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Migration, development and remittances in Europe: mixed impacts and the role of institutions

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Introduction

The links between migration and development, including the specific role of migrants' remittances, have been extensively studied in the last few years (Nyberg-Sørensen *et al.*, 2002; Ratha, 2003 and 2004; GCIM, 2005; Haas, 2005; OECD, 2005 and 2006; Ghosh, 2006; World Bank, 2006a and 2006b, among others). The priority given to this issue is easily understandable. On the one hand, international migration flows have been on the rise during recent decades, facing an increasing number of obstacles, including a generally restrictive stance of host countries' immigration policies, but overcoming them all, even at the price of immigrants' rights. On the other hand, international differences on economic development levels are still among the main explanatory factors of migration. Migration flows often result from a lack of development perspectives in the sending countries, reinforcing the economic potential of host ones. However, a number of retroactive effects emerge: the growth of migration is often accompanied by abundant economic transfers back home, including remittances, investments and benefits from international trade, besides information and human capital. In sum, from the point of view of sending countries, migration and development may reinforce each other, being this crucial for the increase of well-being and the decrease of migration potential.

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In this paper, the specific role of remittances in the migration-development nexus will be examined. It will be argued that migrants' remittances exert mixed impacts (positive, negative and neutral) over the economic development of sending countries, and that institutions play a crucial role in maximizing the positive and minimizing the negative ones. The main geographical area taken into consideration is Europe, one of the most important world regions in the volume of international migration, and particularly Central and Eastern Europe, a crossroad for many inward and outward flows, and also a fast-growing beneficiary of immigrants' remittances.

In the first section, some trends of current international migration in Europe will be highlighted, including flows involving Central and Eastern Europe, as well as some causal factors and prospects for continuing migration in the future. In the second section, remittances will be observed as one of the main consequences of international migration, and an evaluation of its volume in Central and Eastern European (and Central Asian) economies will be done. In the third section, impacts of remittances over development will be stressed, revealing its mixed effects (positive, negative and neutral). Finally, the specific role of economic, social and political institutions will be discussed, arguing that they exert a vital role in determining which outcomes will predominate.

Immigration in Europe

The problems of measuring and comparing international migration trends are well known. International statistics are incomplete and display a wide methodological variety, leading to the difficulty of building a rigorous knowledge on the subject. On the conceptual side, some of the main differences result from the universe that is taken into consideration or, in other terms, who must be named an "immigrant". One of the main cleavages separates statistics based on country of birth (foreign born individuals) and on citizenship (foreign citizens). The first are maybe the most rigorous to capture "immigration", but the second reflect the major social and political concerns on the field. A second conceptual cleavage refers to the length of stay of immigrants in the host country, and for this no unanimous position exists.

Another type of methodological difficulty results from the source under consideration.

Even within the same country and when a similar concept is adopted, the use of administrative registers, census and surveys often leads to very different numbers. The endemic presence of irregular immigrants, resulting from a complex array of factors (migration pressure, restrictive policies, high labour demand and informal economy), also reinforces the shortcomings of data. In sum, problems of evaluation and comparability are widespread. The difficulties in measuring immigrants occur even in integrated spaces, such as the European Union (EU), both for intra-EU and third-country migrants (Poulain *et al.*, 2006).

Despite methodological difficulties, the high volume and rising trend of immigration in Europe is an acknowledged fact. Either taking into consideration statistics based on foreign-born individuals, or statistics based on foreign citizens, several European countries rank today among the main immigrant receiver countries in the world, ahead or next to the traditional countries of immigration (USA, Canada and Australia).

Taking the foreign-born population living in OECD countries in 2005 (Table 1), several European countries, from North to South, most from the EU, register 10 or more per cent of the total population under this condition: Luxembourg, Switzerland, Austria, Germany, Sweden, Belgium, Ireland, Netherlands and Greece. Besides the specific case of Luxembourg (a small country counting with numerous intra-EU exchanges), the highest value is the one of Switzerland, with 24 per cent, superior to the one known in Canada and the USA (the latter being also surpassed by Austria and Germany).

Table 1
Stock of foreign-born population in selected OECD countries, 2005 or latest available year

	Total (thousands)	%
Luxembourg	152,1	*33,4*
Australia	4829,5	*23,8*
Switzerland	1772,8	*23,8*
Canada	5895,9	*19,1*
Austria	1100,5	*13,5*
Germany (2003)	10620,8	*12,9*
United States	38343,0	*12,9*
Sweden	1125,8	*12,4*
Belgium	1268,9	*12,1*
Ireland	486,7	*11,0*
Netherlands	1734,7	*10,6*
Greece (2001)	1122,9	*10,3*
United Kingdom	5841,8	*9,7*
Norway	380,4	*8,2*
France	4926,0	*8,1*

Source: OECD, 2007

Strong immigration is also captured by statistics based on foreign citizenship. Taking the foreign population living in OECD countries in 2005 (Table 2), many European countries count with more than 5 per cent of foreign citizens in their total population. Again, Northern, Western and Southern European countries, most from the EU, are grouped in the top (the ranking is partly equivalent to the former): Luxembourg, Switzerland, Austria, Germany, Belgium, Ireland, Spain, France, Sweden, Greece, United Kingdom and Denmark. The varied European targets reveal both the strength of traditional immigration waves, mainly started after the Second World War, and recent inflows, such as the ones that characterized Southern Europe after the 1980s.

Table 2
Stock of foreign population in selected OECD countries, 2005 or latest available year

	Total (thousands)	%
Luxembourg	181,8	*39,6*
Switzerland	1511,9	*20,3*
Austria	801,6	*9,7*
Germany	6755,8	*8,8*
Belgium	900,5	*8,6*
Ireland	259,4	*6,3*
Spain	2738,9	*6,2*
France (1999)	3263,2	*5,6*
Sweden	479,9	*5,3*
Greece	553,1	*5,2*
United Kingdom	3035,0	*5,2*
Denmark	270,1	*5,0*
Norway	222,3	*4,8*
Italy	2670,5	*4,6*
Netherlands	691,4	*4,2*
Portugal	432,0	*4,1*

Source: OECD, 2007

Taken in this context, the countries of Central and Eastern Europe occupy a mixed position. The number of foreign-born and foreign citizens in this region is also rising; however, a significant out-migration still exists, either respecting to country nationals or transit migration. The destinations of Central and Eastern European emigrants are, in a large extent, situated in the rest of Europe. Taking the number of Central and Eastern European nationals living in OECD European states in 2005 (Table 3), several migration routes are visible, differing according to the source country. The major destinations for Romanians are some of the newest immigrant receiving countries in Europe, namely Italy and Spain, as well as Hungary; for Polish, the major destinations are Germany, the United Kingdom and Italy; for Ukrainians, are Germany, Italy, Czech Republic and Portugal; and, for Russians, are Germany and Finland.

Table 3
Stock of foreign population in selected OECD European countries, by main nationalities from Central and Eastern Europe, 2005 or latest available year

	Total (thousands)	From which: Romania	Poland	Ukraine	Russian F.	*Total*	*%*
Belgium	900,5	7,5	18,0	...	...	25,5	*2,8*
Czech Republic	278,3	2,7	17,8	87,8	16,3	124,6	*44,8*
Denmark	270,1	...	7,4	...	...	7,4	*2,7*
Finland	113,9	...	...	...	24,6	24,6	*21,6*
France (1999)	3263,2	...	33,8	...	...	33,8	*1,0*
Germany	6755,8	...	326,6	130,7	185,9	643,2	*9,5*
Greece	553,1	18,9	16,1	12,2	17,6	64,8	*11,7*
Hungary	154,4	66,2	2,4	15,3	2,8	86,7	*56,2*
Ireland (2002)	219,3	4,9	...	...	2,6	7,5	*3,4*
Italy	2670,5	297,6	60,8	107,1	...	465,5	*17,4*
Netherlands	691,4	...	15,2	...	...	15,2	*2,2*
Norway	222,3	...	6,8	...	...	6,8	*3,1*
Poland (2002)	49,2	...	...	9,9	4,3	14,2	*28,9*
Portugal	432,0	11,1	...	44,9	...	56,0	*13,0*
Slovak Republic	25,6	...	2,8	3,7	...	6,5	*25,4*
Spain	2738,9	192,1	...	...	...	192,1	*7,0*
Sweden	479,9	...	17,2	...	...	17,2	*3,6*
United Kingdom	3035,0	...	110,0	...	...	110,0	*3,6*

Source: OECD, 2007

The role played by Central and Eastern European immigrants in more developed European countries has been increasing in recent years. Despite the shortcomings of data, the observation of annual inflows in 2000 and 2005 (Table 4) reveals that they are major source countries. In 2000 the two most important senders to European OECD countries were Morocco and Ecuador, with flows of almost 100 thousand individuals each, being followed by Poland and Bulgaria, with between 81 and 94 thousand. In 2005 Poland and Romania are on the top, with flows surpassing the 300 and 200 thousand, respectively, being joined by Bulgaria, Ukraine and the Russian Federation in the list of the ten major immigrants' sending countries to Europe.

Table 4
Main sources for immigration in OECD European countries - inflows 2000 and 2005

2000		2005	
Country	Total (thousands)	Country	Total (thousands)
Morocco	96	Poland	324
Ecuador	95	Romania	202
Poland	94	Morocco	128
Bulgaria	81	Bulgaria	82
Turkey	79	Germany	77
Romania	76	Ukraine	70
United States	64	Turkey	66
Germany	61	United Kingdom	65
France	60	Russian Federation	54
Italy	56	France	49

Source: OECD, 2007

The causes of international migration and, particularly, of Central and Eastern European migration to other European destinations are multiple. As shown by a large body of research, the causes for immigration vary from context to context. They encompass economic push and pull factors (levels of wages and employment); the segmentation of labour markets; the flexibilisation of employment; the diffusion of the informal economy; demographic factors; international trade and foreign investment (causing direct intra-organisational mobility and indirect effects); informal social networks; smuggling and trafficking networks; and active migration systems (see Massey *et al.*, 1998). In the Central and Eastern European geographical context, the chronology of migration is decisive: since the late 1980s, the strength of some general factors has mixed with specific ones resulting from the transition of post-socialist economies, the whole being reinforced by globalization. The moment in which migration has started explains why new types of migration and new destinations countries (including the Southern European ones) prevailed, compared to inflows occurred during the period of mass migration after the Second World War.

It can be argued that structural causes for immigration, particularly economic immigration, exist in the present and will be maintained in the foreseeable future. They result from the maintenance of push factors in sending countries and the decisive role of demand in host ones or, in other terms, the economic and social reasons leading to a structural need of immigrants in the labour force. Skill shortages and the filling up of labour niches left vacant by natives, aggravated by ageing and demographic decline, stand among the main reasons that will continue to propel immigration. These factors will probably more than compensate the role of others that tend to substitute or avoid immigration. The latter include technological improvements, policies designed to increase the participation rates of the resident population (particularly of women), an (unlikely) demographic revival and the social and political unease of European societies dealing with immigration.

The role occupied by Central and Eastern European countries in future European migration flows is complex. While many will register a migration turnaround similar to what occurred in other European locations, most recently Southern Europe, others will probably maintain significant outward flows.

Consequences of migration: the case of remittances

Methodological issues

The consequences of migration are multiple: they include impacts at the host and sending countries, occurring at the economic, social, cultural and political level. No general theory exists to capture these impacts; the immensity of them all requires contextual and discrete observations. At the economic level, no systematic evidence has also been found about overall consequences. For receiving countries, consequences are mostly viewed as positive: they include economic growth and innovation; however, effects on employment and wage levels have been subject to discussion, since they are varied and affect differently natives, long-term immigrants and recent immigrants. Outcomes also depend on immigrants' characteristics. For sending countries, economic impacts are mixed and complex. Among other variables, they include financial flows, such as migrants' remittances. Their consequences at the micro and macro level have justified a vast research in recent years.

When trying to study remittances the first problem to deal with is the definition of the term. A lack of definition or the use of non-comparable datasets can harm comparisons made between different countries. Most of the bibliography used in this paper convened in the International Monetary Fund (IMF) definition which record remittances in three different sections of the balance of payments: compensations of employees, workers remittances and migrants' transfers. Compensations of employees are the earnings of workers that stay abroad less than 12 months, while workers remittances are the earnings of workers that stay abroad more than 12 months. Migrants' transfers are "the net wealth of migrants who move from one country of employment to another" (OECD, 2006: 140).

This definition problem is deepened due to several aspects:

- there is no consensus on the definition of the term and, due to that, there is no worldwide implementation. As a consequence, statistical data often differs;
- the recognised formal channels differs from country to country;
- the remittances transferred through informal channels are substantial and not recorded;
- sometimes remittances are misclassified.

Therefore it is generally accepted that is very difficult to accomplish accurate figures on international remittances. This difficulty is evident when a detailed national observation is carried out: when consulting datasets from country to country we find that remittances are often non-comparable or misclassified.

Despite these shortcomings, available data reveal that remittances have been increasing in the last years, reaching USD 232 billion in 2005 (World Bank, 2006a). This has been occurring consistently, even when there is a decrease in Foreign Direct Investment (FDI) and in capital market flows. Due to this reality, remittances are attracting more attention each day, because they may assume a crucial role in development processes. This is also the reason why it has been recognized that it is important to develop remittances related policies, in order to increase their benefits and decrease their negative impacts.

The observation of worldwide figures confirms the fast pace of growth and high volume of migrants' remittances (Table 5). Taken as the sum of compensations of employees, workers remittances and migrants' transfers, the World Bank estimates that the volume of remittances increased from USD 69 to 232 billions between 1990 and 2005. From this number, USD 167 billion went to developing countries in 2005, up from USD 31 billion in 1990. The growth rate has been the highest in 2000-2005, confirming the strength and, often, counter-cyclical nature of these flows. However, the improvement of statistics may be also responsible for the recent growth, given the better recording systems that are rapidly being set.

Table 5
Worker's remittances, 1990-2005 (USD billions)

	1990	1995	2000	2005	% 1990-95	1995-	2000-
To developing countries	31,2	57,8	85,6	166,9	*85,3*	*48,1*	*95,0*
from which:							
Europe and Central Asia	3,2	8,1	13,4	19,9	*153,1*	*65,4*	*48,5*
World	68,6	101,6	131,5	232,3	*48,1*	*29,4*	*76,7*

Source: World Bank, 2006a

These figures are certainly under-estimated. The reality faced by most immigrants, including high transfer costs, undeveloped financial systems and traditional habits, make them remit large funds through informal channels. Due to this fact, the World Bank estimates that real remittances can amount to 50 per cent more than the officially recorded ones (World Bank, 2006a: 85). The exact situation of the informal transfers is hard to evaluate, because they can be extremely volatile, due to various economic and political factors. These numbers suggest that it is important to understand why people remit money through informal channels, and not through formal ones. An often announced objective of international institutions is to diminish the proportion of informal transfers, given its higher risks and frequent lesser benefits for stakeholders.

Remittances have been assuming a very important role in international financial flows throughout the years. When compared to other financial flows, they currently occupy the second place, after FDI and before official development assistance (ODA). In 2005, the volume of remittances represented more than twice the level of international development aid. In many countries, including some of Europe and Central Asia (ECA), remittances are already in the first place, ahead of FDI.

This surge in remittances brought about the necessity of understanding the trends and impacts of such flows. In recent years, the academic literature has been maybe surpassed by documents produced in the framework of international financial institutions. Entities such as the IMF, the World Bank, the Inter-American Development Bank and OECD have produced numerous studies on the issue. In 2004 the G-8 also initiated a global effort to improve remittance statistics; as a consequence, in 2005 the World Bank and the IMF held a conference in order to agree which data and compliers to use, when collecting remittances data. In 2007, the European Commission also conducted a survey in order to collect reliable data from the member states, because the EU is one of the most important remittance receiving and sender regions (Eurostat, 2007).

Remittances to Central and Eastern Europe

In Central and Eastern European countries, particularly in those where emigration and remittances are significant, the trends referred above are also a reality. Most of the available data is published by the World Bank, what explains that a larger geographical entity – Europe and Central Asia (ECA) – will be used in the next paragraphs. As may be seen above (Table 5), the officially recorded remittances to ECA was almost USD 20 billion in 2005, representing 11.9 per cent of remittances received by developing countries and 8.6 per cent of the global total.

For many ECA countries, remittances were the second most important source of external financing after FDI but, for the poorest ones, they are the largest one. It is known that remittances helped individuals and families to cope with economic and political instability after transition. The volume of emigration and, correspondingly, of migrants' remittances have also been consistent during the years, even after transition. Therefore it is of extreme importance to analyse remittance data and to understand the impacts of such flows, both in national economies and in households.

Remittance flows to the ECA region differ from country to country. According to the World Bank (2007) (see Table 6), the EU is the main source of remittances, representing three-quarters of the total. It is followed by Russia and resource-rich countries of the Commonwealth of Independent States (CIS), with circa 10 per cent of the total. The main beneficiaries, in absolute volume of remittances, are the new and accession EU countries, followed by the Balkans. While both groups receive the bulk of remittances from the EU 15, other ECA countries display a more heterogeneous condition. For example, Ukraine and Moldova receive around half of remittances from EU 15, and circa 37 per cent from Russia and resource-rich CIS. This shows that countries in the region are engaged in different migration systems: while some are mainly linked to the EU, others are involved in intra-CIS movements.

Table 6
Remittances flows in Europe and Central Asia by subregion, 2003

Receiving / *Sending*	New and acession EU	Balkans	Russia and resource-rich CIS	Moldova and Ukraine	Non resource-rich CIS	Total
Number (USD millions)						
EU 15	2813	1322	357	223	428	5143
New and acession EU	244	168	85	23	35	555
Balkans	1	0,1	1	0,2	0,4	2
Russia and resource-rich CIS	46	2	183	165	340	736
Moldova and Ukraine	18	0,3	200	29	8	255
Non resource-rich CIS	36	2	61	3	54	156
Total	3159	1495	886	443	865	6848
Percentage						
EU 15	*89,0*	*88,4*	*40,3*	*50,3*	*49,5*	*75,1*
New and acession EU	*7,7*	*11,2*	*9,6*	*5,2*	*4,0*	*8,1*
Balkans	*0,0*	*0,0*	*0,1*	*0,0*	*0,0*	*0,0*
Russia and resource-rich CIS	*1,5*	*0,1*	*20,7*	*37,2*	*39,3*	*10,7*
Moldova and Ukraine	*0,6*	*0,0*	*22,6*	*6,5*	*0,9*	*3,7*
Non resource-rich CIS	*1,1*	*0,1*	*6,9*	*0,7*	*6,2*	*2,3*
Total	*100,0*	*100,0*	*100,0*	*100,0*	*100,0*	*100,0*

Source: World Bank, 2007

The economic importance of remittances also varies deeply. When compared to the Gross Domestic Product (GDP), some of the countries in the world where remittances amount to a larger fraction of GDP (15 to 30 per cent) in 2004 are in ECA: Moldova, Bosnia and Herzegovina and Albania. In the case of Moldova, remittances represent almost one-quarter of the national income (on the Moldovan case, see Mosneaga, 2007). However, in most of the ECA countries remittances represented less than 5 per cent of GDP in 2004 (World Bank, 2007).

When compared to exports, we find out that for some countries remittances represent a large fraction of exports. This is the case of Bosnia and Herzegovina, with almost 55 per cent, Albania, with a little more than 40 per cent, and Moldova, with almost 35 per cent. Confirming the heterogeneity of ECA regarding the economic importance of remittances, in approximately half of ECA countries remittances represented less than 5 per cent of exports in 2004 (World Bank, 2007).

Taking into account that exports are one of the major sources of foreign exchange in a country, remittances represent a key complementary source of foreign exchange for the countries in the region. This way they provide the hard currency needed for importing scarce inputs that are not available domestically and also additional savings for economic development. In the case of Albania, remittances financed more than 70 per cent of the deficit since 1995 (World Bank, 2007: 62).

As a significant source of foreign exchange, remittances may improve decisively creditworthiness and access to international capital markets in several ECA countries. When considering remittances, the level of indebtedness displayed by the ratio of external debt to exports may decline significantly. For example, in the case of Albania and Bosnia and Herzegovina, when considering remittances as an alternative source of foreign exchange, the ratio of debt to exports fall by close to 50 per cent (id., ibid.: 62).

The heterogeneity of this region is vast. In the new EU member states, particularly in the ones that adhered in 2004, the situation is quite different from many others. The development realities of such countries, including trends in foreign investment, make it less interesting to migrate. Also, as the income levels are higher, there is not such need for migrants living abroad to finance their families back home. Therefore, remittance levels are smaller. However, the possibility of free circulation has enacted in some a surge in outflows, and a corresponding increase in remittances.

Remittances and development

Impacts of remittances on development

Despite the difficulties in statistical measurement, the concept of remittances is simple: remittances are basically private money sent by emigrants to their families and contacts back home, targeted for consumption, debt payment, savings or investment. The problem is to translate this reality into national and international statistics. As referred to above, difficulties in having a good measurement are deepened by the existence of formal and informal channels for remittances transfers. Even when good official statistics are available, problems of data quality result from the amounts sent outside the formal financial sector. In recent years we have assisted to an increase in remittances flows, but this increase can mean a real increase in the amounts transferred, a higher fraction of formal transfers and improvements in the statistical and measurement methods.

The impacts of remittances on development are multiple. Generally speaking, several positive impacts have been pointed out. First of all, remittances are an important financial asset, both from the micro (individuals and families) and macro (country) perspective. The fact that their volume is often larger than ODA and occasionally than FDI shows us how important they are for development.

Second, they present a non-cyclical or counter-cyclical character. This makes possible to home countries to have stable financial inflows, even in downturn moments due to financial crisis, natural disasters or political conflicts. Moreover, repeated evidence shows that flows tend to increase in times of economic hardship, especially when they are the main sources of family income.

Third, taking a closer perspective, they represent direct benefits for families. They have a direct impact on poverty reduction, are often invested in health and education – thus contributing to the increase of human capital –, and maybe translated into households savings and investments. According to the World Bank (2006a: 117), remittances can "reduce poverty, even where they appear to have little impact on measured inequality; help smooth household consumption by responding positively to adverse shocks (for example, crop failure, job loss, or a health crisis); ease working capital constraints on farms and small-scale entrepreneurs; and lead to increased household expenditures in areas considered to be important for development, particularly education, entrepreneurship, and health".

The direct benefits for families are larger due to the non-cyclical or counter-cyclical character of remittances. In downturn moments they help on basic needs and poverty reduction, and in expansionary ones they are often invested in health and education (increase of human capital), besides savings and investment.

In this respect, using a large data set for 74 countries, Adams and Page (2003) found that remittances have a strong impact on reducing poverty, controlling for income and inequality. For example, a 10% increase in the share of international migrants in the population or in the share of remittances received in GDP reduces the fraction of people living on less than one dollar per day by 1.9 and 1.6%, respectively (see also Page and Plaza, 2005).

A fourth positive impact of remittances is the multiplier effect, even when mostly targeted to consumption (Ratha, 2003). When one dollar is spent, it starts a cycle of retail sales, which originate further demand for goods and services, stimulating output and employment. Besides, fiscal gains take place, since additional consumption leads to an increase of indirect tax receipts, thus also increasing government consumption and funds (World Bank, 2007: 66). At the same time, remittances have spillover effects on non-migrant families.

Fifth, when looking to remittances as a source of foreign exchange, they can improve a country's creditworthiness and thereby enhance its access to international capital markets. Furthermore, remittances can help in the access to international capital markets through the use of structured finance techniques. This way, countries in need can have access to relatively cheap and long-term financing, via securitization of future remittance flows.

Sixth, remittances have positive impacts for the financial system when formal channels are used. The increase in the proportion of remittances transferred through formal channels may be beneficial for migrants but, also, for financial institutions. The former diminish risks and profit from financial benefits, providing than transaction costs are low and financial products are well structured. The latter benefit from the increase of funds and clients, and are able to create mutually advantageous products and enjoy higher profits.

Besides the positive effects, also neutral and negative impacts of remittances on development can be found. First, as already stated, the fact that remittances are a private flow, mainly contributing to basic needs and household consumption, may exert neutral or negative impacts. Its non-productive character when targeted to consumption may be aggravated when linked to the purchase of imported goods and services. Furthermore, even when driven to investment, they may only be directed for self-subsistence, housing or small services. In other words, when channelled to consumption or to low productive investments, their impact at the macroeconomic level is weak. Only when invested in broader projects and programmes, eventually in cooperation with local, regional and national organisations, they can be managed to more effective uses, with a global impact in the receiving countries.

Second, remittances help to increase the revenue of the migrant sending families, but may contribute to the enlargement of social inequality. In fact, there is frequent evidence that migrants come from wealthier families, because these families have more possibilities to finance the migratory process and have better access to information. In other words, emigrants do not come often from the poorest of the poor, mainly in the context of long-distance movements, and remittances do not always benefit the less privileged groups.

Third, remittances may sometime induce a decrease in the private production effort, stimulating a rentist behaviour and reducing the family work effort. This effect, known as the moral hazard problem, may contribute to the decrease of economic output.

Fourth, when regarding multiplier effects, effects can be at a lower scale when the infrastructure is weak. When the economy is not prepared, or does not have the conditions to catalyze some of the productive effects of remittances, their impact can be smaller.

Fifth, the sustained growth of remittances can generate upward pressures on the real exchange rate and contribute to the reduction of the competitiveness of exports. However, authors such as Rajan and Subramanian (2005) did not find substantial evidence that remittances reduce competitiveness and slow down growth. In the same vein, arguments about a Dutch Disease effect seem less relevant in the case of remittances, compared to the case of natural resources, given their stability over time. The IMF also admits that adequate policies may sustain the real exchange rate level (World Bank, 2006a: 104).

Sixth, remittances may exert inflationary pressures, when directed to non-tradable goods. The most exemplary case is the one of land. Remittances are often used to the purchase of land, for patrimonial or economic reasons, thus leading to inflationary trends.

Finally, as an important part of remittances stays outside the formal sector, they may have no significant effects on the financial sector.

Remittances and development in Central and Eastern Europe

Sparse evidence for ECA countries points towards the impacts of remittances on development. Regardless of national variations, the numbers involved are important, because remittances they can be saved, invested or spent in household consumption. Each of these uses has distinct consequences. The impacts of saving and investment can be better seen at the macro level, while the impacts of consumption are visible at the micro level, but all involve multiplier effects in the economy.

According to the World Bank, surveys in six ECA countries (Bosnia and Herzegovina, Bulgaria, Georgia, Kyrgyz Republic, Romania and Tajikistan) found that almost 30 per cent of remittances are spent in consumption of food and clothing, almost 15 per cent in education and circa 10 per cent are used for savings. From the largest recipients of remittances as a portion of GDP (Moldova, Bosnia and Herzegovina and Albania), Moldova and Bosnia and Herzegovina spent more than 25 per cent of remittances funding household consumption (World Bank, 2007: 64-65).

As regards macro-economic trends, remittances may have exerted "a mild positive impact on long-term patterns of macroeconomic growth" (World Bank, 2007: 61). As already seen, remittances can contribute to economic growth either when invested or targeted for consumption. The increase in migrants' household income generates positive multiplier effects (Ratha, 2003) and its use in education is an investment in human capital. An analysis of 11 transition economies of Eastern Europe during 1990-99 carried out by León-Ledesma and Piracha (2001) suggested that remittances had a positive impact on productivity and employment, through their direct and indirect effects on investment.

As regards the impacts of remittances on poverty reduction and income inequality the results are not so clear. Remittances seem to exert a positive impact on poverty reduction but a mixed impact on income inequality. Studies in another contexts have shown that an increase in the share of international migrants in a country's population leads to a decline in the share of people living on less than a 1 USD per person per day (Adams and Page, 2003), but when analysing income inequality the evidence is mixed (Ratha, 2003).

A study conducted in five ECA countries (Albania, Armenia, Georgia, Kyrgyz Republic and Tajikistan) found out that richer households receive more remittances as a proportion of all households, and that this tendency is prevalent for all countries in the study. This situation is a consequence of the abilities that richer families have to send family members abroad. Such families have better access to information, to the necessary capital for the migration process, and to social relationships that help the migration process. At the same time the majority of sending families live in urban areas, and therefore urban areas are the major remittances recipients (except for Albania and Tajikistan). This is because international migration may be more difficult when living in rural areas, and because some remittances receiving households might migrate into cities (World Bank, 2007: 70-71).

The role of institutions

A decisive point, from the point of view of emigrant sending countries, is that there is no direct or linear relationship between migration and development, or between remittances and development. Most outcomes depend on contextual variables, such as public policies, the private business framework and agents' behaviour. This explains why contradictory evidence is found when impacts are examined. The role of institutions, both public and private, and of individual agents, has been accepted in many studies, but is often dealt with in an insufficient way. For example, the World

Bank describes its difficulties as follows: "Part of the explanation for these distinct findings maybe that the studies suffer from an omitted variable bias: the role of institutions. We hypothesize that the impact of remittances on macroeconomic growth and development is conditioned by the quality of the recipient country's political and economic policies and institutions. The quality of institutions might play an important role in determining the exact effect of remittances on economic growth, because institutions exert substantial influence on the volume and efficiency of investment" (World Bank, 2007: 67).

It may be argued that a priority in current research about remittances and their impacts on development is the observation of variables that can be moulded by institutional action and the improvement of institutional programs designed to maximize their economic benefits. In this framework, several types of institutions may be considered, including the national, regional and local government, public and private firms (including banks and other financial agencies), immigrants associations and other non-governmental organisations (NGOs).

A first general objective of institutional action is to increase the use of formal channels for remittances. Either through money transfer operators (MTOs) or commercial banks, this will lead to a better control and use of remittances. Even being private capital, when transferred through formal channels a number of benefits arise. These include a better measurement and better study of how they can promote development and economic growth; a more effective channelling, as finance capital, to investors and to national projects; and the possibility for private remitters to diminish the risks and diversifying their benefits, whenever good financial products are provided.

A second objective is to integrate remittances in a well consolidated financial system. The benefits for migrants, migrants' families and non-migrants will be larger when remittances are channelled and deposited in national, regional and local banks or related financial institutions. For example, the creation of special savings accounts will attract remittances and improve the benefits for migrants. Improved access to credit and micro-credit will be an outcome available both for migrant and non-migrant families.

Transferring remittances through formal channels helps to develop the financial system and also to decrease the costs of transfers. If financial institutions find out that this is a good source of revenues, they will invest and promote such channels, promoting competition and easing the access to more people.

A third objective is to maximize the collective benefits of remittances or, in the same vein, to enlarge their direct beneficiaries. This can be done by channelling remittances through migrants' associations, aiming at investments in infrastructures in sending regions (collective investments); or by creating partnerships between migrants' associations, governments and local authorities (municipalities) from host and sending countries.

The role of municipalities, home town associations and other NGOs is relevant when developing projects with migrant communities. The wider known examples come from Mexico. One is the "Padrino Program", which is directed to Mexican-American business people who, in consultation with local communities, choose to invest in one or more of over 1000 projects. There are also matching grants, and the best known is Mexico's 3-for-1 program, under which the local, state and federal governments all contribute 1 USD for every 1 USD of remittances sent to a community for a designated development project. It is arguable if these matching and incentive programs canalize the money to the highest priority projects; however, they do satisfy some community needs.

It may be argued that the fulfilment of these general objectives is faced with several obstacles, either from the point of view of migrants' host or sending country. From the point of view of the immigrants' host country, the main problems are: cost of remittances and access to services.

Remittance fee pricing is complex and often insufficiently explained to remitters. The price of a remittance transaction includes a currency-conversion fee, for delivery of local currency to the beneficiary in another country, and a fee charged by the sending agent. Therefore, fees can be as high as 20 per cent of the remittance amount. It depends on the channel, corridor and transaction type (World Bank, 2006a: 136-137).

The remittance cost tends to be high, mainly when the amount remitted is lower. However, in recent years, remittance fees have declined. This resulted from several factors, mostly felt in high-volume corridors (such as the USA-Mexico one): the intensification of competition between major MTOs (such as Western Union and MoneyGram); the attraction of new migrant clients, by some banks in host countries, with minimal transfer fees; technological improvements, resulting from easier communications; and government policies that improved transparency in remittance transactions.

Access to services is frequently limited. Immigrants may lack the necessary documentation (particularly if they are in an irregular situation), they may not be accepted by the banking system and they may not know the local language. This leads to several priorities for institutional action: the need to improve access, transparency and competitiveness of money remitters and other financial institutions; the need to reduce costs; and the need for further opportunities for private business and partnerships.

In this latter aspect, public and private banks from sending countries may establish or create partnerships with local institutions in host countries, close to their diasporas. An interesting example is the Portuguese one in the 1960s and 1970s, since Portuguese banks established in the most dense emigration areas and were successful in bringing emigrants savings back to the home country (Peixoto and Marques, 2006). Indeed, the conditions for trust arising from this relationship may enable a higher participation of migrants in the formal financial system and a larger volume of remittances. In the same vein, a higher co-operation of financial institutions in host countries with similar institutions in sending countries creates conditions for higher benefits for all agents involved.

Several studies have been conducted about the reduction of remittances transfer costs and the involvement of financial institutions in the remittance market. Frequent recommendations are "promoting competition at the sending end of the market, strengthening the financial environment in remittance-receiving countries, and enhancing the linkages between developed countries' financial systems and financial systems in developing countries" (Page and Plaza, 2005: 302).

The importance of remittances today is so high that, at the end of 2004, the World Bank and the Bank for International Settlements' Committee for Payment and Settlement Systems (CPSS) agreed on a task force to address the need for international policy coordination in remittance systems. Participants in this task force are members of central banks from sending and receiving countries, international financial institutions and development banks.

Due to high remittances cost or to an inadequate access to financial services, the fact is that informal channels continue to be largely used. The informal fund transfers agents include friends, family and unregistered MTOs, such as *hawala* dealers and trading companies.

From the point of view of the immigrants' home country further obstacles can be added. They include: the weak financial infrastructure of developing countries (financial agents and products); a low level of trust in formal systems; bad conditions provided by local agencies; and the insufficiency of economic infrastructures and domestic markets.

The fact that the financial infrastructure of developing countries is weak makes it difficult to receive the money remitted easily, as well as does not allow getting more benefits from local agents. This is why special arrangements with postal systems, that handle distribution, are a good solution when the financial infrastructure and the financial system are not developed. The postal system usually offers the most extensive distribution networks in both sending and receiving countries, particularly in rural areas, easing the connection between the two sides. A particular problem is that sometimes MTOs have exclusive access to an extensive distributional network (such as the post offices), excluding the possibilities of competition inside of a corridor.

On the other hand, even when a considerable number of financial agencies exist in the home country, often remitters and families don't trust these agencies, because fees and corruption may be very high. This leaves the option of informal channels open.

The same results from ineffective conditions provided by local agencies, such as unreliability, local costs, extension of time to receive funds, etc.

Finally, the fact that the economies and markets of the home countries aren't well developed makes it more complicated to use formal channels. There is a need to provide a good financial environment, financial partnerships, a stable business and political environment. Furthermore, all stakeholders intervening in this process should have a pro-active attitude in order to change and to promote safety nets, low transaction costs and better access to the system.

Conclusive remarks

Economic migration represents, in its initial stages, a failure of development. Individual migrants and their families consider that the improvement of their standards of living cannot be done at the home country, opting for a migration strategy. The links between emigration and development of sending countries are tenuous. Despite the abundant literature produced recently about the migration-development nexus, it is possible to argue that the positive impacts of emigration, migrant networks and economic transactions, including remittances, are often exaggerated in official documents.

As the history of old emigration countries demonstrate, the dynamics of international migration are not linear, and the retroactive impacts of emigration, including remittances, are not decisive for development. The case of Portugal may be taken as an example of the complex processes in action (see Peixoto, 2007). On the one hand, the migration turnaround registered in Portugal during the 1980s, i.e., the transition from a net emigration to a net immigration condition, is not unambiguous. Emigration flows declined but increased later (although changing its character, from a permanent to a mostly temporary condition), whilst immigration accelerated and moved back very quickly. In fact, the country registered a strong upsurge in international inflows in the late 1990s, largely composed of immigrants coming from Eastern Europe, mainly Ukraine. After the early 2000s, in face of an economic downturn and the growth of unemployment, many of the immigrants left (by return or re-emigration to other countries), accompanying the resume of Portuguese outflows.

On the other hand, emigration and remittances were maybe important for the modernisation of the country, but they cannot explain the bulk of the economic evolution thereafter. Portugal witnessed large waves of emigration in the first decades of the 20th century and during the 1960s and the early 1970s. These flows were always paralleled by a high volume of remittances, which still maintain a large volume nowadays (Baganha, 1994). Despite the importance of remittances for economic balance – and the links of emigration with social and political modernisation –, it is arguable that they played a paramount role. Patterns and trends of economic growth depended on other factors, including the adhesion to the EU and policies enacted to increase education and technology. Still today the outcomes of such measures are not certain, since Portugal is far from closing the gap towards better-off EU countries, being one of the poorest among EU 15 and, in migratory terms, vacillating between immigration and emigration.

These qualifications do not mean that emigration and remittances do not have an important role to play in emigrant sending countries, including many of Central and Eastern Europe. International migration will keep a strong pace in the European continent in the future, as a net receiver from other world countries and through internal European exchanges, either within the framework of EU or not. This is still more important when it is projected that, in 2050, Europe will register a pronounced ageing of its population, continuing to decrease its relative demographic weight in global terms. Therefore, sending and receiving countries are beginning to realize that the volume of resources currently being channelled through immigrant communities will continue to grow, and that public policies must be jointly developed to increase the development impact of remittances generated by migratory movements.

The countries of Central and Eastern Europe will be engaged in this process, either as migrant sending or receiving areas. As countries of emigration, the number of citizens living abroad is considerable in some cases and, correspondingly, the economic weight of remittances is sometimes high. Countries such as Moldova, Bosnia and Herzegovina and Albania are among the ones where emigration and remittances represent a higher fraction of national population and economic outcomes. Besides, other countries in the region, such as Poland, Romania and Ukraine, also count with voluminous emigrant communities abroad, and may benefit from the transnational networks and economic transactions linked to their diasporas. This will continue to occur within the EU framework or in its external borders.

The fact that emigration and remittances do not lead, *per se*, to development, do not conceal that, in an epoch of dense transnational networks and communications, the impacts of emigration and remittances cannot be effectively moulded by policy and institutional choices. The decisive role of institutions in maximizing the positive impacts of remittances was the point most stressed in this paper. Taken as a whole, remittances provoke mixed effects on development, be them positive, neutral and negative. Efficient institutions and sound policies may clarify these outcomes and maximise the positive ones. Previous knowledge of other countries experiences, the current transnational framework and international partnerships for development may set a difference in this domain.

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