



Migration and Remittances

Eastern Europe and the Former Soviet Union

World Bank
Europe and Central Asia Region



First, an economist's perspective on migration

- ◆ A market has two sides: focusing only on supply of migrants cannot lead to optimal policy (Demand is important)
- ◆ There are tradeoffs to be weighed to find appropriate balance between costs and benefits of various options
- ◆ Externalities may be important (i.e. consequences not caught in the wage paid to the migrant)

2

Methodology

- ◆ Description of status quo: migration, “statistical” migration, and population data with focus on unskilled labor
- ◆ Econometric methods
- ◆ Simulations
- ◆ Micro-surveys with returned migrants
- ◆ Comparative historical analysis

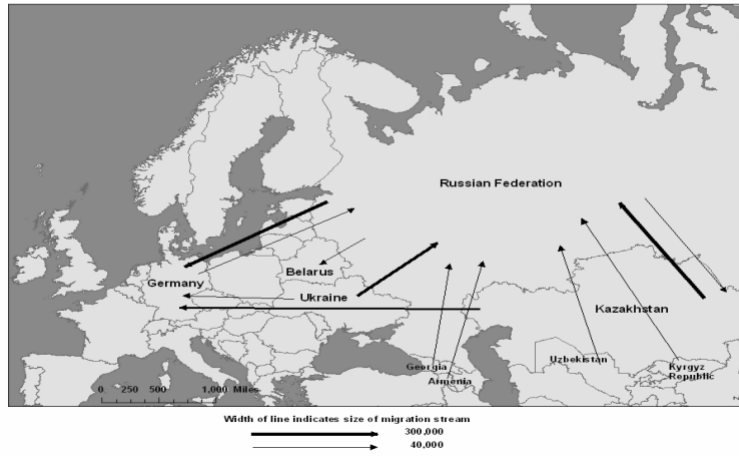
3

Key Messages

- Migration in ECA is unique, significant and likely to grow
- Remittances are the second most important source of financing for many and the first for poorest
- Good economic policies and institutions maximize gains for sending and receiving countries and migrants ('Triple Win')
- Current immigration policies, largely bilateral, may not stem large undocumented migration
- Further study and policy experimentation may help overcome the limitations of the existing framework

4

Migration has followed a two-bloc pattern in the region



5

A lot of early migration was driven by civil conflict and war

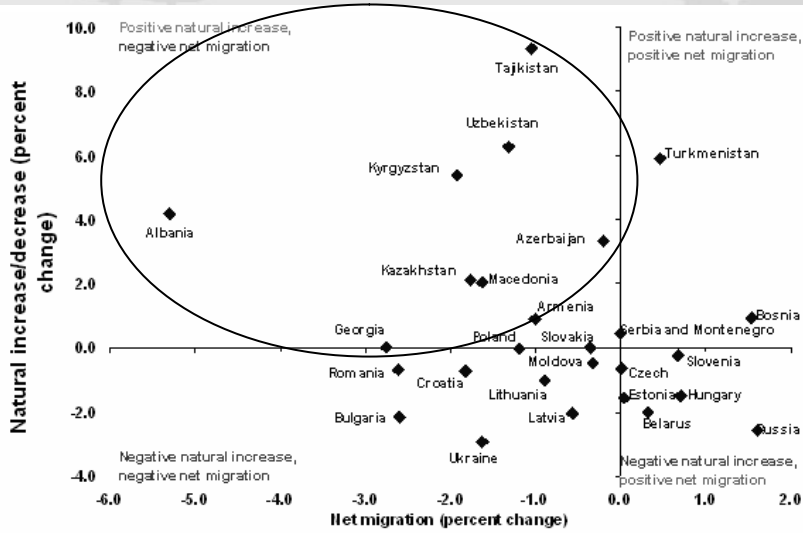


Source and notes: Based on IOM, CIS Migration Report 1996. Map is designed to broadly illustrate major refugee and IDP flows at the time, based upon best available information, and is not intended to be authoritative or precise.



6

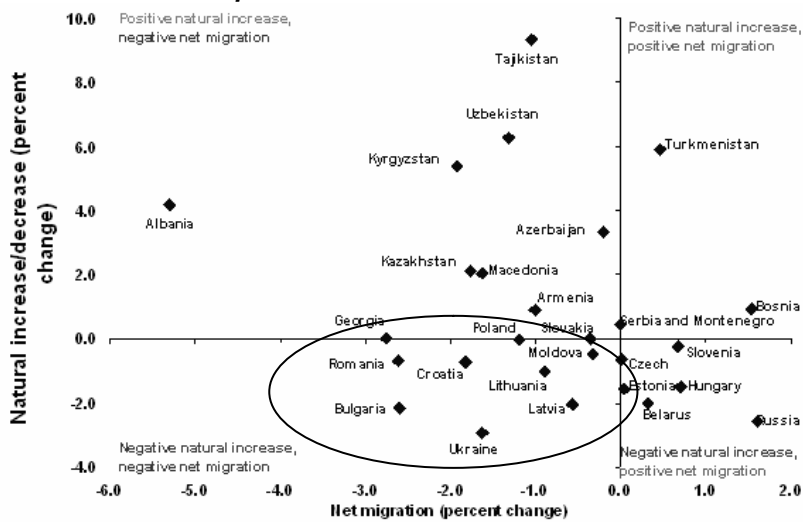
Pool of labor within ECA...Central Asia, Caucasus, Balkans



* Data are from 2000-2003

7

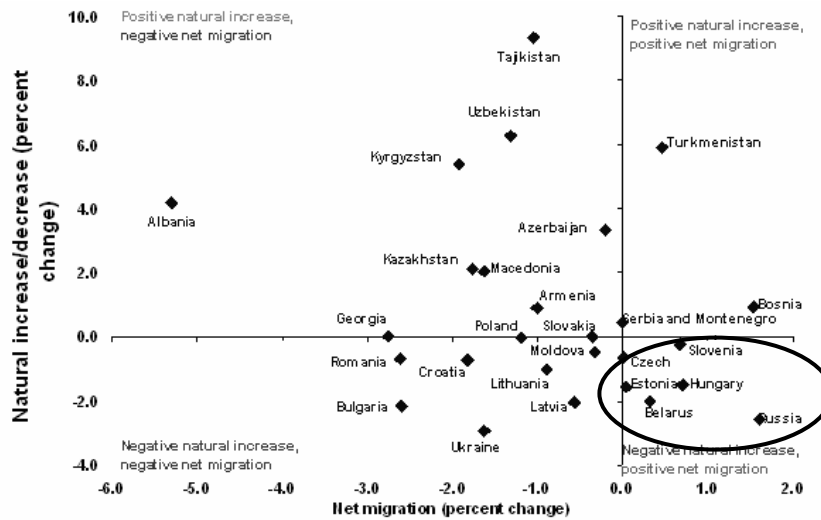
Losing population to emigration and demographics...Baltics, SE Europe, Poland, Ukraine and Moldova



* Data are from 2000-2003

8

Declining population despite immigration...Central Europe, Russia and Belarus

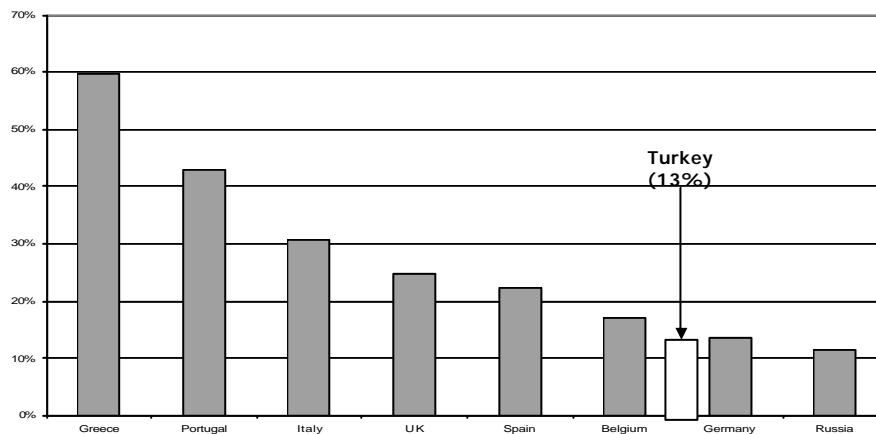


* Data are from 2000-2003

9

A lot of migration is illegal...

Undocumented Migrant Stock as a Percentage of Total Migrant Stock



Source: Various

10

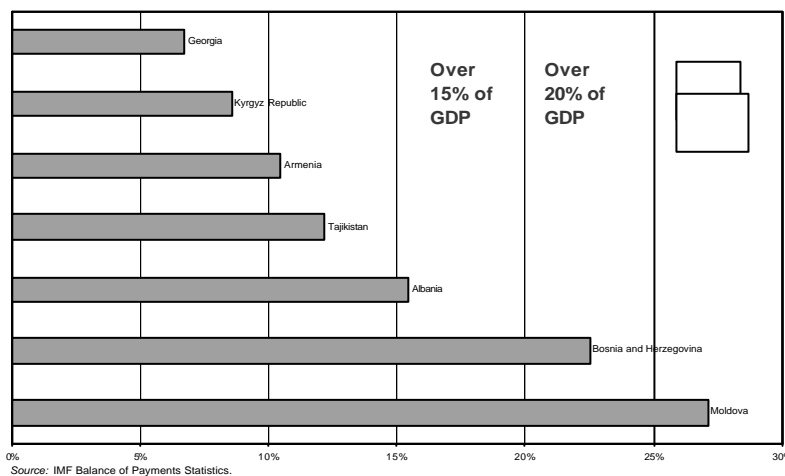
It is likely that migration will increase for five main reasons

- ◆ Differentials in expected quality of life increasing
- ◆ Demand for non-traded services from increasingly affluent and large middle class ('demand needs to be factored into policy')
- ◆ Much lower transportation costs (esp. low cost airlines) and easier to keep in touch
- ◆ Only quick way to build savings and human capital
- ◆ Demographic decline in Europe and parts of the CIS (especially Russia)-now at an interlude

11

Remittances to sending countries are large as a portion of GDP

Remittances as a Portion of GDP (2004), Current US Dollars



12

International market for migrant labor has large net benefits...

- ◆ Sending Countries and Migrants
 - Can relieve pressures on labor markets when tight
 - Remittances
 - Migrants remit about 36 percent of their incomes
 - Human Capital and Savings
 - 26 percent intended to start a business on return
 - 70 percent improved job opportunities

- ◆ Receiving countries fill labor market shortages and attract new skills

13

Yet Migration also generates costs

- Costs for receiving countries
 - New competition: wages may fall as a result of migrants especially for the lower skills (DeNew/Zimmerman 1994 -0.5% for blue collar from 1 percent increase in migrants)
 - Strain on existing social services
 - Problems with integration of foreign workers
 - Criminality

- Costs for sending countries
 - Loss of human capital, especially if migration permanent
 - Disruption to families and communities (may require additional Government services)
 - Criminality

- Costs for migrants
 - Heavy penalty on family life (over half return home due to family related concerns)
 - Costs of leaving familiar and adapting to new culture

14

Most legal migration facilitated by bilateral agreements

- Bilateral migration agreements proliferated rapidly during the early 1990s
- Externalities make bilateral agreements superior to MFN, unlike trade
- These agreements form a 'patchwork' as their designs vary tremendously and there is little coordination
- The majority of agreements cover migration between CEECs and EU15 though a few address migration to Russia

15

Problems with the Current Regime

- ◆ Agreements do not address the full size of the demand for migrant labor
- ◆ Sometimes legal quotas unfilled due to high transaction costs
- ◆ Creates incentives for illegal migration
- ◆ The system is unbalanced as a few countries account for the majority of the agreements
- ◆ Current system does not encourage circular migration and allows adverse selection and criminal activity

16

Features of an Alternative Regime for Labor Migration

- ◆ More effectively matches the supply with the demand for international labor
- ◆ Reduces rents for traffickers
- ◆ Establishes transparent rules for remuneration, work conditions, and dismissal procedures
- ◆ Provides incentives for migrants to be complements, not substitutes, to domestic labor
- ◆ Offers employers means to hire legally the workers they need
- ◆ Provides incentives to encourage return home where permanent migration is not desired

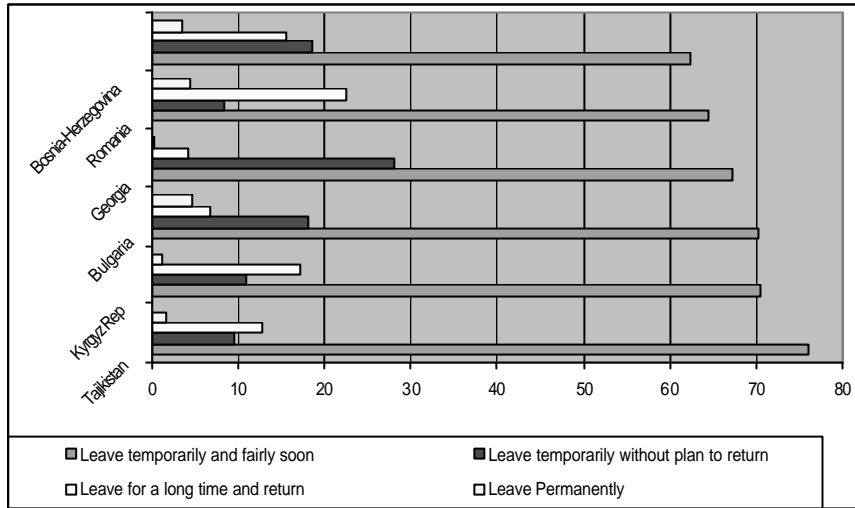
17

One option—among many—for improving policies could be to encourage circular migration...

- Circular migration would/could:
 - Utilize migrants and their acquired skills for economic development in sending country
 - Reduce brain drain because absence is temporary
 - Probably address some fears in receiving countries about migrants staying permanently
 - Provide an alternative to full liberalization for receiving countries

18

Circular migration is consistent with many migrants' preferences for short periods of time abroad



Source: World Bank (forthcoming 2007)

19

Policy experimentation and pilots could be useful

World Bank is working on implementing pilot migration schemes with several EU member-states

20