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RSEARCH ARTICLE

The Role of Remittances in Contributing to Native Countries Development

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ABSTRACT

Background: Migrants have an essential role in contributing to both the growth of native countries' economies through their remittances and the local European savings; in fact, migrant remittances have been accompanying the migratory phenomenon and are significantly larger than official development assistance.
The critical contribution that migrants can make to sustainable growth and employment is significant; it has been increasing over the last decade and continues to grow.
Objective: The paper aims to analyse in detail the impact on remittances of non-European migrants, focusing on the effect on the tissue of native countries in terms of economic growth and social development.
Results: Numerous researches underline that there is a direct correlation between financial exclusion and poverty. In fact, without access to financial services, savings cannot accrue interest in deposit accounts, they cannot be reinvested in the local economy, and finally, citizens cannot build a credit history, necessary to get creditworthiness. Among the most reliable benefits generated by remittances, there is just the possibility to save and invest money, increasing the average living standard of poor families, reducing the demand on public social programmes, and finally contributing to the increase the national income and the human capital, curbing the further emigration of poor sections of the population and reducing tensions linked to high unemployment in native countries.
Conclusion: Despite the increasingly widespread feelings of hate and rejection against migrants currently diffused in Europe, economic migrants represent an added value both for the host countries and for native countries. The importance and the role that remittances can have in favouring the socio-economic development of the native nations represent only one of the positive aspects, without considering the concern for the European economies of the value, also in terms of jobs generated in the host countries, by the many enterprises set up by migrants.

Keywords: Remittances and economic growth; Remittances and development; Remittances from Europe; Remittances and financial impact; Remittances from Italy

INTRODUCTION

1. Migration international flow. An overview

In recent years, the number of people migrating to Europe has increased; according to Eurostat [1], a total of 2,4 million immigrants entered the EU from non-EU countries in 2017. 22.3 million people (4.4 %) of the 512.4 million people living in the EU on 1 January 2018 were non-EU citizens.

The most majoritarian migrant groups regularly living in the European countries come mainly from Eastern Europe, North African and Asia [2]. In Europe, although a high proportion of foreign-born people work in sectors more traditionally associated with migrant businesses (i.e. wholesale and retail trade), many works outside the traditional ethnic business sectors, with almost 18% of migrant entrepreneurs in the construction

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sector; around 8% in the professional, scientific and technical industry; approximately 6% in manufacturing and another 6% in human health and social work.

According to the results of a 2015 study [3], European citizens appear to be, on average, very negative towards immigration, with the majority of people believing that immigration levels should be decreased.

However, there is a sharp divergence in opinions among Northern and Southern Europe.

The majority of adults in Northern European countries would like immigration levels to either stay the same or increase, while most residents in Southern European countries would prefer to have lower levels of immigration to their countries. Besides, it appears a clear and strong relationship between civil societies, public opinion and occupational levels in the countries surveyed by the mentioned 2015 study: public opinion as to whether migrants compete with national workers for jobs appear to be, in fact, generally aligned with opinion about immigration levels.

On average, citizens who do not see migrants as wanting the jobs citizens in their countries want to tend to be more open to immigration in their countries. Finally, strong public perceptions linking migrants to crime represent a significant obstacle and have negative implications to the recognition of the real role played by migrants in the economic sectors of the host countries and for their integration.

Despite this negative perception, the European Commission recognized [4] that migrants have an vital role in favoring European local economies, and the range of activities that migrant entrepreneurs undertake in their host countries is as wide as that of natives [5]. They are essential for the integration of migrants into employment, creating employment for themselves but also increasingly for immigrants and the native population.

Finally – and this is the aspect we will mostly focus on in our paper - International migrations have a strong impact for growth and poverty alleviation in both origin and destination countries through their remittances to native countries. In fact, according to recent data [6], migrants have an essential role in contributing to both the growth of native countries' economies through their remittances and the European local economies.

Migrants' remittances have been accompanying the migratory phenomenon since ancient times and are significantly larger than official development assistance [7]. Migrants actually contribute not only to the economic growth of their local area, but they also represent a strong contribution to hosting societies, as they offer additional services and products to migrants and the receiving population, and form an important bridge to global markets [8].

With reference to such issues, in the following pages, we will analyse the actual paths created by non-European migrants, focusing on the impact on the tissue of native countries in terms of economic growth and social development.

2. Migration and remittances

2.1. Statistical data

According to statistical data provided by Eurostat [2],

"Flows of money sent by residents of the European Union to non-EU countries, referred to as personal transfers, amounted to €32.7 billion, compared with €31.8 bn in 2016. Inflows to the EU totalled €10.7 bn in 2017, compared with €10.1 bn in 2016".

In the majority of the cases, personal transfers consisted of money flows sent by migrants

to their country of origin. Migrants actually contribute not only to the economic growth of their local area, but they also represent an active contribution to hosting societies, as they offer additional services and products to migrants and the receiving population, and form an vital bridge to global markets.

At the global level, the World Bank [9] underlined that remittances to low- and middle-income countries grew rapidly, and they will reach a new record in 2018; more in details,

"remittances to the Middle East and North Africa region are projected to grow by 9.1 percent to $59 billion in 2018, following 6 percent growth in 2017. The growth rate is driven by Egypt's projected rapid remittance growth of 14 percent. In contrast, remittances to Jordan are projected to decline by 1 percent in 2018. Beyond 2018, the region is expected to experience continued growth in remittances, although at a slower pace of 2.7 percent in 2019".

Hence, it is possible to state that although remittances are a typology of financial flows that is not usually indicated in the documents on international financial flows linking industrialized countries and developing countries, they can, nevertheless, constitute one of the most significant flows, both in terms of quantity of resources and continuity over time, which surpasses for example the global flow of public development aid [10].

2.2. Remittances and local development in native countries

Remittances can be regarded as a development driving factor and a strong force; in fact, according to data provided by the IFAD and the World Bank, approximately 25 countries receive 10% or more of their GDP from remittances. It has been stressed that

"In countries such as Tajikistan, remittances account for 42 per cent of GDP, and this figure is even higher for Somalia, where estimates are close to 50 per cent. The impact of such a large inflow of cash is monumental in its own right, but there are further effects as well. Remittances provide recipient countries with a source of hard currency, making it easier for governments to borrow money at a lower cost. During times of political instability, economic strife or natural disaster, remittances tend to increase as the increased needs of family members cause migrants to send more money home. This contribution provides an important economic buffer during periods when foreign investors are likely to withdraw their funds"[11].

On average, it is estimated that migrants send on average USD200, generally monthly, an amount that it is often equal to 50% or more of their family's income back home. Such money represents

"A critical lifeline for millions of individual households, helping families raise their living standards above subsistence and vulnerability levels. Moreover, these remittances lead to improved health, education, housing and levels of entrepreneurship. Remittances are often the first experience of financial service for recipients, and they can lead to further financial inclusion" [11].

At a macroeconomic or general level, remittances can have both positive and negative repercussions; in this respect, the literature seems to be ambiguous [12]; theories on the impact and effects of remittances can be divided according to three main opinions [13], [14]: scholars who see a direct link between remittances and growth; scholars who theorize a negative or neutral relationship remittances and growth; scholars, finally, who have underlined that the role and real impact of development of remittances depends on the level of financial development of the native country.

Concerning the negative externalities introduces by remittances, Yaseen [15] underlines, among the others, how some empirical studies, mainly carried out inside MENA or Mediterranean region, allow to identify three main risks: the monetary penalty of the entry of foreign currencies in a low developed country open to the movements of capital, impacting on the exchange rate level of the home currency (the a so-called "Dutch Disease Effect") and on the domestic price level; the uses of such amount of money, either within the family of the migrant worker or by the worker himself who chooses to spend his savings through real estate investment , and the lacking among the members of the family remained in home country.

Empirical studies as the one carried out on Morocco by Tabit & Moussir [12] highlight, in the contrary, a positive relationship between economic growth and remittances; this study, based on an Error Correction Model helped to highlight the major characteristics between remittances and GDP of Morocco, allowed to point out that in Morocco remittances represented a determinant of

Economic growth, based on analysis related to the period 1975 - 2014.

The study findings revealed that a shock on Moroccan foreign workers' transfers has a positive impact on GDP, investment and consumption and that furthermore, a positive impact on GDP leads to a transitory decrease in remittances.

As for their positive effects, it should be noted that remittances are source of currency that can be used to import capital goods and raw materials; moreover, they represent a potential source of savings and investment, contributing to raising the average standard of living, at a global level, of the populations of the native countries. Again, they increase national income, acting, in some cases, as a kind "social safety net" as they act as a safety net, lifting families out of poverty and reducing the demand on public social programmes [11], preventing further emigration of poor parts of the population and lowering tensions linked to high unemployment rates.

A link was then observed with the development of the rural sector, the creation of new sectors for services, as well as the opening of new communication channels with foreign countries for the economy and society of emigration areas [10].

According to some other studies [16], remittances represent a choice aimed at providing immigrants' families with a sort of life insurance for their families of origin, an income that can be used to overcome the constraints and failures of local markets, including credit, and which should have a positive effect on local production [10]. In this sense, remittances can be regarded as a kind of "gateway to financial citizenship", in a world in which an estimated 2 billion, 38% of working-age adults have no access to any kind of financial services delivered by regulated financial institutions; a world in which 73% of poor people are unbanked, which amounts to more than half of adults in the most deficient 40% of households in developing countries [11].

As for the use of money earned abroad, numerous researches show that most of the remittances are used as expenditure for consumption and housing; both uses of money can have a strong impact on local development. In this regard, the impact of remittances on local development is generally assessed by analyzing precisely the different types of remittances use for consumption that can be defined as luxury and prestige, education and health, housing, purchase of semi-durable and durable goods, investments in productive activities, and in particular in service, manufacturing or agricultural activities [10].

In particular, spending on education appears to be of great importance for the development of human capital in the native countries and as such, it has a central role in promoting development; one of the conditions of progress is indeed the possibility of access to education, and above all in impoverished countries such as those in Africa.

Here, remittances play an essential role in ensuring the primary education, promoting its spread in rural areas, as well as education at secondary level [10; 11].

3. The impact of remittances from Italy to world countries

According to data collected by the Bank of Italy [17], analysing trends of remittances in a period of twelve years (2005-2017), the immigrants' remittances have been constantly increasing since 2005, culminating in 2011 at 7.3 billion euros. After this, in the two-years period from 2012 to 2013 it has been recorded a sharp decline of respectively 6.8 in 2012, and 5.5 billion in 2013, up to around five billion registered in both 2016 and 2017.

Over the twelve-years period concerned, the regions most affected by the phenomenon have been the ones with the highest number of inhabitants; Lazio (18.1 billion) and Lombardy (16 billion) are at the top of the ranking, followed by Tuscany (7.9 billion), Emilia Romagna (5.4 billion) and Veneto (5.2 billion).

If we look at the distribution by province, in the top 10 ones the areas of Rome (17 billion) and Milan (9.8 billion) appear to be at the top. Relevant is the case of the small city of Prato (a city near Florence): despite its small population under two hundred thousand inhabitants, it ranks 2. billion 7. Due to its strong and numerous Chinese communities, it generates a monetary flow overcoming much more populous cities such as Naples (2.6 billion).

As stressed and highlighted by the data, the trend of the phenomenon has definitely fallen since 2011, even if there are different situations according to the diverse Regions of the country.

As an example, In Emilia Romagna, taking as a reference the maximum value recorded in 2011 as to the rest of the nation, the peak of 476 million euros does not differ so much from the 429 million of 2008 and even less from the 464 million last year.

Moreover, there are regions where the trend of remittances is decidedly against the trend if compared to the national one: we refer to Puglia, Basilicata, Trentino Alto Adige and Friuli Venezia Giulia, that at the end of 2017, reached the maximum values of the last twelve years.

Among the main destinations of the capital produced in Italy, China (16.7 billion), Romania (10.4 billion) and the Philippines (6.6 billion) are the countries that since 2005 have received the largest volume of financial flows. Although, it has been stressed that in two cases out of three - China and the Philippines – it has been recorded a sharp decline compared to the last 5 years.

Focusing more precisely on the data related to 2017, it seems rather clear that the geographical distribution of remittances, while presenting the maximum value in Romania, highlights other countries among the main beneficiaries of the money transfers: the Indian subcontinent is on a drastic rise as shown by Bangladesh (532 million), India (293 million), Sri Lanka (280 million) and Pakistan (232 million) which all record the maximum values in the period examined.

China is the preferred destination for foreign workers residing in Tuscany, while South America is the preferred geographical area for immigrants working in Liguria, allocating most of the remittances between Ecuador and Peru.

Conclusions

Despite the increasingly widespread feelings of hate and rejection against migrants currently diffused in Europe, economic migrants represent an added value both for the host countries and for native countries.

The importance and the role that remittances can have in favoring the socio-economic development of the native nations, represent only one of the positive aspects, without considering the concern for the European economies of the value, also in terms of jobs generated in the host countries, by the many enterprises set up by migrants.

Numerous researches underline that there is a direct correlation between financial exclusion and poverty. In fact, without access to financial services, savings cannot accrue interest in deposit accounts, they cannot be reinvested in the local economy, and finally, citizens cannot build a credit history, necessary to get credit-worthiness [11].

Among the strongest benefits generated by remittances, there is just the possibility to save and invest money, increasing the average living standard of poor families, reducing the demand on public social programmes, and finally contributing to the increase the national income and the human capital, curbing the further emigration of poor sections of the population and reducing tensions linked to high unemployment in native countries.

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