MIGRATION AND DEVELOPMENT: THE ROLE OF THE WORLD BANK

The World Bank

Migration can have an enormous impact on poverty reduction, the core goal of the World Bank. Facilitating increased migration, in a way that contributes to development, should be a major concern of the international community. The Bank's role in improving the development impact of migration includes research, policy-oriented analysis, communications and lending operations. In the initial phase, the paucity of data and analysis pertaining to developing countries means that the emphasis will be on research and policy analysis, although in a number of subject areas, concrete policy objectives can already be identified. This note reviews some of the key issues concerning the development impact of migration and notes the Bank's likely activities on them.[1]

Critical issues include how to react to the emigration of highly-skilled persons (the brain drain), the rules governing the temporary movement of workers (Mode 4 of the GATS), efforts to protect migrants from exploitation, and improvements in the financial infrastructure surrounding remittances. Migration is sensitive to the quality of the investment climate and to economic and political conditions in general, so that all domestic policies and institutions play a role in influencing migrants' decisions. These broader issues are not discussed here, however, since we focus on issues that more directly impact migration and its effects.

A. REMITTANCES

Remittances received by developing countries are estimated at $93 billion in 2003, up 14 per cent from the previous year and approximately three times the level of 1990. Remittance flows have proven to be a more stable and reliable source of foreign exchange than other forms of capital flows. Moreover, these official data omit substantial remittances flows made through informal channels. Officials in major fund transfer agencies argue, based on the size of funds that flow through their system, that unrecorded remittances may be larger than recorded remittances.

Among the critical issues in attracting remittances and using them productively is to establish an appropriate investment climate, for example establishing a market-based exchange rate and strengthening the coverage and soundness of the banking system. These are important policy questions for all countries, whether they receive remittances or not, and so do not call for specific migration-policy responses. Indeed, the result reminds us that policy interventions directly aimed at stimulating remittances and their investment are unlikely to be effective unless located in an appropriate macro and policy context.

One policy issue that is specific to remittances concerns the fees charged by money transfer agents, which appear high compared to the actual cost of technology, labor and currency exchange commissions. It is not uncommon, for example, to find remittance costs of 20 per cent for making small transfers, as well as lengthy processing times. These high fees are in part a natural market phenomena, reflecting the large investments required for money transfer systems, including a widespread branch network in both source and recipient countries. Nevertheless, there may be some scope for government intervention to bring down fees. Remittance costs could be reduced by improving transparency in remittance transactions, introducing electronic card based transfer systems, harmonizing payment systems, easing reporting requirements, enabling remittance senders to "bundle" remittances so that larger amounts are sent although less frequently, and improving competition among remittance service providers.

A major analytical effort is underway to identify the impact of remittances on poverty and income distribution. The key challenge is to infer what the migrant would have done and earned had he/she remained behind at home. Among others are those of collecting coherent data on remittances and remitters, analyzing how remittances impact spending patterns and detecting whether remittance-receiving households are more entrepreneurial or sophisticated financially.

Improving the financial infrastructure underlying remittances is a major potential area for the Bank lending and policy advice on migration. The Financial Sector Network is pursuing a program to increase the Bank's experience and capacity on remittances, and enhance the quality and the flow of policy relevant information on migrant remittances among multilateral and bilateral organizations and market participants. The Bank is also supporting improvements in reporting and record keeping of informal money transfer networks. Registering informal dealers and establishing a paper trail for remittance transactions could strengthen countries' efforts to control money laundering and reduce fraud and abuse, as well as fostering financial development in recipient countries. The main theme of Global Economic Prospects 2006 (which will be released late 2005) will be means of improving the development impact of remittances.

B. Temporary Movement of Workers and the GATS

The liberalization of the temporary movement of service workers is being negotiated as Mode 4 of the General Agreement on Trade in Services (GATS) on a most favored nation basis.[2] While these labor flows are not viewed as migration (which refers to more permanent settlement), they can lead to migration, and the arrangements governing temporary movement of workers are influenced by views, policies and procedures on migration. While liberalizing the rules governing the movement of temporary workers holds tremendous potential for developing countries (Winters and others, 2003), the commitments made so far have been modest, and refer almost exclusively to high level personnel, rather than the medium- and low-skilled workers that are in much greater supply in developing countries.[3] There are several reasons for this lack of progress. Governments have been reluctant to undertake permanent commitments to accept temporary workers when employment demand varies with cyclical conditions, and when several industrial countries are facing difficulties in integrating existing immigrant communities into their societies. Also, the strong regional character of migration patterns creates domestic political support for programmes that favor neighboring countries, and bilateral labor agreements usually provide more flexibility to take into account changing economic conditions and trends in migration. By contrast, Mode 4 commitments are necessarily open to all countries on a most favored nation basis. Finally, concern that temporary workers will overstay their visas may reduce the attractiveness of Mode 4 arrangements, although administered schemes for temporary movement could help reduce the number of undocumented workers by making available legal, temporary foreign workers for seasonal activities. The Bank will continue its analysis and research on temporary movement and also its advocacy for steps to reap the development gain from Mode 4 as discussed, for example, in Global Economic Prospects 2004.

C. Ties to the Diaspora

Maintaining ties to the diaspora can boost access to markets in receiving countries, help sending countries encourage return migration of skilled workers, and enhance the flow of finance and knowledge. The Bank's overall research and country analysis programmes include cooperation with developing country research groups, which can improve the relative attractiveness for highly-educated individuals of remaining in their home country. The task force on low-income countries under stress recommended that the Bank expand to other countries the diaspora initiative begun in the context of Afghanistan. Another issue to investigate concerns whether Bank-financed technical assistance could be used to encourage the return of nationals living abroad.

D. Coping with the Emigration of Highly-skilled Persons

The “brain drain” is an old concern, but the emigration of highly-skilled workers has probably increased over the last two decades, partly encouraged by the ‘quality selective’ policies in several receiving countries (Kanbur and Rapoport, 2003). The size of the “brain drain”- if that is what it is – varies across developing countries: for 22 of the 33 countries in which educational attainment data on migrants can be estimated, less than 10 per cent of the tertiary-educated population had emigrated. However, a handful of countries located have experienced the emigration of a large share of the best educated (Adams, 2003). The IOM estimates that for 40 per cent of African countries, more than 35 per cent of citizens with college education reside abroad (Desai, Kapur and McHale, 2001). Bank research aims to refine these estimates, as well as to estimate their effects on growth, foreign direct investment and international trade.

While the benefits to those migrating are considerable, whether the population remaining in developing countries tends to benefit or lose is unclear. The emigration of people with scarce skills can reduce potential growth if their presence would have generated positive externalities (for example, through institution-building or the provision of on the job training), can increase inequality as the earnings of remaining highly skilled workers rise and those of the less-skilled fall, and implies a loss of potential tax revenues. On the other hand, emigration of highly-skilled persons may generate benefits in the form of remittances; return migration after the acquisition of skills, knowledge, technology transfers, and capital; the creation of business networks; and increased trade and foreign direct investment. A more controversial argument is that the prospects for skilled migration raise the potential return to education, thus increasing the demand for education (see Ellerman 2002 or Commander, Kangasniemi and Winters, 2004, for discussion).

The balance of costs and benefits from brain “drain”, “gain”, “waste”, or “circulation” is largely unknown and requires much further research (see, for example, Kapur and McHale, 2004). Hence appropriate policy is difficult to define. It also raises formidable practical difficulties: for example, arrangements to tax nationals located abroad have rarely succeeded,[4] programmes to require domestic service as a condition of government-financed education are difficult to enforce and may reduce education incentives, and raising salaries for government service in professions is expensive and of uncertain effectiveness. The potential for migration may, however reinforce the Bank’s emphasis on increasing cost recovery and greater reliance on credit programmes to finance education.

E. The Protection of Migrants

The illegal traffic in labor may involve 6 million people (Wickramasekera, 2002), and absorb some $12 billion per year. It also can create dangerous and exploitative situations, for example, the loss of life along the U.S.-Mexico border, the treatment of migrants as indentured servants until they are deemed to have paid back the cost of passage, and the use of misleading information to lure migrants overseas and then force them into jobs in the sex industry. Some legal mechanisms to facilitate migration may be subject to similar abuse, such as permitting labor brokers to keep the passports of the worker they provide (Pritchett, 2003).

In addition to avoiding extreme situations, protecting the rights of migrants encompasses ensuring that they are treated equally under the law in the receiving country. The extent of protection that is normally provided differs according to receiving country practices. For example, in the United States immigrants may or may not have access to social services (or some services but not others), depending on many factors, including their legal status. In Germany, immigrant workers have the same right to social services, including unemployment insurance, health insurance, pension funds, children’s allowances, rent subsidies and welfare assistance, as nationals (Werner, 2000). Further analytic work on how the provision of services affects incentives to migrate and the length of stay would help provide a solid grounding for government policies.

Economic research on migration has been prolific in some areas, in particular the impact of immigrants on labor markets in industrial countries. However, the absence of adequate data, and perhaps a lack of interest on the part of industrial country researchers, has limited research on the implications of migration for developing countries.

F. Conclusion

The World Bank's research and policy analysis programmes aim to understand the issues raised above and to identify policies and institutional reforms that will improve the development impact of migration. This will then lead on to policy advice and lending operations as appropriate. One aspect of the program will be to encourage migration research in developing countries, through the hiring of consultants and partnership with [5]research organizations in the developing world.

Notes

[1] No attempt has been made to list all papers and operational activities at the Bank that touch on remittances.

[2] This section is based on Global Economic Prospects 2004.

[3] More than 40 per cent of Mode 4 commitments are for intra-corporate transfers, and another 50 per cent cover executives, managers and specialists, and business visitors.

[4] Mandatory earmarking of remittances failed in Bangladesh, Pakistan, the Philippines, and Thailan, but the Republic of Korea did succeed in the taxation of temporary workers sent to the Middle East (Lowell, 2001). The United States does impose taxation on a nationality, rather than residence, basis, but developing countries would find such origrannes difficult to administer and enforce. More general proposals to share the tax payments by foreigners with their country of origin lack support in receiving countries.

References

Adams, Richard H. (2003). "International Migration, Remittances and the Brain Drain: A Study of 24 Labor-Exporting Countries." World Bank Policy Research Working Paper 3069. Washington. D. C.

Commander S, M Kangasniemi and L A Winters (2004) 'The Brain Drain: Curse or Boon? A survey of the literature', Chapter 7 in Baldwin R E and L A Winters, eds. 'Challenges to Globalization: Analyzing the Economics', Chicago University Press, for NBER.

Desai, Mihir A., Devesh Kapur and John McHale (2001). "The Fiscal Impact of the Brain Drain: Indian Emigration to the U.S." Prepared for the Third Annual NBER-NCAER conference, December 17-18 2001. Harvard University and National Bureau for Economic Research. pp. 235-72.

Ellerman. (2002). "Policy Research on Migration and Development." World Bank Policy Research Working Paper 3117. Washington, D.C.

Kanbur, Ravi and Hillel Rapoport (2003). "Migration Selectivity and the Evolution of Spatial Inequality." Processed.

Kapur Devesh and John McHale (2004) *Sharing the Spoils: International Human Capital Flows and Developing Countries*. Mimeo, The Center for Global Development, Washington, DC.

Lowell, B. Lindsay (2001). "Policy Responses to the International Mobility of Skilled Labour." International Labor Office, International Migration Branch. Geneva.

Pritchett, Lant (2003). "Boom Towns and Ghost Countries: Geography, Agglomeration, and Population Mobility." Kennedy School of Government. Processed.

Werner, Heinz (2000). "From Guests to Permanent Visitors?" Institute for Employment Research. Germany. Processed.

Wickramasekera, Piyasiri (2002). "Asian Labour Migration: Issues and Challenges in an Era of Globalization." International Labour Office. International Migration Program. Geneva.

Winters, L A, T Walmsley, Z Wang and R Grynberg (2003) "Negotiating the temporary movement of natural persons: an agenda for the Development Round", *The World Economy*, vol. 26, No. 8, pp.1137-1162.