



EUROPEAN POLICY BRIEF



SEARCH
SHARING KNOWLEDGE ASSETS:
INTERREGIONALLY COHESIVE
NEIGHBORHOODS

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HOW REMITTANCES CAN IMPROVE HUMAN CAPITAL FORMATION AND DEVELOPMENT IN ENP COUNTRIES?

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INTRODUCTION

MIGRATION POLICY SHOULD CARE ABOUT REMITTANCES

After the fifth enlargement round of the European Union in 2004 its external borders shifted drastically. Suddenly a range of poorer, economically and politically less stable and less democratic countries bordered the EU. In response to these changing circumstances the need was felt to create a unified policy to deal with neighbouring countries. This unified policy, the European Neighbourhood Policy (ENP), subsumed the patchwork of existing policy instruments. Its goal is to create a ring of countries around the EU with which the EU has close, peaceful and co-operative relations (COM 373 final, 2004).

The SEARCH project aims at strengthening the integration process between the EU and the NCs by focusing on the European Research Neighbourhood (ERN), thereby improving fundamentally the understanding of institutional framework conditions of the ENP countries, their economic interactions with the EU in terms of people, capital, trade, knowledge, and innovation, in order to improve future definition and implementation of European Neighbouring Policies taking into account that "one size fits all" policy recommendations will not be appropriate due to the bilateral nature of the EU-ENP countries agreements.

Within the SEARCH project the WP3 is aimed at analysing the actual and potential future role of labour migration and its economic and social consequences (costs and benefits) both for destination (EU regions) and origin regions (neighbouring ones). Particular attention is given to the role of particular intangible assets, such as human capital, entrepreneurship and technology diffusion.

This policy brief analyses the relationship between remittances and human capital formation in origin countries.

The relevant questions are:

- Which is the extent of the remittances flows between the EU and the ENP countries?
- Do these remittances contribute to increase the education level of migrants' family members in origin countries?
- Do high educated migrant remit more?
- Do remittances help to offset the brain drain due to migration?

Our studies try to answer these questions analysing two specific ENP case studies. In particular, we first depict the pattern of remittances from ENP countries to Europe. We then look at the relationship between remittances and human capital formation from two different perspectives in two different countries. We first focus on Moldova, a selected ENP country, using household data coming from the 2008 CBSAXA Moldovan Household Survey provided by the Kiel Institute to analyse whether remittances contribute to increase the level of education in migrants' origin countries. We specifically look at whether members of families receiving remittances have a higher probability of attending a high level of education. We also look at whether there is a differential impact on education due to remittances coming from Europe or from other countries. Secondly we focus on Spain and its migrants, and analyse the remittance behaviour of high educated migrants. It is worth noting that studying immigration in the Spanish labour market is a matter of great interest, because Spain has become in a relatively short time a country with significant and heterogeneous migration flows. In fact, and in contrast with many countries, immigration to Spain originates from a highly varied range of countries, with origins as diverse as Latin America, the Maghreb and Eastern Europe. Furthermore, immigration from Latin America is characterised by the sharing of both the Spanish language and culture, but the level of development of Latin American countries is lower than the one in Spain, and there are marked differences between the various countries on the continent. This feature is not common to other countries that have traditionally received immigration, such as the United States, the United Kingdom and Australia, in which immigrants (with English as their mother tongue) normally come from only a few countries, some of which have a similar level of development. By using individual data from the 2007 Encuesta Nacional de Inmigrantes, we therefore look at whether more educated migrants are more likely to send remittances to the home countries and if so, we also estimate whether they send a higher or lower amount of remittances with respect to less educated migrant, taking into account several individual factors as well as their countries of origin, in order to try to identify the peculiarity of some selected nationality.

Based on these analyses we draw policy conclusions on the strategies needed to create a migration and remittance policy that can foster development in the origin countries and limit the brain drain due to migration.

EVIDENCE AND ANALYSIS

POLICY ISSUE

The relevant policy question of this analysis is whether, in order to compensate the brain drain due to migration, remittances can act as a useful channel to foster development, and in particular, education in origin countries. If so, a policy fostering an easing of the ways of sending remittances at home would be appropriate. Moreover, our policy question relates more generally to the whole issue of the brain drain due to migration, which should be tried to be controlled in order for the ENP to benefit from the integration with the EU. In this context we look at the behaviour in terms of remittances of more educated migrants, since they represent the higher loss of human capital due to migration. Hence the question here is whether more educated migrants are more likely to remit than less educated migrant and, if so, whether they remit higher amounts. Given that most developed countries' immigration policies increasingly favour skilled migrants, whether they remit more or less than unskilled migrants has important implications for migrants' home countries. From a policy perspective, the concern is whether migration policies that shift the education composition of migrants affect remittances.

ENP AND KEY FACTS ON REMITTANCE FLOWS

Remittances represent an important source of income for many countries. It has been estimated in 2010 that ENP countries have received around 50 million of US dollars in forms of remittances (World Bank Migration and Remittances Factbook 2011). Moreover, remittances have a relatively high weight in the GDP for some ENP countries, such as Lebanon and Moldova (around 20% of the GDP), while for others their weight in the GDP is more marginal such as in the cases of Belarus and Israel (less than 1% of GDP). This means that there is high heterogeneity across ENP countries in terms of the relevance of remittance in the overall production of the states.

Taking into account where these flows come from, data from the World Bank reveal that for just some of the ENP countries remittances mainly come from Europe. In particular countries with higher interflows of remittances are Algeria with France, Morocco with France, Spain and Italy, Tunisia with France and Italy, followed by Moldova (with Italy) and Lebanon (with Germany and France). These patterns, which mainly reflect the migration patterns, highlight the specificities and peculiarities of the relationship between countries in terms of migration and remittances that is important to bear in mind when designing policies and bilateral action plans aimed at addressing these issues.

REMITTANCES AND EDUCATION IN ORIGIN COUNTRIES

Results of our analyses show an important linkage between remittances and education in both origin and destination countries.

The case of Moldova clearly shows that being in a family receiving remittances increase the probability of attending a high level education of around 33%. Moreover, there is no differential impact of remittances on education depending on the country where remittances come from. Also, previous studies on Moldova have shown that temporary migrant, even if based in low-income countries, send a higher percentage of remittances in origin countries. These findings point out to an important role for remittances in contributing to foster education and development in origin

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countries and suggest also policies addressed to fostering temporary migration.

Looking at the behaviour of immigrants in Spain, we observe a negative association between education and remittances at the extensive margin, and a strong positive relationship at the intensive margin. This means that generally high educated migrants are less likely to remit, but once they do, they remit a larger amount of money compared with less educated migrants. Combining both the extensive and intensive margins reveals that, overall, more educated migrants do remit significantly more. However, the evidence is mixed once we take into account their different origins and their intentions to return. In particular, we find a substantial different effect between immigrants from Morocco, Ecuador and Romania (the 3 more relevant groups in Spain) when compared to immigrants from the rest of the world, a difference that is related to educational levels and intentions to return, but not totally explained by them. In fact, once the effect of these factors is discounted for, the probability to remit of immigrants from Ecuador and Romania is 6 and 9 percentage points higher than in the rest of developing countries while this probability is 12 points lower in Morocco. Similar results are found when we look at the results for the determinants of the annual amount remitted. While remittances from Moroccan are not different of those from the rest of the world, Ecuadorian send much more (17%) and Romanian send substantially less (-20%). The factors behind these differences among countries have not been identified by the literature and could be related to institutional and cultural differences that have not been analysed and that are clearly relevant in order to understand the mechanisms behind remittance behaviour. Nonetheless these findings clearly point out that policy makers should give more incentives for high skilled migrant for remitting, something that could be channelled also through managing the incentives to return.

Hence, given the provided evidence of the importance of the channel of remittances to foster education and development in origin countries of migration and to limit the brain drain due to migration, we think policy makers should address the following main targets:

- 1) Enhance the possibility and easing the process to send home remittances, making it also transparent from an official point of view.
- 2) Stimulate and foster temporary migration.
- 3) Provide incentives for high skilled migrants in the direction of increasing their likelihood of remitting.
- 4) Fostering the temporary migration of skilled migrants, who remit larger amount of moneys.

Such kinds of policies would benefit ENP countries in many aspects:

- 1) By stimulating temporarily migration, the brain drain due to migration might be limited.
- 2) Returning migrants will bring back not only the original human capital they are endowed with, but also the human capital acquired in host countries thus facilitating positive human capital spillovers in origin countries. Also, they bring back the social capital acquired during their migration experience.
- 3) Temporary migration is more able to adjust to the demand of host countries which is often flexible and depends on the business cycle.

- 4) By increasing the amount of remittances, they stimulate and foster high education levels, as well as general welfare of the state.
- 5) By easing the process of sending remittances, a higher amount of remittances can be addressed to active investment in education and other assets in origin countries.
- 6) By being temporary migration, the risk of disrupting the family due to migration with its possible adverse effect would diminish.

POLICY RECOMMENDATIONS

FOSTER TEMPORARY MIGRATION

Fostering temporary migration is one of the objectives that should be pursued by policy makers in this context. Policies suggestions aimed at targeting this aim are the following.

One option would be to develop managed migration programmes, including temporary work visa for professionals from ENP countries, which could stimulate increase temporary movements. Such scheme should be agreed by sending (ENP) and receiving (EU) countries and therefore national policies should have less control over them. Moreover, liberalizing trade in services via the temporary movement of persons may facilitate such movements.

Another option would be that of facilitate migrants' reintegration through active institutional management of migration, which facilitate the migrants welfare and professional perspectives upon their return home. In fact, allowing a returning migrant to rejoin his/her industry at an appropriate level for his/her experience is crucial in order to get a brain gain from migration.

A further option could be that of promoting dual citizenship as it will generate larger remittances and a higher likelihood of return migration.

DEVELOPING AND EASING THE WAYS REMITTANCES ARE SENT

As for remittances channel specifically, government policies aimed at reducing the transfer costs and, in general, remittances fees would be advisable. In fact, remittance taxes (in forms of transfer costs and fees on bank accounts in migrants' origin countries) provoke a series of negative impacts in migrants' origin countries. First, they reduce the incentive to send remittances and the amounts sent, therefore limiting the development impact of remittances. Secondly, they give a higher incentive to use unofficial or informal channels, which in turn implies a likely usage of remittances to buy goods and services in the black market thus dampening their potential for countries' development. Finally, remittances taxes in migrants' origin countries are additional to income and sales taxes already paid by migrants in recipient countries, being therefore highly regressive.

Hence policies aimed at reducing transfer costs and at pushing financial institutions in both origin and recipient countries at de-taxing remittances, would contribute to increase the level of development in migrants' origin countries and to partially offset the negative impact of migration. Further, it would stimulate the use of official channels to send money home and would be more effective in order to make transfers more transparent than trying to regulate the informal services.

Some policies proposals in this context are related to incentives for the opening of bank accounts (also denominated in foreign currency) and the use of electronic means to transfer moneys, which are still poorly developed

in migrants' origin countries and that would ease the process of sending remittances.

Also, encouraging migrants to do fewer but larger remittances transactions (as opposed to multiple transactions with small amounts) would help at bringing down remittances fees as well as stimulating the increase in competition among firms by allowing more institutions to enter in the money transfer business.

COOPERATION IN ORDER TO LIMIT CONSTRAINTS TO FEES REDUCTION

All these kinds of policy necessarily require an effort by both sending and receiving countries in order to be effective. Also, cooperation between sending and recipient countries is advisable in order to overcome factors which may hinder fees reduction, such as low competition among service providers, poor information disclosure for senders and recipients, poor payment system infrastructure that discourage migrants from using formal financial institutions to send money home, restrictions for cross-border operations, lack of trust of senders and recipients with financial institutions, etc.

All these issues must be considered when designing and assessing the instruments of the EU migration and remittance policy in the context of the ENP. Despite the obvious difficulties that would have the implementation of actions of this type, the results we obtained suggest that, in the context of the ENP, resources should be allocated to improve the managing of migration, by acting targeted plans to specific migrants, and to clear remittances obstacles.

RESEARCH PARAMETERS

Introductory statement

The current Policy Brief incorporates the policy implications of the research findings on migration, and in particular on the relationship between remittances and human capital formation in the EU and the ENP countries.

Objectives of the research

The main objective of this research is to analyse the relationship between remittances and human capital formation. This is part of the main research objectives of WP3 that concern migration flows between the EU and ENP countries.

The research summarized in this policy brief focuses on the following issues:

- 1) Analysing remittances flows in order to give an idea of the extent of the interchange of moneys between the ENP and EU countries.
- 2) Looking at the impact of remittances on education in origin countries.
- 3) Investigating the behaviour of high educated migrants in terms of remittances, focusing on some selected nationality.
- 4) Give policy recommendations based on the empirical evidence provided.

Methodology

We mainly use household data in order to carry out our analysis, focusing on some selected case studies. It is worth noting in this context that household data provide a rich set of information particularly suitable for the issues object of the analysis. However the analysis has been confined to these selected case studies because of the high difficulty of getting household data. We think stimulating the diffusion of these kinds of data should be also targeted by the EU since they provide a very important instrument to get into a deeper understanding of relevant dynamics in ENP countries. The methodologies of the analyses are also peculiar to the kind of analyses carried out.

- 1) We use data from the World Bank in order to provide a picture of remittances flows between the EU and ENP countries.
- 2) A case study on Moldova is carried out in order to address the impact of remittances on education outcomes in Moldova. Household data coming from the 2008 CBSAXA Moldovan Household Survey provided by the Kiel Institute have been used. Simple probit and IV probit estimates have been used for the econometric analysis, in such a way to control also for the endogeneity of the relationship.
- 3) A case study for Spain is carried out in order to investigate the behaviour of high educated migrants for what concern remittances. Household data from the 2007 Encuesta Nacional de Inmigrantes - provided by the Spanish Institute of Statistics have been used. The econometric analyses involved the use of selection equation estimations, in order to control for the sample selection.

PROJECT IDENTITY

Project name

Sharing Knowledge Assets: InterRegionally Cohesive Neighbourhoods (SEARCH)

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Website

www.ub.edu/searchproject

Further Reading

Matano, A., Ramos, R. (2013) "Remittances and Educational Outcomes: Evidence for Moldova", SEARCH WP3.10
Ramos, R., Matano, A. (2013) "Remittances, education and return migration. Evidence for immigrants in Spain". SEARCH WP3.11