THE MIGRATION OBSERVATORY AT THE UNIVERSITY OF OXFORD

COMMENTARY

Remittances: The Invisible Billions

PUBLISHED: 12/08/2011

COMPAS CENTRE ON MIGRATION, POLICY & SOCIETY

UNIVERSITY OF OXFORD

When thinking about 'remittances' – the money sent from a resident of one country to a person elsewhere in the world – it is easy to imagine a migrant working and living in a high-income nation sending back money to their family in a low-income country. But the reality is rather different.

High-income countries around the world are major receivers of remittances. Indeed, it is a surprise for many that the UK is estimated to receive billions of pounds in remittances every year. World Bank estimates even suggest that the UK consistently receives more in remittances than it sends to other countries.

>>Read the Migration Observatory Briefing "Migrant Remittances to and From the UK"

World Bank estimates for 2009 put inflows of remittances to the UK at £4.64bn and outflows at £2.35bn - suggesting that the country was a net receiver of some £2.29bn - but this is pretty imprecise, given problems with definitions and lack of precise measurement, and the figures could be as high as high as £7.2bn coming in to the UK and £7.7bn leaving the country.

But, while remittances are thought to represent a substantial flow of money into and out of the country, the UK doesn't actually record these money flows.

In fact, the UK has had no official method for recording remittance flows for more than 30 years – since the end of exchange controls in 1979. But does it really matter?

In a nutshell, yes. Remittances to and from the UK involve large money flows that are likely to have significant impacts on the UK and other countries.

Firstly, let's consider remittances leaving the UK:

Remittances sent to low-income countries can potentially contribute to numerous poverty reduction and development objectives - funding small businesses, improving housing, paying for education and health-care, helping families in times of financial crisis, and providing support in innumerable other ways.

At the same time, it is also important to consider arguments that remittances can have adverse effects by, for example, lowering the incentives of the recipients of remittances to work and affecting exchange rates in a manner that impacts the trading sector negatively.

While it is clear that relying on remittances alone is not an effective development strategy, remittances can – but don't always – have net benefits for individuals, communities and economies of remittance receiving countries.

The impact of remittances on poverty and development in low-income countries happens alongside formal international development strategies. While remittances are not – and should never be – considered to be a substitute for foreign aid, in order for the UK government to appropriately judge how it should best target its international aid and development budget, it's important to know whether other funds such as remittances are also being sent to the countries being supported, how much is being sent and what outcomes it is delivering.

The sums of money involved are significant - the £2.35bn that was estimated to have been sent from the UK as remittances in 2009 (which is likely to a very low end estimate – so it is almost certain that far more was sent, not least because unknown amounts are sent through 'informal' channels) was equivalent to about one-third the UK's annual spending by the Department for International Development (which was £6.7bn for the fiscal year 2009-2010). But unlike the Department for International Development money, we don't know for certain how much of the remittances sent from the UK went to low-income countries, and if so which ones.

We do have some limited information from central banks in other countries, which tells us, for example, that the UK sent around £533million to Bangladesh and around £627million to Pakistan in remittances in 2010, but we don't know who is receiving that money and what impacts these funds are having on these two countries.

It also is important to understand who is sending money out of the UK but because of a lack of systematic data there is little evidence on who is remitting in the UK. The only information available typically refers to the remittance patterns of some specific ethnic groups or corridors at one point in time – making it of limited value in understanding the whole picture.

Last year Harriet Harman MP suggested that migrants claiming benefits in the UK were sending their money abroad to support family members. This caused a furore in certain sections of the press, but it is not clear whether this is a common practice. The result of this lack of clarity about where remittances were coming from was a fuelling of suspicions that migrants are "milking the UK's coffers" (Daily Mail 15.12.2010) with no actual evidence to support them. Ms Harman's remarks were based on informal information from her constituents and not a systematic effort to collect data on remittances.

Beyond the social and economic consequences of remitting are the concerns that remittances may be used to fund illegal activities and sometimes conflict. However, when the situation is so vague that we can only estimate that somewhere between £2.35bn and £7.7bn is leaving the country and going to unknown recipients in unknown countries it is not feasible to estimate how significant this problem may be.

This then brings us to the question of the money being sent to the UK.

We know very little about the impacts of remittances sent to the UK, yet this may represent billions of pounds worth of financial flows into the country, ranging from capital to set up small businesses to cash to support international students who are paying substantial fees to the UK education sector.

Debates about the effects of migration in the UK generally do not include the impacts of emigration and remittances on the UK. This is an important gap in analysis and public debate.

Remittances are unique in that they are direct private transactions between people in different countries, representing the actions of individuals rather than governments.

Understanding the flows of remittances better is important and will provide valuable information about how money from the UK affects other countries.

We need better data and analysis of the magnitudes and impacts of remittance flows, and on who is sending and receiving remittances. Only with systematic efforts to collect survey data on remitters in the UK over time, will we obtain answers to key questions about this substantial international flow of money.

For more than three decades, the patterns, determinants and impacts of remittance flows to and from the UK have remained essentially invisible. This is not an issue that is generally high on a government agenda, but the UK has much to gain by addressing it.

The Migration Observatory

Based at the Centre on Migration, Policy and Society (COMPAS) at the University of Oxford, the Migration Observatory provides independent, authoritative, evidence-based analysis of data on migration and migrants in the UK, to inform media, public and policy debates, and to generate high quality research on international migration and public policy issues. The Observatory's analysis involves experts from a wide range of disciplines and departments at the University of Oxford.

COMPAS

The Migration Observatory is based at the ESRC Centre on Migration, Policy and Society (COMPAS) at the University of Oxford. The mission of COMPAS is to conduct high quality research in order to develop theory and knowledge, inform policy-making and public debate, and engage users of research within the field of migration.

www.compas.ox.ac.uk

Press contact

Rob McNeil

Senior Media Analyst

robert.mcneil@compas.ox.ac.uk

+ 44 (0)1865 274568

+ 44 (0)7500 970081