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**THE IMPACT OF INTERNATIONAL MIGRATION ON THE  
ECONOMIC DEVELOPMENT OF COUNTRIES IN  
THE MEDITERRANEAN BASIN\***

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\*The views expressed in the paper do not imply the expression of any opinion on the part of the United Nations Secretariat.

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## A. INTRODUCTION

November 1995 marked the starting point of the Euro-Mediterranean Partnership (the Barcelona Process), a wide framework of political, economic and cultural cooperation between the Member States of the European Union and the Southern and Eastern Mediterranean Basin countries. The recent intergovernmental summit celebrating the 10 years anniversary of the Partnership, and the qualified comments that followed, have clearly shown the need of a stronger financial and political commitment of the EU in the region to reduce the existing economic gaps and support the process of economic reform.

Asymmetric trade liberalization and the competitive pressure that followed on the fragile production system of the Mediterranean Partner Countries (MPCs)<sup>1</sup> coupled with a limited and erratic flow of European foreign direct investments have exacerbated the causes motivating migration.

The new political development in the region with the establishment of the European Neighborhood Policy (ENP) and the bilateralisation of aid and cooperation frameworks has both reduced the scope for a regional and multilateral approach to the issue of economic cooperation and introduced a security focus on the migration phenomenon. The relationship between migration and development in the Mediterranean region becomes therefore an issue that must be increasingly dealt in a bilateral approach.

When it comes to migration and economic relationships, in the Southern shore of the Mediterranean Basin is possible to draw a demarcation line between those countries that are highly dependent on oil (Jordan, Syria, Egypt, Lebanon) in the sense that migration and trade are dependent on the fluctuations of the economies in the Arab Gulf countries and less on Europe; and countries that are more dependent on trade and aid from Europe (Morocco, Tunisia, Algeria, Turkey). Israel is a country of immigration, and migration from Palestinian Occupied Territories is a regional phenomenon, especially because the high number of refugees in Jordan and Lebanon. Even if Algeria is an oil producer country, the historical relationships with Europe place her in the second group.

Keeping this in mind, this paper will analyze the impact of migration on countries of origin by focusing on the role played by migrant workers' remittances in stimulating local economic development. Adopting a perspective combining the structuralist and developmentalist approaches, and by using the data available, the analysis will attempt to highlight the potential positive and adverse economic effects that migration has on migrant sending countries. From the outset, it is needed to underline that the limited coverage of this phenomenon in the Mediterranean Basin makes the formulation of consistent policy recommendations a thorny task and qualified conclusions will be made only when qualified data are available.

The large amount of remittances sent home by migrant workers worldwide has spurred an intense debate on their potential effects for poverty reduction, financial stability, and economic development of migrant sending countries (Ratha, 2003; World Bank, 2006; Maimbo and Ratha, 2005; Page and Adams, 2003).

Public authorities are interested in attracting hard currency, regulating and taxing money; international financial institutions such as the World Bank and the International Monetary Fund and development aid agencies alike are looking at remittances as a new development mantra. Non governmental organizations realized that immigrants associations can be potential development partners and collective remittances a source of private capital that can help supplementing their funds.

In the Euro-Mediterranean region this is not exception. MPCs have received remittances for 15 billion USD in 2004, i.e. a little 10% of the global inflow received by developing countries and about seven times European Union development grants and loans through the European Investment Bank. Even though the surge in workers remittances represents the failure of development and employment policies in migrant sending countries (de Vasconcelos, 2005), their positive effects on poverty reduction have been demonstrated (Page and Adams, 2003) while their effects on development are far from being obvious (Gallina, 2006).

Remittances are private money transfers from household to household and of little entity. Any attempt to unlock their development potential should take into account a broader set of factors that ranges from the motivation behind remittances to the reasons influencing their utilization. Support in reducing

transfer costs, develop financial instruments and develop the needed investment climate in migrant sending countries are just few of the necessary measures that both state and non-state actors together with international development agencies can and should implement. The surge of the developmentalist perspective has stimulated attention on how to harness a fraction of the remittances to develop infrastructures that can help the region develop economically (Widgren and Martin, 2002, p. 223). The literature indicates that only South Korea has managed to implement a scheme earmarking a portion of remittances for a specific development fund, while other countries such as Philippines, Pakistan, Thailand and Bangladesh failed to do it (Vertovec, 2004; Puri and Ritzema, 1999). Korea's success in obliging migrant workers to transfer 80% of their income was mainly due to the fact that workers were employed by Korean companies abroad.

However, like for other flows such as trade and investments, remittances-led aid policies have supporters and detractors depending on the points of view and the vested interests. Nevertheless, to keep monetary remittances flowing into the home communities and be utilized for productive purposes is a key area for policy makers in developing countries nowadays.

From a methodological perspective, basic data on workers' remittances and migration are either focused on case-study in specific communities or on general macro-economic impacts. Longitudinal studies are almost non-existent and even a country-to-country analysis suffers from a too general approach to the category "migrant workers" or to the category "remittances". The study by Hernandez-Coss on the Canada-Vietnam and the US-Mexico corridors (2005a and 2005b), as well as the work by Lozano-Ascencio (2004) on *latinos* in the U.S. have shown the need to address the relationship between migration and development by combining social, political and economic factors in both receiving and sending countries.

The changing nature of migration (from temporary to permanent), together with the changing destination that migration flows have chosen in the Mediterranean Basin (the Southern European countries instead of the traditional Northern European countries), and the precariousness of the working conditions of immigrants (which implies a lower level of inclusion in the host economy) are presenting a new scenario. The paper does not take into account other forms of remittances such as in-kind, social, and political remittances, although they represent an under researched area which may shed light on the dynamic of transnational communities and the contribution of "skills-rich" migrants to the development of the country of origin. Even though over the last two decades, the emigration of highly skilled professionals from North Africa has become of great concern and enterprises are starved of skilled and motivated staff (Baldwin-Edwards, 2005), one must take into account the fact that nowadays the workforce from MPCs is still composed of semi-skilled and unskilled migrant workers (Fargues, 2005, p. 19) which contribution in sending monetary remittances is higher than among groups with higher education (Faini, 2003 in Van Dalen, 2005, p. 22).

This paper is also an attempt to link remittances flow with the changing pattern of migration destination and migrants' population needs and aspirations by introducing the "migration/remittances corridor" approach. If the hypothesis of the relationship between the stages of the migratory project and the share of income remitted exists (Ghosh 2000; Collinson, 1996; Gamburd, 2000; Gallina, 2005a), then the possibility to analyze and forecast the trends in the flow of remittances in the future becomes feasible for both policy makers of the migrants' countries of origin and transfer agencies alike. This is increasingly relevant in the light of the newly established European Neighborhood Policy bilateral Action Plans.

The article is organized in five main sections. Section B highlights the theoretical arguments explaining the determinants motivating remittances and their utilization. Section C provides an overview of the relationship between migration and economic development in the Mediterranean Basin. Section D presents the "migration/remittances corridor" methodology and analyzes two specific "Euro-Mediterranean corridors", namely Germany-Turkey and Spain-Morocco. Section E draws the main conclusions and the implications for policy and future research.

## B. THE REMITTANCES - LOCAL DEVELOPMENT NEXUS

### 1. Motivation behind remittances

In the literature is possible to distinguish among four different approaches for the analysis of the determinants of remittances: the *endogenous migration approach*; the *portfolio approach*; the *co-sharing of risks and insurance approach*; the *social capital approach*. All of them focus mainly on the role of the financial and economic capital of the migrant. However, some approaches can be explained also by one or more of the other three forms of capitals as highlighted by Pierre Bourdieu (1977): *social capital* (transfer of relational networks), *cultural capital* (transfer of new cultural practices and their mix with traditional practices) and *symbolic capital* (the positive role acquired by the migrant in his/her community of origin).

#### a. *The endogenous migration approach*

In this, social relationships and financial obligations are the explanatory factors. The family is the unit of analysis and non-economic factors such as altruism and solidarity ties are used to explain the remitter behavior (Stark, 1991; Brown, 1997; Poirine, 1997). According to this approach, the motive behind remitting money home is *altruism*. Sending remittances (financial and economic capital) produces a sense of satisfaction to the migrant worker concerned with the welfare of his/her family (Solimano, 2003). This means that the utility of the migrant depends on the utility of the members of the family back home (Chami, Fullenkamp and Jahjah, 2003 and 2005). This also implies that remittances are compensatory measures that intend to help the family in periods of bad economy or bad luck and therefore countercyclical to economic booming and hence not acting as other sources of capital for economic development. For this view migrants tend to have obligations towards the left behind and want also to be seen as engaged with the home communities development, improving their social status within both the Diaspora and the community at home (symbolic capital). The variables that determinate the levels of remittances are connected with the migratory project (length and type) and with the level of inclusion in the host country. As altruism decays over distance and time (or because family re-unions) this model should imply a gradual decrease of remittances over time (van Dalen *et al.*, 2005).

#### b. *A portfolio approach*

In this, remittances are explained as an individual rational decision based on the rates of return of the transfer. Remittances are for example sent to guarantee a future reward (the inheritance). This approach does not necessarily contradict the endogenous migration approach but include a “*selfish*” dimension. According to this approach the migrant workers are in a position to invest in the home country given their relative higher wages and savings (financial capital) and also given their possibility to apply new business models acquired in the host countries (cultural capital). Provided that the country of origin investment climate is conducive s/he may yield higher return on investments. This approach avoids issues of family ties and considers remittances like other capital flows. The decision to remit depends upon rates of return of investments (differentials) in host country assets and home country assets. For example, in this approach factors such as the differences in the interest rates of deposit accounts offered in the host and in the home country banks, the possibility to obtain a premium from black market exchange rate, the return from investments in real estate in the home country, inflation rates, political and economic instability and other returns (Chami, Fullenkamp, Jahjah, 2005, p. 58) are taken into account. The family back home has a role of administrator during the migration period (if trust is high enough). Also, another motive to remit is the aspiration to inherit the wealth of the family and therefore those that have contributed more to increase the family wealth may become the most obvious candidate for receiving the inheritance in the future. However, common property problems reduce the incentive to invest toward inheritance as the number of heirs in the migrant’s household increases (de la Brière *et al.*, 2002, p. 327).

c. *A co-sharing of risks and insurance approach*

For this, migration and hence remittances are the result of a collective decision made by the family to improve its socioeconomic condition (financial-economic capital). On the one hand, remitter sends money to maintain the ties with the family and hence guaranteeing the possibility of return in case of failure of the migration project. On the other hand, the family invests the money to send the best member of the household abroad to guarantee a better future. This approach explains the motivation to remit as an insurance for which remittances to the family from the migrant worker are the premium. This approach has not the individual but the family as the unit of analysis. It can take both the form of a family contract (implicit) in which the family invests in the education and migration costs, i.e. providing a loan to the migrant that starts to pay back once settled and earning enough in the host country (Solimano, 2003). Therefore, the quicker the insertion of the migrant in the labor market, the faster the remittance flow will start. This depends upon the income level but especially on the saving capacity. It can take also the form of a co-insurance where the family sends away one of its best educated family member to diversify economic risks. The migrant will help the family and conversely the family represents a form of insurance in case the situation in the host country is not good. Remittances play the role of insurance claim, assuming that both parties respect the contract (which usually occurs more in these cases than in legally enforced contracts). Agarwal and Horowitz formulated the hypothesis that altruism or risk-sharing motivations depend also on the number of migrants in the household: given other factors stable, a higher number would reduce the altruism-based remittances but would not reduce the risk-sharing remittance (Agarwal and Horowitz, 2002). However, though the data set of their study is little, they find that per-migrant remittances are significantly and negatively related to the number of migrants in the households. According to this approach remittances should not decrease during a given (contract) period, but a sharp decline after the repayment has been completed and or when the contract 'expires' should be expected (van Dalen *et al.*, 2005).

d. *A social capital approach*

This approach considers remittances not only as a financial transfer but a complex process of negotiation within the households immersed in an intricate web of relationship between Diasporas and home country (Ramirez *et al.*, 2005). Accordingly, remittances are a household strategy and not only a selfish or altruist act. However, households are complex issues in which there are factors such as age, authority, gender and internal resources that play an important role. Also, households are not completely disconnected from the social networks to which they belong before and after migration occurred. The studies on the Comoros Islands (da Cruz *et al.*, 2004) or in Kayes (Azam and Gubert, 2004; Gubert, 2002) have shown the importance of social capital in determining the level and forms of utilization of remittances, and also the varieties of transfer mechanisms.

e. *Two transversal and yet under explored issues: gender and migrant legal status*

There are other two factors that are not yet given the appropriate position in the debate about remittances: gender and migrant legal status. Gender analysis in remittances study is not given the necessary depth and understanding, especially considering the increasing feminization of migration (48.8% women in 2000 compared to 46.6% in 1960 worldwide; and 52.4% in 2000 compared to 48.5% in 1960 in Europe). From the Mediterranean countries, very few analyses exist on gender related issues in migration studies. Southern and Eastern Mediterranean countries women are just starting to participate massively in migration flows, and therefore attention should be paid on their behavior and to their double role as both receivers in the home country and as senders if they work abroad (Ramirez *et al.*, 2005). Furthermore, according to the Women World Banking Network, banking industry is particularly dominated by male, and the banking staff perception of women's role in society supported an entrenched culture of discrimination purely based on gender (WWB, 2005).

For the analysis of the gender dimension in remittances Ramirez *et al.* (2005) suggest that the variables to be taken into account do not operate in a vacuum but are placed in a social, economic, political context rooted in patriarchy and organized around a sexual division of labor. Studies have shown that the arrival of remittances in the home village does not favor women and men equally. Newly created jobs are mainly for men while women tend to be stuck in traditional types of jobs (Vargas-Lundius, 2004). Thus, the role attributed by the host society to men and women influence the variables analyzed (Ramirez *et al.*, 2005, p. 25). Migrant women begin to value their self sufficiency and equilibrate the roles in the family. Grasmuck and Pessar study on Dominican female migrants in New York showed that after saving their earnings for several years, many of them start to question this possibility since it may imply a return to traditional cultural models that consign them to a subordinate position in the household (Grasmuck and Pessar, 1991). The expectations the home society has on the behavior of men and women affect the remittances too. In society in which women mobility is penalized by cultural models, as in the Arab countries, the only way to escape shame created by working out of the household and out of the country is to maintain the family back home (Ramirez *et al.*, 2005, p. 28; Hammouda, 2005 in P. Fargues).

Finally, of utmost relevance for the Mediterranean region is the relationship between the migrant legal status and remittances. Little evidence exists proving the relationship between irregularity of the migrant status and remittance flows. From a pilot study on Tunisian undocumented workers in Bologna, it emerged that they tend to remit a much higher percentage of their income compare to regular migrant workers (Gallina, 2005b). The attention paid by both the Mexican and the US authorities on this issue introducing measures such as the *matricula consular*, should provide an important lesson for the governments of both shores of the Mediterranean Basin in the field of migrants' social and financial inclusion.

#### *f. An attempt to synthesize*

From the interweaving of the factors motivating the remittances behavior of a migrant worker, it appears that a pattern in the remittances trajectory along the migratory project can emerge (Figure I). As in the figure, the initial phase of the migratory project (0-5 years) is characterized by altruism and co-sharing of risks, but also from irregularity of residence and working permits which limits financial inclusion and increase economic vulnerability. The flow of savings sent back home will be higher in this phase. The migrant has strong obligation towards the family and needs also to guarantee the return in case of failure of the migration project. During this early phase of the migration project the migrant worker will send most of the savings back home. Sometimes, these can be up to 60% of the income. The money will be firstly used to repay the debt contracted before the departure, to maintain the family left behind and to save for a wedding.

The longer the stay and the higher the inclusion in the host society, during a period of up to twelve years, the migrant expenditures preferences will change and gradually linked with the settling down process sometimes associated with the reunification of the family. This will reduce gradually the motivation and the possibility to remit. During the final stage of the migration process, which is characterized by return or definitive stay in the host country, studies have shown that remittances tend to decline (Garson and Tapinos, 1981; Lozano-Ascencio, 2004). The debt is paid back, the ties become looser, the family is re-unified or a new family is made in the host country, which augment the expenses and reduces the saving opportunities. In this situation, the further loosening of the ties with the home country will lead to a decay of remittances.

If instead the aim is return, at the end of the migratory project remittances increase rapidly. Usually this is a "dream in the luggage" which never materializes, but recent studies on investments in real-estate in Morocco, using the value-added of the construction sector as proxy, have shown that "attachment" to the home country can be very strong (Bougha-Hagbe, 2004). The location decision of the investment (strongly influenced by children since they rather prefer a summer house in the coast than a villa in the village of origin) is an important to take into account if any assessment of the regional inequality creating

effects of remittances should be analyzed, since these kinds of investments tend to divert the employment opportunity in the already rich and well endowed areas.

The remittances trajectories curve shows the importance played by the socio-anthropological and economic factors explaining the motivation of the remitter. The design of policies aiming to enhance the developmental effect of remittances, but also policies that have the aim of securing the remittances flows in international financial markets, should thus increasingly take these factors into account to avoid a “time inconsistency” between flows and policies (Triulzi and Montalbano, 2001), i.e. a bell-shaped development aid curve combined with a U-shaped remittances flow curve.

With these stipulations, we turn to the analysis of the different utilization of remittances and how this may have positive or adverse effects on local economic development.

## 2. Remittances utilization

The literature is abundant of case studies on the microeconomic impacts of remittances and their individual and collective practices (Massey and others, 1993; Taylor 1999; Orozco 2003 for a review). However, while remittances are often analyzed for their positive contribution to the balance of payments by providing much-needed foreign exchange at the national level, the wider developmental effects of remittances are far from clear. In the Mediterranean region, countries that have attracted large interest are Morocco and Egypt, while little information is available on Turkey, Tunisia, Syria, Jordan, Lebanon and Algeria, despite some of these countries are traditionally exporting labor and receiving important inflows of remittances.

There is generally a strong consensus in the literature on the use of remittances (Figure II). Remittances are used for the most part on food, clothing, and health care, but also on housing construction, buying land and cattle, consumer goods (Martin S., 2001), conspicuous purchases – such as gold and precious stones (Nassar, 2005), and also for enabling a raise in the social status of the family within the community.

Thus, the impact of remittances on local development is strongly linked to the type of consumption that they stimulate. If remittances increase the import of foreign goods, this will not stimulate the local economy and a very limited multiplier effect will take place. Opposite, if remittances increase the demand for domestic goods, then domestic production will increase and new job opportunities will be created. A typical example is remittances sent to rural areas where they will be mainly invested in farm production, but also manufacturing and services activities, therefore benefiting the whole economy (Stalker, 2000).

When looking at highly remittances dependent small countries, Vincent da Cruz *et al.* showed that remittances flows enabled domestic residents to increase consumption of imported goods and services well in excess of their production of goods and services for export, while not generating an excessive current account deficit (da Cruz *et al.*, 2004, p. 8). Similarly, better housing, education and the purchase of land can produce an impact on the households' local conditions by substantially increasing social and human capital (Nyberg Sørensen *et al.* 2003). Other studies argue that unlike development aid, remittances are spent directly by the families of migrants and in this respect they are a very efficient way to raise the income of people in poor countries (O'Neil 2003).

Households that receive remittances show tangible higher standards of living. Remittances cover expenditures in health, education and are often used for improving the existing property. But often, in the villages and towns of strong emigration we found what the American economist John K. Galbraith once dubbed a situation of “private affluence and public squalor”, i.e. lack of paved roads and public services among three-floor fully restored houses.

Remittances role for poverty alleviation is undisputed, but analysts continue to argue that remittance income received is rarely used for ‘productive purposes’ but is rather spent on debt maintenance and everyday expenses creating inflationary pressure on the local economy (Newland 2003). Other scholars claim that investments by migrants are fundamental to the vitality of the receiving countries (Guarnizo and



Smith, 1998) including increased housing activities can have significant spillover effects on the local production system.

Glytsos (1993) has shown that in Greece 4% of remittances was invested in machinery, another 4% in small shops, 63% on consumption, 22% in housing and 7% on purchase of land. This inflow of capital had an average multiplier effect of 1.7, and varying according to industries: higher in low tech labor intensive industries (apparel, footwear, leather, electrical machinery industries) and lower in services. Studies on Mexico show that between 6 and 7% of remittances are used in productive investments (Orozco, 2000).

It can be estimated that only a little share of the remitted money is used for productive investments, about 5-7% of the total. However, although small, these amounts must not be neglected and their untapped potential should not be underestimated. If 6% of formal remittances plus another 6% of estimated informal flows is used for productive investments then at least an annual \$15-20 billion are invested in micro and small enterprises in developing countries. In the Mediterranean region this estimate would imply that an annual sum between \$1.5 and \$2.1 billion is utilized for small scale enterprises development. Remittances may not be a cause of celebration for the local economy, but neither are they the cause of underdevelopment (de Vasconcelos, 2005). Furthermore, investing remittances in productive activities does not occur overnight where basic conditions for investments are lacking. The use of remittances for productive investments depends upon the context and on the opportunity for small-scale investments and the social and financial capital needed for a new business (Pastor and Rogers 1985; Martin P., 1991). Similar conclusions are reached in the Mediterranean countries (Abdel-Fadil, 2003; Lazaar, 1996; Haas, 2006; Gallina, 2006 and 2005a).

Lack of infrastructures, lack of access to credit and lack of a developed market can play a decisive role in the decision of investing remittances. An analysis on more than 6000 micro enterprises in 44 urban areas of Mexico illustrates that remittances provided more than a quarter of the badly needed capital for the initial investments. Those entrepreneurs that have access to migrants' networks in the U.S. have higher attitude to invest (Woodruff and Zenteno, 2004). These results are much larger than previous community-level surveys and also show that the impact of migration spread well beyond the rural areas from which migrants traditionally come. Remittances help overcome the capital market imperfections present in many remittances recipient countries which prevent low income entrepreneurs from getting loans and invest productively.

Given that the potential remittances represent for implementing development and productive projects is very large, the 'missing link' between these capital flows and local economic development need to be urgently addressed (Gallina, 2006). In fact, it may be true that remittances do not produce optimal economic outcomes in recipient countries but neither do other flows of money if the institutions are weak and the economic incentives are poor (De Vasconcelos, 2005). Even the best equipped investors often avoid projects in developing countries, therefore is remarkable if a little share of remittances are invested by migrants and their households for productive purposes despite the structural obstacles. However, it remains difficult to imagine that collective initiatives of migrant workers can take the financing of substantial investments in big infrastructures such as highways, bridges, dams, and electricity grids. These continue to remain widely within the scope of large international development projects or government intervention.

What remittances can actually contribute in development terms is the increase of human capital. Improvements in education, health and habitat of the family members left behind, together with a possible transfer of know-how and competences upon temporary and permanent returns, positively impact the communities' development potential. However, this is a long term perspective, while in the short term the migration flows are compensated only by monetary transfer, and does not consider that further migration [following the increase in the pull factors due to lack of opportunities to fill the ambitions of a more educated youth thanks to remittances] will drain again the local economy of precious human capital. The predictions of development economists on both productive and human capital accumulation processes in areas of strong emigration are therefore far from being obvious.

## **C. MIGRATION, REMITTANCES AND DEVELOPMENT IN THE MEDITERRANEAN BASIN**

The MPCs represent an area of major emigration. A little under half of all such first generation emigrants are directed towards the European Union (Fargues P., 2005, p. 11). However, the exact figure is difficult to define, both because the differences in statistics in sending and destination countries and also for the presence of an uncertain number of undocumented migrant workers. According to the origin countries statistics, 7 out of 10 MPCs (Israel, Jordan, Syria do not provide statistics of their national abroad by country of residence) record little more than 8 million residents in the EU, while the EU member states statistics report the presence of about 5.8 million migrants of MPCs origin (Fargues, 2005, p. 11).

### *1. Migration and labor market needs in the region*

To the 5.8 million first generation MPCs migrants (born-abroad), if the EU statistics are taken, it should be added the number of children born in host countries (so-called second generation). Using an average estimate of the ratio born abroad/foreigner in the EU countries in which this statistics is available the total number of persons with origins in the MPCs would total about 10.6 million (Fargues, 2005, p. 13).

EU statistics show that Germany and France are the two major destination countries, with about 2 million MPCs migrants each, followed by the Netherlands, Italy and Spain each hosting between 350 to 400 thousands migrants originating from MPCs. Spain and Italy are new countries of destination.

Within the Euro-Mediterranean migration corridor, few countries show a high concentration of migrants coming from a specific Mediterranean country. Taking into account official EU statistics, Germany hosts 72% of Turkish immigrants in the EU; France is home for 90% of Algerians, 72% of Tunisians and 45% of Moroccans; Spain and Italy hosts respectively 20 and 13% of Moroccans, and Italy receives 16% of the Tunisians migrants living in the EU.

One of the striking features of this situation is that migration to Spain and Italy has occurred within the last decade at an accelerated pace and the uncertain but high number of undocumented workers would raise the current figures dramatically.

Another important element is the changing type of labor migration in the region. New professional profiles with higher levels of education are migrating as result of lack of job opportunities in the home country. They find occupation mainly in countries with a more flexible labor market and migration policy (UK, USA and Canada and less in Spain and Italy). The increase in the level of educational attainments among young people in MPCs, compared with the previous generations, will increase the overall educational level of future migrants, while at the same increase the migration-related loss of investments in education (brain-drain).

Yet today, more than half of the migrant workers from Maghreb countries and Turkey is composed of semi-skilled or unskilled workers finding occupation in construction, industry, agriculture and the service sector, namely the occupations that no longer attract the European labor force (Fargues, 2005, p. 19), and are still among the more vulnerable groups to unemployment (Garson, 2005).

Given the dramatic situation of the labor market in the MPCs, migration flows are only expected to grow. The proportion of the population under fifteen will shrink in the next 10-15 years; consequently the proportion of the population of working age will grow more quickly than the total population. This entails migration and a dramatic need for job creation. Over the next fifteen years, the MPCs will need to create about 90 millions jobs just to maintain the present hardly tolerable ratio of unemployment and under-employment (Mediterranean Institute, 2005; Gallina, 2006).

Besides the traditional push factors, other factors can explain migration in the region. The economic gap between the EU and the MPCs is growing steadily despite the EU development assistance and the structural adjustment plans carried out in most of the countries of the Basin. Since the early nineties the gap in GDP per capita has increased between the EU countries and the Mediterranean countries while has

decreased between the EU and the ten new member states (figure III). In 2004, the EU 25 member states average GDP per capita of about \$28,000 was between 27 times that of the Palestinian Occupied Territories and 5 times that of Lebanon (figure IV).

## *2. Remittances and other financial flows*

In the Euro-Mediterranean region the aggregated data confirm the economic importance of remittances for the migrant sending countries. The emergence of the new Mediterranean migration model should then be taken into account in the analysis. Changing labor migration, stricter migration policies and an unstable performance of MPCs economies are determining factors in shaping the future trends of remittances and their type of utilization. The future role of migrants as agents of development is to be viewed in this perspective.

Remittances flow to this region is two to three times higher than FDIs flows and peaking at \$15 billions they were about four times larger than total overseas development aid in 2004. Both remittances and FDIs peak in 2001 (figure V). The peak in remittances can be explained by the appreciation of the euro against the USD in 2001, which has pushed many people to send money home, or by the need to repatriate money that otherwise should have been declared to banks upon the conversion. However, when corrected for the exchange rate the peak disappears and a stable, slightly increasing flow of remittances remains. After exchange rate correction the FDIs flow is still fluctuating and the peak in 2001 is still present. An explanation for this trend can be the privatization process in telecom and other utilities in Morocco and Turkey (EIB, 2006). Nonetheless, countries such as Egypt, Jordan and Turkey have experienced a “boom and bust” cycle, deriving from volatility in the revenue coming from oil prices and the changing migration opportunity in the Persian Gulf. In the case of Turkey, the economic and financial instability have contributed to the volatility of remittances (Sayan, 2004).

In Lebanon and Jordan remittances as share of GDP are larger compared to the other MPCs, but only a small portion is coming from Europe (5% or less) (table 1). For Morocco and Tunisia remittances are an important part of their GDP and most of the remittances come from Europe (85–90%). It must be stressed that formal flows of remittances are only the tip of the iceberg. It is estimated that informal remittances, in the Mediterranean region can double the official figures (EIB, 2006).

The importance of remittances in the Mediterranean Basin countries can also be viewed comparing it with other financial flows. During the first five years of implementation of the Euro-Mediterranean Partnership the EU has allocated 3.4 billions euros in development assistance (ca. 680 million euros per year) and the European Investment Bank (EIB) another 4.8 billion for loans (about 900 million euros per year). In the second period, 2000-2006, the Mediterranean development funds (MEDA Program) increased to 5.3 billion and the EIB 6.4 billions in loans and 1 billion for transnational projects. European FDIs were generally scarce compared with other regions in the world and mainly linked to the acquisition of existing companies (privatizations). During the last five years, on average EU aid transfers were equivalent to about €8 per capita, while FDIs were about €22 per capita and remittances €57 per capita (figure VI).

In the new seven-year budgetary period 2007-2013 the EU has allocated through the European Neighborhood Policy Instrument an amount of 14.9 billion euros, i.e. 2.1 billion a year to be shared among the ten MPCs and the seven new neighbor countries, i.e. \$5.3 per capita.<sup>2</sup>

## *3. Development & Remittances in the Mediterranean: Capital Rich Underdevelopment*

The role of international migration in alleviating the local unemployment rates and the role of remittances in alleviating households from poverty are undisputed. According to the study by Page and Adams on a panel of 74 countries, a 10% increase in the share of remittances in a country GDP will contribute to a

decline of 1.6% of the population living under the international poverty line of \$1 per day. Similarly, the study found that a 10% increase of the migrant population would lead to a decline of 1.9% of people living under the international poverty line (Page and Adams, 2003, pp. 20-22). If this conclusion can be applied to the Mediterranean countries, then remittances and migration would be a blessing given that many countries in the region still have between a tenth and a fifth of the population living below the national poverty line.

In the Mediterranean countries migration has been used as a development strategy for many years (Nyberg Sørensen, 2005). The accelerated rate of migration from MPCs has surely helped overcoming some of the contingent difficulties in the labor market and in the migrants' households, but its correlation with an improvement in the development of the countries is an unqualified one.

Furthermore, during the last decade, the economies of the Mediterranean partner countries have faced several difficulties due to the process of liberalization of trade in manufacturing sector, especially in textile and clothing, which can have outweighed the benefits from migration (Federico Caffè Centre, 2005). The Southern Mediterranean Basin manufacturing sector is still largely characterized by micro and family enterprises (95% of the total), a large informal sector (sometimes accounting for about 30% of the GDP), and with about half of the population on agriculture. The GDP growth rate up and downs reflect the dependency from oil prices and the agricultural performance.

The effects of remittances can be indirectly seen from the performance in the UNDP Human development indicators (HDI). In the MPCs, the HDI have registered a positive trend in the last 25 years. The index shows a constant growth between 1 to 3 percent annually. Nonetheless, MPCs are found in the medium lower end of the HDI rank, between nr. 81 (Lebanon) and nr.124 (Morocco). Other indicators such as rate of illiteracy and access to water have registered over the region a positive improvement in the last decade. Anyhow, even if caution is needed in making a direct connection of the performances in the indicators of human development with the migratory phenomenon, the fact that remittances are mainly utilized for clothing, food, school, medical and religious expenses may lead to this conclusion.

Other studies have also shown that contrary to popular belief, migrant households have a higher propensity to allocate expenditure to investments such as agricultural equipment, vehicles, commercial enterprises (stores) and especially land (Adams, 1991 quoted in Nassar, 2005, p. 21). Similar findings, based on recent data collected among Egyptian residents in France show an interesting development in Egypt: the investment in reclaimed agricultural land in the zone of Beheira (160 km North West of Cairo) and the transformation of the land in commercial farming. People from Mit Badr living in France are investing largely in these farms or in a house in Cairo or in the Northern Coast for their children (Saad, 2005, p. 16) as a project for holidays.

The developmentalist perspective tends to hide the negative impact of remittances on the local economies. For example, remittances tend to substitute leisure with labor, spur inflationary pressures and increase inequality at the community and region levels. In Tunisia emigration areas as Msaken have experienced a steep raise on the real estate sector prices, increased the concentration of land tenure in the hands of few households connected with migration and increased unemployment (Fletcher, 1999). According to Saad (2005) a similar phenomenon has occurred in the village of Mit Badr Halawa in Egypt, area of emigration towards France, or in the town of Nador in the North of Morocco where growth of land prices far outstrips that of surrounding provinces (Vermeren, 2001 in Collyer, 2004, p. 35). In the oasis of Todgha the change in social structures and a process of emancipation of subordinated groups have led to the abandonment of traditional activities (Haas, 2006). The distortions created by remittances can be seen also at the regional and urban/rural levels. Real estate investments, the primary preference of investments among migrants, are concentrated in well endowed areas that can offer some attractions during the summer holidays and less in the areas of origin which are deprived for a second time of their resources (Institute de la Méditerranée, 2004; Bougha-Hagbe, 2004; Gallina, 2006; Collyer, 2004).

Mediterranean countries are characterized by a situation in which many rural emigration areas are rich in capital but with such low level of infrastructure and markets that is unable to unlock the potential multiplier effect of remittances. The structural limits, or the lack of entrepreneurial skills, hinder an efficient utilization of the capital available, but examples of improvement in agricultural methods and of

creation of cooperative and small manufacturing firms exist across the region, although they are very dependent upon the specific context and the individuals that have taken such initiatives.

Therefore, to stimulate and device measure that can enhance the utilization of remittances for development purposes is necessary to combine the knowledge of the local context, its migration history and institutional framework, with the knowledge on the behaviors, motivations and dynamic of the actual and potential remitters. The new migration scenario in the region, the new directions that migration is taking and the new cooperation policy framework between the EU member states and its neighbors based on bilateral Action Plans requires new tools for analyzing how to improve efficiency of workers' remittances such as that proposed by the migration/remittances corridor approach.

In the following section, an attempt to apply the remittance-corridor methodological approach is carried out in two different corridors: Spain-Morocco and Germany-Turkey.

#### **D. THE REMITTANCES CORRIDOR APPROACH**

The introduction of the concept of remittances corridor by the World Bank (Herandez Coss, 2005 and 2005b) has shown the importance of a country-to-country analysis for both theory and policy. The application to the EU-Mediterranean region of the corridor approach can help to overcome the substantial differences in coverage and circumstances that complicate the interpretation of the surveys on remittances available for many countries, while at the same time contributing to an innovative methodology.

The remittances-corridor approach is a methodology that attempts to explain the relationship between the remittances flow (frequency and amount) with a set of variables that ranges from the socio-economic characteristics of the migrant groups in the destination country, the families left-behind, the socio-economic and political conditions in the remittances receiving areas, and the macroeconomic situation in both sending and receiving countries (table 2).

Unfortunately, at present the lack of comprehensive surveys and dataset in Europe, the main destination region for most of the MPCs migrant workers, makes the task of using this methodology quite complex. In the Mediterranean countries, but also elsewhere, the analysis is so far based on anecdotal evidences from case studies or surveys in the migrants sending countries, but it lacks the needed pairing with the socio-economic dynamics of the migrant workers' groups in destination countries. To optimize remittances in capital-rich but underdeveloped regions is necessary to have a clear picture on the direction, use and intensity of the remittances flows.

The importance given to the socio-economic factors and the phase of the migratory project is due to the presence of parallel and diversified migratory strategies and processes. Migration, as development, is a multidimensional phenomenon. The emergence of Spain and Italy on the Mediterranean scenario as new immigration countries, the tightening of migration policies, the tendency to migrate to stay in the host country, and the tendency of migrants to establish migratory chains from the area of provenience to the area of destination are just some of the factors that demand for a new methodological and analytical approach. In the EU, most MPC migrants live in Germany, France, the Netherlands, Spain and Italy, with Turkey, Algeria, Tunisia and Morocco as the most important countries of origin. Within each of these countries it is possible to identify the corridors within the corridors, i.e. migrants from certain areas tend to concentrate in areas where the same ethnic or kinfolk groups are found.

For example, in the France-Algeria corridor immigrants are concentrated in Ile-de-France, Provence-Alpes-Cotes d'Azur and Nord-Pas de Calais. Out of 200 thousands Tunisians living in France 43% reside in Ile-de-France. Two other regions that have high concentration of Tunisian population in France are Provence-Alpes-Cotes d'Azur with 25% and Rhones-Alpes with 14%. In the Spain-Morocco corridor the regions with the highest concentration of Moroccans include Catalonia, Madrid, Andalusia and Murcia. In the Italy-Egypt corridor Egyptian immigrants are concentrated in Lombardy (in North-West Italy) and Lazio (in Central Italy). In Germany, the majority of immigrants are concentrated in the same federal states. The absolute majority lives in Nordrhein-Westfalen which has the largest population of Turkish, Lebanese, Jordanian, and Syrian immigrants. Second highest concentration of Syrians and Lebanese

immigrants is observed in Niedersachsen. Baden-Württemberg has also high numbers of Turks and Jordanians. Out of 1.7 million Turks in Germany one third of them (590,666) live in Nordrhein-Westfalen. Dominating presence of Turkish immigrants is observed also in the following federal states: Baden-Württemberg (18%), Bayern (13%), Hessen (11%), Berlin (7%) and Niedersachsen (6%). There are 42 thousand Lebanese immigrants in Germany. Lebanese are mainly concentrated in three areas: Nordrhein-Westfalen with 30% and in Berlin and Niedersachsen with 19% in each of them.

The number of migrants in an EU country correlates with the remittance flows to the home country. The top-5 remittance flows represents approximately 60% of all remittances sent from the EU to the MPCs (EIB, 2006). Table 3 presents the flows registered by the European Central Banks, which does not include the remittances sent through informal channels.

Two of these corridors, i.e. an old one (Germany-Turkey) and a new one (Spain-Morocco) will be analyzed in the following section. The analysis is based on the data available on remittances, aid and investments trends, the characteristics of migrants, the remittances transfer mechanisms and the utilization of remittances for development purposes in selected areas.

### *1. The Germany-Turkey Corridor*

The Germany-Turkey corridor is one of the most important corridors in the Mediterranean region. Not only is the remittance flow large, also most of the Turkish migrants live in Europe, with the largest concentration in Germany. The large migration flows from Turkey to Germany through the guest workers schemes are dated back to the early 1960s, although consistent migration flows can be traced back to early decades of the XX century.

The heydays of the Turkish emigration were in the 1960s and 1970s, when Turks from the poor rural areas moved to Europe to be employed as 'guest-workers'. Although guest-workers (were) expected to return to their home country, most stayed and reunited with their families in the host country. The majority of these migrant families and their descendants (now 3<sup>rd</sup> or 4<sup>th</sup> generation) have now acquired German nationality. This process of naturalization was facilitated by the Turkish authorities who allowed German citizens of Turkish origin to obtain a Turkish passport without the obligation for military service in Turkey when they were 18 years old.

The maturity of this corridor can illustrate important elements to be taken into account when looking at the newest corridors. The Turkish government and the Turkish financial sector have taken an active approach towards migrants, resulting in some practices that may be good examples for the other corridors. Remarkable are the efficient remittance services offered by the Turkish banks in Germany and the securitization of remittance flows.

#### *a. Turkish migrants in Germany*

According to Icduygu reliable Turkish data on migration flows do not exist (Icduygu, 2005a). The data are available from reports and statistics from receiving countries (Fargues, 2005, p. 329). Around 80% of the four million Turkish migrants live in Europe, with the largest concentration in Germany. It is estimated that by the mid-1990s nearly 100,000 emigrants has left Turkey annually towards location where family members where living, for long visits (up to three months), long-term residence permits or for family reunification (Icduygu in Fargues, 2005, p. 329-330). In Germany, Turkish migrants amount to 24% of the total migrant community and 2% of the total population. Within Germany about a third lives in Nordrhein-Westfalen, another third in the South of Germany (Bayern and Hessen) and some 320,000 in Baden-Württemberg.

The family reunification movement declined substantially in the 1990s and it is expected that the overall annual migration flow from Turkey will decline by half in the coming years (Icduygu in Fargues, 2005, p.330). The Turkish community in Germany decreased from 1.9 million in 2001 to around 1.8 million in 2003 mainly due to naturalization and return migration.

In the light of these estimates, the number of potential remitters is decreasing. Most families are reunited in the host country and the ties with the family left behind are weakening. In addition, one should take into account that the attachment of the 3<sup>rd</sup> and 4<sup>th</sup> generation Turks in Germany to their country of origin is not as strong as the attachment of the 1<sup>st</sup> and 2<sup>nd</sup> generation.

*b. Remittances flow from Germany to Turkey*

The inflow of foreign currency has been of great importance to Turkey since the late 1960s. Over the period 1960 till 2000 the remittance flow has been volatile, following the economic developments (Sayan, 2004). Following the German Central Bank remittances were peaking in 1998 to about 5.3 billion USD and then declined constantly to reach 804 million USD in 2004 a decline of 85%. Thus, contrary to a general understanding, remittance flows to Turkey were not countercyclical, but rather followed the trend in Germany's GDP. This may lead to the conclusion that remittances by Turkish immigrants groups in Germany are motivated by portfolio motives and less by altruistic or co-insurance reasons. According to these statistics per capita remittances from Germany to Turkey have decreased from 632 euros in 2002 to 556 in 2003 and 488 in 2004.

The decrease of the number of Turkish migrants in Germany from 1.9 million in 2001 to less than 1.8 million in 2003 provides only little explanation for the dramatic decline of the remittance flows. Of more importance was the difficulties faced by the banking sector and also a modification of calculation method in 2003. Because of this modification a large portion of inflows are now included in the Balance of Payment (BoP) under 'tourism income' instead of under 'workers' remittances'. In the BoP of 2004, workers' remittances have declined, while tourism income has increased from € 8,6 billion to € 11,8 billion. Assuming that remittances have declined annually by 10% since 2000 (the figures of the Bundesbank show a decline of 26% during 2000-2004) and neglecting the modifications in the calculation introduced by the Central Bank of Turkey then the total remittances received by Turkey in 2004 would amount € 3.3 billion (EIB, 2006).

*c. Characteristics of the Germany-Turkey corridor transfer mechanisms*

Notable for the Germany-Turkey corridor is the strong presence of Turkish banks in Germany (Köksal and Liebig, 2005). For decennia the Turkish commercial banks have been actively approaching Turkish residents abroad through their overseas branches.<sup>3</sup> Over the years the costs for fund transfers have been kept relatively low, as the workers' remittances represented an important source of foreign currency. Nowadays, Turkish banks are able to provide their services at low costs due to scale economies. However, low cost is not the only attractive feature. Köksal and Liebig (2005) point out that the Turkish banks also provide a more rapid service compared to other channels. At the moment the Turkish banks in Germany have started to offer new products -such as Turkey-related investment funds- targeting the migrant population.

German banks only have a minor share of the remittances market. German banks willing to enter the remittance market either have to find a correspondent bank in Turkey or they have to set up an own branch in Turkey. Also post offices and MTOs only have a minor share of the remittances market in this corridor, although Western Union services are offered by most banks in Turkey and the 3.200 branches of the Turkish post office. Money Gram is offered by Koc Bank and Kuveyt Türk (EIB, 2006).

Also remarkable is the low share of the informal channels in this corridor. The usage of the Turkish banks for fund transfer is so attractive, that other channels have no added value. The Turkish banks are not only attractive because of the efficient operations (low cost, high speed), but also because of the incentives offered by the Central Bank of Turkey (EIB, 2006).

In 1978 regulations were introduced that allowed Turkish banks to offer incentives on the savings of remittances in Turkish banks, such as special services and premium bank accounts in the Central Bank. Today, the Central Bank offers two types of foreign currency accounts to migrants: a 'foreign currency deposit' and a 'Super FX account', paying higher interest rates than the commercial banks. Since April

2002 foreign currency (Euro or USD) deposit accounts offer a premium interest for long time deposits of over one year (Aydas *et al.*, 2001, p.10). The Turkish banks have also experimented with preferential currency exchange rates for remittances. In the 1960s these special rates were introduced, in 1970 abandoned and resumed again in 1979. There is no information on the success of this incentive, but the reintroduction suggests that the two-tier exchange rate positively influences remittance flows. Turkish banks in Germany are now starting to offer new products -such as Turkey-related investment funds-targeting the migrant population.

Akbank has implemented a system of remittances securitization, named Akbank Remittances Trust Securitization (ARTS). Both Moody's and Standard and Poor's rated ARTS (Moody's Investors Service, Pre Sale Report, Akbank remittance Trust Securitization Limited, 3 June 2005). The bonds are backed by existing and future hard currency denominated transfers, including workers' remittances. The issuance of remittance bonds is particular popular in Latin America, where 38 bonds have been issued in Brazil, Mexico and El Salvador. The bonds can increase the development impact of remittances if the proceeds are invested in the development of migrant regions. Securitization may result in enhanced credit ratings for the issuer (EIB, 2006).

#### *d. Characteristics of the utilization of remittances in Turkey*

Since the 1960s the Turkish government has tried various incentive schemes to encourage the productive usage of remittances. In 1976 the DESIYAB (State Bank for Industry and Migrant Investment) was established with the objective to channel workers' remittances into productive investments. One of the schemes the bank supported was the "migrant multi-partner enterprise". In order to get financial, recruitment or training support, companies had to be founded by Turkish residents abroad or returned migrants. The migrant had to invest at least 50% of the capital needed for the realization of the project and had to take up a managerial role; if the investment concerned an existing enterprise, migrants must own at least 30% of the capital (Köksal and Liebig, 2005, p. 16). About 600 cooperatives, village development cooperatives and companies have been founded through this scheme. The results were poor amongst others because of a weak entrepreneurial sense (Koc and Onan, 2004), the severe crisis of the period 1977-1980, and poor management (Abadan-Unat, 1986).

Another incentive scheme was the "priority development towns" in East and South-East Anatolia initiated by the State Planning Organization. Migrants investing in these cities received financial incentives. However, the number of contributions was limited and the expected boost of investments was not achieved. In the 1970s, Turkey also agreed with the German government to make funds available for those wishing to return and open a small business in Turkey, provided that the migrant participated in training programs in both Germany and Turkey. However, these programs of reintegration promoted by the host nations were too complicated and costly and not attractive enough to encourage migrant participation (Martin P., 1991). Another support measure was a special import privilege for durable consumer goods and machinery. Returning migrants could purchase durable consumer goods in special tax free shops within six months after their return. There is no information on the effects of this measure.

In 1995, the government created the "pink card" for migrants that gave up their Turkish citizenship but wanted to preserve their right to buy and inherit land in Turkey (Martin P. *et al.*, 2002, p. 125). The "pink card" also discharged Turks from the obligation to fulfill their military service before being allowed to give up their Turkish citizenship.

Despite the large population living outside the country recent studies on the impact of remittances in the Turkish economy do not abound (Köksal and Liebig, 2005). The survey quoted by van Dalen *et al.* (2005) shows that in a sample of 1773 interviewed households the median value of remittances received in the 12 months previous to the survey (1996) was \$401. Apparently, the relatively low amount is due to the economic crises that hit Turkey during the period 1994-1997. According to this survey, most of the money were used to finance the daily costs of living, such as food, clothing, rent, etc. (van Dalen *et al.*, 2005, p. 15). The share of remittances used for productive investments is low. If any, they are mostly in the form of small services or manufacturing firms and with little multiplier effect (Icduygu, 1998 in Koc and Onan,



2004). The study by Barisik *et al.* (1990 in Koc and Onan, 2004) reported that about a fifth of the transfer was used for personal consumption, while about 30% in improving the housing conditions.

The 1996 Turkish International Migration Survey also stated that about 12% of the households are beneficiaries of some kind of remittances and that the remittances are used for both consumption and investment (Koc and Onan, 2004). On average 80% is used to improve the household's standard of living, 7% to pay medical bills, 4% to cover the costs of marriage and the remaining 3% is used to buy land or a house (Koc and Onan, 2004).

One of the reasons for this lack of productive investments is that many regions, mainly rural, from which migrants originate, are capital-rich but development-poor as the infrastructures (electricity, water, telecommunications, health systems, schools) enabling investments are lacking. If remittances are used for productive purposes, it is for the purchase of land and housing with an expected low multiplier effect. It should be noted, however, that results may vary per region: households in regions with lower income per capita spend more on daily expenses than those in richer regions, suggesting that remittances have a stronger effect in alleviating poverty than stimulate development. Furthermore, households receiving remittances are found to be better off than those without a member of the family abroad remitting money (Koc and Onan, 2004).

#### *e. Preliminary considerations on the Germany-Turkey corridor*

The German GDP per capita is above 30,000 USD in 2005, almost four times the Turkish. Despite the positive signs of recovery of the economy, the gap with Germany has increased in the last four years and the Turkey GDP is now nine times smaller than that of Germany. The high debt burden, high interest rates and lack of confidence in the investment climate prevented significant level of investments. Turkish unemployment is still high at 2.5 million unemployed and 1.1 million underemployed out of an economic active population of 21 million (Icduygu in Fargues, 2005, p.328).

The Turkish migrant community is one of the largest migrant groups in Europe. Over the last eight years remittance flows show a steadily declining trend, although the decline is less than the figures in the BoP of the Central Bank of Turkey suggests. It can be assumed that the decline is caused by family reunification (less family to care for in the home country); the fact that the number of new single migrants is declining and because younger generation migrants feel less attached to their country of origin.

Over the years the flows have been erratic and cyclical, i.e. cyclical to the economic developments in Turkey and also with those in Germany. The macroeconomic importance of remittances for Turkey is relatively small compared to the other MPCs, only 1-2% of GDP. Compared to the other MPCs the efficiency of remittances through the Turkish banks in Germany is excellent: relatively cheap and fast. This efficiency has contributed to the lower use of other channels (MTOs and informal).

The large flow of remittances through the banking channel allowed for securitization, thus increasing the potential developmental impact of remittances (if financial resources are invested in migrant regions). Households use the remittances received mainly for consumption. There is little evidence of utilization for productive purposes and therefore there is large scope for savings mobilization in development projects learning from previous attempts. The lack of infrastructure in the rural area's, from where many migrants originate, is one of the main causes hampering entrepreneurship and economic development.

## *2. The Spain-Morocco Corridor*

The Moroccans constitute, after the Turks, the second largest migrant community in the EU with 2.6 million people. Traditionally, and still until date, little half of Moroccan migrants in the EU live in France. However, as both the migrant population in Spain and the remittance flows from Spain to Morocco are growing fast, the corridor Spain-Morocco is chosen as example of a new "migration/remittances corridor".

Similarly than in Turkey, in the early 1960s migration flows from Morocco were administrated through recruitment agreements with receiving countries (West Germany, France, Belgium, and the

Netherlands). Migration was mainly directed towards France (de Haas, 2005). However, administrative difficulties, corruption and long waiting lists pushed migrants to adopt a more spontaneous approach and migrate as tourist with the help of family and relatives (de Haas, 2005). Following restrictive immigration policies in Europe and political turmoil in Morocco in the early 1970s, migrants opted for family reunification (instead of return), family formation with Moroccans living in Europe (preferably kin from the same region of origin) and Europeans, and travels to countries (such as Spain and Italy) where visa was not requested until 1990-91. Then, they overstay and become undocumented migrants. The large informal economy of Spain and Italy, the high demand for seasonal workers during the harvest season, as well as a long coast line which makes border controls difficult, has contributed to attract migrants from Morocco. In 1980, there were about 20,000 Moroccans in Spain, 65,000 in 1993 and 423,000 in 2004, without considering the undocumented workers.

*a. Moroccans migrants in Spain*

Around 85% of the total Moroccan migrant population worldwide has settled in Europe, a group of over two million and 600 thousands people in 2004. Concentrations of Moroccans can be found in France (30%), Spain (25%-30%) and the Netherlands (20%). France has been the historical destination, but the growth rate of the Moroccan community in Spain may indicate that by 2006/2007 it will surpass the size of the community in France.

The majority of Moroccans in Spain live in Catalonia (mainly Barcelona and Girona), with smaller groups in Madrid and Andalusia. At the municipal level Moroccan immigrants dominate in Barcelona (94,047), Madrid (60,684), Murcia (34,468) and Girona (23,719). Moroccans into Spain originates mainly from the Northern Rif (De Mas 1990; López García 1999 in de Haas, 2005) while from the Southern part of the country the main destination was and still remain France. The geography of migration is also changing with emerging regions such as the Centre raising as new emigration areas.

Whereas the Moroccan community in France now includes 2<sup>nd</sup> and 3<sup>rd</sup> generations, the Moroccans in Spain are the first generation: most of them are single young male and with a higher level of education compared to their predecessors in France. It should be noted that there is a large population of undocumented Moroccan migrants in Spain, but no official data on their numbers are available. From the perspective of remittances it is an important group and it is likely that they use most of all informal channels for their remittances.

*b. Remittances flow from Spain to Morocco*

Emigration from Morocco and the resulting remittance flows are of high importance for the Moroccan economy. The foreign exchange receipts from remittances surpass those from the phosphate and the tourism industries in the balance of payments (Gallina, 2006). Income from total remittances is estimated at 6-9% of GDP. Remittance flows are not stable during the year. They peak during the holiday season, July and August, and the religious holidays. During these periods also the flows of the largely unrecorded but substantial in-kind remittances, such as gifts or spare parts for vehicles and other small equipment, are most likely substantial.

The total recorded remittances through formal channels from Spain to Morocco have growth substantially. According to data from the Moroccan Central Bank, remittances from Spain totaled 73 million euros in 1998 and peaked to 392 million euros in 2004, representing a little 10% of the total global flow into Morocco and a remarkable 10% of the flow outside Spain. Such trend requires closer observation. Taking the data from the Moroccan consular office reports (in Fargues, 2005, p. 381) migration to Spain has increased during the last 12 years at a rate of 13% annually, while remittances from Spain during the last 7 years have increased at an annual rate of 62%. Moroccan in Spain show altruistic and insurance sharing attitudes: Each Moroccan has sent on average 838 euros in 2002 and 924 euros in 2004.

These figures do not include informal remittances. The Spanish Central Bank has made attempts to estimate the actual flow of remittances including informal transfers. After adjustments for number of immigrants, average salaries, level of income of different migrant groups and social security contributions, the total remittances sent out of Spain, including informal, were estimated at € 6 billion in 2003 (Banco de España, in EIB, 2006).

*c. Characteristics of the Spain-Morocco corridor transfer mechanisms*

Moroccan immigrants in Spain use mainly two transfer methods: the MTOs (Money Transfer Operators) and informal channels. Considering the large group of undocumented migrants, it can be assumed that for the corridor Spain-Morocco the volume of informal remittances might surpass the flows through formal channels. The market shares of Money Gram, Western Union and the post office are relatively small. The MTOs have a small market share. According to the Central Bank of Spain the number of licensed MTOs in Spain currently is 43. MTOs report to the Central Bank, which is the supervising authority. In Spain Western Union and Money Gram operate through various agents, including the post offices (Western Union). In the home country they have a good distribution network: Western Union has 1.700 agents in Morocco and Money Gram 600 agents, mainly located in the Banque Populaire agencies (EIB, 2006).

Banque Populaire has the major share in the formal remittance market, though declining. The bank has an extensive network of branches in Morocco. Banque Populaire offers several money transfer services: joint checking accounts (with family in the home country), wire of money to an account, or wire money to a private person. The accounts can be held in Dirham or in foreign currency. In Spain the bank has no own branches, but operates through a cooperation agreement with la Caixa.

*d. Characteristics of the utilization of remittances in Morocco*

The changing pattern of migration that is challenging policy makers in their task to channel workers' remittances for local development is also confirmed by Mr. El Gourhani, marketing director of the Banque Populaire of Morocco: "Traditional receiving countries are reducing the transfer of money, while new migration countries are increasing it. This is quite normal since the first generation of immigrants still feels attached to the country of origin and invests money in different ways (real estate, support to the family). For the second and the third generation, born abroad, the attachment is still strong but they are mainly concerned with the life in Europe and not with a hypothetical life in Morocco" (Gallina, 2006).

A study by Bouchachen (2000) reported that remittances have helped to keep four percent of the Moroccan population, i.e. almost one million people out of poverty, reducing the portion of the population living in poverty from 23 to 19% during the period 1984-1999. Studies carried out in Morocco in the last 35 years, present similar findings concerning the usage of remittances: the money is predominantly used to sustain the household, to build a house or to improve an existing one (Kachani, 2005).

Other studies on a micro-level have demonstrated how areas with strong traditions of migration, such as the Rif region in Morocco, have seen a genuine boom in the construction sector. 71% of migrant households in this region have managed to buy land, build a house or carry out considerable repair work on their old homes (Nyberg Sørensen, 2005). Several professions and occupations attached to construction have benefited from migration and repatriated wages. The housing boom that has been fuelled by migrant spending has probably saved many of the smaller cities. Communities in the Nador Province, an important emigration region, suffered a loss of population after independence and might have disappeared completely if the remittances had not helped them to sustain.

The survey by INSEA showed that Moroccan residents abroad increasingly invest in their home country, especially in real estate (84% of all direct investments), agriculture (7.5%) and in other sectors as tourism, industry and the retail sector (Kachani, 2005). Another more recent study confirmed these findings and noticed the growing interest of residents abroad with a higher level of education in investing in stocks listed on the Moroccan stock exchange and in information and communication technology (Kachani, 2005).

The same survey as quoted above also noticed that the investment flows could even be higher if the investment climate would be improved. For example, the INSEA survey mentioned the following impediments to investment encountered by residents abroad: 42% administrative problems, 18% lacked access to venture capital, 13% corruption, 13% fiscal problems. Moroccan migrants in Denmark have expressed their interest in investing in Morocco if the investment climate would be favorable (Federico Caffè Centre, 2004). Apart from issues related to the investment climate there is a lack of updated information on the investment opportunities to the residents abroad.

In a mini survey carried out for the EIB study (2006), 45% of the respondents claimed that they use remittances from family abroad for daily expenses, 31% for school fees and 16% for constructing a house. A small 5% answered that money were set apart for productive investments.

A unique characteristic of Moroccan migrants is their ability for collective mobilisation of resources both in the home and in the host country. For example, Moroccan residents in Catalonia set up an association 'Migrations and Desenvoleppement' that is supporting building a small dam and an irrigation system to spur agricultural development in Al-Hoceima in the North of Morocco. Another group of Moroccan migrants in Catalonia has raised funds through a local NGO to construct four kilometres of road in an area close to Oujda near the border with Algeria (Østergaard, 2005).

Similar activities can be found in the South, where the association 'Migration & Developpement', is engaged in channelling collective remittances for social investments coming from the nationals living in Southern France (Federico Caffè Centre, 2004).

*e. Preliminary considerations on the Spain-Morocco corridor*

Spain GDP is twenty one times larger than that of Morocco, a gap that has increased since the mid-1990s. The gap in GDP per capita (current prices) has also increased from 12 to 15 times during the last decade.

The government of Morocco has experimented with a broad range of incentive schemes to encourage remittances. The total receipts of remittances, from migrants worldwide, by Morocco have been on an increasing trend and have doubled between 1996 and 2004. Remittance flows from Spain are increasing rapidly.

Migration patterns in Spain and Italy show a tendency to family reunification which in turn may reduce the ties with the home country and even reduce the frequency of returns at home for holidays (Gallina, 2004). In countries of new immigration (such as Spain and Italy) "younger" migrant communities have a tendency to remit more in an earlier stage of migration to pay back the debt contracted before departure (their migration project is generally much more expensive then that of the migrants in the 1970s and it can take up to two years to repay the debt). Moreover, the intention to settle in the host society is an obliged choice compared to the situation of the guest-workers of the seventies. Also, younger educated people may be attracted by career opportunities that will never find in their own country.

Moroccans are strongly attached to their motherland. Over the years the government has supported this attachment by allowing for dual nationality and through support schemes aimed at supporting investments of Moroccans residing abroad and their seasonal return to the home country. This is likely to have contributed to rising remittance flows and to ensure that they remain strong in the future.

Both formal and informal remittance channels are used. Due to the proximity of the two countries, it may be expected that informal channels will remain important. However, the dichotomy in this corridor (migrants use either informal channels or banks) suggests that migrants that do have a bank account use it for remittances and migrants that do not have a bank account opt for the informal channels. The fees for money transfers, for both banks and MTOs, are among the lowest in Europe.

What emerged in the analysis of Moroccans remittances patterns and their utilizations is that Moroccan migrants has shown a strong attachment to their country and developed mechanisms of insurance during the early stage of migration.

Generally, the existing surveys show that remittances are very high at the early stage of the migration project, then they tend to decline when the families settled down in the host countries, but then peak again

when households' heads are close to retirement age. In these cases money are sent to invest mainly in housing for a future return (Federico Caffè Centre, 2004; Lahlou 2000). Lahlou's study has also demonstrated that there is a relationship between remittances and marital stage, the engaged couples send money less often than the widows, and that remittances are fewer by migrants with higher educational levels, due to higher rate of consumption and saving in the hosting country.

Thus, at the national level, the raise of a "second and third generation" in the older migration corridors may led to a decrease in the remittances flow, while the establishment of new communities in Spain and Italy can refresh the present and future potential for remittances transfers without having any strong macroeconomic effect on the country. At the local level, this can instead have serious repercussion, if for example the identification of development priority regions and localities do not take these changing dynamics into account.

## **E. CONCLUSIONS AND IMPLICATIONS FOR RESEARCH AND POLICY**

The new political development in the Euro-Mediterranean relationships, marked by the establishment of a 'European Neighborhood Policy' (ENP), have reduced the scope for multilateral actions and introduced conditionality in the receipt of EU development aid, meaning that in order to get a "stake" in the internal market EU neighboring countries (including the Mediterranean countries) must harmonize their policies to EU standards and regulations in all areas (from trade to judicial). With the ENP migration becomes a security issue and its economic impact analysis is placed on a secondary position. Furthermore, the budgetary allocation for the period 2007-2013 does not reflect a stronger engagement in supporting the development of Mediterranean neighbors. This process, together with the lack of qualified data and statistics on the factors determining migration and remittances and the composition of the migration flows, makes the formulation of policy recommendations a thorny task.

In the MPCs the macroeconomic importance of remittances for both the balance of payment and the foreign currency reserves is noticeable because of the dependency and rent-seeking situation that they create (Fergany, 2001). Countries that want to continue down the road of migration as substitute for development have to realize the limits that this project may have in the medium and long term (Testas, 2001; Gallina, 2005a). The true challenge however, is to maintain the remittances flow while creating conditions for a sustainable and balanced improvement of the country's socio-economic conditions. And to ensure long-term economic stability, governments must do more than guarantee that remittances will be used for development purposes, and actually develop investment opportunities for the said remittances.

The developmental impact of remittances and of the measures that can be implemented to facilitate the successful utilization of money from abroad depends upon both the initial conditions under which people go abroad, the conditions in which the receivers of remittances live, the source country institutional framework, and the socio-economic conditions of the migrants living abroad. To fill-in the (missing) link between remittances and local development, increasing attention must be given to these aspects in the analysis. This study has also shown that there is a large amount of money yet under-utilized and migrants' household investment preferences remain within the housing sector. This can be explained by a psychological factor, i.e. the risk to lose an entire life savings in a bad enterprise, and an economic and institutional factor, i.e. the lack of the market opportunities, lack of infrastructures, and limited interest of the local development institutions. Yet, the utilization of remittances for education, improvement of living standards and health need to be considered as an important tool to increase households' labor productivity. Individual investment initiatives of a certain impact (i.e. not the taxi service or the little café) are not very numerous and the immigrants complain about the inappropriateness of the instruments available. However, considering that even the best equipped investors often avoid projects in developing countries is remarkable if a little share of remittances is invested by migrants and their households for productive purposes.

Remittances are rather used to support the household income than to support projects in the country of origin. Some programs to inform migrants on the investment opportunities have been established, such

as for example those by the Foundation Hassan II in Morocco, although the information recorded on the success of these initiatives is quite limited and it was mainly addressed to residents in France. The second and third generations of Moroccans living abroad might represent the vehicle through which channel these initiatives. Already now, groups of young Moroccans are engaged in small and medium development and cultural projects.

Lack of collective investments may also be due to a limited cooperative attitude among immigrants, even if the spatial concentration of immigrant communities coming from the same village of origin (the sub-corridors) have spurred in some case a collective interest in channeling remittances for improving the general infrastructure and socio-economic condition of the village. This is what has taken place in the north and in the south of Morocco thanks to the initiative of some migrants. Initiatives like these should be studied, and when possible they should be replicated in other Mediterranean countries.

The study has also shown the importance to include other elements for future studies on the link between remittances and local development. As pointed out by Ghosh (2000) Collinson (1996) Gamburd (2000) and Giubilaro (1997) the migrants' competences, the phase of the migratory project, the duration of the stay abroad, and also the reason behind the return itself are factors that must be increasingly taken into account. Thus, the changing patterns of migration destination, the changing constitution of migrant population and the increasing limitation to people's movement represent important factors to be further analyzed. The flow of remittances can drastically change and produce dramatic shocks to the local economy. Nevertheless, if a reduced flow of remittances is due to an increased return of migrants and if these invest massively their savings, as it occurred in Jordan after the first Gulf War, a positive impact on the local development can be expected (Amoroso and Gallina, 2002).

The many issues touched on by this study are just a small part of the many important and yet unexplored aspects within the larger research area of migration and local development. The analytical inclusion of variables such as gender, social remittances, transfer of competences and cultural attitude towards communitarian solidarity aiming at local development, as well as a better understanding of the implications of the changing patterns of migration for remittances flow are needed to improve strategic planning and policy making.

In the Mediterranean Basin the limited availability and coverage of remittances surveys made any effort to highlight across-the-region patterns and differences even more complex. However, it is possible to associate the findings for the Southern and Eastern Mediterranean countries to the world-wide literature survey made in the World Bank Global Development Prospect (World Bank 2006), but adding two further qualifications: 1. remittances from EU to Mediterranean Partner Countries are little used for productive purposes and more for smoothing household consumption and increase development associated expenditures (which include the improvement of housing conditions). The enormous potential that this aspect has on the development of "capital rich" but underdeveloped regions is dramatic and on this policy makers of both shores should concentrate their efforts. In this regard, the elimination of infrastructural obstacles and bureaucratic bottlenecks that hinder the utilization of the savings, while providing the necessary investments in infrastructures and credit, can increase the multiplier effect of the existing and potential small and medium scale investments; 2. migrants from Southern Mediterranean countries to Europe show a strong attachment to the home country that materializes in the investment in real estates.

The design of tools that can forecast the flow of remittances for countries that choose migration as a development strategy is therefore very important. As it is similarly important that, given the unpredictability of the remittances flow in the long run, their utilization must be conceived in a concrete and detailed development framework and that, most of all, these policies must be connected to the elimination of push factors in the local communities by creating employment opportunities responding to the needs and competences of the population. Therefore, for source countries governments the risk of relying on remittances can be quite high giving the changing patterns of migration and migration policies in the receiving countries. This may lead to a reconsideration of development through migration strategies, while it remains a central aspect in the current debate on the relationship between remittances and co-development policies aiming to increase their multiplier and accelerator effects. For this purpose, the remittances-corridor approach that the paper attempted to refine can surely help to identify the factors,

trends and implications behind different remittances behaviors. If there is a link between the flow of remittances and the stages of the migratory project, then new instruments to design macroeconomic policies and development policies aiming to foster local economic development and to recompose the migrants' population aspirations of return with the available investments opportunities need to be created. If evidences confirm this, other measures are wished to establish an institutional setting able to respond to the needs of the residents abroad and the necessity of governments in keeping the inflows of precious foreign currencies.

Bilateral development assistance may see co-development policy frameworks using migrant workers remittances as a panacea to reduce their own commitments. However, while individual transfers are frequent but very limited in size (200-300 euros/month), and hence their mobilization for large projects seems unrealistic, a mobilization of the Diasporas can stimulate larger flows, collective in nature, and more accessible to be invested in development projects. The extent, effects and impact of these collective processes is undergoing evaluation in Latin America but not much information is available for other regions.

## NOTES

<sup>1</sup> The term Mediterranean Partner Countries indicates the 10 countries signatories of the Barcelona Agreement in 1995 with the EU launching the Euro-Mediterranean Partnership: Morocco, Algeria, Tunisia, Egypt, Palestinian Authority, Israel, Lebanon, Jordan, Syria and Turkey. I am grateful to Diana Sainz for the research and editorial assistance in the preparation of this paper; the responsibility of what is written remains solely mine.

<sup>2</sup> The ENPI is the instrument to implement the European Neighborhood Policy which involves the 10 Mediterranean partner countries and Moldavia, Russia, Georgia, Armenia, Azerbaijan, Armenia, Belarus and Ukraine, with the exception of Turkey which is pursuing its relationship with the EU in a pre-accession framework.

<sup>3</sup> In 1933 Türkiye İs Bankası A.S. opened a branch with 35 employees in Hamburg. The bank closed during the Second World War and re-opened in 1977 with the prime purpose of transferring workers' remittances to Turkey (Köksal and Liebig, 2005, p.3).



*Table 1 - Remittances as share of GDP (range constructed on data 1998-2003)*

<b>Countries</b>	<b>Total remittances as% of GDP</b>	<b>% EU of total remittances</b>	<b>Migrants as % of total population</b>	<b>% of migrants in the EU</b>	<b>% of migrants in the Arab countries</b>
Turkey	1 – 2%	85%	5%	86%	3%
Morocco	6 – 9%	90%	10%	96%	9%
Algeria	2 – 3%	90%	4%	92%	6%
Tunisia	4 – 5%	85%	9%	83%	14%
Jordan	20 – 22%	5%	1%	27%	-
Egypt	3 – 4%	5%	4%	16%	70%
Lebanon	9 – 15%	-	15%	26%	20%
Syria	≈ 2%	-	1%	35%	-

Source: Columns 1 and 2: EIB, 2006, p. 30; Columns 3-4-5: author's elaboration based on data from Fargues, 2005, p. 373 and 375. Data for Jordan and Syria are based on statistics of destination countries. For the other countries data are based on statistics of origin countries.

*Table 2 - Remittances corridor methodology*

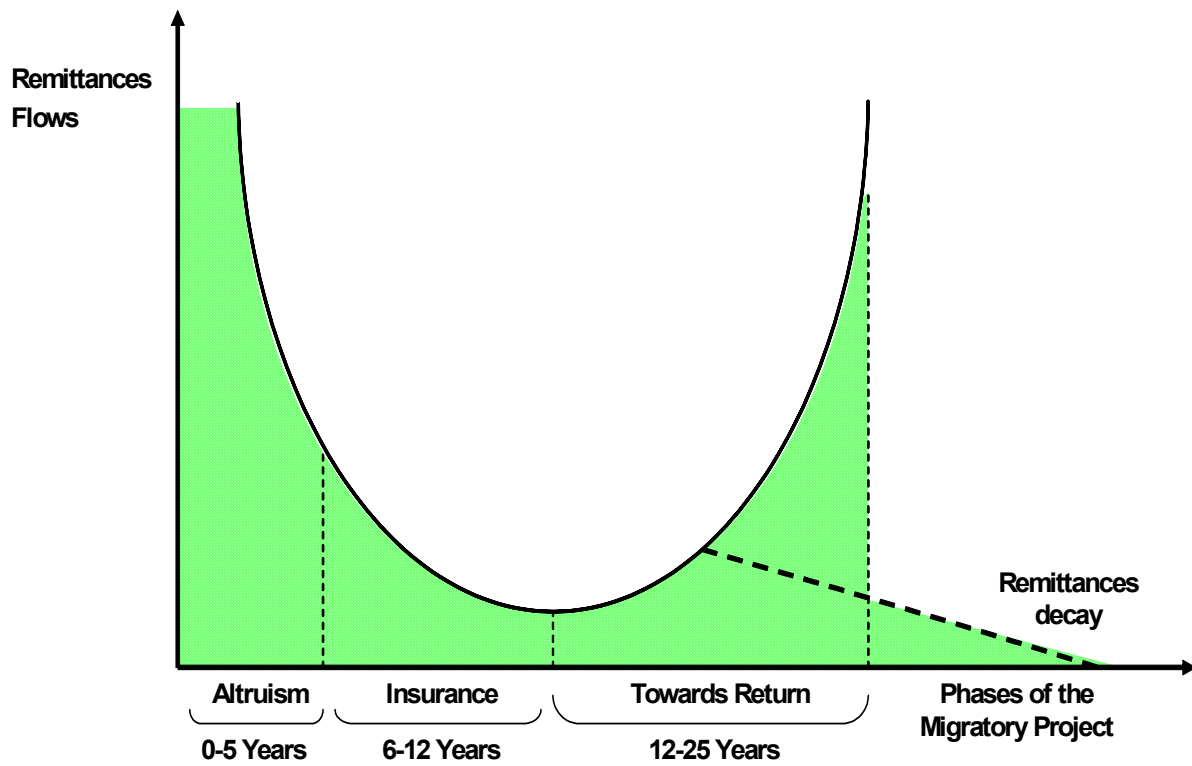
<b>Independent variables</b>	<b>Indicators</b>
Migrants population stock and flows	<ul style="list-style-type: none"> <li>- demographic trends</li> <li>- gender composition</li> <li>- age composition</li> <li>- educational attainment</li> </ul>
Level of economic and financial inclusion in the host economy	<ul style="list-style-type: none"> <li>- employed</li> <li>- unemployed</li> <li>- seasonal worker</li> <li>- with a bank account</li> </ul>
Residence and working status	<ul style="list-style-type: none"> <li>- regular (permanent or temporary)</li> <li>- undocumented</li> </ul>
Phase of migratory process	<ul style="list-style-type: none"> <li>- single migrant</li> <li>- family reunified in the host country</li> <li>- number of years in the country</li> </ul>
Cost of transfer	<ul style="list-style-type: none"> <li>- first mile</li> <li>- last mile</li> </ul>
Area of provenience	<ul style="list-style-type: none"> <li>- Rural</li> <li>- Urban</li> <li>- GDP per capita</li> </ul>
Migrants households composition	<ul style="list-style-type: none"> <li>- Presence of other migrants in the households</li> </ul>
<b>Dependent variable</b>	
Remittances flows	<ul style="list-style-type: none"> <li>- Official remittances flows</li> <li>- Informal remittances flows</li> </ul>

*Table 3 - Top EU-Mediterranean countries remittances corridors, in million Euros, based on data from EIB Report 2006, Years 2001-2004*

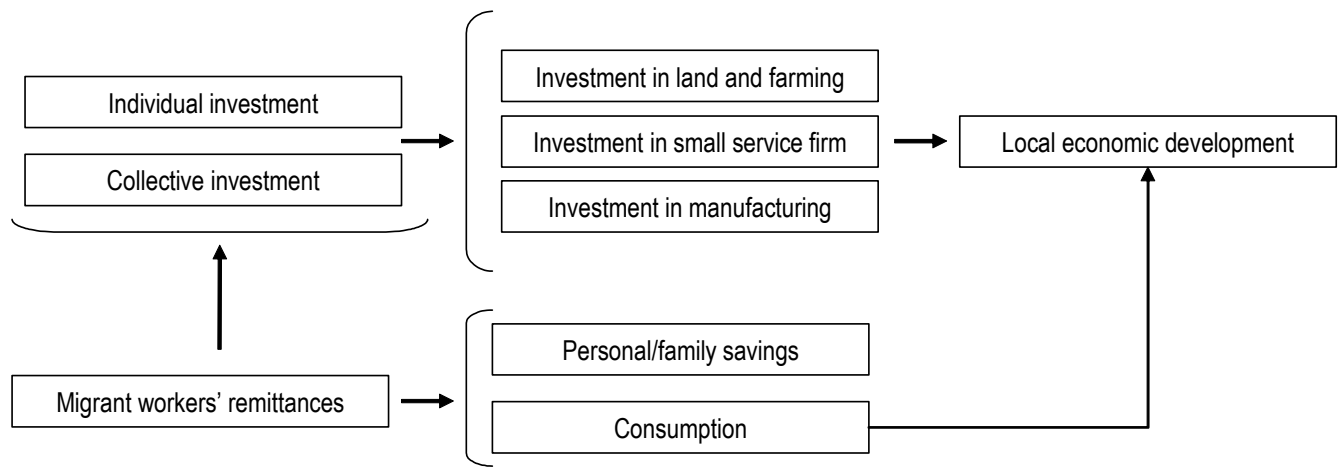
<b>Rank</b>	<b>Corridor</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<i>1</i>	<i>Germany – Turkey</i>	<i>1200</i>	<i>1200</i>	<i>1000</i>	<i>879</i>
2	France – Morocco	538	569	558	
3	France – Algeria	287	282	282	283
4	Netherlands – Turkey			227	
<i>7</i>	<i>Spain-Morocco</i>	<i>187</i>	<i>187</i>	<i>293</i>	<i>392</i>

Source: EIB, 2006 and author's elaboration, in italics the corridors selected for this study.

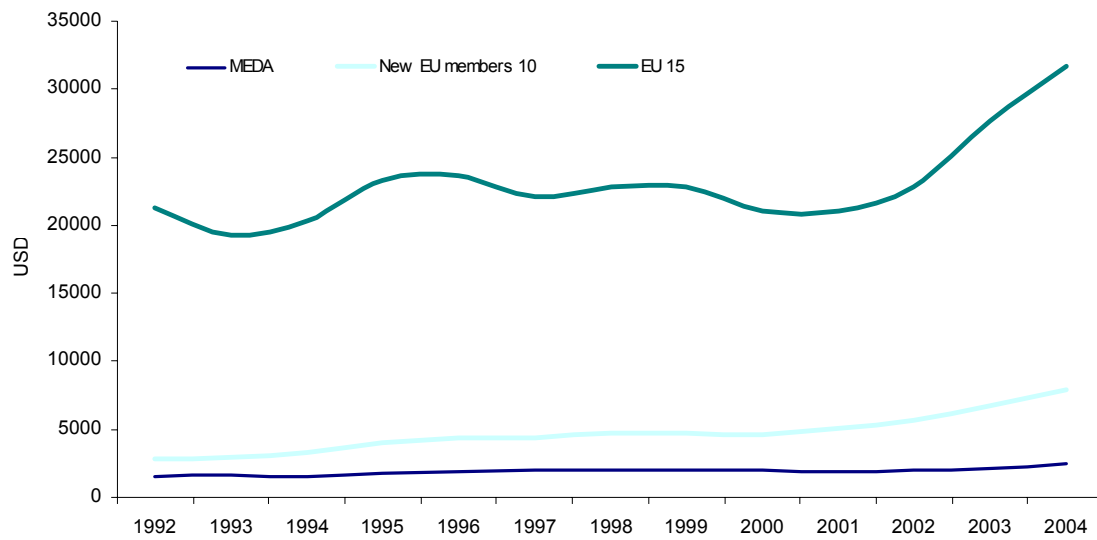
Figure I – Remittances trajectory during the migration project



**Figure II Model of Remittances Use and Development Impact**

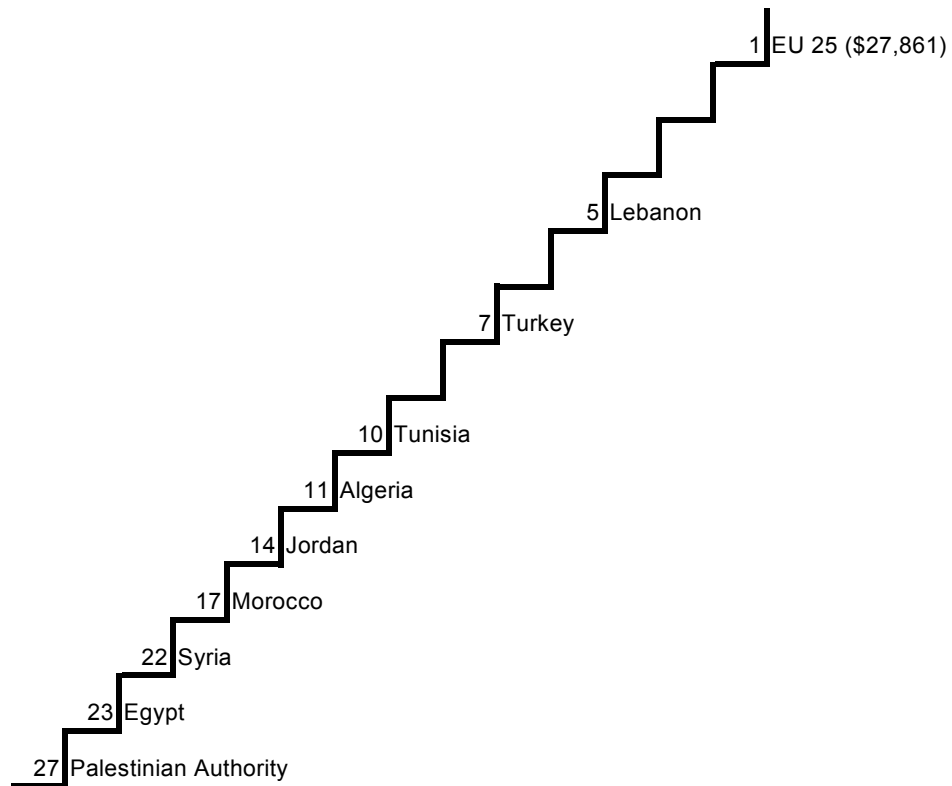


**Figure III Evolution of GDP per capita, MEDA, New EU members and EU 1, US dollars, 1992-2004.**



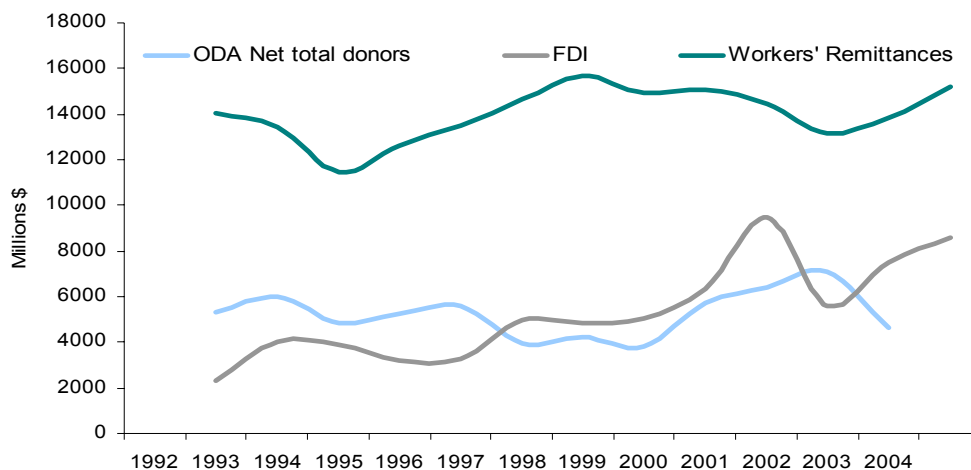
Source: author's elaboration on UNCTAD Handbook Statistics Online at <http://stats.unctad.org/Handbook/ReportFolders/ReportFolders.aspx>, accessed on the 21 April 2006. Data are for Algeria, Egypt, Morocco, Tunisia, Jordan, PA, Syria, Turkey. Data for Lebanon not available.

**Figure IV Economic Step between EU 25 and MPCs, GDP per capita current \$, 2004.**



Source: author's elaboration on UNCTAD statistics Yearbook 2005, Accessed on the 22 April 2006.

**Figure V Financial Flows in the Mediterranean Region, million \$**



Source: author's elaboration on UNCTAD Handbook Statistics Online available at: <http://stats.unctad.org/Handbook/ReportFolders/ReportFolders.aspx>, accessed on the 21 April 2006. FDI and Workers remittances data are for Algeria, Egypt, Libyan Arab Jamahiriya, Morocco, Tunisia, Jordan, Lebanon, Palestinian Territory, Syrian Arab Republic, Turkey. ODA data do not include Algeria and Libya (\*).

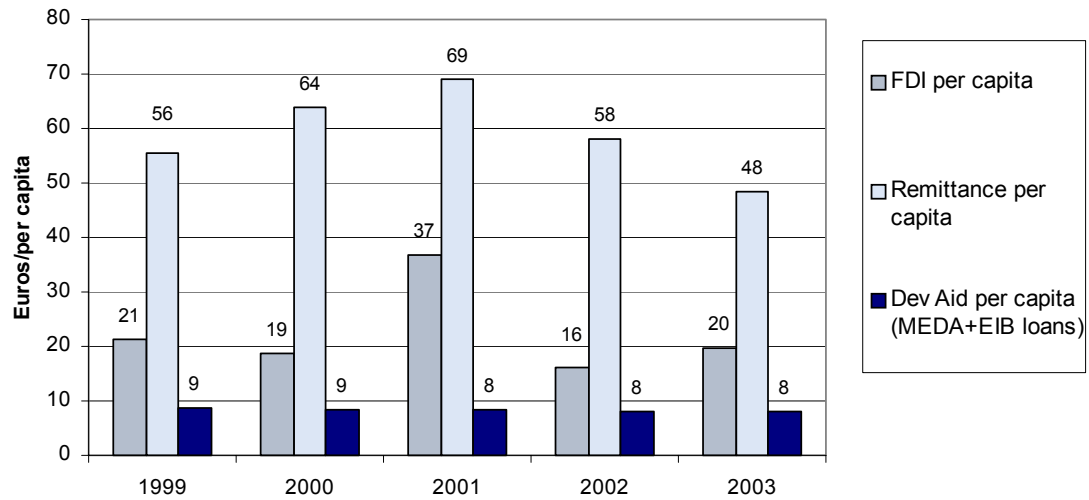
(\*)Total ODA/OA net: Total donors

Total donors is the sum of the three following donor types:

- DAC bilateral donors: the Development Assistance Committee (DAC) is the committee of the OECD which deals with development cooperation matters. It consists of 23 member countries;
- Multilateral donors (i.e. AfDB, IBRD, IMF, UNDP);
- Other donors: the non-DAC bilateral donors (i.e. Hungary, Lithuania, Turkey).



**Figure VI Financial Flows in the Mediterranean Partner Countries**



Source: author's elaboration based on data from EIB 2006.

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