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Nexus in South Asia**

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**Remittances and Poverty in Pakistan: Does It
Matter Who Sends these Remittances, Who
Receives them and How they are sent?**

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Out Line

- Labor Force, Employment, and Migration
- Migration Policies
- Migration and Remittances
- Remittances, Growth, and Poverty
- Poverty and Remittances by Region
- Remittances: Legal Vs Illegal Channels
- Empirical Analysis
- Counter factual Analysis using CGE
- Conclusion

**Labor Force, Employment, and
Migration (1975-2007)**

- Population - 69.98 to 156.8 million
- Labor Force- 20.64 to 50.5 million
- Unemployed – 1.65 to 6.14 million
- Migration is one of the solutions to solve unemployment problem

Overview of Migration

- In 1973, Opening up of the Middle East Labor market has induced vast emigration of Pakistani workers and eased the unemployment situation a little bit.
- Labor migration for work growing with 22.5 percent per annum approaches to 1.4 million in end 1980s and approaches its peak of 2 million (10 % LF) in 1982-83.
- In mid eighties, the need for foreign labor diminished due to recession which forced OPEC countries to reduce oil prices.
- As a result the flow of migrant workers has slowed down but did not fall to zero.
- Currently, Pakistan diaspora is about 8-10 million with country's LF over 50 million.
- Remittances projected over 7.5 billion dollar which are equivalent of 35 percent of exports and 23 percent of country's imports of goods and services.

Review of Migration Policies in Pakistan

- 1971-77-Bhutto regime – Expedite the process to Issue visa to migrant labor
- 1979 ordinance - the overseas worker Foundation established for the welfare of Pakistani workers abroad.
- Facilitate the rehabilitation of migrants on their return.
- They also to solve problem of migrants facing in country of work and of their families within the country.
- They were also entitled to following benefits
 - Children are entitled stipends and scholarships for high education in institutions within the country
 - Housing projects
 - Transport service from airport to their home
 - Death-they expedite the process of payments, in case of delay they make payments to families
 - Bear expenses of transferring dead body back to the country

Cont...

- 1987 – National Manpower Commission (NMC) provide full support to Pakistanis seeking employment opportunities abroad and assistance in productive, re absorption of returning migrants.
- Peoples program was initiated in 1989 with Rs 2 billion, which includes exploration of employment opportunities in Iraq, Iran and Middle east.
- In 2001-overseas employment corporation (OEC) has launched the CV on line Scheme. This would help to reduce unemployment of educated labor.
- In 2002-03, OEC explored new opportunities and avenues for employment in
 - South Korea for General workers,
 - USA for employment for nurses
 - Europe employment for Doctors and Nurses.

The problem was that these expertise according to their standard needs to be developed, this did work effectively

Cont...

- Since 2006-07, the major focus is on:
 - To increase the number of overseas workers with proper skill taking full advantage of opportunities being offered by the demographic change taking place in industrialized countries.
 - Protecting the right of migrant workers
 - Facilitating workers in sending remittances through legal channels and effective utilization of remittances,
 - Developing investment facilities for the expatriates to use their acquired expertise
- (2007) The Ministry of Labor, Manpower, and Overseas Pakistanis (MOLMOP) has established a policy planning cell. It is working to boost overseas employment. In this regard four MoUs with Kuwait, Malaysia, Korea and UAE have been signed while with several other countries are under process.
- Currently, National migration policy is under preparation, which will provide guidelines for safer and greater migration.

Migration and Remittances

- **Improvement in internal labor market conditions Reduce unemployment and under employment in the country .**

Year	1975	1980	1983	1985	2000	2007
Unemployment Rate	-0.11	-0.53	-0.47	-0.36	-0.27	-0.57

- **Contribute to GDP growth**
- **Reduce Poverty**
- **Provide massive support to BOP**
- **Solve development problems**
- **Augmenting investment funds**
- **Technology brought home on their return**

Remittances and GDP Growth

- Contribution to GDP is two fold-Direct and indirect
- Direct contribution can be calculated by weighted sum of it components.
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- Remittances are transfer payments-used to finance household consumption, investment, or imports, which indirectly affect growth process.
- Indirect channels depend on impact multiplier of the remittances.

Remittances: Legal Vs Illegal (“hawala”) Channels

Migrants remit 78 percent of their total earnings-57 percent through official Channels and 43 percent through Illegal Channels

Total Remittances directly contribute 24 percent to GNP Growth in 1980s

10 percent contribution to growth is of remittances through Illegal channel

In the absence of remittance inflow through illegal channels, their actual contribution to growth remain hidden

Cont...

- Macro economic effect of Remittances Coming through illegal channels differ from the Effects of Remittances through legal Channels.
- Remittances through legal channels can be used to finance development projects generating employment, finance imports, pay of interest on debt, reduce demand for new loans
- Remittances through illegal channels are used for current consumption, repair of house etc

GDP Growth, Poverty and Remittance Inflow by Region

Year	GDP_G	Remittances/GDp	Remittance_US	Remittance_ME	Remittances_UK	Remittance_SA	Remittance_ROW	Pov_H
1974-75	3.88	1.63	9.09	39.62	35.11	8.18	16.19	36.92
1976-80	5.34	5.11	4.90	75.36	9.66	33.89	10.08	32.25
1981-85	6.69	9.45	3.88	83.11	6.11	50.16	6.91	26.42
1986-90	5.60	6.66	8.95	72.40	9.29	42.29	9.36	22.31
1991-95	4.92	2.87	11.67	63.89	9.76	42.56	14.68	27.30
1996-00	3.98	1.79	11.34	69.70	8.49	35.51	10.48	31.68
2001-05	5.26	3.72	27.84	49.15	7.74	17.92	15.28	28.96
2006-08	6.13	3.98	27.11	48.28	8.13	17.96	16.47	23.59
1975-08	5.33	4.75	12.74	66.25	9.26	34.52	11.75	28.01

Figure 1: GDP growth rate and remittance share in GDP

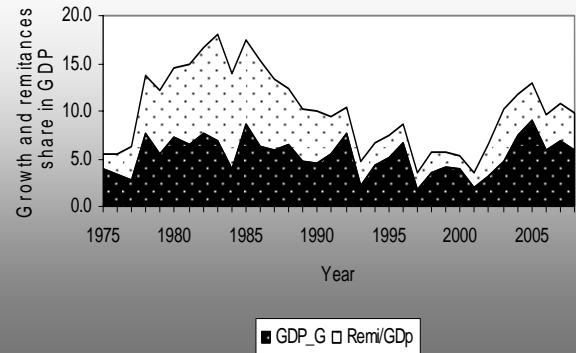


Figure 2: Poverty and Remittance share in GDP

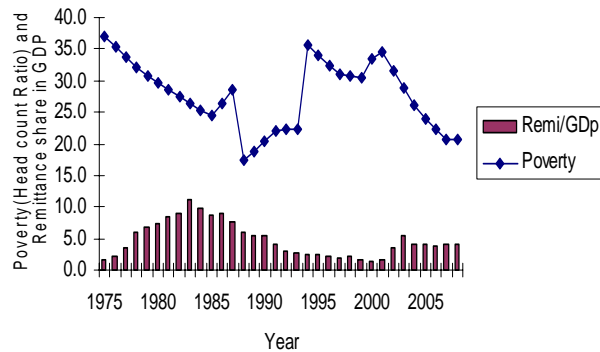
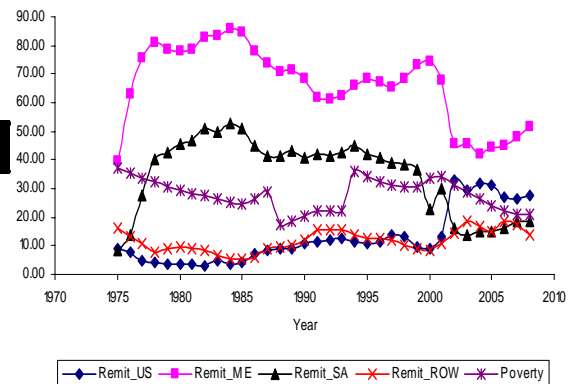


Figure 3: Poverty and remittance share by region in total remittance



Empirical testing – remittances and poverty

- Model is developed to analyze how remittances affect poverty in Pakistan
- Poverty equation is defined as suggested by Martin Ravallion Shaohua Chen

$$lPov = \alpha + \beta lrem_GDP + \gamma lGDP_pc + \lambda lGini + \sum v_k D_k$$

- Second Equation is estimated by including share of remittances by region

Data

- Time Series data set includes 34 observations over the period of 1975-2008
- Data collected from Various Resources
 - Remittance series(total and by region) GDP per capita from various issues of Economic Survey of Pakistan
 - Poverty Estimates are various sources Amjad and Kemal, Economic Surveys
 - Missing data for Poverty has been interpolated and extrapolated
 - Intercept Dummies have been used to capture the impact of variation in remittances over the three decades-1980s, 1990s, post 2000

Empirical Results

Dependent Variable: LPOV

Variable	Coefficient	t-Statistic
C	7.19	7.71
LG DPR_PC	-1.28	-3.80
LPREMTGDP	-0.15	-2.18
D80S	0.16	1.20
D90S	0.47	2.41
D20	0.57	2.47
LPGINI		
R-squared	0.59	
Adjusted R-squared	0.52	
F-Statistics	8.14	

Results

Dependent Variable: LPOV

Variable	Coefficient	t-Statistic	Coefficient	t-Statistic
C	10.61	4.02	9.06	4.72
LG DPR_PC	-0.84	-2.81	-0.81	-2.73
LPREMTGDP	-0.36	-5.19	-0.33	-5.44
LPREM_SA	-0.14	-0.90	-0.19	-1.30
LPREM_ME	-0.32	-1.32	-0.25	-1.10
LPREM_UK	-0.38	-2.73	-0.40	-3.02
LPREM_US	-0.01	-0.08	0.01	0.06
LPREM_ROW	-0.17	-1.07	-0.16	-1.03
LPGINI	-0.37	-0.86		
R-squared	0.66		0.65	
Adjusted R-squared	0.55		0.55	
F-Statistics	5.97		6.79	

Multiple Roles of Remittances

- Finance Consumption and Investment
- Finance CAD
- Larger flow change structure of Trade
- The CAD situation adversely affected not only due to decline in remittances but also due to decline in their export to ME which is a major source of foreign exchange earnings (i. e. one study shows that economic boom in middle east due to rise in oil prices have strong positive affect on exports from Pakistan, which increases from 16.3 % to 34.3 in the total exports and declined in the recession peiord(1986) to 16.9%).

Contribution of Remittances in Key Economic Indicators (Percentages)

Years	Financing through Remittances of		
	Current Account Balance	Trade Deficit	Remittance / Private Consumption
1980-81	67.11	76.56	9.98
1982-83	84.81	96.55	13.33
1985-86	67.74	85.31	10.67
1990-91	45.98	74.43	5.94
1995-96	24.20	39.44	3.13
2000-01	53.6	71.4	1.89
2004-05	52.1	67.3	4.5

Counter Factual Analysis

- The main concern, now, is what would the level of remittances be in the future years and how will the economy adjust itself to the reduced inflow of remittances.
- This analysis can be done using CGE framework

CGE Analysis of Remittances

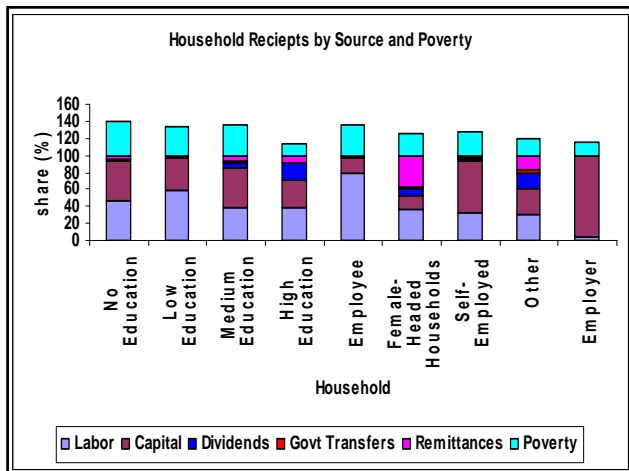
Remittances play multiple roles in development of Pakistan Economy

- Enhance Production Activities
- Change Structure of Production
- Change Structure of Demand
- Current consumption
- Structure of Trade
- Reduce Poverty
- Contribution to investment

Why CGE

- Remittances Contribute to GDP growth by two channel
- Direct Channel
- Indirect Channel
- It has multi dimension affects such as
- Imports contract due to decline in remittances
- Return migrant also have impact on labor market and wages
- Impact on different groups of households classified by profession, education level or employment status, which bear impact differ in intensity-important who receive remittances in poverty change analysis

Households by Occupation	Base Year (Pa Measures)					
	Households	Head Count	Poverty Gap	Severity Index	Remittance	Share of Remittances
Professional	2.71	19.92	4.68	1.15	1.09	0.92
Clerks	14.91	31.52	3.77	2.42	13.88	35.76
Agriculture Worker	2.12	35.33	7.43	1.44	10.41	5.06
Production Worker	13.83	40.08	5.51	1.26	8.78	13.62
Miscellaneous	7.11	23.44	9.39	3.25	9.47	21.92
Urban Total	40.68	32.44	7.27	2.36	9.95	77.28
Professionals	9.07	25.2	5.2	1.42	0.29	0.22
Clerks	2.37	34.25	7.38	2.33	3.06	3.31
Agriculture	11.56	28.3	6.43	2.12	1.93	4.68
Production Worker	22.29	36.3	7.31	2.22	7.29	8.41
Miscellaneous	14.03	23.19	4.58	1.41	4.87	6.09
Rural Total	59.32	30.47	6.49	2.05	3.40	22.72



Households	Total Labour Income	Remittances	Poverty	
			Share in Remittance	Poverty
No Education	46.8	5.6	13.7	39.8
Low Education	58.2	3.2	0.9	34.6
Medium Education	37.6	7.7	14.6	35.4
High Education	38.0	8.3	25.0	13.3
Employee	79.1	1.9	3.9	35.9
Female-Headed Households	37.2	37.6	14.1	26.5
Self-Employed	32.6	3.3	11.5	26.7
Other	31.0	16.7	15.7	19.7
Employer	4.5	1.3	0.5	15.3

CGE

- Production –
 - market (20) and non market (18)
- Labor –
 - four skill level by gender
- Poverty
- Welfare

Simulation: Decline in remittances by 44 percent during

Households by Socio Economic Groups	Poverty Effects	Welfare Effects
Urban Households		
Professional	12.30	-0.19
Clerks	14.15	-5.82
Agriculture Worker	14.44	-4.58
Production Worker	12.00	-3.06
Miscellaneous	6.06	-4.33
Urban Total	12.18	-4.14
Rural Households		
Professional	0.00	0.07
Clerks	0.00	-0.62
Agriculture Worker	0.19	-0.44
Production Worker	0.85	-1.97
Miscellaneous	0.43	-1.62
Rural Total	0.39	-0.89
Pakistan Total	14.15	-2.64

Gender Effects of Decline in Remittances

	No Edu	Low Edu	Med Edu	High Edu	Empl yee	FHH	Self-Empl oyed	Other	Empl oyers
YHP	-1.78	-1.53	-1.91	-2.07	-1.6	-4.53	-1.54	-2.73	-1.28
CPI	-1.17	-1.15	-1.14	-1.16	-1.22	-1.2	-1.23	-1.2	-1.23
	Wf1	Wf2	Wf3	Wf4	Wm1	Wm2	Wm3	Wm4	
wage rate	-1.91	-2.6	-1.65	-1.58	-1.61	-1.63	-1.68	-2.04	

Conclusion & Problems Identified

- Remittance have poverty reducing impact
- The channel of affecting poverty differs by legal and illegal channels but need to explore further
- Decline in remittance hit more to semi skilled worker-Clerks in urban area and Production workers in rural area
- Female headed households are in the worst position as they receive 38 percent of their income from remittances
- Gender Wage gap increase for un skill and low skill labor
- The decline in remittance inflows is a major contributory factor in explaining the rise in poverty in Pakistan during 1990s.

Policy Recommendation

- There is a need to develop data set.
 - Well documentation of overseas migration and remittances under legal as well as illegal channels for analysis used for policy recommendations.
 - Detailed information on the employment, production and consumption for more realistic analysis-the cost/benefit analysis.
 - Encourage migrant to send remittances through legal channel
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