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MIGRATION, REMITTANCES AND DEVELOPMENT: THE CRITICAL NEXUS IN THE MIDDLE EAST AND NORTH AFRICA ENT:

International migration is one of the most important factors affecting economic relations between developed and developing countries in the 21st Century. At the start of the century it was estimated that about 175 million people – roughly 3 percent of the world population – lived and worked outside the country of their birth (United Nations, 2002). The international remittances sent by these migrant workers to their households back home have a large and profound impact on the developing world. According to Global Development Finance (World Bank, 2004), international worker remittances sent home by migrant workers represent the second most important source of external funding in developing countries.[i] International worker remittances now total $75 billion per year and are about twice as large as the level of official aid-related inflows to developing countries.[ii]

International migration and remittances have had a particularly large impact on the Middle East and North Africa. As oil prices increased in the late 1970s, and the economies of the Persian Gulf boomed,

Gulf Cooperation Council (GCC): Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

There have been a wide variety of efforts to estimate the size of worker migration stocks and flows using data available in the main labor-receiving countries. One of the most recent, and comprehensive, of these estimates comes from a new data set compiled by Docquier and Marfouk (2005). Based on population census and register data from nearly every OECD country, this new data set counts as migrants the "foreign born" population living in two main labor-receiving regions: OECD (America), including United States and Canada; and OECD (Europe), excluding America and Asia. In these data, migrants are counted as all those foreign-born, working age (25 and over) individuals living in an OECD country. One noteworthy aspect of this data set is that it classifies migrants according to their level of educational attainment: low-skilled (less than 8 years of schooling); medium-skilled (9 to 12 years of schooling); and high-skilled (13 years or more of schooling). The presence of educational data in the Docquier and Marfouk (2005) data set makes it possible to pinpoint the skill level of international migrants from various Middle East and North Africa countries.

Like all data sets on international worker migration, the Docquier and Marfouk (2005) data contain certain problems. Most notably, by focusing on information collected from census and register data, these data do not capture the very large number of illegal and irregular migrants living and working in the OECD. For example, in 2002 the stock of illegal immigrants in the United States was estimated at 9.3 million, or about 26 percent of the total stock of the "foreign-born" population in the United States (Passel, Capps, and Fix, 2004). Since it focuses on OECD countries, the Docquier and Marfouk (2005) data also do not include the large number of migrants from the Middle East and North Africa who are currently working in the Persian Gulf. In 2000 the total stock of migrants working in the six Gulf Cooperation Council (GCC) countries was estimated at 9.6 million; however, no information is available on the country of origin of these migrants. Finally, the Docquier and Marfouk (2005) data only relate to the stock of migrants, not flows of migrants. On the whole, migration flow data tend to be less reliable than stock data, because of the impossibility of evaluating return migration movements.

Given all these caveats, Table 2 presents information from the Docquier and Marfouk (2005) data on the stock of emigrants from the Middle East and North Africa currently living in the OECD (America) and the OECD (Europe). Since no information are available on the number of migrants living in the Persian Gulf, Table 2 probably grossly "undercounts" the stock of emigrants abroad for those countries that send migrants to the Persian Gulf, for example, countries like Egypt, Jordan and Yemen. Despite these data limitations, Table 2 suggests that the level of worker migration for most Middle East and North Africa countries is fairly low: only one country (Lebanon) has over 10 percent of its labor force living and working abroad. Even the two largest labor-exporting countries in North Africa – Morocco and Tunisia – have less than 8 percent of their labor force working abroad. By comparison, 15 of the 38 countries in the Latin America and Caribbean region have over 10 percent of their labor force living and working abroad.

Table 3 shows the level of education of emigrants from the Middle East and North Africa currently living in the OECD (America) and the OECD (Europe). One key point emerges here, namely, that for the three countries sending migrant workers mainly to the OECD (Europe) – Algeria, Morocco and Tunisia – the share of low-skilled migrant workers is very high. Over 70 percent of the emigrants from these three North African countries have less than 8 years of education. Worker migration from North Africa to Europe (OECD) thus appears to involve the movement of the unskilled. By contrast, worker migration from several of the Gulf Cooperation Council (GCC) countries involves the movement of the highly educated. Over 60 percent of the emigrants from Kuwait, Qatar and the United Arab Emirates have over 13 years of education. While only a tiny proportion of the labor force from these three Gulf Cooperation Council countries migrates abroad (see Table 2), those who do migrate are highly educated.

B. Trends in Worker Remittances Received in the Middle East and North Africa

Presenting accurate data on worker remittances in the Middle East and North Africa is as difficult as presenting reliable data on worker migration from this region. The most comprehensive set of data on worker remittances come from the International Monetary Fund, Balance of Payments Statistics Yearbook. However, there are at least two problems with these IMF data. First, the IMF data are supplied by central banks in the various countries and these central banks tend to use different definitions and conventions for reporting remittances. For example, worker remittances can include "workers' remittances" per se, as well as "compensation of short-term employees" and "other current transfers." Also, definitions and methodologies for reporting "workers' remittances" change, as has been the case with Lebanon recently. Moreover, while most central banks count as remittances only those monies with flow through the financial sector, some central banks attempt to include the value of cash and goods (i.e. cars) which are brought home by migrants. Table 4 presents an overview of how remittances are defined and reported in selected Middle East and North Africa countries. This table shows that the method of collecting data on "workers' remittances" varies from country to country. In particular, it is not clear to what extent several countries – such as Egypt and Morocco – count transfers from money transfer operators (i.e. Western Union) in their figures for "workers' remittances"

The second problem with the IMF data is that they only count remittance monies which enter official, banking channels; as shown in Table 4, these data do not include the large – but unknown – amount of remittance monies that is transmitted through informal and unrecorded channels. For this reason, it is likely that all IMF remittance data grossly under-estimate the actual level of total remittances (official and unrecorded) returning to each labor-exporting country.

With these caveats in mind, Table 5 reports data on trends in worker remittances for Middle East and North Africa countries over the 15-year period, 1990 to 2004. This table is based on the narrow IMF definition of "workers' remittances;" items such as "compensation of employees" and "other current transfers" are not included in this table, since they are of a more irregular, or short-term, nature.

In Table 5 it is interesting to note that most Middle East and North Africa countries – 12 of 21 countries – do not even report data on worker remittances. While some of these countries (i.e. the 6 Gulf Cooperation Council countries) probably do not receive remittances, some of them (i.e. Algeria and Iran) certainly do. At the same time, several of the countries in Table 5 (such as Lebanon and Syria) are missing remittance data for a large number of years. Clearly, there is a need to improve the reporting of worker remittances data in the Middle East and North Africa.

billion in international worker remittances, or about 70 percent of total worker remittances paid out by the Gulf Cooperation Council in that year.

D. Development Impact of Worker Remittances on the Middle East and North Africa

From the standpoint of economic development, the basic question is quite clear: How are worker remittance monies spent or used? Do migrant workers channel their international remittance earnings into human and physical capital investments back home, or do they merely use these monies to purchase new "status-oriented" consumer goods for themselves and their families?

In the past, many researchers have tended to take a rather pessimistic view of how remittances are spent or used, and the impact of these monies on development. For

example, a recent review of the literature by Chami, Fullenkamp and Jahjah (2003:10-11) reported three stylized facts: first, that a "significant proportion, and often the majority," of worker remittances are spent on consumption; second, that a smaller part of remittance funds goes into saving or investment; and third, the ways in which remittances are typically saved or invested – in housing and land – are "not necessarily productive" to the economy as a whole.

Several interrelated factors seem to be responsible for this dim view of the impact of worker remittances on economic development. On a most basic level, since decisions on how to spend remittances are made by thousands (if not millions) of individual households, it is difficult to establish exactly how these monies are used. Much of the literature in this area thus tends to be anecdotal, rather than empirical. At the same time, household budget surveys, which represent the best possible source of information about how remittances are spent, are often poorly designed. Oftentimes, these household surveys ask "naïve" questions about remittance earnings were spent or used. Since remittances are fungible like any other source of income, simply asking respondents about how remittances were spent is not enough. Remittances that are not being spent directly on investment may well have freed other resources for expenditures on investment. Third, the small handful of empirically-based studies that do exist on remittances and economic development are often based on small, unrepresentative household samples. For instance, Adams (1991) study of how international remittances are used in rural Egypt is based on only 1000 households.[iv] Clearly, there is a need to extend the scope of these studies to examine the impact of remittances on economic development by using larger, nationally representative samples.

The rest of this section will examine how worker remittances are spent or used at the household level by drawing upon the results of five recent papers. Because of the dearth of work on remittances and development in the Middle East and North Africa, only one of these five papers in based on a Middle Eastern country (Egypt). However, each of these papers is based on a large, (usually) nationally-representative sample from a major labor-exporting country, and each study finds that international remittances has a positive effect on some aspect of development.

The first, and perhaps broadest, paper analyzes how worker remittances affect poverty in the developing world (Adams and Page, 2005). Using data from nationally-representative household surveys in 71 developing countries, the paper finds that international worker remittances significantly reduce the level, depth and severity of poverty in the developing world. After instrumenting for the possible endogeneity of international remittances, the paper finds that a 10 percent increase in per capita worker remittances to a labor-exporting county will, on average, lead to a 3.5 percent decline in the share of people living in poverty in that country. A similar 10 percent increase in per capita worker remittances will, on average, reduce the depth of poverty in that country by 3.9 percent. In the developing world worker remittances tend to reduce poverty because a large proportion of these income transfers go to poor households.

why remittance income has a greater impact on school retention rates than income from other sources is that households may have a higher propensity to spend on education out of remittance earnings.

The fifth paper uses data from a nationally-representative 1998/99 survey of 5998 households in urban and rural Ghana to analyze how international remittances affects the marginal spending behavior of households on consumption and investment (Adams, 2006). The paper compares the marginal budget shares of remittance-receiving and non-remittance receiving households on six consumption and investment goods: food, consumer goods/durables, housing, education, health and other (household services, transport). Table 8 presents the marginal budget shares devoted to these six consumption and investment goods. Like the study in the Philippines, the table shows that households receiving international remittances spend less at the margin on food than do households receiving no remittances. Rather than spending on consumption goods, households receiving international remittances tend to view their remittance earnings as a temporary (and possibly uncertain) stream of income. As a result, households receiving remittances in Ghana tend to spend more on investment goods – especially, education and health – than do households not receiving remittances. As shown in Table 8, at the margin, households receiving international remittances in Ghana spend 25.8 percent more on education than do households not receiving remittances. Moreover, most of these remittance-inspired increments to expenditure on education go into higher education. For example, at the university level households receiving international remittances in Ghana spend 121.7 percent more at the margin on education than do households not receiving remittances. These patterns of increased marginal spending on university education underscore the way that remittance-receiving households prefer to invest – rather than to spend – their remittance earnings. These patterns of spending also point to the manner in which remittance expenditures can help raise the level of human capital in a country as a whole.

TABLE 1. WORKER REMITTANCES RECEIVED AS SHARE OF GROSS DOMESTIC PRODUCT (GDP) IN SELECTED MIDDLE EAST, NORTH AFRICA COUNTRIES: 1998 TO 2003

	Worker Remittances Received as Share of Gross Domestic Product (GDP) (percent)
Egypt.....	3 – 4
Egypt.....	20 - 22
Egypt.....	6 – 9
Egypt.....	2
Egypt.....	4-5
Egypt.....	12-14

NOTES: Worker remittances defined following the IMF definition of "worker remittances," as listed in code 2 391 of various publications of IMF, Balance of Payments Statistics Yearbook. This definition includes the amount of migrants' earnings sent back to related persons or into personal bank accounts from the labor-receiving country to the labor-sending country. Following recent IMF conventions, this definition of worker remittances does not include "compensation of employees" or "other current transfers," which are of a more irregular nature. This definition of worker remittances also does not include the large – but unknown – amount of remittance funds that are transmitted through informal and unrecorded channels.
GDP data from World Bank, Development Data Platform.

Source: International Monetary Fund,

TABLE 2. STOCK OF EMIGRANTS FROM THE MIDDLE EAST, NORTH AFRICA IN OECD (AMERICA) AND OECD (EUROPE): 2000

Country	*Emigrants in OECD (America)*	*Emigrants in OECD (Europe)*	*Total Stock of Emigrants*	*Emigrants as Percent of Total Labor Force in MENA Country*
Algeria	23,818	582,941	606,759	4.5
Bahrain	--	--	--	--
Djibouti	--	--	--	--
Egypt	128,014	93,630	221,644	0.9
Iran	304,119	195,871	499,990	1.9
Iraq	91,149	134,054	225,203	2.7
Israel	102,554	31,923	134,447	4.1
Jordan	42,425	13,921	56,346	2.8
Kuwait	16,070	5,581	21,651	1.8
Lebanon	151,041	95,889	246,930	15.0
Libya	8,289	11,494	19,783	0.9
Malta	--	--	--	--
Morocco	51,713	1,042,112	1,093,825	7.6
Oman	516	658	1,174	0.1
Qatar	903	598	1,501	0.5
Saudi Arabia	11,549	4,574	16,123	0.2
Syria	61,132	49,932	111,064	1.9
Tunisia	9,841	253,762	263,603	5.4
United Arab Emirates	1,612	1,189	2,801	0.2
West Bank, Gaza	25,450	4,625	30,075	2.9
Yemen	12,309	8,276	20,585	0.4

NOTES: OECD (America) includes 2 countries: Canada and United States (no data available for Mexico). OECD (Europe) includes 18 countries: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Luxemburg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and United Kingdom (no data available for Greece, Iceland, Poland, Slovak Republic and Turkey). Emigrants include all working age (25 years or older) foreign-born individuals living in an OECD country.

Source: Docquier and Marfouk (2005)

TABLE 3. EMIGRANTS FROM THE MIDDLE EAST, NORTH AFRICA TO OECD BY LEVEL OF EDUCATION: 2000 (IN PERCENT)

Country	*Low-skilled (less than 8 years of schooling)*	*Medium-skilled (9 to 12 years of schooling)*	*High-skilled (13 years and more of schooling)*	*Total*
Algeria	76.7	9.2	14.1	100.0
Bahrain	--	--	--	--
Djibouti	--	--	--	--
Egypt	18.3	22.9	58.9	100.0

TABLE 4. OVERVIEW OF DEFINITIONS OF WORKER REMITTANCES AND DATA COLLECTION METHODS IN SELECTED MIDDLE EAST AND NORTH AFRICA COUNTRIES

Remittances as included in the Balance of Payments:					*Method of Data Collection Per Country:*				
	Private current transfers	*Worker remittances*	*Migrant compensation*	*Migrant transfer*	*Banks*	*Money transfer operator*	*Post office*	*Informal*	*Remarks*
Algeria	x				x	x	x	Partly recorded	Includes also money declared at ports and airports
Egypt			x		x	Unclear	-	-	Cash transfers transmitted by migrant workers to families back home

TABLE 4. OVERVIEW OF WORKER REMITTANCES DEFINITIONS (continued)

Remittances as included in the Balance of Payments:		*Method of Data Collection Per Country:*
Private current transfers	*Worker*	

TABLE 5. TRENDS IN WORKER REMITTANCES RECEIVED BY COUNTRIES IN THE MIDDLE EAST, NORTH AFRICA: 1990 TO 2004 (MILLIONS OF US DOLLARS)

TABLE 6. TRENDS IN WORKER REMITTANCES RECEIVED BY COUNTRIES (continued)

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*Annual Percent Change, 1990-92 to 2002-04*
United Arab Emirates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

TABLE 8. ORDINARY LEAST SQUARES (OLS)REGRESSIONS ON IMPACT OF MIGRANT EXCHANGE RATE SHOCKS IN THE PHILIPPINES, 1997-1998

	No controls (1)	*With controls for region* urban and pre-crisis household and migrant characteristics* (2)
Panel A. Household expenditure *(household-level regressions)*		
Total household expenditures		
Food expenditures	-0.01	-0.007
	(0.036)	(0.034)
Non-food expenditures	-0.032	-0.041
	(0.057)	(0.063)
Panel B. Household educational expenditures *(household-level regressions)*		
Education expenditures		
(as fraction of initial household income)	0.016	0.026
	(0.010)	(0.013)**

Panel C. Labor supply of children aged 10-17 *(individual-level regressions)*

	Females		*Males*	
	No controls	*With controls for region* urban and pre-crisis household and migrant characteristics*	*No controls*	*With controls for region* urban and pre-crisis household and migrant characteristics*
	(1)	*(2)*	*(3)*	*(4)*
Total hours worked	-2.753	-2.14	-1.448	-3.234
	(2.044)	(2.246)	(1.711)	(1.411)**
Hours worked:				
For employer outside household	-1.276	-0.547	-0.52	-0.268
	(1.392)	(2.023)	(0.978)	(1.411)
As worker without pay in family-operated farm or business	-1.693	-1.837	-2.786	-4.942
	(0.793)**	(0.936)*	(1.297)**	(1.533)***

NOTES: Each cell of table presents coefficient estimate on exchange rate shock. Standard errors in parentheses. Number of observations for household-level regressions is 1646; number of observations for individual-level regressions is 579 (females) and 609 (males).

* Significant at the 0.10 level
** Significant at the 0.05 level
*** Significant at the 0.01 level

Source: Yang (2005: Table 4).

TABLE 9. MARGINAL BUDGET SHARES ON EXPENDITURE FOR NON-REMITTANCE AND REMITTANCE-RECEIVING HOUSEHOLDS, GHANA, 1998/99

Expenditure Category	*Households receiving no remittances (N=3157)*	*Households receiving internal remittances (from*

NOTES

[i] Foreign direct investment (FDI) is the most important source of external funding for developing countries. In 2003 the developing world as a whole received about $130 billion in FDI, and about $75 billion in international worker remittances.

[ii] In this paper international worker remittances are defined as "worker remittances," as listed (code 2 391) in