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THE ROLE OF INTERNATIONAL MIGRANT REMITTANCES IN COUNTRIES` DEVELOPMENT

***Summary.** The amount of annual inward remittances worldwide reached US\$557.1 billion in 2013. Inflows of international migrant remittances exceed annual inward ODA, FDI, and private capital flows in the majority of developing countries. Annual inflows of remittances in Ukraine reached 5% of GDP in 2013 and outweighed annual inward FDI and ODA combined. This paper analyses key patterns and trends of international migrant remittance flows from and to Ukraine, their determinants and impact on social and economic development of the country.*

***Keywords:** international migration, remittances, migration corridors, South-South pathway, labour migration, degree of diversification (concentration) of migrant and remittance flows.*

ГРОШОВІ ПЕРЕКАЗИ МІЖНАРОДНИХ МІГРАНТІВ ЯК ФАКТОР РОЗВИТКУ КРАЇН

***Анотація.** Щорічний світовий обсяг приватних грошових переказів у 2013 р. досяг 557,1 млрд. дол. США. У більшості країн, що розвиваються щорічний притік доходів міжнародних мігрантів перевищує обсяг надходжень прямих іноземних інвестицій, офіційної фінансової допомоги та приватних переказів капіталу за аналогічний період. Зокрема, обсяг надходжень приватних переказів мігрантів в Україну досяг 5% ВВП, за підсумком 2013 р., перевищивши загальний обсяг надходжень прямих іноземних інвестицій та офіційної фінансової допомоги протягом аналогічного періоду. У статті проаналізовано ключові тенденції та особливості участі України у міжнародному русі приватних грошових переказів, відповідні фактори та наслідки згаданих коштів на соціальний і економічний розвиток країни. Надходження коштів емігрантів є вагомим джерелом фінансування розвитку країни, тому у статті запропоновано низку заходів задля мінімізації ризиків та ширшого використання можливостей, пов'язаних з участю України у міжнародних міграційних процесах: стимулювання використання офіційних каналів переказу коштів,*

мобілізація заощаджень представників діаспори, заохочення інвестування або заощадження доходів мігрантів, покращення їх умов праці.

***Ключові слова:** міжнародна міграція, приватні грошові перекази, коридори міграції, міграційний шлях «Південь-Південь», трудова міграція, рівень диверсифікації (концентрації) потоків мігрантів та приватних грошових переказів.*

The amount of remittances received annually worldwide rose between 1990 and 2013 from US\$64 billion in 1990 to US\$126.8 billion in 2000 and US\$557.1 billion in 2013, and is expected to reach US\$ 636 billion in 2017 [1]. Remittances inflows surpass annual ODA, FDI, and private capital received by developing countries, with few exceptions. In 2013, in 12 and 26 developing countries remittance inflows exceeded 19% and 10% of GDP, respectively. The total value of remittances sent to Ukraine in 2013 reached US\$9.7 billion, i.e. above 5% of GDP [2]. Since 2003 and 2009 annual inflows of remittance have surpassed annual inward ODA and FDI, respectively. Moreover, annual (2014) inward remittances in Ukraine are estimated to be equal to total value of official reserves (as of December 2014), i.e. US\$7.5 billion [2].

Current socio-economic and political situation in Ukraine as well as some negative external factors may lead to further dilution of FDI's role in economic development of the country. Therefore, inward remittances remain a very important source of economic development of the country. However, the largest share of inward remittances in Ukraine is used to cover living expenses (73%) and only 3.3% are used to start a business [3]. Moreover, 14% of remittances are sent to Ukraine through informal channels [4]. We assume that current economic situation in Ukraine, financial market disturbances, abrupt national currency devaluation and tightened control over foreign currency transactions may cause a dramatic rise in the number and value of informal remittances, reduction of inward remittances and surge of outward remittances. Therefore, effective mechanisms should be implemented to offset these negative determinants.

We suggest to use mechanisms that can deflate transaction costs together with administrative and fiscal stimuli empowered to eliminate the share of informal channels of remittance flows, i.e. income tax breaks and exemptions for Ukrainian emigrants and their family members, who receive remitted income.

A low level of diversification of inflows and outflows of remittance to and from Ukraine poses high risk of remittance inflows (outflows) decrease (increase) as a result of deterioration of economic situation in origin (destination) countries,

changes in their migration policy or economic and political relations between involved countries. Also, there is no direct impact of origin country on average value of remittances per Ukrainian migrant. It can be explained by the fact that around 75% of labour migrants from Ukraine are employed in construction, agriculture or housekeeping, 17% of total Ukrainian labour migrants have no legal status and 4% have only visitor visas [3].

Taking into account the importance of remittances for the economy of Ukraine, effective, coherent policy should be implemented to:

- increase the value of inward remittances sent with official channels;
- increase total value of inward remittances (and decrease total value of outward remittances);
- mobilize diaspora savings and contributions;
- increase the average value of inward remittances per migrant;
- stimulate saving and investment of remitted income;
- improve working conditions of Ukrainian emigrants;
- encourage return migration, especially among business owners and highly qualified professionals.

Current system of taxation of remittances in Ukraine is not well equipped to achieve higher tax revenue from economic activity of emigrants, taking into account considerable share of informal remittance channels as well as informal employment of many Ukrainian emigrants, diminishing motives for return migration and low level of taxpaying culture in the country, in general. Substantial number of Ukrainian emigrants have already gained the citizenship of their destination countries, therefore effective mechanisms of mobilization of diaspora savings and philanthropic contributions should also be implemented, e.g. diaspora bonds, special deposits for inward remittances, including preferential fiscal treatment, credit unions, etc.

Unofficial employment, recruitment costs, well-being of Ukrainian emigrants, human trafficking and other migration related problems also require efficient and prompt solutions, to promote save and decent employment of labour migrants as well as their effective integration into local communities. Administrative and fiscal stimuli should be implemented to promote more productive usage of inward remittances, i.e. to invest or save. Finally, although migration may have a positive impact on countries of origin, elimination of 'push factors' as well as offsetting economic 'pull factors' and other motives of emigration should be prioritized by any government. Suffice it to say that most of the above-mentioned aims are unreachable without proper international cooperation.

Ukraine is one of the largest destination as well as origin countries of South-South migration and part of the second largest migration corridor in the world, after Mexico to the United States. Its annual inward remittances surpass 5% of GDP and are larger than annual inward FDI and ODA combined (2013). Therefore, inward remittances are a very important source of economic development of the country. But, positive impact of inward remittances on savings, investment, infrastructure development and growth has been dragged down by informal remittance channels, lack of efforts to mobilize migrants` and diaspora savings as well as adverse economic conditions in Ukraine. A list of country specific and general ‘push and pull factors’ may cause significant changes of the stock of international migrants and remittance flows to and from Ukraine in the nearest future. Therefore, coherent policy should be implemented to mitigate risks and explore opportunities related to migration, namely to increase total value of inward remittances, promote official remittance channels, mobilize diaspora savings and contributions, stimulate saving and investment of remitted income, improve working conditions of Ukrainian emigrants and encourage return migration.

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