

THE IMPACT OF MIGRANT REMITTANCES ON THE DEVELOPMENT OF THEIR COUNTRIES OF ORIGIN

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Remittances have become a vital financial lifeline for millions of households, with over 250 million migrants globally sending money back to their home countries. These flows now surpass official development assistance (ODA) in many cases, leading to optimism about their potential to stimulate productive investment and foster economic growth. However, while remittances contribute to poverty reduction and financial stability, they are not a substitute for sound macroeconomic policies and institutional reforms. This paper examines the role of remittances in development, highlighting their benefits as well as their limitations. The findings suggest that while remittances provide an important supplementary resource for economic resilience, they alone cannot drive sustainable development. Policymakers must integrate remittance inflows with broader structural reforms to maximize their developmental impact.

Keywords: remittances; migration and development; official development assistance (ODA); macroeconomic policies; financial flows

Introduction

According to the definition used in the Balance of Payments Manual of the International Monetary Fund, workers' remittances, commonly called "remittances" or "migrant transfers", are transfers of goods or financial assets made by migrants who live and work in another economy, to residents of their former country of residence (IMF, 2010).

Remittances represent a significant source of external financing for developing economies. Steadily increasing for several years, these resources represent the second largest source of financing for developing countries, behind foreign direct investment (FDI) and ahead of official development assistance (ODA). However, the unique feature of these flows is their stability. Indeed, unlike FDI, which increases during periods of growth and decreases during economic depressions, remittances are less subject to economic conditions and have been steadily increasing since the 1990s, despite the multiple recessions and crises the world has experienced.



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Table 1 - Remittances and other flows to developing countries (billions of \$)
(source: International Monetary Fund)

	1995	2023	2024
Remittances	58	160	431
IDE	107	166	765
APD	59	79	131

The growth in these transfers is due to several factors.

First, the increase in the number of immigrants in most host countries has been associated with a growth in transfers.

Second, the decline in transaction costs has undoubtedly been decisive in converting a significant portion of informal flows into official transfers. In this context, it should be noted that the data in Tab. 1 only cover flows transiting through formal channels. In reality, it is difficult to know the exact magnitude of these flows, as many use informal channels. It is estimated that unofficial transfers represent at least one and a half times the official flows.

In this article, we will focus solely on European remittances. The article is a follow-up to the scientific research project VEGA 1/0014/16, “International Migration of Highly Skilled Labor in the Context of Globalization and the Formation of a Knowledge Economy”.

European remittance transfers

In 2014, migrants living in Europe sent \$109.4 billion in remittances to low-income European countries and developing countries. The top five countries account for 66.6%, or two-thirds of this amount (see Tab. 2).

Table 2 – Top five sending countries (\$ millions)
(source: World Bank, Remittance Bilateral Matrix, 2024)

Country	Africa	Asia and the Pacific	Latin America and the Caribbean	Near East and Caucasus	Receiving European countries	Total
Russian Federation	27	10,920	3	3,729	6,007	20,688
United Kingdom	5,240	8,055	469	308	3,094	17,173
Germany	1,354	3,396	238	1,759	7,339	14,086
France	6,861	1,823	361	698	784	10,531
Italy	3,334	3,065	906	131	2,996	10,433

Of the total remittances sent by migrants living in Europe, one-third (\$36.5 billion) remains in 19 European countries, while two-thirds (\$72.9 billion) are received by families in more than 50 developing countries outside Europe (see Tab. 3).

There are 19 main recipients of remittances in Europe. Ten of these recipient countries are European Union member states, receiving \$20.5 billion annually in remittances. Nine non-EU countries receive \$16 billion in remittances annually.

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These originate primarily from non-EU countries (58%), primarily the Russian Federation, with the remaining 42% coming from member states such as Germany, Austria, Croatia, Denmark, Greece, Italy, and Poland.

Table 3 – European remittances: flows to Europe and the rest of the world, 2024
(source: World Bank, Bilateral Remittances Matrix, 2024)

Region	Bln, USD
European countries	36.5
Asia and the Pacific	34.9
Africa	23.1
Near East and Caucasus	8.7
Latin America and the Caribbean	6.2
Total	109.4

It is possible that the actual amounts of remittances from Europe to low-income European countries are considerably higher than the data presented in Table 3. As already mentioned, many migrants send money using informal channels. It should also be taken into account that many European migrants may bring money home themselves. Geographic proximity and the relative ease of travel between many European remittance-sending and remittance-receiving countries allow migrants to return home regularly.

As far as developing countries are concerned, the top five recipient countries account for 42% of flows from Europe to the developing world (see Table 4).

Table 4 – Top five recipient countries of remittances from Europe
(source: World Bank, Bilateral Remittances Matrix, 2024)

Country	Bln, USD
Nigeria	7.4
China	6.3
Morocco	6.3
India	5.7
Uzbekistan	5.6

The links between remittances and development

Remittances are attracting growing interest at both national and international levels. However, linking remittances to development is a complex and multifaceted task.

International organizations particularly highlight the positive effects on poverty reduction and development in the migrant's country of origin. In this context, a study conducted by UNCTAD should be mentioned. This study provides evidence of the correlation between remittances and poverty reduction in developing countries. Based on longitudinal data from 77 developing countries (1980-2008), the study shows that remittances significantly reduce poverty in recipient countries. On average, a 10% increase in remittances reduces the proportion of the population living below the poverty line by 3.9% (UNCTAD, 2010).

As far as the scientific community is concerned, some studies reveal significant beneficial effects while other studies highlight the negative effects of transfers.

The positive effects of remittances

First, remittances should reduce poverty because they are usually paid to poor households, increasing their income and alleviating poverty. This is the subject of the work of Adams (2010) and Adams & Page (2005). They study the impact of remittances on different dimensions of poverty. They constructed a panel of 71 developing countries and found that a 10% increase in the level of remittances per capita contributes to a 3.5% reduction in poverty.

Gupta et al. (2009) studied the impact of remittances on poverty reduction in sub-Saharan Africa. They found that a 10% increase in remittance flows is associated with a 1% reduction in per capita poverty.

Remittances can also contribute to increased spending in the construction and real estate sectors or any other form of productive investment, which promotes job creation and increases the income of workers from families not involved in migration.

This multiplier effect can also translate into the acquisition of essential goods and services, household appliances, and medical and educational services. Most goods and services consumed are produced locally, with the exception of household appliances, which contain many imported components. This consumption increases local demand, particularly in poor or rural areas, thus boosting domestic production.

In addition, a portion of the remittances is invested in small businesses. In other words, this investment will allow migrant families to create or finance mainly very small and small businesses. In this case, the multiplier effect becomes greater and more sustainable because these funds generate regular income. It is noted that 10% of remittances, on average, are saved or invested (UNDP, 2005). They contribute to developing the activity of small businesses in the beneficiary developing countries.

Among the other positive effects of remittances on the development of the migrant's country of origin, the following impacts can be mentioned:

Remittances are a source of household income diversification. Remittances allow households to diversify their income sources and reduce their vulnerability to shocks such as drought, floods, and other natural disasters.

Remittances are also a way to improve access to education. By easing household budget constraints, remittances encourage schooling by reducing the prevalence of child labor.

Remittances represent an opportunity to strengthen the financial sector. Migrant remittances increase the rate of banking. Gupta et al. (2007) sought to determine the impact of remittances on financial development in 44 African countries between 1975 and 2004. Their findings confirm that remittances facilitate the financialization of the economy in the region.

The negative effects of remittances

According to many authors, remittances can create a disincentive to work in the migrant's country of origin. Amuedo-Dorantes & Pozo (2006) found a significant impact on labor supply: women in particular saw their labor supply decrease in the informal rural sector, proportionally to the remittances received.

However, as Acosta (2006) points out, this latter element is not necessarily a negative factor. The decrease in women's labor supply can allow mothers to devote more time to raising

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children. When it comes to the labor supply of the recipient household in general, the question of “moral hazard” arises. Many case studies show that there is a form of disincentive to work linked to the receipt of remittances. Examples of case studies are numerous (Konica & Filer, 2009 - on Albania or Gorlich, 2007 - on Moldova).

In the context of studying the negative effects of remittances on the development of the migrant's country of origin, the following question is often discussed: Are the negative effects of brain drain to some extent offset by remittances sent by migrant workers? According to the World Bank (2006), the answer to this question is yes.

Undoubtedly, skilled emigrants earn more and, *ceteris paribus*, they send more money to their country of origin. However, it is possible that skilled workers come from wealthy families and have a higher level of education, and that the incentives to send money are therefore weaker. Faini's (2006) results suggest that, overall, more skilled emigration is correlated with lower remittances.

Remittances can also produce “Dutch disease”. This term refers to the relationship between a massive influx of foreign currency and a decline in the manufacturing or agricultural sector. The hypothesis is that the increase in a country's revenue leads to an appreciation of its currency (expressed by the evolution of the exchange rate), which increases the cost of the country's exports and leads to a loss of competitiveness in the manufacturing sector as well as a deterioration in the trade balance (increase in imports and decrease in exports) (Acosta, 2007).

Some studies point in this direction. Amuedo-Dorantes & Pozo (2004) show that a 100% increase in the amount of money sent by emigrant workers would increase the real exchange rate by 22%.

Obstacles to sending remittances

There are significant obstacles to the positive contribution of remittances to development and poverty reduction. There are factors that increase the cost of remittances.

The distribution of the main remittance service providers in Europe is as follows:

Money transfer operators (MTOs) are widespread and represent 70% of remittance service providers.

In Europe, banks have a greater presence in the market than anywhere else in the world (25% of remittance service providers are banks).

Postal networks are present in every European country, but are most represented in Germany, France and Italy.

Sending remittances via OTAs costs an average of 6.9%. This average is roughly comparable to the US remittance market average of 5.9% in 2014. However, the presence of the two main operators (Money Gram International and Western Union International) in the weakly competitive environment has a significant impact on the market price, as they charge an average of over 9% for a \$200 transaction.

Banks are generally more expensive than OTAs if the transfer is based on SWIFT systems, but cheaper when the remittances come from banks in migrating countries or are made between banks belonging to the same group.

Postal financial services offered by postal networks are generally 1 to 2% cheaper than services offered by Western Union International.

Increased competition among remittance service providers will drive down prices. Unfortunately, many migrants are forced to resort to informal networks due to a lack of proper documentation. Consular identity cards, such as those issued by the Mexican government, represent one of the possible solutions.

Finally, in some countries, new methods (mobile phones, internet) have emerged for making money transfers. By increasing competition, mobile money providers are strategically positioning themselves to reduce the costs of international transfers. Better pricing therefore directly contributes to achieving the tenth United Nations Sustainable Development Goal, which aims to reduce the costs of remittances for migrants (Kita et al., 2009). The potential benefits of this objective could represent up to \$20 billion more for remittance recipients.

Conclusion

According to the World Bank, more than 250 million people live outside their country of birth and regularly send money home, providing financial security for their families and contributing to the economy of their home countries.

The fact that remittances have exceeded, over the last fewIn recent years, ODA flows have led some observers to believe that they could play a greater role in stimulating productive investment in countries of origin, and thereby fostering economic and social development.

However, remittances are not a panacea for economic development.

In conclusion, let us emphasize once again that, while remittances certainly have a role to play in the development process, they are in no way a sufficient condition, but simply an additional asset on which the authorities may eventually be able to rely.

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