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INTERNATIONAL MIGRATION

Can It Improve Living Standards among Poor and Vulnerable Populations?

Alan de Brauw

The migration of labor across international boundaries has increased rapidly since 1990. Over 190 million individuals now live outside their country of birth, and the majority of migrants leave developing countries for countries with higher living standards than their home countries.¹ Remittance flows have risen quickly over the same time frame, and aggregate official remittance flows now double official development assistance. Participating in growing international migration is therefore a potential way for poor or vulnerable households to increase their living standards. Nevertheless, constraints against migration can prevent members of poor or vulnerable households from reaping its potential benefits. Costs are the most obvious constraint, but policies in both the home and destination countries can also hinder migration. For example, in some countries passports cost more than 10 percent of per capita gross domestic product, making them prohibitively expensive for the poor. Similarly, migrant destinations often have policy preferences for highly skilled migrants, which can preclude migrants from poor or vulnerable households, who tend to be low-skilled.

Developed countries also use visa quotas to avoid absorbing too many low-skilled migrants, in part because of perceptions that such migrants will strain social welfare systems. Costs and constraints combine to drive some migration underground; for example, it is estimated that 12 million immigrants in the United States are there illegally, and concerns exist elsewhere about migrants being forced into bonded labor or prostitution.

This brief explores how policy can help facilitate the use of migration to improve the living standards of poor or vulnerable households in developing countries. Since migration in general can be defined in several ways, the discussion is limited to international migration of individual household members specifically for the purpose of employment. The brief also highlights the formal costs of migration because they can be mitigated most effectively by pro-migration policy. Given the focus on international rather than rural-urban migration, it is important to note that some of the policy prescriptions may not be appropriate for fostering rural-urban migration.

Migration, Its Benefits, and Poverty Reduction

A rich theoretical and empirical literature covers the motivations of individuals in developing countries to migrate for work. Perhaps the most obvious motivation is the difference in wage levels between countries sending and receiving migrants. For example, when Tongan residents win a lottery giving them the right to move to New Zealand, their expected wages triple. But migrants also move for other reasons. Migration is often part of a household income-generation or development strategy. From a rural perspective, when household income depends on agriculture, with its inherent risks, sending a migrant to a place where their income will not be affected by those risks can increase the household's income security. Migration can also help raise funds for investment in better housing or in productive activities at home. Nevertheless, migration is also conditional on household characteristics given that migrants tend to be younger family members. As a result, migration is not likely to help the elderly rural poor unless they have children that have migrated.

Migration may have both direct and indirect effects on poverty. It can directly reduce poverty by reducing the number of people that a poor household must support. If the potential migrant was not working before leaving, this effect is particularly beneficial. Migrant remittances are also immediately beneficial when they are used to supplement consumption. More indirectly, migrants can and often do remit cash or goods to their families when negative income shocks occur. Remittances help stabilize household income and prevent the household from plunging further into poverty. Migration and migrant remittances can also have indirect effects on poverty in the migrant's home community. Migrants leave the local labor force, making local labor more scarce and pressuring wages upward, while remittances add liquidity to local markets, potentially stimulating economic activity. Furthermore, returning migrants bring new skills and experiences with them, sometimes even starting microenterprises that create local employment. Finally, migration can help households make long-term investments, such as educating their

children. As a result, there are several potential ways that migration can help increase the living standards of poor or vulnerable households.

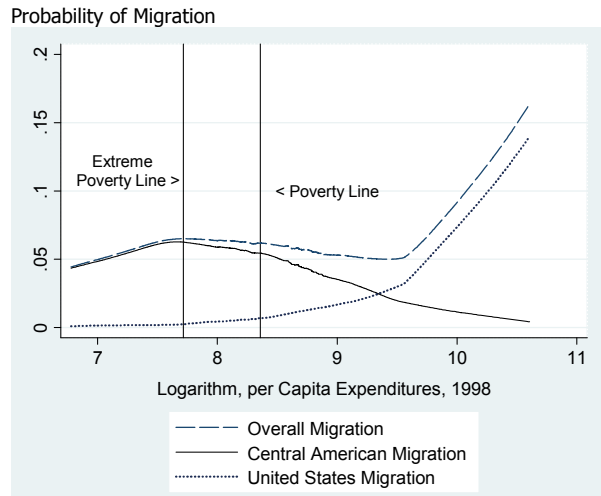
Lack of Evidence of a Causal Relationship between International Migration and Poverty Reduction

Primarily due to severe data limitations, researchers have not proven empirically that a causal relationship between international migration and poverty reduction exists. Most current sources of information on migration, such as population registers and censuses, do not include reliable information on living standards. While cross-country data indicate that migration is associated with lower poverty rates and smaller poverty gaps, little or no research claims that migration or migrant remittances directly cause reductions in poverty rates or gaps. In most countries, data on both emigration and poverty do not exist in a large enough sample to convincingly demonstrate a causal relationship. Even when such data are available, it is challenging to confirm that migration was the cause of poverty reduction rather than some other, unobserved factor.

One reason that few data sets including information on both migration and poverty exist is that, on average, relatively few individuals from any given country emigrate. A study of migration, poverty, and the effects of related policy would ideally be based on a multi-topic, nationally representative survey, but even in a large nationally representative survey, on average migration occurs infrequently. For example, consider a hypothetical 5,000-household survey completed in a country with an emigration rate of 3 percent of the adult population (the world average). If not specifically designed to collect information about migration, the sample would likely only include 200–300 households with an international emigrant—insufficient to support useful generalizations from statistical analyses. Migrants also use family or community networks to find employment, so emigrants tend to come from specific communities. If communities with strong emigrant networks were not included in the sample framework (by chance or otherwise), the number of migrant households would likely be lower still.

Due to the scarcity of appropriate data, migration studies are typically limited to countries with significant levels of migration. For example, a nationally representative data set collected in 2001 in Nicaragua indicates that 5 percent of households had a family member who had emigrated for work in the previous five years. The majority of emigrants went to Costa Rica or another Central American country, and about 20 percent went to the United States. Overall, households below the poverty line were less likely to have a member emigrate (Figure 1), and, if

Figure 1—The relationship between the probability of migration and per capita expenditures in Nicaragua, 2001



Source: Nicaragua National Household Living Standards Survey (EMNV), 1998 and 2001.

they did so, it was almost certainly within Central America. Only members of richer households were able to emigrate to the United States, and members of such households were less likely to emigrate within Central America.

Nicaragua's experience may be atypical; in other countries, migration may be more or less accessible to the poor. For example, in Mexico poor households in villages with small migrant networks have few emigrants, while those in villages with stronger networks have more. Other research suggests that, in both Ghana and Guatemala, remittances to households from family members abroad have a positive effect on the severity, if not the absolute level, of poverty. Migrants may typically leave Ghana and Guatemala for nearby countries, making the cost of migrating low. Similarly, much migration from Nepal is to India, and research shows that poorer households are more likely to receive remittances as a result. Regardless—with the exception of Mexico—these findings only indicate correlations and do not suggest that remittances cause a decrease in poverty.

In summary, evidence of the relationship between migration and poverty exists for a few countries only, and conclusions about this relationship are highly country- and context-specific. Policies related to migration should, therefore, also be context-specific, taking into account the associated costs and barriers facing poor households.

Costs of and Barriers to Migration

Two types of specific costs are associated with migration: opportunity costs and direct out-of-pocket costs. A primary opportunity cost affecting rural households is the loss of the migrant's labor from household agricultural production. As

international migrants tend to be young and able-bodied, the agricultural labor input and its resulting income can decline when family members migrate. In this manner, migration is different from local work because individuals with local off-farm jobs can easily help during busy periods on the farm, whereas migrants cannot. In all cases, when migrants leave, other household tasks—such as rearing children or looking after the elderly or infirm—are shifted to those left behind.

Many of the direct costs associated with migration are up-front costs, although they can be partially mitigated by family and community networks. International migration requires costly travel from the source community to the destination—sometimes over long distances. Once a migrant arrives at a destination, further costs are incurred in finding work. Migration is therefore inherently risky, and the risk is mitigated if a potential migrant can secure a job prior to migrating. The process is made much easier when extended family or others from the home village are located at the migrant's destination and can offer assistance with the job search, a place to stay on arrival, and help in adjusting to the culture and language of the new country.

For poor or vulnerable households, the costs of migration can act as barriers in two important ways. First, even if jobs were available at the potential destination, poorer households may be unable to finance migration because they have few assets and lack access to credit. Second, community migration networks might not extend as readily to the poor, so the poor may face higher costs finding employment at the destination. Between travel costs and a lack of information about opportunities abroad, migration may not even be an option for poor or vulnerable households.

Potential migrants face further barriers to migration. First, passports and visas are necessary for legal emigration, and while networks can facilitate their acquisition, the poor may lack the information and connections necessary to do so. And, as previously mentioned, the cost of obtaining a passport can be prohibitively high. Perhaps more importantly, destination countries often implement policies that make legal migration for employment difficult. For example, most developed countries implement migrant visa quotas to restrict migrants to those with specific skills or education levels. This only leaves low-skilled migrants with the option of illegal migration with its many risks, dangers, and costs, such as exorbitant fees paid to intermediaries to facilitate migration, the risk of bonded labor resulting from debts incurred in migrating, and the lack of labor rights and bargaining power, to name a few.

Further institutional arrangements can temper the benefits of migration to communities of origin

by limiting the amount of money available as remittances. Although remittance fees have declined in recent years, they remain both high and regressive, making it extremely expensive to send small amounts of money home. For example, Western Union charges a flat fee of US\$10.99 for transfers of US\$300 or less from the United States, and fees are often much higher in other parts of the world.

Policy Ideas to Foster the Benefits of Migration for the Poor

Increased migration by the poor or vulnerable can potentially reduce poverty and create further economic benefits in both countries of origin and of destination, and pro-migration policies in both—as well as bilateral agreements between the two—can facilitate the attainment of these benefits. However, it is worth noting that many pro-migration policy options are currently only ideas at this point, and they may not be appropriate in all circumstances.

From the perspective of the country of origin, three types of policies can promote emigration by the poor:

1. Governments can limit the direct costs of finding employment overseas. First, they can ensure that the cost of obtaining a passport represents a low income share. To limit migration costs, several Asian countries have licensed companies to recruit immigrants for low-skilled jobs, which can lower the cost of migration because recruiters can provide information on, or even negotiate, lower transportation costs, passports, and work visas. However, such companies should always be monitored by governments to ensure that emigrants are not exploited.
2. Governments can potentially encourage financial institutions to establish rural branches in order to lower the transaction costs of receiving remittances. Some companies have begun to allow individuals to send remittances via short message service (SMS) in exchange for cell-phone credit. Policies that encourage the development of these markets and foster creative programs like the exchange of cell-phone credits for cash—as is occurring in the Philippines—can further the positive effects of migration on poor households.
3. Countries of origin can enter bilateral agreements with countries of destination to design incentives for migrants to return, both to bring savings and new ideas back to source communities and to minimize the disruption of families for migration.

Destination countries can also adjust policies to ensure gains from accepting low-skilled immigrants. The countries of the Organisation for

Economic Co-operation and Development (OECD) are all facing a shift in their demographics that will ensure labor shortages in specific markets that could be filled by low-skilled immigrants. However, portions of OECD populations perceive labor migration as threatening. Consequently, policies that encourage either seasonal or circular migration for low-skilled employment in developed countries are likely to be most viable. Hence, policy could be designed to allow migrants to move between their home and destination countries under a fixed work contract. Suggestions include the following:

1. Bilateral agreements between countries of origin and destination could be established to enable migrants on fixed-length contracts to move between the two countries on multiple-entry visas. Many agreements exist for seasonal workers with European Union countries, but few go as far as to allow multiple entry. If governments in countries of destination were to make it easier for migrants to come and go, migrants could return home during slower work periods.
2. Governments could establish portable pensions for migrants to access in their country of origin. If migrants benefited in

their countries of origin from social welfare contributions made while in their destination countries, they may be more likely to return home.

Emigration has become a more frequent phenomenon in developing countries in recent years. It offers significant potential for poor and vulnerable households, and pro-migration policies could help poor and vulnerable individuals to reap these benefits. Further studies are needed to quantify the potential contribution of migration to reducing poverty, but such studies depend on the availability of relevant data. If data on migration, its impacts, and the influence of various policy options were available, progress could be made in tapping the pro-poor potential of international migration. A final policy prescription, therefore, is that governments include migration as a specific issue in their data-collection efforts.

For Further Reading: D. McKenzie and H. Rapoport, "Network Effects and the Dynamics of Migration and Inequality: Theory and Evidence from Mexico," *Journal of Development Economics* (Vol. 84, No. 1, 2007); A. de Haan, "Livelihoods and Poverty: The Role of Migration: A Critical Review of the Migration Literature," *Journal of Development Studies* (Vol. 36, No. 2, 1999); L. Katseli, R. E. B. Lucas, and T. Xenogiani, *Policies for Migration and Development: A European Perspective*, OECD Development Centre Policy Brief No. 30 (Paris: OECD, 2006).

Alan de Brauw (a.debrauw@cgiar.org) is a research fellow in the Food Consumption and Nutrition Division of the International Food Policy Research Institute.

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INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE
 2033 K Street, NW, Washington, DC 20006-1002 USA
T: +1 202 862 5600 • F: +1 202 467 4439
ifpri@cgiar.org • www.ifpri.org



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