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RADIO CURRENT AFFAIRS

**ANALYSIS
AID OR IMMIGRATION?**

TRANSCRIPT OF A RECORDED DOCUMENTARY

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Taking part in order of appearance:

Eva, Olive and Shagid Patel
Customers at West London money transfer shop

Steve Baker
Conservative MP for Wycombe

Dilip Ratha
Migration and remittances expert from the World Bank and the University of Sussex

Owen Barder
Senior fellow of Washington DC think-tank, the Center for Global Development

Hetty Kovach
Senior policy adviser to Oxfam

Devesh Kapur
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Onyekachi Wambu
From the African Foundation for Development, or AFFORD

Alex Oprunenco
Head of international programmes with Moldovan think-tank, Expert Grup

Professor Paul Collier
Author of *The Bottom Billion* and director at the Oxford University Centre for the study of African Economies

MONTAGE OPENING MONEY TRANSFER SHOP

EVA: Hi, my name is Eva from Lithuania and I help customers you know, for sending money from one country to another

CAIRNCROSS: Immigrants from around the world are queuing up at Eva's desk in West London to send money back to their families.

EVA: Jamaica, Pakistan, Ghana, Poland, Philippines and the main reason I would say is for the family to pay for goods and services.

OLIVE: My name is Olive and I have just sent money to my family in Jamaica 'cause they have to pay bills and they have to send their children to school.

PATEL: My name is Shagid Patel and this week we sent to Pakistan as a gift to the family members after Ramadan. Money goes direct to the family members because family can securely receive money themselves instead via going through another channel. The money doesn't get lost definitely.

CAIRNCROSS: And every year, immigrant workers like Shagid and Olive, send billions of pounds home from money transfer centres like this one. These remittances are one of the unsung success stories of the fight against poverty in developing countries – but as a tool of development, they raise as many questions as they answer.

At a time of austerity and cuts, the government has decided to protect the aid budget. And yet at the same time the government wants to discourage migrant workers from coming to Britain. In this Analysis programme we ask whether there is a contradiction here. If we really want what's best for developing countries, is it more important to encourage remittances than to protect state aid?

BAKER: We have a moral imperative to help those in the developing world and also it's in our national interests. The big question for me is how to produce peace and prosperity for everyone right across the world.

CAIRNCROSS: Steve Baker, MP for Wycombe, is one of the Tory new boys. He has boldly questioned his government's determination to protect the aid budget.

BAKER: I have said to Andrew Mitchell, the Secretary of State for International Development, that it's my view that there is a moral imperative but I'm just not convinced that that moral imperative is best fulfilled by taxpayer funding. I've said that if we're really serious about helping the billions of people in poverty around the world then we need to accept that business is development. That entrepreneurship and opportunity correlates more closely to overall prosperity than any other factor. And it would be best fulfilled by individual action by voluntary action.

CAIRNCROSS: So are you saying that we should encourage remittances rather than focusing so much on official aid?

BAKER: What I'm saying is that remittances are a better, a more efficient and more powerful way to help people in the developing world than government aid.

CAIRNCROSS: That's a strong statement. And there are other Tory backbenchers who are also uneasy about the determination to protect the aid budget at a time of austerity and cuts. But what is interesting about Steve Baker is his enthusiasm for remittances as a possible alternative route out of poverty. Certainly the sheer scale of remittances is extraordinary. According to the World Bank, the torrent of cash that migrants send home is at least three times larger than official aid. Maybe it's more because all those payments from small money transfer shops are not easy to track.

I spoke to Dilip Ratha. He's an expert on migration and remittances, and he works at the World Bank and at the University of Sussex.

RATHA: In Sri Lanka, the size of remittances far exceeds the size of revenue from tea exports. In the case of Nepal, remittances are significantly larger than tourism receipts, and that's also true for Morocco. In Egypt remittances are larger than the revenue from Suez Canal. Then, when you see that remittances are flowing from a well-meaning person - a well-wisher - to families back home, one is not surprised that the money is so much better targeted to the needs of the recipient families.

CAIRNCROSS: Given this sheer scale of remittances and their buoyant growth, it is hardly surprising that they are one of the hottest topics among development experts. But can they actually replace state-funded aid?

That question raises lots of issues. Perhaps the toughest of all, which we will come to later on, is how we deal with the fact that boosting remittances generally implies increasing overseas migration. But let's start with the extent to which remittances might be a substitute for official aid. Owen Barder is a former British civil servant. His expertise on remittances was honed in Downing Street and in the Department for International Development. But today, he is a senior fellow of a Washington DC think-tank, the Center for Global Development.

BARDER: They're certainly a very good way of helping people in developing countries. They have the key advantage that the people who send them know the people who are supposed to be receiving them, they know that the money is getting through, there's less opportunity for corruption and for waste, and there's a certain accountability for how those resources are used. If money is sent for a particular purpose to send your little sister to school, for example, the person sending the money can be pretty sure that that's what's going to happen. And they might have lower overhead costs.

CAIRNCROSS: **In all these ways, remittances do lots of the things that official aid has traditionally tried to do. They make people better fed, healthier and better educated, and they help to create jobs. But does that mean that they do everything that official aid does? What do the big aid charities think? Hetty Kovach is a senior policy adviser to Oxfam, which is one of the largest distributors of aid from private donors.**

KOVACH: I think remittances can and do play a significant role in improving development in poor countries, but I think it's very naïve and simplistic to say that they should replace aid. I think you need both.

CAIRNCROSS: **But surely the thing about remittances is that they go straight to the people who need them and the people who need them then spend it on the things that they need? It doesn't have to go through government with money sticking to politicians' fingers as is so often the case with aid.**

KOVACH: Yes it is the case that they can go straight to the people that need them, but it kind of fails to recognise that a lot of the problems in these poor countries are systemic, they are systems failure and you actually need to work with those governments to build basic infrastructure and services like building schools, hospitals, but also paying and training for teachers and health workers. And remittances money just can't do that. It can't build the basics and the building blocks are often missing in these developing countries.

CAIRNCROSS: **But remittances are sometimes used in poor countries to build schools and to pay school fees, and in that sense surely they help to create the building blocks that are needed?**

KOVACH: They might help with individual families to be able to pay for education costs, but that doesn't mean that it's targeted to the most vulnerable or needy in a country. And there also, whilst the overall amount looks incredibly impressive and you can pick Bangladesh which you know is yes six times as much financial flows go into Bangladesh as aid does - if you actually look at the picture across the board, it's very unevenly spread, so there are many poor countries that don't get any remittances at all. So take Burundi, for example, or Benin. Benin gets 48 million I think in remittances. It gets just under one billion in aid. So I think another problem that we'd have with remittances is that it can't play a role in targeting it to those countries that need it. It's very lumpy when you look at its distribution.

CAIRNCROSS: This lumpiness is a particular problem for Sub-Saharan Africa, where countries get much less in remittances and much more in aid than similar poor countries elsewhere. Most Africans just live too far from the rich world to go there in search of work. So one big drawback to thinking of remittances as a substitute for state aid is that some of the poorest developing countries benefit less than others from remittances.

But official aid can bring problems too. It typically goes from governments to governments. Steve Baker, the MP who worries about the effectiveness of international aid, visited Egypt this summer, a country which for many years enjoyed one of the world's largest inflows of official state aid.

BAKER: One of the most memorable incidents was meeting a very successful international entrepreneur and he said plainly that what Egypt needed was a good open transparent democracy. So that businesses had a stable environment in which to operate. In his view and he was absolutely crystal clear about it, his view was that Egypt didn't need state aid he said that the Egyptian people were good enough workers and the Egyptian entrepreneurs were well enough capitalised that they could turn around Egypt to make it prosperous. In fact he positively rejected state aid and said that what we needed was help to develop the institutions of governance. Of course when we spoke to various presidential candidates in Egypt they told us almost the reverse – what they wanted was state aid and no help on institutions and governments.

CAIRNCROSS: Why might politicians be so enthusiastic about state aid? Well, aid typically goes through state agencies so the politicians can easily manipulate it; whereas remittances pass between individuals. Devesh Kapur is director of the Centre for the Advanced Study of India at the University of Pennsylvania. He has done interesting work on the subtle consequences of this for political change.

DEVESH: What foreign aid does is it strengthens the state relative to civil society, because of course the money flows through the state. Whereas with remittances, it's the opposite: it strengthens civil society vis-à-vis the state because the money is flowing through households.

CAIRNCROSS: No wonder politicians in developing countries love official aid.

DEVESH: There is some work in Mexico which looks at the changes in relationships between politicians and poor voters. And this is largely because access to public services in poor countries is very limited, it's very weak, and for a range of things the voter needs the help of the politician to get access to the state services. Now when these households get remittances, household income is more so you can now privately buy the sorts of services which otherwise you were forced to go to the state and therefore to the politician to get access to those services.

CAIRNCROSS: So remittances may bring political benefits. They may empower individuals, while aid often empowers government officials. The diaspora may, if it uses its influence properly, bring liberating new approaches and tougher scrutiny of old institutions. Another area where money may powerfully direct ideas is in attitudes to jobs and entrepreneurship. These are, after all, the most important goals of development. For, without locally created jobs and businesses, no economy in the developing world is ever going to acquire self-sustaining economic growth. Can official aid deliver that?

WAMBU: I think traditional aid does relief very well. If there's a famine or, you know, a crisis and people go in to respond and save lives, I think it does that very well. What I think it has been less successful at doing is development, trying to transform countries.

CAIRNCROSS: Onyekachi Wambu. He is a Nigerian who came to Britain as a child, and he now works for the African Foundation for Development, or AFFORD, a body he describes as not just a think tank but a "think and do tank".

WAMBU: The Economic Commission for Africa has said that every year there are eight million new jobseekers coming on to the job market in Sub-Saharan Africa. So who's going to provide this? It's going to be the private sector. And there hasn't been enough attention in terms of I would say traditional aid in trying to focus on how that private sector can be supported in providing these jobs.

CAIRNCROSS: We all know that governments are not good at creating those private sector jobs. The most sustainable businesses are likely to be financed by individual investors. Might remittances have a role to play here? The World Bank's Dilip Ratha again.

RATHA: As the migration process matures and the basic needs of the households are met, then the money is spent more on education and then health and then on business investments. We have recently conducted several household surveys in Sub-Saharan Africa, actually in six countries, and we found - to our surprise - that the amount of remittances spent on investments, business investments, was significantly larger than what we had expected in the past. We thought given the level of development of those households and those communities let's say in a country like Ghana or Burkina Faso or Nigeria, the bulk of the remittances would be spent only on consumption and a very little amount, if at all, would be spent on business investments. We were surprised at the extent of investment that is being made from remittances.

CAIRNCROSS: **So the money that individual immigrants send home seems to be much more likely to build jobs and businesses than government cash.**

But now for another issue: how to counter the criticism that remittances pay mainly for private spending, and do not contribute to the infrastructure that so many developing countries clearly need. What if a country's diaspora could be persuaded to club together to build the infrastructure that every developing country needs? One of the fashionable ideas of the moment is to create diaspora bonds, ways in which migrants might invest in projects that benefit their countries. The World Bank's Dilip Ratha waxes lyrical at the thought of what they might achieve.

RATHA: Actually a dream project for me would be a bullet train that connects all the major cities in India, and I think the diaspora would be very interested in investing in them. For example, a bullet train between Mumbai and Ahmedabad would really appeal to the diaspora from Gujarat who are all over the world and they're very rich. A bullet train or a metro system in Bangalore, for example, would be very appealing to the IT workers from India who are all over the world. But I am also thinking about projects like a medical school in Ghana that can be financed out of diaspora bonds to train doctors, so that we can address the issue of shortage of healthcare providers in Ghana and in the rest of the world. I am also thinking about other schemes where you give a choice to the remitter and say do you want to now contribute one dollar, one pound or more for fighting malaria in your country or in your community. And such schemes do have the promise, but they have not been tried yet.

CAIRNCROSS: **Here is another bright idea to make remittance money work harder: AFFORD's Onyekachi Wambu believes that remittances should attract gift aid, the tax relief that the government gives on donations to charity. The remittances would still go to families, and the gift aid to finance local projects. That way, there would be benefits even for those who had no relatives abroad. And he can also see a way to make remittances a more effective tool to create jobs.**

WAMBU: A lot of people who are given money by their relatives abroad through remittances to start a business, for instance, have never run a business. They want to become entrepreneurs not because they are entrepreneurial themselves. They're doing it because there's no social safety net. So if they don't trade, they starve. So we, at AFFORD we're calling those people reluctant entrepreneurs, and there's a big issue about how you can support those reluctant entrepreneurs rather than people abroad sending lots of money home to relatives and then the money is kind of wasted because their relatives don't know how to do business.

CAIRNCROSS: So how do you support them?

WAMBU: We've developed a programme which we're running in Sierra Leone, which we have five business development centres. And we've also developed another project, which we piloted recently, called Remittance Plus, or Remit Plus, where if you transfer money through this particular money transfer agency - and that money is for supporting your relatives to start a business - we will provide support through our business development centres in Sierra Leone and also help you monitor how that money is being spent by your relative. And I think those kinds of initiatives would solve some of the problems and challenges around remittances while you know adding real value to job creation.

CAIRNCROSS: All these ideas for making better use of remittances are worth exploring.

But here is the most difficult issue. Remittances require migration, and boosting remittances also means a greater willingness to accept migration from poor countries to rich ones. And there lies a problem – for both developing and developed countries.

In some developing countries, outward migration does not seem to bring benefits. A prize example seems to be Moldova, once part of the Soviet empire and now an impoverished country on the eastern edge of Europe. Alex Oprunenco is head of international programmes with Expert Grup, a Moldovan think-tank, and from his office in Chisinau, the capital of Moldova, he has watched the dramatic impact of migration on his homeland.

OPRUNENCO: Some surveys show that one million of Moldovans at some point of life had migration experience, so it means that almost a third of population of Moldova had this migration experience.

CAIRNCROSS: So are you saying that a third of the labour force has gone abroad?

OPRUNENCO: *(speaks over)* Yeah, around a third of labour force.

CAIRNCROSS: That's extraordinary.

OPRUNENCO: Yeah. In 2007, just before the crisis hit, remittances made for over a third of GDP of Moldova. And now after the crisis, remittances make for 28, 29 per cent of GDP, which is still huge.

CAIRNCROSS: There is clearly no country in Europe that people are more eager to leave than Moldova. But does the money they send home do any good?

OPRUNENCO: When people first started migrating by the end of 90s and beginning of 2000, the first needs were covered actually. The most usual, primitive needs like food, then clothes. Then it moved upscale and it was durable goods. Then people started investing in education of their children and in healthcare spending for their parents, and only a tiny proportion of this money actually went as investment.

CAIRNCROSS: But in some countries migrants learn entrepreneurship abroad, and then they come home bringing their money with them and they set up businesses at home with the money that they bring back. Do you not know anybody in Moldova who's done that?

OPRUNENCO: Well obviously there is anecdotal evidence of people who are coming back and setting up some enterprises, but men are mostly going to Russia or to other commonwealth independent state countries and are working in the construction sector. Women are mostly going to Western Europe - to Italy, Greece, Spain, Portugal - and they are working in the services there, providing care for elderly, babysitting and so on. They are mostly working in the low skill jobs, which has actually huge negative impact for Moldovan human capital because many of these people actually have university diplomas, so they are just wasting their skills. They are not acquiring better skills and not acquiring skills that are actually needed back in Moldovan economy. By far and large this is a waste of human capital, waste of the skills that these people actually received in Moldova.

CAIRNCROSS: The vast outward migration from Moldova has been socially destructive. But much of the problem seems to be the countries to which Moldovans migrate. After all, this is a country with no entrepreneurial tradition. And its migrants, many of them peasant farmers, are mainly heading for building sites in Russia, which may not be the ideal way to learn to run a business or even to be a better farmer.

Professor Paul Collier has studied them closely. He is the author of The Bottom Billion, a best-selling study of aid and poverty, and he directs the Oxford University Centre for the study of African Economies.

COLLIER: Overall, whether there's a brain drain or a brain gain really varies I think with the level of development. So the poorest African countries, there's reasonable evidence that there's a net loss for them from out-migration. The better off societies like India, there's reasonable evidence that there's a net gain from out-migration. All those migrants who went to Silicon Valley, learnt about information technology and brought all that knowledge back have been hugely important to India's development. So there's no blanket statement that can be made - out-migration damages a society or helps it, but for the poorest societies - what I call the bottom billion, the countries that really should be the focus of our development efforts, and now for Britain *are* the focus of our development efforts, there I think we delude ourselves if we believe that encouraging a lot of emigration helps, especially encouraging the emigration of the educated.

CAIRNCROSS: **For people in Sub-Saharan Africa, geographic isolation and poverty make it difficult for anyone other than the highly skilled to get out. But according to Owen Barder of the Center for Global Development, the impacts of the brain drain on poor countries are not always straightforward.**

BARDER: One thing that we observe at the moment in Sub-Saharan Africa for example, is that those countries that send abroad the most medical workers also have the most well staffed medical systems because more people want to come into those professions if they know that one of the possibilities is that they may be able to go and spend some of their working life abroad. So if you want to make those professions attractive, one thing to do is to give people the opportunity to spend some of their career making money in a rich country. So it isn't the case that if you hire doctors and nurses for example from Sub-Saharan Africa that that strips those people out of that system. On the contrary, it's a form of incentive for more people to be involved in that profession.

CAIRNCROSS: **But it's is not just developing countries which are increasingly aware of the downsides of migration. In rich countries such as Britain, the political obstacles are growing larger, not smaller. Migration is a tremendously delicate and emotional political issue. But as the lessons of the past show, it can also be an astonishingly powerful engine for development. Owen Barder sees the migration debate in a historical context.**

BARDER: One thing that's striking about the debate about migration today is how ahistorical it is. There was much greater movement of people in the 19th century than there is today, and it seems strange to think about it now but a third of Europeans left Europe in the 19th century - most of them to come to America to make a better life for themselves. And there are countries like Ireland and Norway, a large part of whose economic success was built on what was essentially exporting labour to overseas countries and those people then sending home remittances. So there should be little doubt that migration is valuable both for the country that receives the immigrants, that it's valuable for the migrants themselves who move to make a better life, and that it's valuable for the countries that they leave behind.

CAIRNCROSS: But the situation has changed since the heyday of 19th century migration, and in one absolutely crucial respect: the arrival of the welfare state.

Steve Baker, the MP who is daring to voice his scruples about protecting the aid budget, sets out the quandary.

BAKER: When people have more money in their own pocket they spend it in a way that most helps them. Now this of course goes to the big political questions that have been with us for a very long time. Because for all that government may be populated by people who care, whether it's the government in the UK, or the government in Pakistan, the truth is that officials and politicians do not know what is best for the millions of people who lived within their states. So yes for me those remittances are a much better way to help people towards prosperity.

CAIRNCROSS: That may also mean more migration?

BAKER: Well it may mean more migration but look this is the corner we've backed ourselves into now. If we're going to have a comprehensive welfare state, then unlimited migration just isn't possible. But I don't doubt that actually letting people move to where they can be most productive is the best way to promote peace and prosperity. If you stop people moving you are bound to create tensions. The welfare state provides so much to people in the way of housing, health, education, other services, we cannot just open the gates to this country, we must constrain immigration. And this to me is what I would call the agony of the welfare state. What a strange paradox it is that we know that the free market and social cooperation is the best way to help people into prosperity and yet, paradoxically, we have ended up trapped in the agony of the welfare state.

CAIRNCROSS: Immigrant remittances will never be a straight alternative to official aid. The poorest countries will continue to need help from the rich world's taxpayers. Besides, at a time of austerity, migration is a specially sensitive policy issue. But if we are serious about helping poor countries, it is not enough to hold the line on the aid budget. We need ways to make the existing flow of remittances an even more effective tool of development. And we must allow people more opportunities to work their way out of poverty in our job market, at least temporarily, and to send the proceeds home. That won't be easy politically. But if we do succeed, we may help to create jobs, to improve health and education and to foster political transparency around the world. Where migrants help to build their country, everyone benefits.