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Migrant Remittances

An Overview of Global and Swedish Flows

Migrant remittances – money and gifts sent to relatives back home – have attracted increasing international attention. The flow of remittances has become a major source of revenue for developing countries, exceeding the volume of aid. Three recent studies at Uppsala University bring this issue to light in the context of Sweden's Policy for Global Development.

Very little has so far been known about the flow of remittances from Sweden; official data indicate an amount exceeding 4 billion kronor in 2006. The real flows are most likely higher; Swedish and international studies estimate that real remittances are 30-50 per cent above the officially recorded amounts. Statistics Sweden (SCB) is recommended to enhance its records of remittances in terms of desirable scope and reliability, for instance regarding specification of the amounts remitted to different countries.

Remittance flows from Sweden are linked to the remitters' incomes and, hence, vary with the business cycle. Experience suggests that the ongoing world economic crisis will have a negative impact on remittance flows also from Sweden.

It is suggested that enhanced knowledge in Sweden about available remittance services and their costs and measures to promote a better functioning remittance market could increase the net value of these money.

1. Introduction

As migrant remittances have grown rapidly over a long period, increasing attention has been given to international research on this topic. Positive as well as negative aspects of this phenomenon for developing countries have been exposed. Different motives and explanations for remittances have been analysed at both micro and macro levels. Thus, increasing knowledge has been achieved about the determinants of the flows of global remittances. The knowledge gap and lack of good statistics made Uppsala University undertake three studies,[1] linking up with international research. These studies cover a research area of relevance for Sweden's Policy for Global Development (PGD), since remittances help improve the livelihoods of poor households in many developing countries. They form the basis for this Policy Note.

2. Remittances and development

General background

The total flow of remittances to developing countries is estimated to have surpassed USD 300 billion in 2008, corresponding to 1.9 per cent of their total GDP and well over double the volume of total Official Development Assistance (ODA) (World Bank 2009).

In relation to GDP per capita, all the 20 largest recipient countries of remittances are developing countries. Of the six largest recipients in 2002, the remittances made up 20-40 per cent of GDP (World Bank 2006). Thus, these money transfers are in many cases massive and their impact hence extensive – not only for the recipient households but also at the community and national levels.

There is consensus in the growing literature on remittances that such transfers often play a crucial role for the livelihoods of poor households in developing countries.[2] Poor households have no access to insurance and credits and are therefore hit particularly hard by income shortfalls. Remittances can help to smooth the income flows and thus to maintain essential consumption for such households. In this way, money transfers from abroad in effect may be a substitute for social insurance.

Remittances also facilitate access to health and education services. A questionnaire-based study by Engdahl (2007) indicates that remittances from Sweden are used significantly for food and health care expenses. About a third of the respondents state their belief that their money was used for those purposes.[3]

Among other positive effects emerging from the literature is the relatively stable nature of remittances. Thus, countries with substantial inflows of remittances may be less exposed to fluctuations of production, consumption and investments.

On the other hand, some research has shown that the effects of remittances are not always helpful for development. Remittances imply emigration, which may cause welfare

1. The reference studies are (in Swedish) (i) *Penningförsändelser från Sverige till utlandet – Kartläggning av den svenska remitteringsmarknaden* (Engdahl 2007), (ii) *Remitteringarnas bestämningsfaktorer–en studie av det svenska remitteringsflödet* (Brinkberg and Engdahl 2006) and (in English) (iii) *Migration and Remittances – Differences in Ability and Propensity to Remit Among Migrant Groups in Sweden* (Brinkberg 2009). The results of all three studies are preliminary and may not be generalised without the utmost care.

2. See OECD (2006) and Maimbo and Ratha (2005) for two good literature reviews.

3. The number of respondents in this study is limited and the sample is not a representative selection of the Swedish immigrant population.

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losses through 'brain drain' and its effects on the national labour supply. The main counterargument is that there is also some 'brain gain' since many emigrant countries lack markets for certain professionals, and some of these professional emigrants may return home sooner or later. Such circular/return migration may result in increased levels of competency in the home country, and may also engender foreign trade and investment. The Indian data technicians returning to Bangalore from the US to set up globally competitive call centres and IT service companies is a case in point. The brain drain/gain balance will vary across countries and periods and needs to be studied on a case-by-case basis.

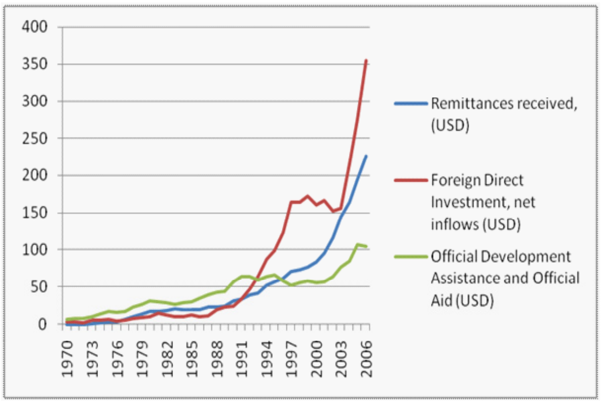
Other remittance drawbacks are that they may increase inequalities within local communities as they are unevenly distributed across households, and they may also increase dependency on receipts from abroad. Furthermore, the supply of labour from recipient households may be negatively affected due to reduced incentives for work.

Inaccurate data

The International Monetary Fund (IMF) publishes statistics on cross-border remittances based on their registration in the balance-of-payments of member countries. The reliability of these accounts has been called into question.[4] Countries use different – more or less deficient – methods of data collection and many informal money transfers go unregistered. The real remittance flows are likely to be well above the IMF data. A World Bank (2006) study estimates that real flows exceed the official flows by around 50 per cent.

Regardless of the flaws of official data on remittances, there is no doubt that real global flows have increased rapidly. More money than ever before has been transferred across borders every year until 2009. These money transfers have exceeded ODA since the mid-1990s, and since 2005 they are more than twice as large as ODA. Between 1995 and 2008, only foreign direct investments have been a more important source of foreign currency than remittances for low- and middle-income countries (Figure 1).

Figure 1. Foreign capital inflows to low- and middle-income countries 1970-2007, (billion USD)



Source: World Development Indicators, World Bank 2009

4. See Bilsborrow R.E. et al. (1997) *International Migration Statistics: Guidelines for Improving Data Collection Systems,* International Labour Office, Geneva.

Among world regions, East Asia and the Pacific have received the largest remittances since the early 1990s, closely followed by Latin America and the Caribbean, and South Asia. Remittances to Africa are relatively small with around 15 per cent of the total flows to developing countries in 2002. Sub-Saharan Africa received only around one third of the official remittances to the continent, but reservations are made for frequent underreporting or omitted data from this region (Sander and Maimbo 2003).

Determinants of remittances

A model for explaining the variance of remittance flows over time is discussed by Carling (2005). The main determinants of the international remittance flows are the number of immigrants in the sending country and their disposable incomes. The latter are in turn affected partly by immigrant attributes such as age, level of education, country of origin etc, and partly by the opportunities offered in the host country for earning incomes exceeding the cost of living. Together, these factors determine the available resources for remittances.

The actual flows of remittances are determined by the characteristics and preferences of the immigrants, on host country factors and on the situation in the country of origin. Thus, necessary conditions for immigrants to transfer money back home are that they have both the opportunity and the propensity to do so.

Effects of the economic crisis

In March 2009, the World Bank revised its global economic outlook downwards and forecast a decline of global remittance flows by 5-8 per cent in 2009 (World Bank 2009).

This projected decline should be seen in the light of double-digit growth rates of remittances during the last five years. The decline is small relative to the projected fall in private capital flows or official aid to developing countries. Furthermore, remittance flows have in several studies been proven counter-cyclical, that is increasing as the economic conditions of recipient countries have deteriorated. However, the current forecast of an outright fall in the level of remittance flows is bound to cause hardship in many poor countries.

South-South remittances from e.g. Russia, South Africa, Malaysia and India are especially vulnerable to the economic crisis. The economic decline both in countries sending and receiving remittances may reduce the possibilities of compensating for income shortfalls in the developing countries.

The counter-cyclical effect may thus be weakened, or reversed, when employment rates fall in many labour markets, including Sweden. This may reduce the disposable income margin for remittances, since immigrants in general are more vulnerable on the labour market. Hence, reduced remittances could worsen the situation for households that depend on money remittances and gifts from abroad, beyond the more direct setbacks caused by the economic crisis.

3. Remittances from Sweden

Remittances sent from Sweden have increased over several decades, from 65 million kronor in the mid-1970s to over 4 billion kronor in 2006 (Figure 2), corresponding to 0.14 per cent of Sweden's GNI. As a point of reference, although not comparable,[5] Sweden's ODA in 2006 is estimated at just over 1 per cent of GNI, nearly 30 billion kronor. Remittances from Sweden per immigrant have also increased since the mid-70s. The average money transfer per foreign-born resident rose from around 200 kronor/year in 1975 to about 3500 kronor in 2006.[6]

An important deficiency in Sweden's official payments statistics is the lack of information on recipient countries for remittances. Thus, it is not possible at present to decompose and analyse remittances from Sweden by recipient country or region. It is also difficult to establish whether remittances from Sweden are underestimated.

An attempt has been made by Engdahl (2007), who collected data using a questionnaire. A preliminary assessment indicates an underestimation, since informal channels are reported to be commonly used. Examples of unregistered transfer channels are money sent with friends and acquaintances travelling home, couriers and transfers via so-called hawala systems. Yet another hidden source of remittances is when multinational companies in Sweden employ staff from a third country and some of the salaries are paid directly to the home country.

A simple calculation based on the transfer methods reportedly used by respondents indicates that real remittance flows from Sweden are around 30 per cent higher than the registered amounts, corresponding to approximately an additional 1.2 billion kronor in 2006. However, a more elaborate study would be needed to verify this result.

A new law on labour immigration was adopted in Sweden in December 2008, requiring more stringent statistical reporting on country of origin and professional category. This may also facilitate the improvement of statistics on remittances.

Determinants of Swedish remittances

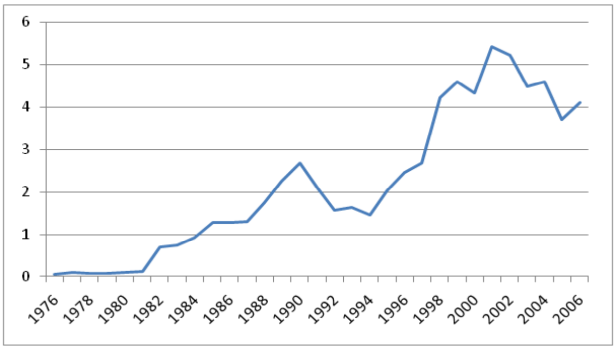
Sweden's immigrant population has increased from three per cent in the 1950s to more than twelve per cent in 2005. During this period the nature of immigration has changed. In the 1950s and 1960s, labour immigration dominated, while immigration in the 1970s and 1980s was more a result of humanitarian and political factors. A result of the latter type of immigration was a subsequent flow of immigrant relatives, which actually became the dominant form of immigration in the 1990s. Thus, the characteristics of the immigration flows have changed over time regarding gender composition, educational levels and country of origin.

The immigrant population in Sweden today is much more heterogeneous than previously. The labour market conditions have also changed. As a result, labour market integration of immigrants has become much more difficult since the 1970s, and this trend has been further reinforced by increased immigration from non-OECD countries (Ohlsson 1995). Nevertheless, the remittance flows from Sweden increased during the same period, probably as a result of the changing pattern of immigration. Increased immigration from poorer countries with larger needs of money transfers might be a factor, but this is difficult to analyse due to the lack of data on the destination of remittances.

The flow of remittances from Sweden decreased abruptly during the economic crisis of the 1990s, and again during the 'IT bubble crisis' earlier this decade, as shown in Figure 2. A simple model shows that remittances from Sweden are correlated with the overall level of unemployment in Sweden and with the number of foreign-born residents (Brinkberg and Engdahl 2006).[7] Net immigration did not decrease during the crisis, while unemployment rose sharply. The immigrants were among those hardest hit; their incomes fell more than the average. This is likely to have reduced the net incomes disposable for remittances, which may explain their abrupt decrease. Thus, the outflow of remittances seems responsive to the business cycle.

A consistent finding is that about half of the remittance flows from Sweden since the 1970s can be explained by the number of immigrants and their incomes. The other half is assumed to be related to the propensity of immigrants to remit money. There is evidence indicating that both men and women from non-OECD countries have a relatively higher propensity to remit than those from OECD countries (Brinkberg 2009).

Figure 2. Remittances abroad from Sweden, SEK billion at constant prices



Note: Remittances have three components: Compensation of Employees, Workers' Remittances and Migrant's Transfers. The calculations are based on data from IMF Balance of Payments Yearbooks. Data are missing for some years. The time-series has been deflated using CPI with 2008 as the base year. The exchange rate used is the average rate for each year.

It is too early to assess the direct effects of the ongoing economic and financial crisis on the remittance flows from

5. Two main reasons: (i) Remittances flow both in and out of Sweden and net outflow in 2006 was less than half of gross outflow; (ii) Remittances are likely to go largely to the country of origin of immigrants, i.e. mainly to high and middle income countries, viz. Finland, Serbia, Iraq, Bosnia, Iran, Norway and Poland. Sweden's aid goes mainly to low-income countries.
6. All amounts in 2008 prices.

7. A more advanced model should include more variables, which however requires better data availability. The literature includes differences in interest and exchange rates and in GDP between sending and receiving countries as explanatory variables at the macro level. See El-Sakka and McNabb (1999), *The macroeconomic determinants of emigrant remittances,* World Development 27.

Sweden, but they are likely to decrease as they did during the crises of the early 1990s and 2000s. So far in 2009, the inflow of immigrants applying for work permits in Sweden is as high as in previous years, despite the current crisis. With an increasing stock of immigrants, the remittances are likely to increase in the long term.

Other motives and explanatory models of remittances

Microeconomic models are used to a large extent for analysing the motives for sending remittances, at the individual and household levels. A common explanation is that altruistic motives drive these transfers, i.e. immigrants send money home because they care about their relatives (OECD 2006). Little is known about the motives of Swedish remitters. The survey by Engdahl (2007) includes the question whether the remitters consider the money sent home as useful. As many as three quarters respond that it is probable or very likely that the transferred money helps improve the level of living of the recipients; see Table 1.

TABLE 1.
Do you think that the money sent home helps improve the level of living of your family or relatives?

Most likely	34%
Likely	43%
Unlikely	14%
Don't know	9%

Source: Engdahl (2007)

If these results were to be confirmed by a more comprehensive study of remitters in Sweden, there would be strong support for research that highlights remittances as an important means of development. It could also be an indication that remittances can partly be explained by altruistic motives.

Yet, the altruistic explanation is not complete; self-interest is another motive for people to remit. Ownership of property managed by relatives back home, and the prospect of inheriting property in the home country may for instance be motives for money transfers (OECD 2006). Remittances can also be seen as a risk spreading strategy, by sending a household member to work abroad in order to improve the livelihood of the whole household. Moreover, the relations between the sender and the receiver may be decisive; the reasons why a person has migrated and the family constellation in the home country probably affect the propensity to remit. If close family members remain in the home country, the propensity to remit increases (Carling 2008).

The time dimension is also important; the length of the period spent abroad may affect the propensity to remit. This is discussed in Engdahl (2007); the above-mentioned questionnaire survey provides evidence for the assumption that the links with the home country are significant for remitters in Sweden. Table 2 shows that 85 per cent of the immigrants who intend to return home send remittances, compared to 30 per cent of those who are not considering a return migration.

TABLE 2.
How likely are you to return to your home country?

	Remit	Don't remit
Most likely	86%	14%
Likely	64%	36%
Unlikely	29%	71%
Don't know	71%	29%

Source: Engdahl (2007)

4. Transfer channels and costs

Both formal and informal channels are used for transferring money and gifts abroad. The use of informal channels is deemed to be widespread, both to poor countries and to the better-off ones (OECD 2006). The choice of transfer methods is determined by the remitters' knowledge about available transmission services. There is some evidence from Sweden that such knowledge is reflected in the choice of payment methods (Engdahl 2007). Money transfer service providers (such as the world leader Western Union) and traditional banks had been used by about one half of the respondents in the above-mentioned survey by questionnaire. In addition, over one third of the respondents declared that they had transferred money via friends and acquaintances or other persons travelling to the home country; thus via informal transfer channels.

The high transmission fees being charged for cross-border money transfers have been given much attention in international research on migration. Informal transfer channels are in many cases preferred because of their lower transmission costs of remittances compared to the traditional channels (World Bank 2006). Reducing migrants' costs in sending remittances – particularly transmission fees – could increase the total net value for poor recipient households by billions of dollars (OECD 2006). This estimate underscores the importance of the fee issue.

In the Swedish survey, about one third of respondents stated that they would have sent more money home if the fees had been lower (Engdahl 2007). At present, the cost of sending one thousand kronor from Sweden to, for instance, Bosnia and Herzegovina using Western Union online amounts to one hundred and ninety kronor, which is 19 per cent of the sent amount. The charge for sending five hundred kronor to the same country is 26 per cent. These high fee levels indicate that this issue is also relevant for Sweden.

The Swedish Government in its Communication 2007/2008:89 on Sweden's Policy for Global Development states its intent to work for more secure and cheaper remittance transfers, inter alia by commissioning a website like the UK website Send Money Home.[8] This initiative is yet to be implemented.

8. See http://www.sendmoneyhome.org . This web site was set up in 2005 with initial funding from the UK Department for International Development (DFID).

5. Summary and conclusions

The global remittance flows have increased markedly over the last few decades, including those from Sweden. The inflow of remittances to the low- and middle-income countries exceeds by far the flows of foreign aid. This phenomenon hence deserves more attention than hitherto in the Swedish debate on global development. The studies summarized in this Policy Note highlight the following points:

- Remittance flows from Sweden are linked to the remitters' incomes and vary with the business cycle. Experience suggests that the ongoing world economic crisis will have a negative impact on remittance flows also from Sweden, because immigrants in general – and those from non-OECD countries in particular – have a weaker than average position on the Swedish labour market and hence are more exposed to recessions.
- Data on international remittances are provided by IMF, but the inputs from Statistics Sweden are wanting in terms of desirable scope and reliability. For instance, no public information is available on the amounts remitted to different countries. More extensive statistics would enhance the level of knowledge on remittances.
- A systematic mapping of the Swedish market for remittance services is needed. Secure and cheaper remittance transfers require a functioning market. Increased competition on the US remittance market has reduced the cost of remittances, so that more money reaches the recipients and/or is available for transfers. The Swedish remittance market volume amounts to billions of kronor; a review of its competitiveness would be useful.
- The Swedish government has stated its intent to work for cheaper and more secure remittances and to commission a website modelled on the UK 'Send Money Home' site. This initiative should be given priority, since better and more accessible information would facilitate for remitters in Sweden to make better choices of remittance services and thus maximize the value of the transferred money.
- There is not enough knowledge about why immigrants in Sweden remit money, which groups are the main remitters and what the money transfers are used for in the recipient countries. Research on these issues should be encouraged, both for their academic interest and policy relevance.

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