



The Contribution of Labour Mobility to Economic Growth

International Labour Organisation
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Executive summary

More than half of the world's migrants reside in the G20 countries.

More than half of the world's migrants (55 per cent or 128 million people) live in the G20 countries, and remittances to and from G20 countries account for almost 80 per cent of global remittance flows. Migrants today are younger and better educated, and women are increasingly migrating for employment, with domestic work being a major occupation. While the economic downturn contributed to a decline by 10 percent in migration flows to G20 countries in 2012, aging populations and declining labour forces in most G20 advanced economies and some large emerging economies suggest that migrant workers will have an important role in maintaining labour supply and filling labour shortages and social protection funds.

Migrants make important contributions to the economies of both destination and origin countries

Migrants pay more taxes and social contributions than they receive and contribute substantively to destination countries' economies, by providing the labour and skills needed in critical occupations and sectors. Across the advanced countries, the number of highly-educated immigrants has increased rapidly over the past decade, which has important implications for productivity and innovation. Migrants could play a role in facilitating trade and investment flows. Through the contribution of remittances, child labour could be reduced and schooling financed. Return migrants have the potential to make a positive contribution to the economic development in their countries of origin through the human, social and financial capital acquired abroad.

In order to make the most out of migration flows for the benefit of all, a number of key challenges will have to be addressed...

Addressing skills recognition and skills matching issues

Much of the skills and knowledge of migrants is not used due to barriers in transferability of skills and qualifications, while work experience acquired abroad may be discounted in the labour market. Skills matching will remain a challenge among G20 countries, particularly as migration policies do not yet consistently incorporate labour market evidence and are not fully aligned with employment policies. A platform to facilitate the exchange of good practices across-countries on skills needs and on education systems could be useful to begin addressing this problem.

Reducing the costs of labour migration

High labour migration costs tend to reduce the development potential of migrants and their families. Labour migration costs include recruitment costs as well as foregone wages due to underpayment, late payment or non-payment of wages, lack of compensation for work-related sickness or injuries. Too often, migrant workers are subject to abusive practices in the workplace and pay high fees that can deplete their savings and make them more vulnerable during the recruitment and placement processes. Migrant workers who are denied access to equal and fair wages, skills matching, decent working

conditions, freedom of association and adequate social protection have less capacity to achieve their development potential and contribute less to host societies.

...And bilateral and multilateral dialogue and cooperation will be critical.

Multilateral dialogue and international cooperation are essential to promote fair, orderly and well-governed labour migration systems. Bilateral and regional consultative processes play an important role in facilitating cooperation between countries of origin and destination. G20 countries can play a key role to strengthen inter- and intra-regional processes to maximize bilateral and regional arrangements on labour migration and to strengthen linkages between migration and development planning.

1. Introduction

The Turkish G20 Presidency has requested the international organizations – ILO, OECD and the World Bank Group – to prepare a joint paper on the contribution of labour mobility to economic growth for the 3rd Employment Working Group meeting (23-25 July). More than half of the world's migrants (55 per cent or 128 million people) live in the G20 countries,¹ and remittances to and from G20 countries account for almost 80 per cent of global remittance flows.² These figures indicate the importance of migrant labour to G20 countries, and the key role that G20 members could play in maximizing development benefits and returns to migrant workers.

For most countries in the world, international labour migration has emerged as a major global issue and ranks high on international, regional and national policy agendas. Patterns of migration are evolving rapidly, with the result that most countries are countries of origin, transit or destination. In 2013, there were 232 million international migrants in the world, about 3 per cent of the global population, compared with 174.5 million in 2000.³

The main driver of migration continues to be employment related.⁴ Emigration rates tend to be higher in regions where overall economic conditions and in particular working conditions are poor and social protection low.⁵ Regions with a higher incidence of working poverty and lower levels of social protection coverage tend to have higher emigration rates (Figure 1). Those fleeing extreme conflict, often seek to enter the labour market of destination countries. At the same time, family members joining migrant workers abroad may also wish to work, either as employees or in self-employment.

Labour migration can be a vehicle for responding timely and effectively to labour market needs and changes, for stimulating innovation and development, as well as for transferring and upgrading skills. The full breadth of these benefits largely is not realized for a number of reasons. Migration is still too frequently associated with unacceptable labour abuses. Too many migrants face high social and economic costs in the migration process, inequality and discrimination in the workplace and in destination country, and integration programs have had mixed results.⁶

Migration policies are adopted with a wide range of objectives and have not consistently incorporated labour market evidence. In many countries labour ministries, employers' organizations, business, and workers' organizations are not given an opportunity to engage in dialogue on migration in a meaningful way. Furthermore, the prosperity generated by migration has not been shared equally among migrants, or the origin and destination countries.

¹ Calculation based on United Nations, Department of Economic and Social Affairs (2013). Trends in International Migrant Stock: The 2013 revision (United Nations database, POP/DB/MIG/Stock/Rev.2013). The calculation includes Argentina, Australia, Brazil, Canada, China, India, Indonesia, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United States and the European Union. See also: IOM: *How the G20 views migration*, 2015, p. 3. Available at: http://www.iom.int/sites/default/files/press_release/file/How_the_G20_views_migration_29May2015_updated.pdf [2 July 2015].

² G20 Development Working Group *Financial Inclusion and Remittances*, 2014, p. 2, available at: <http://www.international.gc.ca/g20/assets/pdfs/G20-PlantoFacilitateRemittanceFlows.pdf> [2 July 2015].

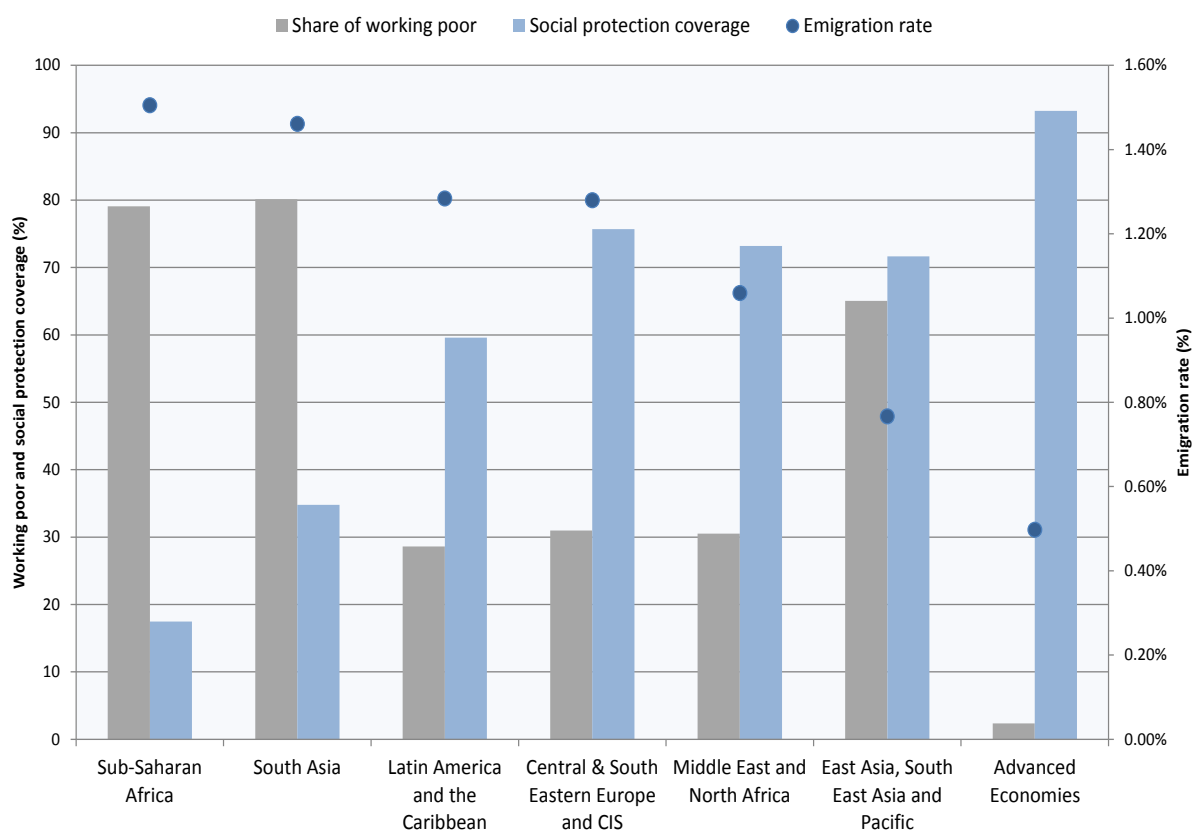
³ OECD/UNDESA: *World Migration in Figures* (2013), available at: <http://www.oecd.org/els/mig/World-Migration-in-Figures.pdf> [30 June 2015].

⁴ ILO: *World of Work Report: Developing with Jobs* (Geneva, 2014), cit. Pritchett, 2006; UNDP, 2009; Goldin et al., 2011, p. 181.

⁵ Ivi, p. 182, figure 9.1.

⁶ OECD/EU (2015): *Indicators of immigrant integration* (OECD, Publishing, Paris); M. Benton et al.: *Aiming Higher: Policies to Get Immigrants into Middle-Skilled Work in Europe*. (Washington DC, Migration Policy Institute and International Labour Organisation, 2014).

Figure 1. Emigration rates versus the share of working poor (below US\$2) and social protection coverage rate, selected regions, 2005-10



Note: Emigration rate (2005–10) is based on the data by Abel and Sander (2014).

Working poor and social protection coverage are the ILO's estimates.

Source: ILO Research Department

2. Scope of the paper

G20 economies receive about half of all international migrants and evidence suggests that South-South migration flows are rising.⁷ Aging populations and declining labour forces in most G20 advanced economies and some large emerging economies suggest that migrant workers will have an important role in maintaining labour supply and filling labour shortages and social protection funds. In advanced economies, one-fifth of the population is already aged 60 or above, with the expectation that this share will rise to more than 30 per cent by 2050.⁸ On the contrary, in many developing countries, less than 10 per cent of the population is aged 60 or above, with a significant share of youth entering the labour market every year. Migration can offer a path to leverage this difference in population age profiles, potentially benefiting both developed and developing economies.⁹

⁷ ILO: *World of Work Report: Developing with Jobs* (Geneva, 2014).

⁸ *Ivi*, p.189

⁹ *Ibid.*

Worldwide, female migration average annual growth rate increased by 0.9 percentage points to 2.3 per cent between 2000 and 2013.¹⁰ Many migrant women are migrating in search of better employment opportunities, with domestic work constituting a major occupation.

A significant number of young labour migrants (between 15 and 24 years old), representing one in eight migrant workers, are moving in search of better livelihoods.¹¹ Young people now constitute the bulk of migration movements annually, though representing a smaller percentage of all migrant stocks, at 28 million.¹² Survey data collected by Gallup across 150 countries and territories suggest that more than a quarter of young people are willing to locate to another country permanently in most regions of the world.¹³

Making the most of migration for all requires developing a comprehensive strategy that recognises the short-term as well as the long-term labour market needs at all levels of skills. Failure to do so might result in high costs for re-training and waste of public funds for services, as well as in poor skills matching that reduces productivity and competitiveness, and can contribute to segmented labour markets. Consequently, serious consideration needs to be given to providing, consistent with labour market needs, more regular labour migration opportunities at all skill levels, as well as to cross-border recognition of skills.

There is a strong business case too for fostering equitable treatment, inclusion and diversity. Migrant workers may offer privileged insight into new markets and could assist in opening up new business opportunities and contribute to innovation. Employers of a diverse workforce are more likely to attract talented human resources and investors. Diverse workforces can make businesses vital through increased creativity and better problem solving capacities.¹⁴

3. Mega migration trends

3.1 To advanced economies

In 2012, 1 million new permanent migrants went to the United States and a little less than 2 million went to EU countries, of which half were third countries' nationals.¹⁵ Overall, permanent immigration to the OECD area represented just above 4 million persons (about 95 per cent of them are going to advanced G20 economies), a figure fairly stable compared to 2011 (0.6 per cent), reflecting the slow pace of the recovery in most receiving countries. On average, the labour migration channel represents 15 per cent of the total flows. It is the third main category of permanent migration behind family migration, which continues to account for the bulk of overall migration flows, despite an on-going downward trend since 2008, and free-movement migration, such as EU mobility, which edged up again in 2011, and is the second main category of migration.

¹⁰ Ivi, p. 184.

¹¹ Global Migration Group: *Migration and Youth: Challenges and opportunities* (2014), pp. 4-5. Available at: <http://www.globalmigrationgroup.org/migrationandyouth> [2 July 2015].

¹² Ivi, p.14

¹³ ILO: *World of Work Report: Developing with Jobs* (Geneva, 2014), p. 182.

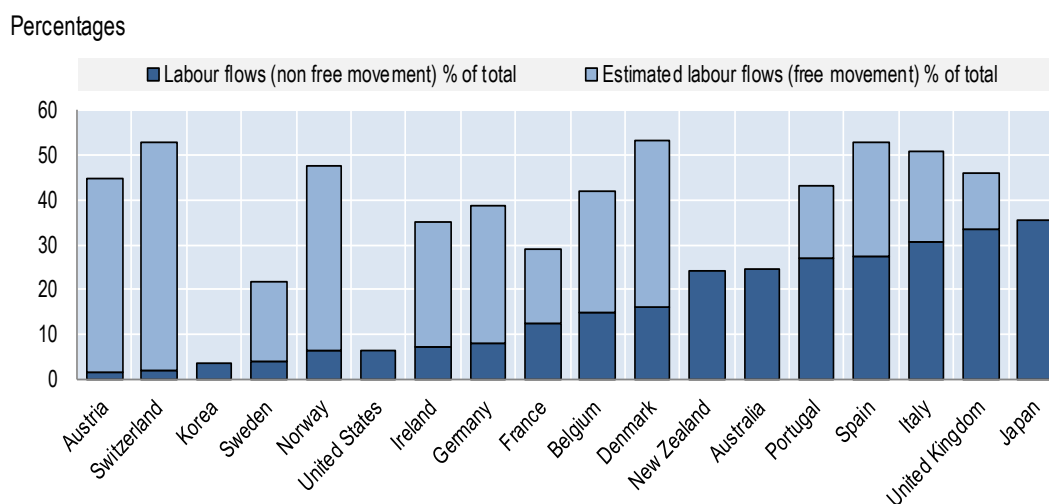
¹⁴ P. Taran and A. Gächter: *Achieving Equality in Intercultural Workplaces – An Agenda for Action* (ILO and Centre for Social Innovation Vienna, s.d.) available at: http://www.ihrec.ie/download/pdf/achieving_equality_in_intercultural_workplaces.pdf [2 July 2015].

¹⁵ OECD (2014a), *International Migration Outlook* (Paris OECD Publishing; OECD 2014), pp. 19-24; OECD (2014c) “Is migration really increasing?”, available at: <http://www.oecd.org/berlin/Is-migration-really-increasing.pdf> [2 July 2015].

Labour migration has declined continuously since the economic downturn and fell by more than 10 per cent in 2012. The fall in labour migration has been particularly sharp among European countries, where it has fallen by almost 40 per cent between 2007 and 2012. This is largely driven by reduced inflows to Spain and Italy where economic conditions were still unfavourable. However, even excluding these two large receiving countries, the remaining European OECD countries have nonetheless observed a 10 per cent decrease since 2009. In other parts of the world, several countries experienced an increase in the inflow of number of labour migrants in 2012: in the United States, where labour migrant inflows went up 1 per cent, but also Australia and Canada, where they increased by 6 per cent, or Japan which showed a sharp 21 per cent increase.

The overall fall in labour migration, however, does not tell the full story of migration for employment, as substantial work-related migration occurs within the framework of free movement, as is the case in the EU (see Figure 2).¹⁶ Over the past decade, several European countries, such as the United Kingdom and the southern European countries, received a large number of migrant workers from third countries. However, when employment-related free movement flows are taken into consideration, the magnitude of migration for employment reasons is also significant in a number of other European countries that receive little non-EU/EFTA labour migration. This is the case for example in Germany as well as in Austria, Ireland, Belgium and Denmark but also, and especially in Switzerland and Norway. In the traditional settlement countries of Canada, Australia and New Zealand, about 25 per cent of inflows of permanent migrants are primary applicants under the economic, skill or employment channels.

Figure 2. Labour migration as a share of total permanent migration to selected OECD destination countries, 2007-12 average



Note: Half of free movements are estimated to be employment related for EU countries. Exceptions where data are available: Sweden (52%), Denmark (65%), Switzerland (66%) and Norway (66%). For Australia and New Zealand, no estimates are available, and free movement is not shown.

Source: OECD, International Migration Outlook 2014.

¹⁶ OECD (2014e) "Who should be admitted as a labour migrant?", available at: <http://www.oecd.org/els/mig/migration-policy-debates-4.pdf> [2 July 2015].

Temporary labour migration tends to reflect the prevailing economic conditions and short-term changes in demand for labour and skills. Flows into OECD countries, which had been rising through the 2000s, reached a high of 2.5 million in 2007 and have fallen since then. In 2012, such flows stood at just 75 per cent of their 2007 peak; they fell by 4.4 per cent in 2012. Again, this drop does not represent the reality of temporary labour migration due to the evolution of regulations within the EU. For example, the collapse of the number of seasonal workers is mainly due to the end of the registration of seasonal workers who are moving within the EU, and who therefore partly disappear from the monitoring system.

International mobility of students can be seen, in part, as migration of future workers, as 20 per cent to 30 per cent depending on the host country remain in the country of their studies. Worldwide, the number of students enrolled outside their country of citizenship has more than doubled since 2000, to 4.5 million in 2012. However, the pace of this growth has slowed. The number of students enrolling in a foreign country increased by only 4 per cent in 2011 and 3 per cent in 2012 compared to 7 per cent per annum between 2000 and 2010; 75 per cent of the foreign students are enrolled in an OECD country. More than half of all international students arrive from Asia.

Change in migrants' stock in advanced economies

The most recent information (the Database of Immigrants in OECD Countries, DIOC) suggests that in 2010/11, there were around 113 million migrants in OECD countries, of which 106 million are aged 15 years and older, an increase by 38 per cent since 2000/01.¹⁷ Migrants from Europe make up more than a third of all migrants in the OECD (38 million), while Asian migrants and those coming from Latin America and the Caribbean each account for about a quarter of the total. The growth in the number of migrants over the past decade was greatest for African and Asian migrants (about 50 per cent) while that for Latin Americans was of 43 per cent. In terms of destinations, the United-States remain the top destination and home of close to 41 million foreign-born persons. Germany, the United Kingdom and France follow with a total of 24 million migrants.

Between 2005 and 2010, the migration of nationals of the American continent to OECD countries represented 6.3 million migrants. Approximately 2.8 million of them went to the United States. In the meantime, Spain received more than 1.4 million migrants from the American continent and the rest of Europe almost 900 thousands.¹⁸

Change in migrants' education and skills levels

The education level of migrants is rising over time. In 2010/11, 30 per cent of migrants aged 15+ in the OECD had tertiary education (see Table 1). This corresponds to 31 million persons and represents an unprecedented increase of 70 per cent over the past ten years. This growth was driven to some extent by migrants originating from Asia, whose number grew by 79 per cent over the same period. One third of all highly skilled migrants in the OECD come from Asia and more than a fifth of all highly educated Asian migrants are from India. Migrants from India, China and the Philippines account for one-fifth of all tertiary educated migrants in the OECD area. However, in the case of Latin American and Caribbean

¹⁷ Arslan, C. et al. (2014), "A New Profile of Migrants in the Aftermath of the Recent Economic Crisis" in *OECD Social, Employment and Migration Working Papers*, No. 160 (OECD); OECD (2015), *Connecting with emigrants, A Global Profile of Diasporas* (Paris OECD forthcoming).

¹⁸ OECD, OAS, ECLAC: *International Migration in the Americas SICREMI 2011* (Washington, 2012), pp.19-22.

migrants only 15 per cent of them possess a tertiary- education, while still 33 per cent of them have less than secondary education.¹⁹

Table 1. Characteristics of foreign-born (15+) from OECD and non-OECD countries, 2010/11

<i>characteristics</i>	<i>OECD country of origin</i>		<i>non-OECD country of origin</i>	
	<i>number (millions)</i>	<i>share (%)</i>	<i>number (millions)</i>	<i>share (%)</i>
<i>total migrants</i>	42.5		62.1	
<i>female migrants</i>	21.6	50.7	32.4	52.2
<i>migrants aged 15 to 24</i>	4.5	10.5	7.9	12.7
<i>migrants aged 25 to 64</i>	30.8	72.3	46.8	75.3
<i>migrants aged 65+</i>	7.3	17.2	7.5	12.0
<i>low educated migrants</i>	15.5	37.3	19.2	31.6
<i>medium educated migrants</i>	14.9	35.9	21.6	35.5
<i>high educated migrants</i>	11.1	27	20	32.8
<i>recent</i>	5	13	10	17.0

Source: OECD (2015 forthcoming) Connecting with emigrants, A Global Profile of Diasporas.

Despite a large share of tertiary educated among them, still a third of all international migrants aged 15 and above in the OECD has a low level of education. This number increased by about 10 per cent from 2000/01 to 2010/11. The number of low-educated migrants from Africa rose by about 35 per cent.

The emigration rates of the highly educated are higher than total emigration rates in the majority of the countries, highlighting the selective nature of migration in terms of educational attainment. Brain drain is higher in low-income and lower-middle income countries than others, which is not the case for total emigration rates. Countries with the highest emigration rates are typically small and island states, many of them in Latin America and the Caribbean. One in ten high-skilled persons born in Africa was living in OECD countries in 2010/11, the highest emigration rate of all regions, followed by Latin America and the Caribbean (8 per cent). Overall, women are more represented among international migrants, and even more so among the highly educated. The number of tertiary educated migrant women increased by 79 per cent between 2000/01 and 2010/11, an increase 17 percentage points higher than that for male migrants.

A large proportion of migrants (46 per cent) work in medium-skilled occupations, notably as services and sales workers, and in craft and related trades. About one in five migrants work in elementary occupations while more than one third is in high-skilled jobs (managers, professionals and associate professionals). Despite that, evidence seems to suggest that migrants' skills are not fully utilised in the destination countries and the incidence of over-qualification has increased in the past decade for migrants from all regions, but those from European non-OECD countries and from the Middle East and North Africa have been more strongly affected.²⁰

¹⁹ Ibid, p. 28.

²⁰ Arslan, C. et al. (2014), "A New Profile of Migrants in the Aftermath of the Recent Economic Crisis" in *OECD Social, Employment and Migration Working Papers*, No. 160 (OECD).

3.2 To other countries

In 2013, over 116 million migrants were individuals born in the South and residing in the South, but in a country different from that of their birth.²¹ The increasing trend in migration within countries in the South is a phenomenon that only began to be apparent after 2000. Regional labour mobility is now a key priority for Regional Economic Communities, such as SADC, ASEAN, MERCOSUR, among others. While during the 1990–2000 decade South–North migration was the main driver of increasing global migration, during the 2000–2013 period, migration across countries within the South represented 57 per cent of all global migration flows (change in stocks between 2000 and 2013).²² Both women and men have been migrating in larger numbers between southern countries, however male migration flows towards less developed regions was twice as high as that of female migration between 2000 and 2013.²³ The impact of this new type of mobility on economic development in both sending and receiving countries in the South, on income distribution and inequality, and on the demand for public goods and social services, has not been consistently or fully analysed among G20 countries.²⁴

Between 2000 and 2013, South Asia was the largest contributor to South–South migration, with 30 million additional people from South Asia relocating outside their country of birth. Overall, South Asia’s migration flow towards other South regions represented 26 per cent of total South–South flows between 2000 and 2013. In 2013, 52 percent of all migrants in the Middle East were originally from India, Bangladesh, Pakistan and Afghanistan; the stock of migrants in the Middle East from India, Bangladesh and Pakistan increased at an average annual rate of 9 percent, 13.3 percent and 8.5 percent respectively within the period.²⁵

With a view to broadening the evidence base on migrant work in developing economies and understanding better South-South migration, the OECD Development Centre and the ILO launched a research project in 2014 to develop a methodology and collect data on the economic contribution of labour migration in developing countries as countries of destination, co-financed by the European Commission. The project is undertaking research in ten low and middle-income countries where labour immigrants represent a substantial share of the population.²⁶

4. Economic impact of migration

4.1 In origin countries

The economic impact of migration on origin countries, and in particular on economic growth, productivity and poverty alleviation is not uniform. It depends on the local context, as well as the nature and intensity of migration flows.²⁷ The earning of migrants in the working age group is likely to depend heavily on their education level, age, gender, occupation and sector of work, and employment status (World Bank 2013). The gains to people who move are also important. Research found that migrants, on

²¹ ILO: *World of Work Report: Developing with Jobs* (Geneva, 2014), (Ch. 9 distinguishes countries in “North” and “South” by using the inequality-adjusted human development index (HDI) of the UNDP).

²² Ivi, p. 188.

²³ This explains the decline in the ratio of female-to-male migration reflected in recent statistics in less developed regions.

²⁴ In addition, North-South migration has also increased in recent years.

²⁵ ILO: *World of Work Report: Developing with Jobs* (Geneva, 2014), p.188.

²⁶ ILO Project: Assessing the economic contribution of labour migration in developing countries as countries of destination (ELCM), available at: http://www.ilo.org/global/topics/labour-migration/projects/WCMS_344706/lang-en/index.htm [30 June 2015].

²⁷ ILO: *World of Work Report: Developing with Jobs* (Geneva, 2014), p. 181.

average, could contribute to a doubling of education enrolment rates and to a 16-fold reduction in child mortality.²⁸

Remittances may increase expenditure on education by helping finance schooling and reducing the need for child labor (e.g. Ghana). Girls' school attendance and educational attainment rise from the receipt of remittances (e.g. Pakistan, Peru). Recent ILO research in Moldova points out that children from remittance receiving families have better access to information technology and knowledge of foreign languages, and they could more often afford to continue their studies at tertiary level (50.5 per cent of the respondents receiving no money from abroad chose to attend secondary vocational schools, as opposed to pursuing university studies).²⁹

Return migrants have the potential to make a positive contribution to the economic development in their countries of origin. Migration can also increase the likelihood of a return migrant becoming an entrepreneur due to accumulation of savings and human capital, while abroad (McCormick and Wahba, 2001; Ammassari, 2004; Black and Castaldo, 2009; Gubert and Nordman, 2011). In addition, migrants could play a role in facilitating trade and investment flows between origin and destination countries and, as consumers representing large communities, they could create new demands for goods and services (Head and Ries, 1998, Plaza and Ratha, 2011).

Brain drain has important consequences for the sustainable development of origin countries. The impact depends on the size and level of development, the sectors and occupations involved, and the nature of migration (temporary, permanent or circular) (Lowell and Findlay, 2002). The departure of skilled labour represents a loss of public investment in education, as well as in potential tax revenues. The departure of highly-skilled individuals could affect innovation and technological progress, and, in turn, productivity and growth. Certain professions could be more affected by migration, e.g. health care and education, due to global demand, which could lead to a failure in delivery of key social services in countries of origin (Katseli et al., 2006). Moreover, migration raises the domestic skill level by increasing the interest in upgrading skills, which could benefit the domestic labour market.

According to the ILO, one of the best strategies to address the issue of brain drain is based on the concept of circulation of skills, which requires enhanced cooperation between origin and destination countries, and could benefit both (Wickramasekara, 2003). Some initiatives include mentor-sponsor programs in certain sectors or industries, joint research projects, peer reviewer mechanisms, virtual return (through distance teaching and e-learning), and short-term visits and assignments (Ratha and Plaza, 2011). In addition, the skills of the Diasporas can be tapped by establishing knowledge exchange networks.

4.2 Economic contribution of migrant workers in destination countries

Over the past decade, immigrants represented 47 per cent of the increase in the workforce in the United States, 45 per cent in Canada and 70 per cent in Europe. They represented 31 per cent of the increase in the highly educated labour force in Canada, 21 per cent in the United States and 14 per cent in Europe.

²⁸ UNDP, *Human Development Report* (2009), p. 24. Available at: http://hdr.undp.org/sites/default/files/reports/269/hdr_2009_en_complete.pdf July 2015].

²⁹ R. Sintov and N. Cojocaru: *Assessment of Links between Education, Training and Labour Migration in Moldova*. International Labour Organization, Decent Work Technical Support Team and Country Office for Central and Eastern Europe (DWT/CO-Budapest). –(Budapest, ILO, 2013), p. 88.

In countries such as South Africa, Brazil, India or Saudi Arabia, foreign workers also make an important or increasing contribution to the dynamic of overall labour force.

Immigrants are playing a significant role in the most dynamic sectors of the economy. New immigrants represented 22 per cent of entries into expanding occupations in the United States and 15 per cent in Europe. These include notably health-care occupations and STEM occupations (Science, Technology, Engineering and Mathematics). At the same time, in many OECD and G20 countries, immigrants are filling lesser skilled labour needs by taking up jobs regarded by domestic workers as unattractive or lacking career prospects.

It is sometimes argued that immigrants risk displacing native workers but available evidence simply does not back-up these concerns: migrant workers supplement the local workers, while also being consumers. Migration is not a zero sum game. An extensive literature attempts to estimate the impact of migration on the labour market. Results differ depending on the approach, the country and the geographical scale used but most of the studies find only marginal effects on the wages and employment on average, and if there is any impact, this pertains to low-skill workers, or past migrants.³⁰ This raises issues of labour market segmentation and inequalities in labour market outcomes between migrants and nationals, and among migrants themselves.

Migrants contribute more in taxes and social contributions than they receive in individual benefits in OECD countries

Recent work on the fiscal impact of migration for all European OECD countries, as well as Australia, Canada and the United States, has provided new and internationally comparative evidence.³¹ The study suggests the fiscal impact of the cumulative waves of migration that arrived over the past 50 years in OECD countries is on average close to zero; rarely exceeding 0.5 per cent of GDP in either positive or negative terms (Figure 3).

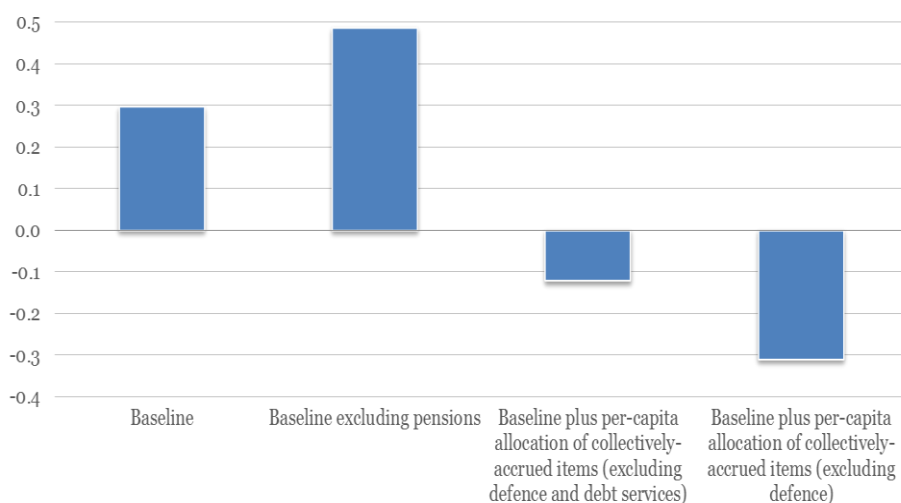
The OECD report concludes that immigrants are thus neither a burden to the public purse nor are they a panacea for addressing fiscal challenges. In most countries, except in those with a large share of older migrants, migrants contribute more in taxes and social contributions than they receive in individual benefits. This means that they contribute to the financing of public services and infrastructure, although admittedly to a lesser extent than the native-born.

Contrary to widespread public belief, low-educated immigrants have a better fiscal position – the difference between their contributions and the benefits they receive – than their native-born peers. And where immigrants have a less favourable fiscal position, this is not driven by a greater dependence on social benefits but rather by the fact that they often have lower wages and thus tend to contribute less.

³⁰ S. Longhi, P. Nijkamp and J. Poot: “A meta-analytic assessment of the effect of immigration on wages” in *Journal of Economic Surveys* (2005, Vol. 19), pp. 451–477; S. Longhi, P. Nijkamp and J. Poot: “Joint impacts of immigration on wages and employment: review and meta-analysis” in *Journal of Geographical Systems* (2010, Vol. 12), pp.355-387.

³¹ OECD (2013), “The fiscal impact of immigration in OECD countries” in *International Migration Outlook*, Paris OECD Publishing; OECD (2014b) “Is migration good for the economy?”, available at: <http://www.oecd.org/migration/mig/OECD%20Migration%20Policy%20Debates%20Numero%202.pdf> [2 July 2015].

Figure 3. Estimated net fiscal impact of immigrants, with and without the pension system and per-capita allocation of collectively accrued revenue and expenditure items



Note: The “baseline” calculations include estimates for indirect taxes as well as expenditure on education, health and active labour market policy.

Source: OECD (2013), International Migration Outlook.

Cross-country differences in the fiscal position of immigrant households are shaped by the design of tax and benefit systems and by differences in the composition of the migrant population in terms of age and migrant-entry category. The OECD study also shows that labour migrants tend to have a much more favourable impact than other migrant groups, although there is some convergence over time. On the other hand, the fiscal position of immigrants is generally less favourable in countries with longstanding immigrant populations and little recent labour immigration (OECD 2013).

Migration contributes to spur innovation and economic growth

International migration has both direct and indirect effects on economic growth. Given the age structure of inflows, migration tends to expand the workforce thereby contributing to aggregate GDP growth. However, the education structure of inflows has important implications for the productivity effects of immigration.

First, migration has a demographic impact, not only by increasing the size of the population but also by changing the age pyramid of receiving countries. Migrants tend to be more concentrated in the younger and economically active age groups compared with natives and therefore contribute to reduce dependency ratios.

Second, migrants arrive with skills and abilities, and so supplement the stock of human capital of the host country. More specifically, evidence from the United States suggests that skilled immigrants contribute to boosting research and innovation, as well as technological progress. This observation would however be valid only in G20 countries that receive significant flows of highly skilled migrants.

Few empirical studies have tried, however, to estimate the overall impact of net migration on economic growth, in part because of a shortage of harmonised comparative data on international migration by skills levels (See Annex A for a fuller discussion). Available evidence suggests a positive but fairly small impact of the human capital brought by migrants on economic growth.

Labour migration statistics are urgently needed to ensure that labour-related elements of migration inform employment, social protection, education/training and development policies. The current statistical framework to monitor international migration³² is not consistently used nor is suitable to cover all forms of labour mobility. There is a need for reconsidering international statistical standards regarding labour migration and to strengthen capacity and data collection systems.

5. Making the most of international labour mobility: good practices

5.1 *International Transferability of skills*

Releasing the full skills potential of immigrants is a key challenge for both destination and origin countries at a time when many countries are experiencing demographic ageing and a growing demand for skills as their economies become more knowledge-based. The issue is also of great importance with regards to social cohesion and for international development. In fact, migration can only have a positive impact on economic development - in both origin and destination countries - where immigrants are well-integrated and their skills are properly used in their destination countries.

In reality, however, most destination countries have a long way to go to fully recognise and use migrants' skills.³³ Across the advanced countries, the number of highly-educated immigrants has increased rapidly over the past decade, however, much of this potential is currently not used and qualifications and work experience acquired abroad are largely discounted in the labour market. In virtually all OECD countries, highly educated immigrants have lower employment rates than native-born with the same formal qualification level – regardless of age, gender and field of study. This is a typical “triple-loose” situation (i.e. a loss for the destination country, for the origin country, and for the immigrant). Where highly skilled immigrants are in employment, they are almost twice as likely to be overqualified for their job. In 2010/11, a total of 10 million highly educated immigrants were not employed in the OECD and a further 8 million were formally overqualified for their jobs (OECD and EU, 2014).

Almost two thirds of immigrants in OECD countries have acquired their qualifications and work experience abroad, often in labour markets and education systems which are quite different from those in their destination countries (OECD 2015). Such foreign degrees are associated with lower literacy skills (OECD and EU, 2014). A large part of these are language skills, which are in practice difficult to disentangle from other skills. But even after accounting for differences in such skills, a gap remains, which is probably related to the fact that employers have difficulties in assessing the value of foreign degrees. Indeed, the origin of the diploma is a stronger determinant of outcomes than the origin of the migrant him/herself.

Fair and efficient recognition procedures, which “translate” a foreign qualification into a domestic degree, offer an effective way out of this dilemma. Evidence suggests that immigrants who have their foreign credentials formally recognised are more often employed and work in better jobs than those who did not obtain or did not apply for recognition (OECD and EU, 2014). Yet, to date few immigrants with foreign credentials use such offers, which can be explained by a range of barriers to existing recognition

³² United Nations: *Recommendations on Statistics of International Migration, Revision 1* (1998).

³³ OECD (2014d) “How can migrants’ skills be put to use?”, available at: <http://www.oecd.org/els/mig/migration-policy-debates-3.pdf> [1 July 2015].

mechanisms (OECD 2014). One is the lack of transparency and the complexity of recognition frameworks. Recent reforms in a number of countries have set up contact points to inform applicants and facilitate the procedure.

Lack of access is a further issue, and countries have sought to address this by establishing a right to the assessment of foreign qualifications and by introducing subsidies or stipends for the often costly procedures. At the end of the day, however, access to most jobs depends on the discretion of individual employers, which is why it is crucial to build recognition partnerships involving employers in the process. Further, communication and promotion of the benefits of recognition systems aiming at migrant workers and their value for employers is necessary. This is particularly relevant to SMEs since they are often not aware of potential of migrant workers to fill their skill gaps.

Skills recognition and labour market matching remain also a challenge for return migrants. They frequently encounter difficulties in translating their experiences from the destination countries into improved employment outcomes upon their return. Recognition of prior (non-formal/informal) learning could play an important role for enhancing employability and occupational prospects for returnees, who have acquired new skills abroad but without the necessary certification. In turn, this will contribute to their successful and sustainable labour market integration back home. However, systems for the recognition of prior learning remain poorly developed and under-resourced to make a significant impact in the recognition of migrant skills, particularly in developing countries. (ILO, 2015).³⁴

5.2 Labour migration costs

The high economic and social costs incurred by migrants are increasingly recognized as serious impediments to realizing sustainable development outcomes from international migration. Under the auspices of the Thematic Working Group on Low-Skilled Labour Migration of the Global Knowledge Partnership on Migration and Development (KNOMAD), the ILO and the World Bank are surveying workers to learn about their labour migration costs, which include recruitment cost as well as foregone wages due to underpayment, late payment or non-payment of wages, lack of compensation for work-related sickness or injuries. KNOMAD is currently preparing a bilateral matrix on migration costs with focus on agricultural, construction and domestic workers. This matrix will highlight the structure of migration cost. (See Annex B for more details on the work of the ILO and World Bank on labour migration costs).

Employers often cover the economic migration costs of highly skilled migrants because the demand for such workers usually exceeds the supply,³⁵ but the opposite is true for low-skilled workers. Low-skilled workers who expect to earn abroad five to ten times more, compared to their domestic wages, could pay a third of their foreign income in recruitment costs (Martin, 2013).

For example, KNOMAD research found that farm workers employed in Spain for four to nine months paid 6 to 12 per cent of expected earnings in migration costs, and that worker-paid recruitment costs averaged from 1 to 1.5 months of typical earnings in Korea and 4 months of typical earnings in

³⁴ A. Aggarwal: *Recognition of prior learning: Key success factors and the building blocks for an effective system* (ILO, 2015). Available at: http://www.ilo.org/public/libdoc/ilo/2015/115B09_79_engl.pdf [2 July 2015].

³⁵ C. Kuptsch (et al.): *Merchants of labour*. (Geneva, ILO, 2006).

Kuwait.³⁶ Some countries of origin have set limits on worker-paid recruitment costs, but these limits are not always respected. Bangladeshi workers, for example, paid an average USD 2,445 instead of the USD 1,027 limit set by the Ministry of Expatriates' Welfare and Overseas Employment.³⁷

They also receive few of the social benefits given to high-skilled migrants. The vulnerability of migrant workers is often aggravated by informal intermediaries or employment agencies, some of whom operate outside of the regulatory system. Too often, migrant workers are subject to abusive practices during the recruitment and placement processes, including physical and sexual violence, excessive fees, debt bondage or illegal wage deductions linked to repayment of recruitment fees.³⁸

Box 1. ILO initiatives to regulate recruitment of foreign workers

The ILO has adopted both the Private Employment Agencies Convention, 1997 (No. 181)³⁹ and Recommendation No. 188 (1997), as well as prepared a guide to private employment agencies (2007), focusing on their regulation and monitoring. As per Article 7 of Convention No. 181, private employment agencies: '... shall not charge directly or indirectly, in whole or in part, any fees or costs to workers.' Practice may well be different. For example, an ILO study on private employment agencies in Ukraine (which has not ratified Convention No. 181), based on a field survey with 300 agencies, revealed that about 60 per cent of firms recruiting for international markets charge mediation fees. About one-third of the agencies were not aware of what actions had to be followed if they discovered that workers, who were sent abroad, were abused or discriminated (Vakhitova, 2013).

The ILO has launched a global multi-stakeholder *Fair Recruitment Initiative*⁴⁰ to raise awareness on the need to address these high costs, and is issuing good practice guidance on closing regulatory and enforcement gaps, and on the application of international standards. The *Fair Recruitment Initiative* encompasses four pillars: (1) Enhancing global knowledge on national and international recruitment practices; (2) Improving laws, policies and enforcement to promote fair recruitment, including complaints mechanisms and effective access to remedies, as well as increasing recruitment options, such as through public employment services; (3) Promoting fair business practices; and (4) Empowering and protecting workers, through promotion of good practice examples of social dialogue mechanisms. These efforts are being undertaken in collaboration with ILO's tripartite constituents, several Global Migration Group (GMG) agencies (GMG comprises 17 UN entities and IOM and was chaired by ILO in 2014), under the Task Force on Migration and Decent Work co-chaired by ILO and IOM, and with civil society.

³⁶ M. Abella and P. Martin: *Measuring recruitment or migration costs: A technical report for KNOMAD's Thematic Working Group on Low-Skilled Migrants – co-chaired with the ILO* (available resource with the WB KNOMAD), 2014.

³⁷ D. R. Agunias: "Regulating private recruitment in the Asia-Middle East labour migration corridor" in *Migration Policy Institute, Issue No. 4* (Washington D.C., 2014).

³⁸ See, e.g., Global Migration Group (GMG): *Realizing the Inclusion of Migrants and Migration in the Post-2015 United Nations Development Agenda*, Discussion paper (circulated May 19, 2015).

³⁹ ILO Private Employment Agencies Convention (No. 181), 1997. Available at: http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:312326 [30 June 2015].

⁴⁰ ILO: *Fair recruitment initiative: Fostering fair recruitment practices, preventing human trafficking and reducing the costs of labour migration* (Geneva, 2015), available at: http://www.ilo.org/global/topics/forced-labour/publications/WCMS_320405/lang--en/index.htm [30 June 2015].

Almost 10 million people use regular channels to migrate in search of employment every year.⁴¹ At least half (5 million) use the services of recruiters, likely paying USD 1,000 on average each,⁴² though in some corridors over USD 2,000.⁴³ Halving migration costs could save migrants between USD 2.5 and 5 billion a year in direct costs and even more if pre-departure loans and corresponding interest rates⁴⁴ – sometimes ranging between 24 to 36 per cent a year – are considered.⁴⁵

In fact, reducing recruitment costs for migrants could yield four to eight times the benefit than simply reducing remittance transfer fees. An example of this type of savings is instructive. A low-skilled worker earning USD 200 per month over three years (totaling USD 7,200), may remit USD 5000. Reducing remittance fees from 10 per cent to 5 per cent could save that worker a total of USD 250. If that same worker paid USD 1000-2000 to a recruiter for the contract, halving these recruitment costs saves the migrant USD 500-1,000, or two to four times the savings compared to savings from remittance fees.⁴⁶ If recruitment fees are eliminated entirely, as per ILO standards, the savings could be 8 times this amount. Both areas are important to increase the development potential for labour migrants.⁴⁷

While employed abroad, migrants may earn less than natives doing the same job. The ILO Global Wages Report 2014-15 found that there continued to be significant wage gaps between migrant workers and nationals in relation to both high and low-wage earners, which were only partly explained by differences in experience, education, occupation and other labour market characteristics. The unexplained part of this wage gap could be attributed to employer discrimination against migrants, differences in returns to education acquired abroad, or a lack of representation or under-representation in collective representation structures. In Europe, ILO found an average wage gap of 17.5 percent between nationals and migrants, 11.3 per cent of which falls into this category of unexplained factors.⁴⁸ It is worth noting that highly-skilled women migrants could experience a “double wage penalization” as they suffer discrimination versus national and migrant men (Lopez, 2012).

Migrant workers who are denied access to equal and fair wages, proper skills matching, decent working conditions, freedom of association, and adequate social protection, including due to non-portability of social security benefits, have less capacity to achieve their development potential or to contribute to societies where they work or may return. Migrant workers are often disproportionately affected by higher rate of occupational injuries compared to the native population, e.g. analysis of 31 studies from different world regions revealed that on average immigrants were involved in occupational injuries twice

⁴¹ P. Martin: “Lower migration costs to raise migration’s benefits” in *New Diversities* (2014, Vol. 16.2), pp. 9-36. Available at: http://newdiversities.mmg.mpg.de/wp-content/uploads/2015/02/2014_16-02_NewDiversities.pdf [2 July 2015].

⁴² Ibid.

⁴³ Worker-paid recruitment costs averaged USD 1,900 USD in Kuwait (cfr. Abella and Martin 2014); USD 2,445 for Bangladeshis going to the Middle East (see note 41 above).

⁴⁴ M. Abella, P. Martin, *Reducing migration costs* (2014), available at: <http://blogs.worldbank.org/peoplemove/reducing-migration-costs> [2 July 2015].

⁴⁵ P. Wickramasekara: “Regulation of the recruitment process and reduction of migration costs: Comparative analysis of South Asia” in *Promoting cooperation for safe migration and decent work* (Dhaka, ILO, 2014).

⁴⁶ P. Martin: “How to reduce migrant worker recruitment costs” in *Migration: A COMPAS Anthology* (edited by B. Anderson and M. Keith, Oxford - COMPAS, 2014).

⁴⁷ ILO: “Promoting Decent Work for Migrant Workers”, Discussion paper prepared as a basis for discussion during the thematic meeting on migration in the post-2015 UN development agenda of the Global Forum on Migration and Development in Geneva, Switzerland, 5 February 2015, and the 13th Coordination meeting on International Migration, UNDESA, New York, 12-13 February 2015.

⁴⁸ ILO: *Global Wages Report 2014/15: Wages and income inequality* (International Labour Office, Geneva, 2015), p. V (preface by the Director-General) and pp. 50-53, available at <http://www.ilo.ch/global/research/global-reports/global-wage-report/2014/lang-en/index.htm> [30 June 2015]. In countries like Cyprus, Spain, Greece and Italy, the wage gap between migrants and nationals is above 25 per cent.

more often than native workers.⁴⁹ A lack of coherence between employment and labour migration policies and restrictions on mobility within destination countries also impose costs on migrant workers (Cholewinski and Tayah, 2015).

5.3 Remittances⁵⁰

Remittances are the central and most tangible link between migration and development (Ratha 2007). In the context of the global deliberations on financing the implementation of Post-2015 development goals, migration and remittances can be leveraged to raise development financing via reducing remittance costs, lowering recruitment costs for low-skilled migrant workers, and mobilizing diaspora savings and diaspora philanthropic contributions. Remittances can also be used as collateral, through future-flow securitization, to facilitate international borrowings with possibly lower costs and longer maturities. And they can facilitate access to international capital markets by improving sovereign ratings and debt sustainability of recipient countries.

World Bank analysis shows that policies designed to reduce costs and increase transparency in the provision of remittance services—for example, by encouraging greater competition among banks and by promoting alternative providers such as microfinance institutions, credit cooperatives, and postal savings banks—are likely to have a beneficial impact on the market for remittances. The World Bank Group (WBG) played a critical role in the process that brought to the definition of a global target for the reduction of the cost of remittance services. The G8 countries endorsed the objective of reducing the cost of remittance services by five per centage points in five years (the 5x5 objective) at the July 2009 summit in L'Aquila, Italy. The commitment was then also adopted by the G20 at the Cannes, France summit in 2011.

Remittance costs have been declining over time but as of the first quarter of 2015 remained high at 7.72 per cent of the amount transferred for all developing countries, and at 12 per cent for Sub-Saharan Africa. The WBG estimates that, since the beginning of the global effort for reduction of remittance services cost, a total of nearly \$63 billion has been saved by migrants and their families thanks to lower prices. Notwithstanding such achievements, it is worth noting that the 5 per cent target is yet to be reached. The scenario remains quite diverse, with some regions such as Sub-Saharan Africa keeping an average cost over 10 per cent, and some countries continuing to be behind (for example, South Africa at 18 per cent and Japan at 13 per cent).

If the costs are reduced to 1 per cent, that would release a saving of 30 billion dollars per year. Thirty billion dollars, that is larger than the entire bilateral aid budget going to Africa per year. Actually, the savings would be larger than that 30 billion because remittance channels are also used for aid, trade and investment purposes.⁵¹ The development community could set a goal of reducing remittance costs lower than 3 per cent from the current 8 per cent. The World Bank's aim is to ensure that in each country corridor there are at least three remittance service-providers who charge 3 per cent or less to send money.

⁴⁹ S. Rizvi: *Safety and Health of Migrant Workers: Understanding Global Issues and Designing a Framework towards a Solution*, ILO, forthcoming (citing Salminen, 2011, p. 125; Schenker, 2010).

⁵⁰ <http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/AfricaStudyEntireBook.pdf> [30 June 2015].

⁵¹ D. Ratha: "The hidden force in global economics: sending money home" in *TED*, Oct. 2014, available at: http://www.ted.com/talks/dilip_ratha_the_hidden_force_in_global_economics_sending_money_home [30 June 2015].

5.4 Bilateral and other Agreements for managing labour migration

Bilateral labour arrangements (BLAs) on labour migration have become important tools to facilitate the recruitment of low-skilled workers and the protection of their rights. There has been a revival of BLAs since the 1990s across many parts of the world, including in new countries of origin and destination. The ILO promotes the use of bilateral labour arrangements through the ILO Convention on Migration for Employment, 1949 (No. 97)⁵² and the accompanying Migration for Employment Recommendation (Revised), 1949 (No.86), which contains a model bilateral agreement in its Annex.

The ILO, together with the World Bank's KNOMAD project,⁵³ has analyzed 151 BLAs in different regions and found a wide variation in terms of their content: objectives, duration, protection clauses and mechanisms for monitoring and evaluations. Recent positive developments include a growing interest in developing standard or model employment contracts for migrant workers and the inclusion of articles on the role of bilateral agreements in new migration laws. Further, there have been more government to government agreements, which seem to have contributed to reducing labour migration costs.

In the case of temporary labour migration schemes, there has been some progress in broadening the scope of BLA terms to cover the full-migration cycle (pre-departure, arrival, stay, return and re-integration). In recent years, there have been a number of dedicated domestic workers bilateral agreements, addressing specific concerns of this group, usually not covered by national laws. Most agreements reviewed (93 per cent)⁵⁴ contain mechanisms for monitoring of implementation through a joint committee from both signatory parties, yet the actual use of such procedures is not clear in all cases and requires further examination.

Only a few agreements explicitly focus on the protection of migrant workers, including their equality of treatment with national workers (Cholewinski, 2015). Gender concerns, social dialogue and prohibition of confiscation of travel and identity documents have been absent in almost all agreements.

Some BLAs include provisions to help improve the economic and social development of origin countries. It is important, however, to ensure that such provisions are applied effectively in practice and do not merely pay lip service to development concerns. In Asia, the World Bank has evaluated the New Zealand Recognised Seasonal Employer (RSE) agreements with Pacific Islands as an effective arrangement (Gibson & McKenzie, 2014). The Employment Permit System (EPS) of the Republic of Korea has included language and occupation-specific training, as well as a return program, as part of the scheme (Kim, 2015). On the other hand, findings from BLAs in the context of French-African relations (Panizzon, 2013), and Europe and origin countries in the global South (Adepoju et. al., 2009) indicate mixed development results (Wickramasekara, 2015).

Future arrangements could be strengthened in a number of ways. First, given the regional or multilateral nature of many migration flows, a multilateral model may be more effective to pursue in the future,

⁵² Migration for Employment Convention (Revised), No. 97 (1949), article No. 10. Available at: http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:312242 [30 June 2015].

⁵³ KNOMAD Project on Low skilled labor migration, available at: <http://www.knomad.org/thematic-working-groups/low-skilled-labor-migration> [2 July 2015].

⁵⁴ ILO: *Bilateral Agreements and Memoranda of Understanding on Migration of Low Skilled Workers: A Review*, Research Brief, Labour Migration Branch, International Labour Office, Geneva and Thematic Working Group 3 (TWG3): KNOMAD, The World Bank (2015b) p. 3. Available at: http://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---migrant/documents/genericdocument/wcms_357389.pdf [30 June 2015].

based on regional and cross-regional dialogue. Second, whether bilateral or multilateral, there is a need for effective mechanisms in the use and follow up of the agreements, including promoting transparency, dissemination, monitoring and evaluation. All parties should be fully aware of their rights and obligations and all relevant stakeholders participate in follow up. Third, strengthening the normative foundations of agreements via specific references to relevant international norms and ratification of international Conventions would speed their implementation. Finally, existing BLAs could be further reinforced by incorporating measures such as consular services, voluntary insurance schemes, and reintegration support, etc. particularly relevant for origin countries.

6. Key policy issues

Across G20 countries, labour mobility is on the rise and its composition is also evolving, with a larger fraction of skilled migrants. In the meantime, many G20 countries are facing major inflows of migrants related to geopolitical crises. Going forward, in order to make the most out of migration flows for the benefit of countries of origin and destination as well as for migrants themselves, a number of key challenges will have to be addressed. These relate notably to promoting the international transferability of skills, to reducing labour migration and remittances costs, and to reinforcing international cooperation in the field of migration.

Recognizing the complexity of migration challenges, the ILO Director-General has called upon ILO constituents to set a *Fair Migration Agenda*,⁵⁵ which places emphasis on labour market considerations, equality of treatment of migrant workers relative to nationals and other rights of migrant workers. OECD ministers in charge of migration, who met at the OECD High Level Policy Forum on Migration (December 2014) also reaffirmed the need to build public confidence on migration issues by informing the public debate on migration in an objective and accurate manner.⁵⁶

Harnessing the full potential of migrants' skills to support inclusive economic growth

Migrants contribute substantially to host countries' economies by providing the labour and skills needed in critical occupations and sectors such as construction, care and domestic services, or STEM. However, the full potential of migrants' skills is not always realized because of persistent hurdles in the international transferability of skills. These can be due for example to non-equivalence and/or non-recognition of qualifications, to the lack of language skills, to restricted access to specific occupations or to qualitative gaps between the demand and supply of skills.

G20 countries are well aware of this issue and many have set active policies to tackle the issue of skills mismatch, which particularly affects migrants. However, this issue has become more pressing given the growing importance of labour mobility and the increasing level of education of migrant workers. Building on recent OECD and ILO work on skills assessment and recognition, a platform could be

⁵⁵ ILO: *Fair migration: Setting an ILO agenda*, Report of the Director-General, Report I(B), International Labour Conference, 103rd Session, Geneva, 2014. Available at: http://www.ilo.org/wcmsp5/groups/public/---cd_norm/---relconf/documents/meetingdocument/wcms_242879.pdf [30 June 2015].

⁵⁶ OECD High Level Policy Forum on Migration 2014, available at: <http://www.oecd.org/migration-forum/> [30 June 2015].

developed to share information on good practices and facilitate cross-country exchange of information on skill needs and on education systems.⁵⁷

Reducing the costs of labour migration to enhance the benefits for migrant workers and countries of origin and destination

Evidence suggests that high labour migration costs can reduce the benefits for migrants and their families, and diminish their positive contribution to countries of origin and G20 destination countries. Worker paid recruitment fees can also divert a disproportionate share of migrants' income, thereby lowering their consumption in destination countries and the level of remittances sent home. To reap the benefits from migration towards inclusive economic development, labour migration costs should be reduced through constructing fair and effective labour migration governance frameworks. Such frameworks would help to realize the post-2015 United Nations Development Agenda proposed Sustainable Development (SDG) Goal 8 on economic growth, productive employment and decent work, which includes the target '*protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment*' and Goal 10 on reducing inequality within and among countries, which includes the target '*facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies*'. G20 countries could take a leadership role in setting this agenda, building on the ongoing joint World Bank, ILO and OECD work in these areas.⁵⁸

Action in this area would also strengthen efforts of G20 countries to reduce remittances costs. In 2011, G20 Leaders agreed to work to reduce the global average cost of transferring remittances from 10 to 5 per cent by 2014, which has led to a decrease in the G20 average cost to 7.98 per cent, its lowest level yet (see G20 Development Working Group—Financial Inclusion and Remittances, 2014). In 2014, G20 leaders reiterated their commitment to take strong practical measures to reduce these costs to 5 per cent, and to enhance financial inclusion as a priority. The G20 Development Working Group is now discussing the possibility to further reduce the transaction costs to less than 3 per cent by 2030. This agenda has benefitted from the active support of the World Bank Group.⁵⁹

Multilateral dialogue and international cooperation

Dialogue and international cooperation are critical to promote fair, safe, orderly and well-governed labour migration systems, to fight against human smuggling and trafficking and to face ongoing migration crises. Bilateral and multilateral regional agreements, in line with international standards and good practices, remain some of the main vehicles to manage international recruitment of labour. Regional consultative processes also play an important role in facilitating dialogue between origin and

⁵⁷ OECD (2014d) "How can migrants' skills be put to use?" <http://www.oecd.org/els/mig/migration-policy-debates-3.pdf>.

and OECD (2014a) International migration outlook, "Labour market integration of immigrants and their children : developing, activating and using skills".

⁵⁸ The draft final outcome document of the Financing for Development discussions includes a commitment by governments to cooperate to ensure safe, orderly and regular migration, with full respect for human rights, on portability of benefits, skills recognition, and to lower recruitment costs for migrants. See: Final Draft Outcome Document, Addis Ababa Accord of the Third International Conference on Financing for Development (as at 25 June 2015).

⁵⁹ The World Bank's aim is to ensure that in each country corridor there are at least three remittance service-providers who charge 3 per cent or less to send money. The Smart Remitter Index defines with technical precision the goal of ensuring that in each country corridor there are at least three remittance service-providers which: i) charge 3 per cent or less to send money, ii) are accessible on both the sending and receiving ends, and iii) make the money available to recipients within five days.

destination countries. G20 countries may wish to engage in further work on how these instruments could be strengthened and to identify further measures to be taken to encourage fair recruitment practices. G20 countries could build on existing ILO and OECD work on good practices in this domain.

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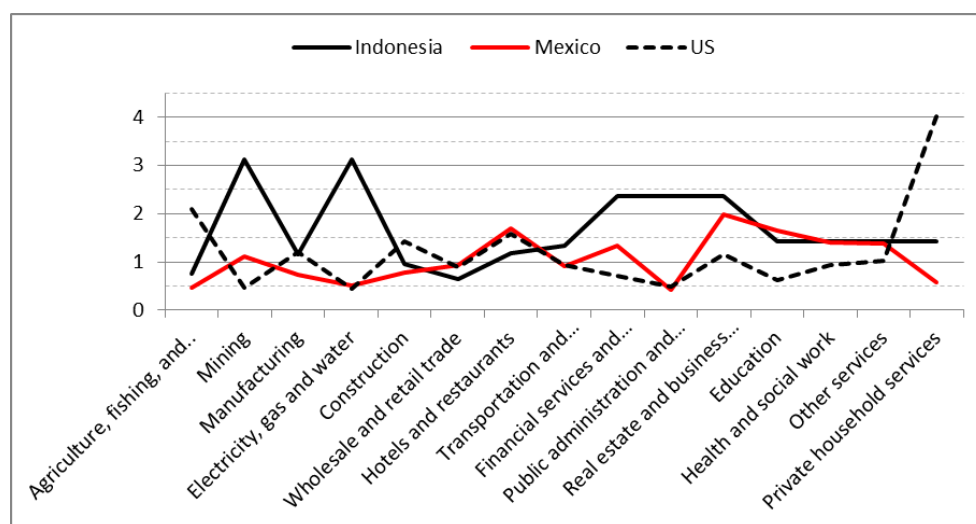
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Annex A. Methodological Challenges in Assessing the Economic Contribution of Labour Migration and Available Empirical Evidence

Migrant workers, like any group of workers, add to employment and output of host countries, but their economic contribution is at times the subject of intense debate. One factor hampering such debates as well as economic research is the much more limited availability of statistics and indicators on migrant workers. Furthermore, an assessment of the economic contribution of labour migration raises various methodological issues, and empirical results are strongly influenced by which factors are taken into account or not and the assumptions made about migrant-native worker interactions.

A simple calculation of the *current* contribution of migrant workers can be based on the assumption that migrant workers and native workers contribute equally to economic output. In other words, if migrant workers constitute 10 per cent of the employed, their economic contribution equals 10 per cent of GDP. However, this assumption could be misleading because migrants are concentrated in certain sectors. For example, in comparison with native workers, migrant workers are more likely than natives to work in mining, utilities and business services in Indonesia; in hospitality, business services and education in Mexico; and in agriculture, hospitality, and private household services in the United States (Annex Figure A). Given that the productivity of workers varies between sectors, the contribution of migrant workers at the national level is partly determined by their sectoral employment distribution.

Annex Figure A. Ratio of foreign-born and native sectoral employment shares in Indonesia, Mexico and the United States, 2010



Source: ILO calculations based on population census data from the Minnesota Population Center Integrated Public Use Microdata Series (IPUMS).

Notes:

1. A ratio of one indicates that the number of foreign-born employed in a particular sector, expressed as a proportion of all foreign-born employed, is the same as the proportion of the native employed in this sector; ratio's exceeding one indicate 'overrepresentation' of foreign-born workers in a particular sector.
2. For Indonesia, the sectors Education, Health and social work, Other services and Private household services show the average across these four sectors.

Taking sectoral productivity differences into account, the contribution of the foreign-born population to GDP in Mexico is the commensurate share of this group in employment, while in Indonesia the contribution is higher than could have been expected on the basis of the foreign-born employment share. The reason is that the foreign-born population is more likely than native workers to be active in sectors with high productivity such as mining and utilities in Indonesia, while in Mexico the high proportion of foreign-born workers in, for example, hospitality limits the overall foreign-born contribution to the economy. In both countries the foreign-born population was a very small percentage of the workforce in 2010 (less than 0.1 per cent in Indonesia and close to 0.5 per cent in Mexico). By contrast, in the United States this percentage was 17.5 in 2010. The economic contribution of the foreign-born population in the US was lower at 15.8 per cent, in part due to the relatively large proportion of foreign-born workers in low productivity sectors such as agriculture and private household services.

A further refinement of the calculation of the current economic contribution of migrant workers can take additional information regarding the productivity of workers within sectors into account, based for example on proxies such as years of education. Although in the US the foreign-born population in many sectors has less years of education than the native-born population, the opposite is true in Indonesia and Mexico (Annex Figure B). It seems reasonable to assume that these differences affect the productivity of workers in each sector, which results in a much higher economic contribution of migrant workers in Indonesia and Mexico than could be expected on the proportion of foreign-born employed (Annex Figure C).

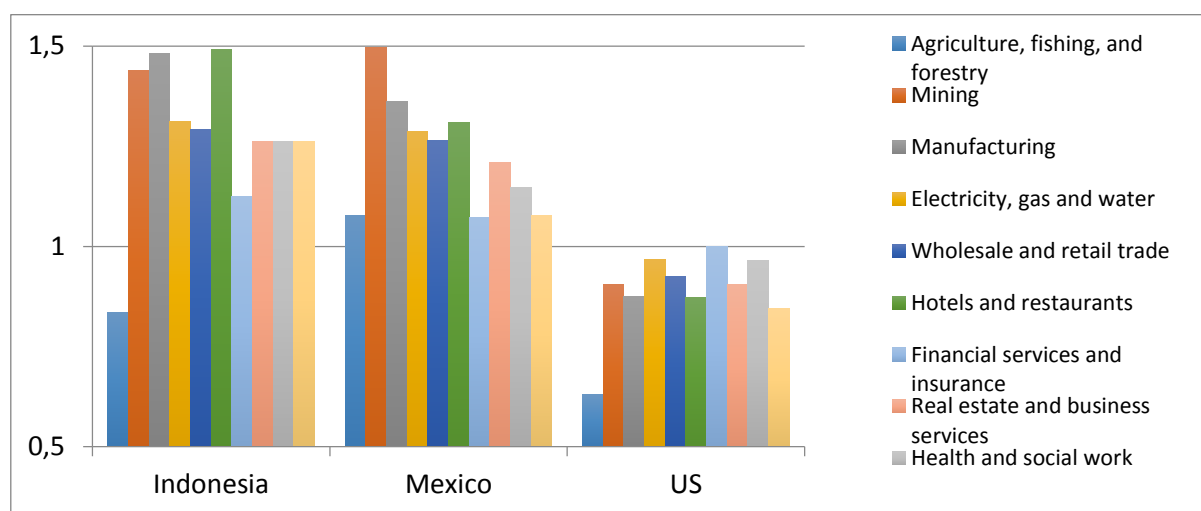
Such calculations of the economic contribution of migrant labour do not take the effects into account which the employment of migrants may have on native labour market outcomes. In a simple economic model (closed economy, fixed capital stock, homogeneous labour, constant returns to scale), an increase in labour supply due to immigration would lower wages, expand total employment and output but reduce native employment in the short run. However, relaxing these assumptions would yield different results. For example, if immigration induces firms to raise investment, this may offset the depressing impact of immigration on wages. Other adjustment mechanisms not captured by the simple economic model are possible, including changes in the mix of goods and services produced and changes in the technology used in the production of certain goods and services, and such changes will shape labour market outcomes of (groups of) workers.

Much of the literature on the economic contribution of labour migration has been concerned with the extent to which the skills brought by migrants are substitutes or complements to those of native workers. If migrant and native workers' skills are substitutes, immigration would increase competition and may lead to lower wages in the short run in accordance with the simple economic model. However, if native and migrant workers' skills are complementary, native workers' wages may rise due to an increase in productivity. Empirically, this issue has proven difficult to settle. Two leading American immigration economists, George Borjas and Giovanni Peri, have taken opposite positions, with the former arguing the case for similarity between (groups of) native and migrant workers, taking education and skills into account, and the latter arguing that migrants are more likely to be complementary to native workers (e.g., Borjas et al., 2011; Ottaviano and Peri, 2012).

Empirical results are mixed, but the economic effects of labour migration are often found to be small. Results of research conducted in the United Kingdom are illustrative. For example, it was found that in the period 1997-2005, an increase in the number of migrants by 1 per cent of the UK-born population resulted in an *increase* in average wages of 0.2 to 0.3 per cent (Dustmann et al., 2013). Another study focusing on the period 2000-2007 found that a similar increase in the share of migrants was associated with a *decrease* in wages of 0.3 per cent (Reed and Latorre, 2009). Although these studies arrive at opposing conclusions, both point at the relatively small effects of immigration on average wages. Studies for the UK also find stronger adverse effects of immigration on low-waged and low-skilled workers, in particular for (already resident) migrant workers (Ruhs and Vargas-Silva, 2014).

In empirical research it is often difficult to distinguish between the many types of migrant work (e.g., temporary/seasonal, permanent, regular or irregular). Analytical research tends to focus on the foreign-born population captured in population censuses, as information on country of birth can be linked to other important characteristics and labour market outcomes (available from the same source). However, several types of migration are not likely to be adequately captured in a population census, and necessitate more frequent data collection with appropriate instruments. At the same time, the type of migrant work will affect labour market outcomes and effects on native employment, as discussed in this paper. Furthermore, empirical research has focused on high-income destination countries, while migration flows outside these countries have become increasingly important. According to the World Bank (2015), South-South migration stood at 37 per cent in 2013, compared with 35 per cent South-North migration.

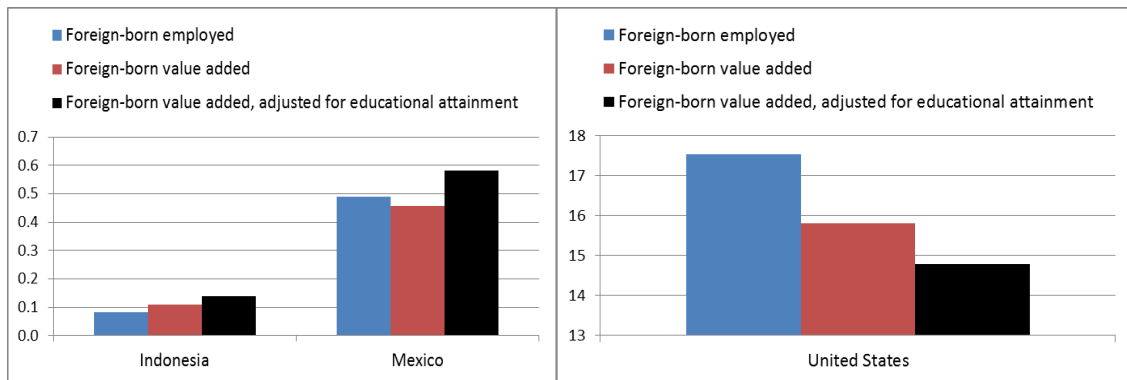
Annex Figure B. Ratio of years of education of the foreign-born and native-born employed in selected sectors in Indonesia, Mexico and the United States, 2010



Source: ILO calculations based on population census data from the Minnesota Population Center Integrated Public Use Microdata Series (IPUMS).

Note: A ratio of one indicates that the average number of years of education of the foreign-born employed in a particular sector is the same as the average number of years of education of the native employed in this sector; ratios exceeding one indicate a greater number of years of education for foreign-born workers.

Annex Figure C. Foreign-born employed (percentage of all employment) and foreign-born value added (percentage of GDP) in Indonesia, Mexico and the United States, 2010



Source: ILO calculations based on population census data from the Minnesota Population Center Integrated Public Use Microdata Series (IPUMS).

Annex B. Reducing Migration Costs Incurred by the Low-skilled

The high economic and social costs incurred by migrants are increasingly recognized as serious impediments to realizing sustainable development outcomes from international migration. Under the auspices of the Thematic Working Group on Low-Skilled Labour Migration of the Global Knowledge Partnership on Migration and Development (KNOMAD), the ILO and the World Bank are surveying workers to learn about their labour migration costs, which include recruitment cost, foregone wages due to underpayment, late payment or non-payment of wages, lack of compensation for work-related sickness or injuries among other issues. KNOMAD is preparing a bilateral matrix on these costs with focus on agricultural, construction and domestic workers.

Migration costs are a key distortion to freer labor mobility, especially of low-skilled labour. They tend to be high, opaque, and regressive – the less skilled migrants are, the higher the migration costs. Globally, pressure for greater low-skilled labour mobility has been rising, as advanced economies, especially those with population aging, have been increasingly demanding workers to fill jobs in non-tradable services (e.g., construction, caregiving, and domestic help). While ILO conventions recommend that employers pay all migration costs, both direct and indirect, the reality is that the low-skilled tend to pay their migration costs because there are often more workers than jobs. Many finance migration costs at high interest rates, so that a large portion of their earnings may be used for debt service. For instance, nearly half of migrants' remittances are used for debt payments in Nepal.

Benefits from reducing migration costs can be high. First, lower costs would enable poorer workers to migrate. Studies have suggested that the poorest of the poor in developing countries are less likely to benefit directly from international migration because of their inability to finance migration. Second, reducing migration costs would raise the disposable incomes of migrants and their families. Third, destination countries may have fewer overstayers, since high costs encourage some migrants to overstay to achieve savings targets, rendering themselves vulnerable to exploitation. Fourth, reducing migration costs in regular channels can protect workers. The World Bank's household surveys on migration in Indonesia (2014) show that average migration costs are higher for regular migrants than irregular, by 55 per cent.

Evidence-based policies to reduce migration costs require comprehensive data. The World Bank's KNOMAD, in collaboration with ILO, has implemented migrant surveys to measure migration costs incurred by low-skilled workers and build a bilateral database comparable across migration corridors. The initial focus is on migrants employed in the agriculture, construction and domestic help sectors, but data for more occupations and corridors is being collected. This work aims to contribute to setting a global target to reduce migration costs in the context of the post-2015 development agenda – e.g., to reduce migration costs to one-month expected wage.

Migration costs can occur at any point in the migration cycle. Actors at each point of the migration cycle – from the issuance of job orders to return of workers to home countries – can incur costs. For instance, employers may incur costs to undergo economic needs or labor market tests and obtain permits to employ foreign workers. Costs incurred by workers at the deployment stage can be grouped largely into three: compliance or documentation costs (e.g., visa, and medical tests), transportation costs, and recruitment service fees.

High migration costs can be fueled by higher expected earnings abroad than at home. Table 1 suggests that workers have an incentive to migrate because of wage differences between home and foreign countries. For instance, Vietnamese migrant workers saw higher monthly earnings in South Korea than in Vietnam, by US\$ 1,186 per month.⁶⁰ This may explain why workers are willing to pay high migration costs upfront, and thus employers choose to invest little to recruit low-skilled foreign workers and have incentives to hire many workers at low wages.

Weak enforcement of migration-related regulations in both destination and origin countries drives up the costs – such as visa trading and recruitment fees above the ceiling. Bangladeshis paid, on average, seven months’ earnings in Kuwait in migration costs, in part because of visa (sponsor or *kafile*) trading, ranging from US\$1,675 to US\$5,154. Buying and selling of visas is illegal in Kuwait and subject to heavy fines (Shah, 2014). Intermediaries involved in this trading also include relatives and friends; visa prices vary by the country of origin – higher for Bangladeshis than Indians and Sri Lankans, according to Shah (2014); the KNOMAD survey suggests that Indians paid, on average, about US\$344 for visas. Indians paid about three times the monthly earnings in Kuwait, and most of the costs are attributable to recruitment fees, while the India Emigration Act stipulates that recruitment service fees are subject to a maximum of INR 2,000 (or US\$312). This suggests that the efforts to regulate recruitment fees have had limited success.

Corridors with strong enforcement saw lower migration costs. Ecuadorians who went to Spain for their seasonal farm jobs under the bilateral labour migration agreement paid less than one month’s wage, as employers bought one-way air tickets and workers applied for jobs through the public job fairs or employment services.

Origin	Destination		
	Kuwait	S. Korea	Spain
Bangladesh	269		
India	298		
Sri Lanka	107		
Indonesia		1170	
Thailand		936	
Vietnam		1186	
Bulgaria			1113
Ecuador			1176
Morocco			1249

Source: World Bank, KNOMAD, 2014. Based on migrant surveys.

⁶⁰ The wage differentials can be overestimated as most respondents were unemployed or worked on family farms in their countries.