdata.worldbank.org>