

# Policy Perspective

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## THE IMPACT OF MIGRATION ON HUMAN CAPITAL IN MENA

*Jackline Wahba*

*This policy brief summarizes the main findings and policy implications of three studies headed by the ERF under its program on regional integration.*

### **I**ntrouction

The MENA region is characterized by substantial migration flows, both inflows and outflows. The region hosted around 18 million migrants or 5.3 per cent of the region's total population in 2010<sup>1</sup>. The size of labour flows makes it important to examine in particular the consequences of emigration on economic development of the origin countries. We focus in particular on the impact of emigration on human capital accumulation both for those left behind and for the migrants themselves.

### **R**emittances and Education

The MENA region attracts a large share of the world's remittance inflows. In effect, 12% of global remittances were directed towards the region in 2006. This percentage amounts to \$25 billion, an increase from the \$15 billion recorded in 2001. Table 1 below compares the receipt of workers' remittances by regions and highlights the dependence of the MENA region on such private transfers. In effect, remittances amounted to 3.4% of MENA's GDP in 2006, a proportion that is

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<sup>1</sup> The World Bank: <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1199807908806/MENA.pdf>.

About the author

Jackline Wahba is a Professor in Economics at the University of Southampton. She is also a Research Fellow of the Institute for the Study of Labor (IZA) and the Economic Research Forum. Her research interests include Development Economics, Labor Economics and Applied Micro-Econometrics

second highest in the world (after South Asia). The volume of these transfers suggests that such inflows could play an essential role in the growth and development process of the region if invested properly, especially in human capital. Hence whether those private transfers impact education choices and consequently affect the life of young people in the region is an important policy question.

Among the top remittance recipients in MENA in 2010 (billions) were Lebanon (\$8.2 bn), Egypt (\$7.7 bn), Morocco (\$6.4 bn), Jordan (\$3.8 bn), Algeria (\$2.0 bn), Tunisia (\$2.0 bn), the Republic of Yemen (\$1.5 bn), and Syria (\$1.4 bn). A recent World Bank report estimated that Lebanon and Jordan ranked respectively 8th and 10th in the world as top-remittance

receivers proportionally to GDP. Remittances were estimated in 2007 to account for 22.8% of Lebanon’s GDP and 20.3% of Jordan’s GDP. Figures for Syria are not available but are estimated to be substantial given the large migrant population of the country. It should be noted that statistics on remittances refer only to remittances sent through formal channels (recorded remittances from countries’ balance of payments reports). The true size of remittances, including unrecorded flows from both formal and informal channels, is believed to be larger.

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Table 1: Workers’ Remittances

	2001	2002	2003	2004	2005	2006
<b>Workers Remittances (bil, US\$)</b>						
Middle East & North Africa	15	15	20	23	24	25
East Asia & Pacific	20	29	35	39	45	48
Europe & Central Asia	11	12	14	17	25	28
Latin America & Caribbean	24	28	35	41	48	53
South Asia	19	24	30	29	33	40
Sub-Saharan Africa	5	5	6	8	9	9
<b>Remittances Inflows/GDP (%)</b>						
Middle East & North Africa	3.2	3.5	4.2	4.2	3.8	3.4
East Asia & Pacific	1.1	1.5	1.5	1.5	1.5	1.3
Europe & Central Asia	1.2	1.1	1.1	1.0	1.2	1.1
Latin America & Caribbean	1.2	1.6	1.9	2.0	1.9	1.8
South Asia	3.1	3.7	4.0	3.2	3.3	3.5
Sub-Saharan Africa	1.4	1.4	1.3	1.4	1.4	1.3

Source: IMF Balance of Payments Statistics Yearbook, World Development Indicators (WDI)

only to remittances sent through formal channels (recorded remittances from countries' balance of payments reports). The true size of remittances, including unrecorded flows from both formal and informal channels, is believed to be larger.

The impact of migration and remittances on education can have both a negative and a positive effect. Migrant remittances have a positive impact on educational attainment through two main mechanisms. First, remittances sent back to migrant households could alleviate liquidity constraints and thus encourage household heads to invest in their dependants' education. Second, many youth might be tempted to invest in more education if high education increases their migration potential and enables them to reap higher returns upon migration.

On the other hand, returns from migration can sometimes be higher than the returns from investing in schooling and higher education degrees which lead to negative consequences on educational attainment of youth. In effect, youth might opt to migrate directly after schooling in order to send back remittances to their family as soon as possible, and thus will choose to forgo higher education. Also the absence of migrants from their families may entail additional work on other members of the household in order to secure the labor shortage or the forgone income that the migrant could have earned leading to youngsters quitting schooling in order to fill in such shortages.

Chaaban and Mansour (2011) examine the impact of remittances on education investment in three Eastern Southern Mediterranean countries: Jordan, Syria and Lebanon. Lebanon has a predominantly private sector-led education system, whereas Syria and Jordan have a predominantly public (low cost) educational system. Household spending on education is the highest in Lebanon. Migrants from Lebanon tend to go primarily to European and North American countries, while Jordanian migrants go to Gulf States and Syrians to Lebanon and Gulf States.

Results show that migrant remittance receipt has a positive effect on education attendance of the youth [15-17 years old] in Jordan, Syria and Lebanon. Also the magnitude of the remittance impact on educa-

tion outcomes is larger for males compared to that of females in Jordan and Syria, but lower in Lebanon. This suggests that in some countries around the region gender dimensions are still important in the household's investment decisions in the sibling's human capital. Indeed, migrant remittances are encouraging both females and males aged [18-24 years old] to reach further levels in their education. The effect appears to be larger in magnitude for males though, except for Lebanon where the reverse trend is observed.

The empirical findings also reveal interesting patterns related to parents' education background and regional residency status. Parents' education qualification impacts positively on school attendance and attainment. The Eastern Mediterranean countries show that the mother's qualifications seem to have a higher effect on both males and females education. This stems from the different bargaining power that each member of the household traditionally holds, especially in conservative societies such as the ones in Jordan or Syria. Educated mothers usually have higher bargaining power in the household and could influence the allocation of resources towards children and their human capital. Finally, schooling decisions could be linked to labor market opportunities. Indeed, individuals residing in urban areas are less prone to acquire education than rural residents.

Hence, the evidence suggests that remittances have been instrumental in human capital investment in the region.

## **Return Migration and Human Capital Accumulation**

Another important impact of migration is on human capital accumulation of migrants, in particular if those migrants return to their home countries. A substantial proportion of migration in MENA is temporary in nature. Return migration can affect the economic prospects of the origin countries through at least two main channels. First, emigrants may accumulate savings while overseas, that given the capital market distortions prevailing in many LDCs, might not have been possible without migrating. Secondly, overseas work may enable emigrants to acquire new skills

and/or enhance human capital accumulation. The first impact of return migration on the home country has attracted some attention. Few studies have focused on the employment choice of returnees and in particular on entrepreneurship and self-employment amongst returnees. The second potential impact of temporary migration is on human capital accumulation. Is there any evidence of migrants acquiring human capital whilst overseas or does migration lead to loss of human capital? This is an important question for the economic development of the home country since earlier studies on emigration emphasized the resulting brain drain.

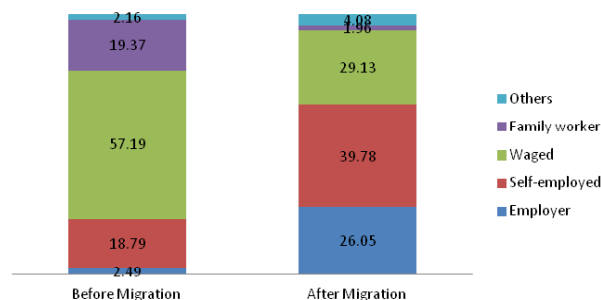
### Return, Entrepreneurship and Skills Moroccan Investors

Focusing first on the case of Morocco, Hamdouch and Wahba (2011) examine the determinants of Moroccan returnees becoming investors. Return migration is relatively not as important in Morocco as in other countries in MENA. However returnees and the diaspora still play an important in the economic development of Morocco.

The last population census in 2004 shows that were 165,416 returnees during the 5 years which preceded the 2004 Census, i.e. 33,100 a year on average, less than 1 percent of the Moroccan abroad. There are more men (63%) than women among returnees (37%). Returnees tend to reside more in urban areas than the average Moroccan, nearly 89 percent against 55 percent respectively in 2004. The level of education of return migrants was higher than that of the population of Morocco. This is due to the fact that emigration is highly selective along education: emigrants are in general more educated than the average of the population and their levels of education improve in the country of emigration. The 2004 Census also shows that the activity rate of return migrants was higher than the average Moroccan. The employment status of returnees shows a significant proportion of entrepreneurs, 46 percent (12 percent employers and 24 percent self-employed) but account for only 32 percent (2 percent employers and 32 percent self-employed) on average among non-migrants.

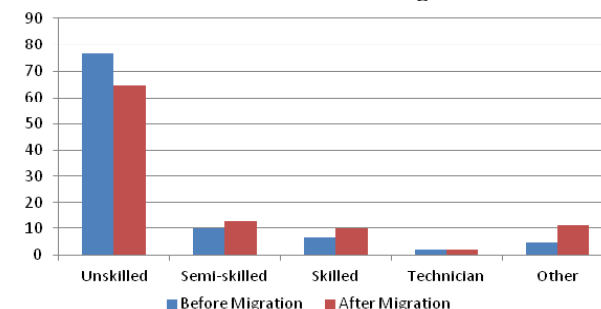
Based on a survey data collected by the Centre for Studies and Demographic Research (CERED) and the High Commission of Planning (HCP) in 2003-04 on return migrants, “The reinsertion of return migrants in Morocco” on Moroccans returnees in two main regions of Morocco, the Great Casablanca and the Souss-Massa-Draa (Agadir region) in the south, Figure 1 shows an increase in the share of returnees who became employers 26 percent compared to 2 percent before migration and 40 percent were self-employed compared to 19 percent prior to emigration. Hence suggesting that a substantial proportion of returnees tend to become employers and self-employed upon their return. Also, there is evidence of skill enhancement whilst overseas as shown in Figure 2.

Figure 1: Employment Status of Returnees in 2003-04 in Morocco Before and After Migration



Source: HCP (2004), “The reinsertion of return migrants in Morocco”

Figure 2: Skill Composition of Returnees in 2003-04 in Morocco Before and After Migration



Source: HCP (2004), “The reinsertion of return migrants in Morocco”

Moreover, 28 percent of returnees became entrepreneurs (invested in a project) upon return. In terms of sector, there was a prevalence of investment in the tertiary sector which monopolized 70 percent of the investment projects (40 percent trade and 27 percent for services), followed by industry 10 percent and primary sector (agriculture) 14 percent.

Around 88 percent of the returnees were migrants in Europe with the majority being in France. Interestingly the average duration of migration was about 22 years. Although on average entrepreneurs seem to be less skilled in their overseas occupations relative to non-entrepreneurs, almost 24 percent of entrepreneurs have acquired training whilst overseas compared to only 13 percent among non-entrepreneurs suggesting that acquired overseas skills might be correlated with becoming an investor. Also almost 19 percent of entrepreneurs have invested overseas compared to 3 percent of non-entrepreneurs. This again suggests that the two investment decisions are correlated and that migrants learn new trades/skills or build up business ties which they use to set up businesses upon return. Finally returnees who were emigrants in Western countries seem to be more likely to contribute to the provision of public goods such as roads and mosques upon return compared to those who went to Arab countries (Table 2).

**Table 2: Contribution by Moroccan Returnees to Public Goods in 2003-04 (%)**

	Arab Countries	Western Countries	Total
Well	7.34	25.77	24.4
Road	3.67	27.47	25.7
Irrigation	3.67	13.4	12.68
Mosque	19.27	48.38	46.22
Electricity Supply	1.83	12.89	12.07
Others	1.83	3.46	3.34

Notes: More than one answer is allowed.

Source: HCP (2004), "The reinsertion of return migrants in Morocco"

The empirical results show that migration duration affects the probability of investment upon return: this might be because longer migration duration enables more savings. As for individual characteristics, it is clear that males and younger individuals are more likely to become investors. There is a positive relationship between education and entrepreneurship/investment among returnees. Second, the findings suggest that pre-migration conditions matter for entrepreneurship among returnees. Those who were employers or self-employed as well as those who lived in urban areas are more likely to become engaged in entrepreneurial activity upon return.

Moreover, overseas migration experience plays an important role in determining the likelihood of entrepreneurship/investment. More interestingly, overseas training seem to have a positive correlation with the probability of the returnee investing suggesting that the migration experience may enhance migrants' skills or knowledge which enable them to become entrepreneurs. Being unskilled reduces the probability of entrepreneurship which is consistent with the finding that it is the more educated who tend to invest on return. There is also a positive significant relationship between investing whilst overseas and the probability of returnees investing at home after return. Thus, overall, individual characteristics, conditions before migration and the overseas migration experience play a significant role beyond the role played by savings and captured by migration duration.

*The results highlight the economic contribution of return migrants and support the view that return migration can play a useful role in the development process through investment and mobilizing the savings and skills of migrants.*

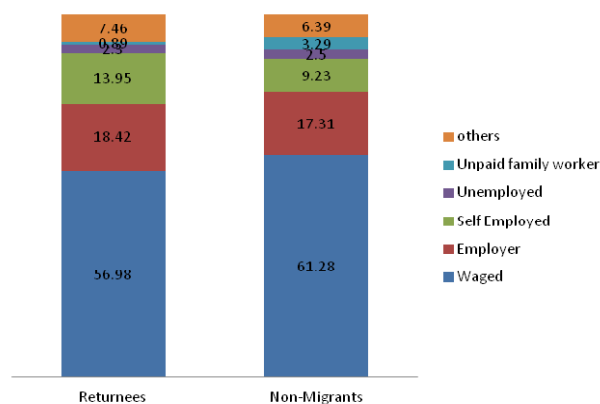
### **Egyptian Entrepreneurs: Returnees or Non-Migrants?**

Next, considering the case of Egypt, Egypt has been a major labor exporter since the early 70s, exporting both educated and uneducated labor mainly to the Gulf States and to other Arab countries. Egypt has a substantial proportion of return migrants who has worked previously overseas. Hence, temporary/return migration is more important for Egypt relative to Morocco. Using Egypt Labor Market Panel Survey 2006 (ELMPS 06) and comparing returnees to non-migrants, the findings indicate that more returnees are employers and

self-employed than non-migrants, Figure 3. Also, return migrants are on average more educated than non-migrants- Figure 4.

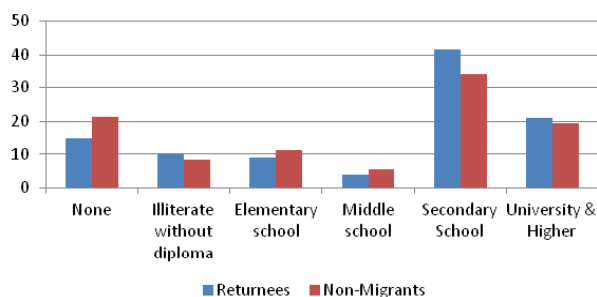
The empirical findings show that return migrants are more likely (5%) to become Employer/Self-employed compared to non-migrants. There is no evidence that returnees are more likely to withdraw from the labor market upon return; i.e. there is no significant difference between labor market participation of returnees and non-migrants. Hence temporary migration increases entrepreneurship.

**Figure 3: Employment Status of Returnees and Non-Migrants in 2006 in Egypt**



Source: ELMPS 2006.

**Figure 4: Educational Distribution of Returnees and Non-Migrants in 2006 in Egypt**



Source: ELMPS 2006.

### Wage Premium of Returnees

Waged migrants can also accumulate human capital overseas and benefit from migration experience. Wahba (2011) examines to what extent migration impacts on human capital and therefore affects wages or returnees. This is an important issue for economic development of the home country since earlier studies on emigration emphasized the resulting brain drain.

On one hand, migrants may have a positive wage premium compared to stayers because they have acquired new skills overseas that enhance their human capital. However, it is also possible that return migrants may have a negative wage premium if their skills depreciated overseas if they had to downgrade their occupations whilst overseas. It may also be that exiting the domestic labour market is punished, because a migrant has to quit a public sector job, or being overseas for a period slows down promotion process. One would expect that individuals would gain from temporary migration otherwise they would not incur this investment. However, there may be cases where those gains do not materialize, for example, due to imperfect information about destination, or adverse shocks that affect wages or employment opportunities overseas, or when migration is taken at the household level and is used as a risk diversification strategy.

Focusing on Egypt, empirical evidence based on the Egypt Labor Market Panel Survey (ELMPS 06) suggests that overseas temporary migration leads to a wage premium upon return. In 2006, on average, return male migrants earned around 8 percent more than non-migrants. Destinations matter: returnees from Western countries earn on average 20 percent more than those returnees from Arab countries. Also the wage premium differs by educational level: less educated returnees earned only 2 percent more than non-migrants whilst university graduate returnees earn 15 percent more compared to non-migrants. This emphasizes the significance of temporary and return migration.

The importance of returns to overseas work experience and the impact of temporary migration on human capital are highlighted through occupational choice and wages of migrants upon return to their home country.

## Conclusion

Evidence shows the positive impact of migration on human capital investment for both those left behind through remittances and for the migrants themselves. Remittances increase education attainment and attendance for males but not always for females. Migrants acquire skills overseas which increase their probability of becoming entrepreneurs and investors as well as increasing their wages upon return.

## Policy Implications

### *Is Migration a Useful Tool for Development?*

Migration is an important tool for development that needs to be better utilised. Governments should provide the right environment to enable the benefits of migration to be maximized.

### Remittances

Remittances continue to be a very important source of financial flows for MENA even during the global recession. Yet, still a large proportion of remittances are sent through informal channels. For example, for Egypt only 22 percent of remittances were sent through banks in 2006. One way to encourage the transfer of remittances through formal channels is through reducing the cost of remittance services. In the third quarter of 2011, the average cost of sending remittances \$200 was 9%. As Table 3 shows though there is a wide variation in the cost of sending remittances. The cost of sending remittances from Europe to Morocco ranges from 15% to 27%. At the same time the cost of sending remittances from Saudi Arabia to Egypt or Jordan seems to be higher than from Saudi Arabia to the Philippines or India. Thus there is need to reduce the cost of sending overseas transfers to encourage and attract more remittances.

Studies show that remittances can have a positive and

**Table 3: Average Cost of Sending Remittances in 2011**

Sending Country	Receiving Country	Total cost %
Belgium	Morocco	18.30
France	Morocco	21.60
France	Tunisia	24.64
France	Algeria	28.42
The Netherlands	Morocco	14.26
Italy	Morocco	14.44
Germany	Morocco	26.40
Germany	Lebanon	29.54
US	Lebanon	27.96
US	Ecuador	8.02
UAE	Egypt	7.41
UAE	The Philippines	5.99
Saudi Arabia	Egypt	9.71
Saudi Arabia	Jordan	10.62
Saudi Arabia	India	7.24
Saudi Arabia	Pakistan	6.41

Note: Third quarter 2011, based on sending \$200.

Source: Remittances Prices Worldwide, World Bank.

significant impact on education. However, it is important that policymakers are aware that there is a tendency to invest in boys' education more than girls hence intervention in the form of scholarships for females based on ability can be a useful tool to redress this imbalance. Again it is necessary to ensure that remittances don't increase the gap in education between urban and rural areas through directing resources to rural areas. Furthermore, it is vital to focus on improving education quality. Hence if the benefits of investment in education are to be maximised, governments should invest in improving the quality of education in particular with an eye to exporting high skilled workers as the demand for low skilled labour has been declining whilst more and more labour importing countries are targeting high skilled workers.

### Brain Drain

Overall MENA countries are not experiencing worrying levels of brain drain as a region. However, some countries in the region namely Lebanon in particular followed by Morocco and Tunisia are losing a substantial proportion of their educated population. The loss of high skilled workers tends to be only a problem if migration is permanent. One policy to counteract the potential negative impact of the brain drain is through investment in education and training by labor receiving countries in home sending countries.

### Entrepreneurship

Migration not only allows migrants to accumulate physical capital but also human capital, both of which can be used by return migrants to invest in their home countries. However, in many MENA non-oil countries, setting up a business is not easy. Table 4 shows the ranking for selected countries out of 174 economies in 2010. As evident, it is not particularly easy to do business in most of those countries. Although Tunisia fares relatively well on all measures, the rest of the countries are still lagging behind. Given that return migrants tend to be willing and more likely to embark on setting up projects/businesses, there is a room for encouraging and directing their investment. Hence, reducing the red tape and the bureaucracy in the number of permits required are important. However, investors also need reassurances about their rights and the enforcement of contracts. Moreover, governments need to provide informa-

tion on areas of investment to encourage migrants' investment. Finally, migrants can play an important role in job creation in their home countries through their investment if they are enticed using the right financial incentives such as tax holidays to set up business and create jobs.

### *Are Migrants Agents for Development?*

Although migration can have positive impact as seen above, in many policy debates the emphasis is placed on migrants as agents for development. It is often forgotten that remittances are private flows and that migrants move to better themselves and their families. Thus, policymakers should not place the responsibility for development on migrants. As highlighted by Skeldon (2008), the responsibility for development is being increasingly placed upon the agency of migrants rather than on institutional structures. Policymakers should focus on the needed institutional structures and changes required for development. For MENA countries, in particular, during the present time it is vital to think about the institutional structures that can promote development. There is no doubt that development drives migration, and migration can support development. However, migrants need the right economic, social and political institutions in place to become agents for development.

**Table 4: Doing Business Ranks in 2010**

	Ease of Doing Business	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Enforcing Contracts	Resolving Insolvency
Egypt	108	18	155	99	94	75	74	144	136
Jordan	95	98	94	35	103	130	120	130	104
Lebanon	103	104	157	52	105	75	93	120	128
Morocco	115	82	76	102	143	96	153	87	63
Syria	136	133	132	82	79	170	108	176	100
Tunisia	40	46	85	46	60	96	44	78	37

Source: World Bank, Doing Business 2011.



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### **ERF Contact Information**

**Address:** 21 Al-Sad Al-Aaly St. Dokki, Giza, Egypt

**Telephone:** 00 202 333 18 600 - 603 | **Fax:** 00 202 333 18 604

**Email:** [erf@erf.org.eg](mailto:erf@erf.org.eg) | **Website:** <http://www.erf.org.eg>

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21 Al-Sad Al-Aaly St. Dokki, Giza, Egypt

P.O.Box: 12311

Tel: (202) 333 18 600 - 603

Fax: (202) 333 18 604

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