Vadean, Florin P.

Working Paper
Skills and remittances: The case of Afghan, Egyptian, and Serbian immigrants in Germany

HWWI Research Paper, No. 3-9

Provided in Cooperation with:
Hamburg Institute of International Economics (HWWI)

Suggested Citation: Vadean, Florin P. (2007) : Skills and remittances: The case of Afghan, Egyptian, and Serbian immigrants in Germany, HWWI Research Paper, No. 3-9, HWWI Institute of International Economics, Hamburg

This Version is available at:
http://hdl.handle.net/10419/48248
Skills and remittances: The case of Afghan, Egyptian, and Serbian immigrants in Germany

Florin Vadean
Skills and remittances: The case of Afghan, Egyptian, and Serbian immigrants in Germany

by

Florin-Petru Vadean
Migration Research Group, HWWI Hamburg, Germany
Research Fellow, RIIM, Simon Fraser University, Canada
Visiting Affiliate, ARI, National University of Singapore
vadean@hwwi.org

April, 2007

Keywords: international migration, remittances
JEL Classification: F22, F24

* Support from Friedrich Naumann Foundation and the Migration Research Group – HWWA/HWWI, Hamburg is noted with appreciation. The paper is based on the project “Egyptian, Afghan, and Serbian Diaspora Communities in Germany: How do they Contribute to Their Country of Origin?” commissioned by the German Ministry of Economic Cooperation and Development and the GTZ and conducted by a joint team of IMIS, Osnabrück and HWWA/HWWI, Hamburg. The author thanks to Tanja El-Cherkeh, Holger Kolb, and Nadia Vadean and for proofreading and valuable comments.
1. Introduction

The issue of migration and development became in the last years highly relevant on the global policy agenda. Countries and international organisations increasingly perceive migration as a phenomenon that can positively impact development in both migrant receiving and sending countries, provided that appropriate policies are in place. And one of the central issues within the context of the migration and development nexus is the role of the migrants’ remittances as a source of capital and possible engine for economic growth in developing countries.

The migrants’ remittances gained in importance on the international agenda because of the dramatic rise in international flows. Between 2001 and 2005 international migrant remittances’ flows increased by 58%, to reach about US$232 billion (The World Bank, 2005). With about US$167 billion, developing countries received the biggest share, while industrial countries in North America and Western Europe are the major sources. However, there is still limited knowledge about the way in which these international transfers effect economic development in the migrant sending counties.

1.1 Literature review

Empirical evidence illustrates that the amounts remitted by migrants depend on the characteristics of the latter. Glytsos (1997) highlighted the importance of the immigrants’ return intention in determining remittance behaviour by proving that temporary migrants remit more than permanent ones. Semyonov and Gorodzeisky (2005) report gender differences in Philippine remittance behaviour, with migrant-men sending more money than migrant-women to households in the Philippines, owing to greater male earnings. DeVoretz and Vadean (2007) show that immigrant households belonging to ethnic groups in which people are more attached to their extended family remit more of their income and over longer periods of their lifetime. Faini (2006) points out that high-skilled migrants remit less than low-skilled because they are more likely to settle permanently and to reunite with their close family in the host country. Lucas (2001), however, argues that high skilled migrants make a very important contribution to the development of their countries of origin, through remittances, investments and transfer of technology.

Nevertheless, the socio-economic environment and policies in migrant sending and receiving countries might also affect the amount remitted. For example, Vadean (2006) notes that migrants possessing dual-citizenship (i.e. of the country of origin and of the host country) are more likely to be remitters and remit higher amounts compared to migrants having either

---

the one or the other. This is due to the fact that dual-citizenship grants rights to migrants in both the country of origin and the host country (i.e. entry and stay, access to labour markets, possession and acquisition of real-estate, etc.), thus, facilitating transnational household savings and investments. Yet, there are several developing and industrial countries that do not recognise dual-citizenship, e.g. Afghanistan, Austria, Belgium, China, Germany\(^2\), Ecuador\(^3\), India, Indonesia, Japan, South Korea, Malaysia, the Netherlands, Pakistan, the Philippines, Singapore, Sweden (US Office of Personal Management, 2001).

Concerning the developmental impact of remittances, for long time it was assumed to depend on how the money is spent by the receiving households. A longstanding literature suggests that remittances are more often used on basic consumption needs, health care, and real estate and do not find their way into productive investment\(^4\). But, whether from remittances or other sources, income is spent in a way ordered by the hierarchy of needs. Therefore, it is reasonable to suppose that until the developing countries reach a certain level of welfare, households will continue to exhibit the same spending pattern (Lowell and de la Garza, 2000).

Nevertheless, more recently scholars documented that even the disposition of remittances on consumption and real estate may produce various indirect growth effects on the economy. By improving the household budget they also support children’s schooling, better health care and housing, thus, aiding human capital development (Ghosh, 1996). As shown by Adams (1998) and IOM (2005), remittance receiving households have a higher propensity to save. Consequently, through remittances capital can be made available for the funding of investment projects. For example, Giulliano and Ruiz-Arranz (2005) found that remittances can promote economic growth in less financial developed countries by alleviating credit constraints and improving capital allocation. Furthermore, higher spending on basic needs stimulates retail sales, which further increases aggregate demand for goods and services. The empirical evidence indicates that such multiplier effects have substantially increased the GDP in Greece and Mexico (Glytsos, 1993; Ratha, 2003).

However, a necessary condition for the multiplier effects to occur is that production capacities in the migrant sending country flexibly adapt in order to meet the increased demand. Else, the economy has to deal with possible negative effects. If the increased demand falls on non-tradable goods, this can generate inflation and/or the appreciation of the real exchange rate, consequently reducing the competitiveness of the domestic industries\(^2\)
manufacturing sector\textsuperscript{5}. If the rising demand falls on tradable goods, this can increase imports and generate (or aggravate) trade balance deficits.

\textit{Straubhaar and Vadean} (2006) assess the importance of the political and macroeconomic environment for the promotion of investments in the home country, from both remittances and other sources. Productive investment does not depend on the households’ income improvement, but rather on economic and political stability, market infrastructure, interest rates, stock prices, and macroeconomic policies.

1.2 Motivation and scope
This study builds on the above literature and aims to make certain aspects of the migrants’ remitting behaviour accessible, about which little and controversial information exists. There are two different hypotheses concerning the way in which the level of education of the migrants (or the skill level) affects the remittance activity. \textit{Lucas} (2001) argues that high skilled migrants would make a major contribution to the development of their countries of origin. Besides sending remittances, migrants with a higher level of education would be more likely to make investments in the home country, because of the skills and expertise they have. He found evidence therefor in the case of East Asian migration. On the other hand, \textit{Faini} (2006) theorises that skilled migrants would remit less than unskilled because skilled migrants are less likely to return in the home country and more likely to reunite with their close family in the host country.

This paper does not address the return propensity of skilled migrants. A comprehensive literature shows that skilled migrants are more likely to be successful in the host country and, therefore, less likely to return to the home country\textsuperscript{6}. Furthermore, in their competition to attract the best and brightest from all over the world, most industrial countries actively promote nowadays the permanent settlement of skilled migrants together with their accompanying family members (\textit{Lucas}, 2001).

I would like to question, however, if the permanent settlement of skilled migrants in their host countries really results in lower remittances flows? And I hypothesize that the permanent settlement of a skilled migrant in the host country, often followed in time by naturalisation, changes the purpose of the money transferred in the home country, without necessarily affecting the amount remitted.

In the first years of residence the skilled migrant might remit money to support the consumption of his relatives in the home country. After settlement and reunification of the

\footnote{\textsuperscript{5} The so called\textit{ Dutch disease} effect.} \footnote{\textsuperscript{6} For a more detailed overview see \textit{Faini} (2006), p. 4.}
close family members in the host country, the migrant may reduce remittances for consumption purposes, because the consumption of the family members shifts from the home to the host country. Nonetheless, in the meantime the skilled migrant integrates in the host labour market, improves his/her employment position and accumulates capital. Together with the skills and expertise he/she now possesses this allows him to remit money to his home country for investments purposes. However, such investment transfers depend also on the investment climate in the home country.

The empirical estimation of macroeconomic data, as done by Faini (2006), can be often misleading. Since skilled migrants are more likely to be naturalised in the host country, their remittances are often not included in the balance of payments statistics under the migrants’ remittances categories. If a migrant possessing the citizenship of his home country remits money back home, the amount is usually being registered in the balance of payments under Compensation of Employees (under Income) or Workers’ Remittances (under Current Transfers), depending on whether he is residing for less or more than 12 months in the host country. However, if a naturalised migrant (i.e. having the citizenship of the host country) transfers money to a relative in his home country, the amount is usually registered under Other Current Transfers of Other Sectors (Alfieri et al., 2005). The conclusion that skilled migrants remit less might, thus, be due to a selection bias.

This study focuses on the way in which the pattern and use of migrants’ remittances are affected by the education level of the migrants, given the specific social and economic framework in the countries of origin. Information is collected through interviews with stakeholders of three immigrant groups in Germany: Afghans, Egyptians, and Serbs. Both the characteristics of their members and the political and macroeconomic framework of their countries of origin differ significantly among the immigrant groups, allowing also for a comparative analysis.

The reminder of the paper is structured as follows: Section 2 describes the methodology. In order to provide context, Section 3 illustrates the immigrant groups and highlights their particularities. Further it gives an overview on the remittances outflows from Germany to Afghanistan, Egypt, and Serbia and discusses the data problems. Section 4 gives

---

7 Own calculations based on ad hoc modules drawn from the European Community Household Panel (ECHP) for the year 2005 show that while about 80% of the high-skilled immigrants born in a country outside the EU-27 are naturalized in their EU country of residence, only about 50% of the medium-skilled and about 20% of the low-skilled immigrants from these countries are naturalized respectively.

8 The largest share of the migrants’ remittances are recorded in the balance of payment statistics category Workers’ Remittances (under Current Transfers). According to the specifications of the IMF, further categories in which remittances are booked are Compensation of Employees (under Income) and Migrants’ Transfers (under Capital Transfers). For more on migrants’ remittances in the balance of payment statistics see Straubhaar and Vadean (2006), pp. 140-141, Hertlein and Vadean (2006), p. 3 and Münz et al. (2006), pp. 43-44.
the evaluation of interviews and a comparative analysis among the three groups included in
the study in what patterns and the use of remittances in the countries of origin are concerned.
Section 5 concludes.

2. Methodology

This study relies on about 80 guided interviews carried out in Germany, Egypt and Serbia\(^9\). Using a snowball sampling procedure, key stakeholders (i.e. leaders of Diaspora organisations, well-known representatives, and businessmen) of the Egyptian, Afghan and Serbian communities in Germany were identified. In Egypt and Serbia\(^10\) interviews were conducted with representatives of the government and political administration, companies, banks, business chambers, universities and schools, as well as with migrants who had returned to their countries of origin.

Within the objectives of the interviews were to provide context about the remittance behaviour of immigrants in Germany, the intended purpose of the remittances made and their use in the home country. The interviews carried out in the countries of origin (i.e. in Belgrade and Cairo) had to give insight into the ways in which the role and effects of remittances are perceived and judged there, in particular by the economic organisations and political decision makers.

The questionnaire further included sections on the characteristics of the interviewee, personal history of migration, social integration and involvement, and the perceived socio-economic conditions in the country of origin.

Interviews with Afghan stakeholders were carried out in Berlin, Bochum, Bonn, Detmold, Freiburg, Hagen i.T., Hamburg, and Karlsruhe. Egyptian stakeholders were identified in Berlin, Frankfurt a.M., Munich, and Cairo. Finally, Serbian representatives were interviewed in Berlin, Bielefeld, Bonn, Frankfurt, Hamburg, Munich, and Belgrade.

Beyond evaluating the interviews, this paper also reviews statistical data from the International Monetary Fund (IMF) and the national central banks (i.e. German Federal Bank, Central Bank of Afghanistan, Central Bank of Egypt, National Bank of Serbia) concerning the remittances flows from Germany to Afghanistan, Egypt and Serbia, statistical data about immigrant stocks and flows from the German Federal Office for Migration and Refugees.

---

\(^9\) The interviews were carried out in the framework of the project “Egyptian, Afghan, and Serbian Diaspora Communities in Germany: How do they Contribute to Their Country of Origin?” commissioned by the German Federal Ministry of Economic Cooperation and Development and the German Technical Cooperation (GTZ) and conducted by a joined team of the Institute for Migration Research and Intercultural Studies (IMIS), University of Osnabrück and the Migration Research Group (MRG) of the Hamburg Institute of International Economics (HWWI/HWWI).

\(^10\) No field study was carried out in Afghanistan because of the financial and security cost involved.
(BAMF), the German Federal Ministry for Economic Cooperation and Development (BMZ) and the German Federal Statistical Office, and visa statistics of the German Federal Foreign Office.

3. Afghan, Egyptian and Serbian immigrants in Germany and related remittance flows

With about 10.1 million immigrants in the year 2005 (or 12.3% of its population), Germany is one of the major host countries of international migrants (Münz et al., 2006). Afghans, Egyptian and Serbian migrants are, however, not the most numerous immigrant groups in Germany. With estimated numbers of about 100,000, 24,000 and 700,000 foreign-born respectively they account for about 1.0%, 0.2% and 7.0% of Germany’s total immigrant population. Nonetheless, the interest in the three immigrant groups emerges from the difference among the characteristics of their members and the socio-economic environment in the countries of origin.

3.1 The Afghan immigrants

The largest stock of Afghan citizens living in Germany was registered in 2001 with about 71,662 people. Since then their number constantly shrunk reaching 55,111 in 2005, due to naturalisation, return migration and deportation. Of those, 47,635 were born abroad and 7,476 were born in Germany of Afghan parents. However, the number of total residents of Afghan origin (including naturalized Afghans) is estimated by the German Federal Ministry of Economic Cooperation and Development (BMZ) to be almost double (about 100,000 people)\(^{11}\).

The first Afghan settlers in Germany were carpet salesman which stocked their commodities and opened branches in the free-harbour of Hamburg\(^{12}\). After World War II, migration to Germany occurred in three waves\(^{13}\). In the 1950s and 1960s Afghan-German relations were intensely promoted. Several exchange programs took place between the University of Kabul and the universities of Cologne, Bochum and Bonn, allowing graduates of the German High School in Kabul to study in Germany. Most Afghan immigrants during this period were students and businessmen.

The second wave of immigration started in 1979 after the Soviet Invasion. The majority of immigrants in this wave were supporters of the Islamic Mujahedin (i.e. the

\(^{11}\) See GTZ (2004a).
\(^{12}\) According to subjective estimations of interviewees, nowadays, 50% of the about three hundred carpet salesmen in the Hamburg harbour are of Afghan origin.
\(^{13}\) For details see Bommes et al. (2006), pp. 9-11.
strongest opponents of the soviet troupes), seeking asylum after the institution of the communist regime in Kabul. The third wave of immigration occurred in the 1990s and consisted also mainly of asylum seekers, leaving Afghanistan because of the civil war.

The socio-economic characteristics and the residence status of the Afghan immigrants reflect their different migration patterns. Those who arrived before 1979 (i.e. students and businessmen) are better educated, well integrated, and have a consolidated resident status, i.e. permanent residency (13% of the residents of Afghan origin) or German citizenship. On the other hand, those who have immigrated after 1979 as refugees still have a less consolidated resident status (30% of the total residents of Afghan origin have a temporary visa and 7% an exceptional leave to remain\textsuperscript{14}). Due to the German immigration and asylum policy, they were kept for many years outside the education system and labour market.

However, even those who acquired education and skills in Afghanistan often experienced difficulties having their diplomas and qualifications recognised in Germany. 78.4% of the interviewees indicated having received no further training and having no or less than one year of working experience in Germany in the profession learned. Thus, the majority of them often had to accept jobs below their skill level and experienced a social decline (\textit{Bommes et al.}, 2007).

3.2. The Egyptian immigrants

The Egyptian immigrant group living in Germany is relatively small. According to the German Federal Statistical Office, about 10,258 Egyptian citizens legally resided in Germany in 2005. On the other side, Egyptian authorities estimate the number of emigrants to Germany, including those naturalised, to be about 24,000 (\textit{Bommes et al.}, 2007). Finally, when taking into account also second and third generation migrants, the GTZ (2004b) estimates the number of residents of Egyptian origin to about 40,000.

Already in the 1920s an active Arab community was established in Berlin including businessmen and intellectuals. Due to this initial network connections, Egyptians migrated to Germany in large numbers in the late 1950s and early 1960s as a reaction to the unstable political and economic situation in Egypt. The main reason was education and is reflected today in the high number of high skilled (e.g. engineers and medical doctors) in the Egyptian community.

\textsuperscript{14} Are tolerated to stay but can be deported anytime.
The majority of these immigrants are nowadays naturalised (75% of the total residents of Egyptian origin\(^{15}\)). The process of naturalisation was facilitated by the high number of Egyptian-German marriages, easing the obtainment of citizenship also for the second generation (GTZ, 2004b). Moreover, based on family background and relationships, they are highly organised in cultural and professional associations, and have strong networks with the social elite in Egypt as well (Bommes et al., 2007).

After 1984 certain numbers of Egyptian asylum seekers also migrated to Germany, primarily because of religious persecution. They were Copts and members of the Muslim Brotherhood. However, their acceptance quota was pretty low, not exceeding 1.2% (Gesemann, 1995).

In addition, since the beginning of the 1990s, irregular immigrants of Egyptian origin have continuously entered Germany. Albeit there is little information about their numbers and socio-economic characteristics, it can be presumed that they come from middle class families. The poorer may not have been able to afford the high smuggler fees of up to €5,000 in order to be shipped over to Western Europe (Bommes et al., 2007).

3.3. The Serbian immigrants

The Serbian immigrant group is the largest in our study. The GTZ (2004c) estimates the number of German residents of Serbian origin to be about 700,000, being the second largest ethncal group in Germany after the Turks. Of those, according to the German Federal Statistical Office (2006a), 297,004 were in 2005 with Serbian citizenship. The immigration balance with Serbia is, however, negative, mainly because of the political forced return of refugees after the end of the Kosovo conflict (Bommes et al., 2007).

Immigration from Serbia occurred on a large scale in the 1960s during Germany’s economic boom. Since then and until the general ban on recruitment in 1973, about 535,000 Yugoslavian workers were granted residence within the framework of the Guest Worker Programme. After the recruitment stop, and as a result of the return policy, about 25% of the Yugoslavian guest workers returned to their country of origin (Malacic, 1996). The stock of migrants in the 1980s remained, however, more or less unchanged. This was due to the fact that return migration flows were balanced by further immigration for family reunification reasons (Bommes et al., 2007).

The number of refugees from the disintegrating Yugoslavia rose considerably in the 1990s, with the outbreak of the ethnic conflicts. Between 1991 and 1997, approximately

\(^{15}\) Source: own calculations; German Federal Statistical Office (2006a; 2006b).
300,000 people left the country; and about the half of them requested asylum in Germany and Austria. The last immigrant wave finally came with the Kosovo conflict at the end of the 1990s (Bommes et al., 2007). As noted before, the numbers of refugees are, however, shrinking because of their political forced return after the end of the war.

Nowadays, the majority of the residents of Serbian origin are naturalised (57%) or have a permanent resident status (19%) and, according to the GTZ (2004c), belong to the German middle-class.

3.4. Remittance flows from Germany to Afghanistan, Egypt, and Serbia

Following the definitions of Hertlein and Vadean (2006) and Münz et al. (2006), Germany ranks two, after the United States, as source country of migrants’ remittances. In 2005 the cumulated remittance outflows from Germany were estimated to be of about €14.1 billion. However, the statistical data on the remittance outflows from Germany to Afghanistan, Egypt and Serbia have to be considered with care. In Afghanistan and Serbia the statistical collections are poor, while in Egypt the methods of data collection employed seem to differ significantly from those in Germany.

For Afghanistan neither national offices nor international finance organisations record remittance inflows. According to the unpublished statistics of the German Federal Bank, €22 million in Workers’ Remittances were made from Germany to Afghanistan in 2004. However, the German Federal Bank estimates Workers’ Remittances on the basis of cash self-carry by foreign workers on their trips to their home countries. Further, it supplements these data with estimates on the basis of statistics from the German Federal Employment Agency on the number of employed and unemployed foreign nationals who are subject to social insurance contribution (IMF, 2005; German Federal Bank, 2006). Therefore, the remittance outflows reported could be strongly underestimated. First, because cash carries are to be declared to the customs only for amounts exceeding €15,000. And second, because migrants who are not covered under social security (i.e. students or part time employees) and those who were naturalised in Germany (about 40% of the residents of Afghan origin) are not included in the estimations.

16 Source: own calculations; German Federal Statistical Office (2006a; 2006b).
17 The amount of the Compensation of Employees plus 50% of the private transfers (i.e. sum of the balance of payments items Workers’ Remittances and Other Current Transfers of Other Sectors). For details see Hertlein and Vadean (2006), p. 3 and Münz et al. (2006), pp. 43-44.
18 Own calculations; German Federal Bank (2006).
19 See Footnote 5 for more details of the migrants’ remittances items in the balance of payments statistics.
20 Data for Compensations of Employees and Migrants’ Transfers were not available.
The remittance flows back to Serbia are also not recorded by the International Monetary Fund (IMF), and the Serbian Central Bank only documents public and private transfers in aggregate, without distinguishing between source countries as well. According to statistics of the German Federal Bank, €240 million were transferred from Germany to Serbia and Montenegro in 2005 (Walter, 2006). However, as mentioned before, these include only official cash transfers of Serbian citizens residing in Germany who are covered under social security.

The statistical databases for Egypt are much better, but the data provided by the Egyptian Central Bank differs significantly from that of the German Federal Bank. According to the Egyptian Central Bank, the inflows of migrants’ remittances from Germany in 2004 amounted to US$90 million (Fargues, 2005). The German Federal Bank, however, reports in unpublished statistics only €4 million in workers’ remittances outflows to Egypt. And even taking into account all private transfers21 (€12 million), the gap between the two estimations does not narrow much.

An explanation for this great discrepancy in the numbers is that the Egyptian Central Bank probably includes Compensations of Employees and Migrants’ Transfers in their estimation of the remittance flows. Furthermore, it is possible that certain money transfers are booked by the two central banks under different categories, e.g. as remittances by the Egyptian Central Bank and as direct investments by the German Federal Bank.

4. Evaluation of interviews and discussion
This section evaluates the interviews carried out with stakeholders of the Afghan, Egyptian and Serbian migrants in Germany and with return migrants, representatives of the government and economic organisations in Belgrade and Cairo. It is an attempt to provide context about the way in which the education level affects the remittance behaviour of migrant households and the remittance purpose. The issue is approached from two different perspectives. First, the remittance patterns of the immigrants of the same group are analysed, by differentiating with respect to the educational level. And second, the remittance activity among the three immigrant groups is compared, given the fact that the Afghans are mainly less skilled and/or are often employed below their skill level, Serbians have arrived as guest workers and are mainly of middle-skilled level, while the majority of the Egyptian immigrants in Germany are high-skilled.

---
21 These should include both cash and bank transfers of all legal residents in Germany.
4.1 Remittances to Afghanistan

Most Afghan interviewees stated that nearly all Afghan immigrant households in Germany support financially their relatives in Afghanistan. They explained that there are mainly poor families in Afghanistan which are receiving remittances. This would be the case for considerable parts of Afghanistan’s population which is depending on the remittances of their relatives abroad and use the money received mainly for daily consumption needs. A recent study confirms this fact, estimating that about 15% of the rural households in Afghanistan receive remittances from relatives abroad, covering about 20% of their daily expenditures (The World Bank, 2004). Migrant households, thus, remit money both regularly for the day by day consumption of the relatives and/or in the case of a stringent need, e.g. when a relative gets ill and needs financial support for medical care.

Only one interviewee mentioned that one of his friends in Afghanistan received financial support from relatives in Germany for the renovation of his house. Another friend of his bought used cars in Germany and sent them to his brother in Kabul, thereby helping him to start a small business.

However, such examples should be rather an exemption, so the opinion of another interview partner. In general, the amounts remitted would be pretty low. The managing director of a company recently starting to offer formal hawala-banking services in Hamburg confirmed this assumption. He stated that the majority of his regular customers are households of Afghan origin which remit on average about 200 Euro/month to relatives in Afghanistan.

No concrete example of a productive investment made by an Afghan immigrant in his home country was mentioned during the interviews. The few participating businessmen of Afghan origin only referred to having plans to do so.

For instance, the owner of a successful German illumination company expressed his intention to establish a small factory for illumination systems in Kabul. He is born in Afghanistan, graduated from the Amani high-school in Kabul, visited for a short period of time courses at the university and then had to flee. He was 18 years old when he came to Germany and has now German citizenship. He has the feeling of owing something to his country. Through his intended investment project, he wants to give his home country something back because he could enjoy a good and successful life in Germany.

---

22 See also Van Hear (2003).
23 The company designed and implemented for example the actual illumination system on the airport Cologne/Bonn.
According to his business plan, in the first years lamps will be produced for the Afghan market only. Then, in a period of seven years, deliveries will be expanded to the Asian and European markets. As only a few machines will be used in his manufacture, he believes to employ after one to two years about 70 workers. The preliminary products should be imported in the short and medium term from Germany. However, his target is to produce and/or buy about 70% of all needed materials in Afghanistan. The lamps should find their use in airports, schools, hospitals etc. unto private houses and should convince through quality.

On the question whereof it depends whether and when his investment project will be implemented, he answered that in the last years he had monitored the political development in Afghanistan. However, he is now quite confident that the Afghan government reached a certain stability and finds it stimulating to see that it succeeded in the last years to foster the economic and political development of the country.

Further, he mentioned also knowing a young self-employed engineer of Afghan origin who also intends to invest in Afghanistan. He wants to open an engineering office for the planning of steel construction systems. However, he would be hesitant, as many others, because of the lack of financial backing.

A member of Afghanistan’s diplomatic mission in Berlin stated that the Afghan government adopted regulations for the establishment of a free market economy and also measures to promote investments. Investors would obtain the necessary licences very easily and under certain circumstances the government provides land for the construction of industrial plants. Furthermore, row materials can be imported in Afghanistan tax-free. Still, investments in Afghanistan are very low. The major obstacles for the implementation of investment projects are the lack of proper infrastructure (in particular electricity) and the difficulties concerning access to land acquisition, qualified labour and financial services (The World Bank, 2005b).

To conclude, Afghan immigrants in Germany remit usually only relatively small amounts of money with the purpose of supporting the daily consumption of their relatives left in Afghanistan. Such transfers are made even by migrants that have settled in Germany a long time ago, and over all educational and skill levels. Moreover, skilled migrants that have successfully built up businesses in Germany seem to be willing to invest in Afghanistan. However, they are still in expectation for a well established political stability and better infrastructure.
4.2. Remittances to Egypt

In comparison to the Egyptian labour migrants (that typically migrate to the Gulf States), the Egyptian immigrants in Germany rarely have to remit money for the financial support of their families. There are two reasons for that. First, they originate mainly from wealthier upper middle-class families in Egypt. And second, the spouse and children often accompanied them or they founded families in Germany and, thus, the majority have only distant relatives left in the home country.

Therefore, remittances of Egyptian immigrants in Germany are not made regularly but are linked to a specific need, i.e. the amount remitted depends on the particular need of the family member asking for money. Such a remittance pattern seems to be typical for the upper middle-class Egyptian immigrants that were interviewed.

The most important remittance purpose, however, seems to be the acquisition of real estate. In the case of older migrants this serves not only as an investment saving. Apartments and houses in Egypt are often used as secondary residence.24

Nevertheless, many of the interviewees remitted money to Egypt for investment purposes. Thus for example an Egyptian businessman who migrated to Germany in the 1960s. He studied there, made his PhD in engineering, and lectured for many years at the Darmstadt University of Technology. He explains that he returned to Egypt since he wanted to set up a bigger business. In Germany this would have been very hard because the markets are saturated. Thus, in the mid 1980s, he bought a paper factory together with another Egyptian colleague from the Darmstadt University of Technology. Later, he founded a trade company that represents several German companies in Egypt. The products traded are mainly machines, special stones for high-temperature kilns, and steel. And most recent, he bought a holiday village at the Red Sea.

His latest investment is the founding of a German private school in Cairo. The school is organised following the German model and can host 1,200 children, while the classes are both in German and Arabic. He have invested about 1.6 million Euro and hopes in a few years to make profits from running it. However, at the moment he has to bear losses because the school has not attracted the complete number of pupils yet. He declared that in order to be able to afford taking the risk of such an investments one has to have a high enough financial potential and the income for the general consumption of the family secured.

24 Compare with the case of Serbian immigrants (section 4.3).
25 He still has a house in Germany and his sons live there. Only the eldest one joined him, helps him and later will take over the business.
A further Egyptian immigrant who runs a successful solar energy business in Germany, also reports to have several investment projects in Egypt. For example, he founded a furniture factory with about 1,000 employees, producing mainly car seats for the German market. Further, he built up a hydraulic factory and organised for his employees to be trained in Germany. Finally, he set up a German school in Cairo as well.26

Another successful investment project in Cairo is a medical practice of an Egyptian physician who studied and practices in Germany. It consists of two parts: an orthopaedic and a telemedicine practice. The latter is still in the organisation phase. The patients will be attended by an assistant doctor who makes the first health check and sets an appointment for a teleconference with a specialist from a German clinic. If an inpatient treatment is necessary, the assistant doctor organises the patient’s trip to Germany. Post operation treatments should also be carried out in Cairo. The practice is not making profits yet. The owner mentions that without his income from Germany, he could not afford to make this investment. Still, he hopes that his effort will pay off in the future.

While remittances for the support of family consumption of their relatives back home seem to be less common for the high skilled Egyptian immigrants in Germany, they seem to remit significant amounts of money for the acquisition of real estate and for productive investments. In the observed examples of investment projects conducted by Egyptian immigrants in their home country, the protagonists are skilled migrants originating from Egyptian upper middle-class families. However, since the key stakeholders of the Egyptian Diaspora in Germany all have the same educational and social characteristics, it should be noted that the snowball sampling technique could have determined that only persons belonging to this social group have been interviewed. Still, evidence can be reported that the Egyptian skilled migrants successfully invested in their home countries, generating employment opportunities as well as contributing to the development of the Egyptian education and health systems.

4.3 Remittances to Serbia

The majority of interviewees affirmed that the main remittance purpose for Serbian immigrants is the acquisition of real estate in their home country. Alternatively, remittances are used for consumption, for setting up small businesses or are deposited in Serbian bank accounts.

26 There are three private German schools and a private German university in Cairo, all set up by Egyptian emigrants to Germany.
A technician that immigrated to Germany in 1976 and works as quality analyst at BMW, told that he spends his holidays every year in Serbia. He estimates that he spends there about €5,000 every year for his own consumption, as financial support for his relatives but also as investments in real estate. He owns five apartments in Serbia and his mother rents them out. The rental income is partly used for consumption purposes by his mother and the rest is deposited in Serbian banks, because of the interest rates being higher than in Germany.

The general manager of the ProCredit Bank Serbia reveals that an increasing number of Serbian emigrants deposit their money in Serbian and foreign banks located in Serbia.27 With interest rates of 4 to 6% p.a., fixed deposits denominated in Euro would be highly attractive. Still, the banking sector has to make important efforts in attracting savings of the Serbians living abroad. The trust of the Serbian people in the financial sector was betrayed in the 1990s when the Serbian government froze private foreign exchange accounts for financing the war, numerous financial pyramid systems collapsed and hyperinflation eroded the savings. Therefore, some foreign banks, like the subsidiary of the HypoVereinsbank Switzerland, offer to their clients additional guaranties of the parent bank.

From the interviews, no outstanding investment project of a Serbian immigrant could be identified. In the same time, the number of small business investments, as explained by a representative of the Serbian Chamber of Industry and Commerce, remains unknown. For example, a friend of his got from his parents (who are working in Germany) a machine for manufacturing of insulating tape. With this machine he started a small business and makes his living. The business is, however, not registered, belonging in a way to the underground economy.

The main reasons of such scarce productive investments by the Serbian immigrants could be the fact that the Serbian political environment is still fragile and the rule of law lacks implementation. However, the most Serbian immigrants in Germany belong to the working class and many of them are at retirement age. Thus, they might lack also the necessary business skills. They rather use their savings for buying real estate or deposit them in bank accounts to earn interest. The second and third generation also does not invest directly. Those working in high skilled jobs often act as middlemen in direct investment projects in their home country and use this as a chance for career promotion within the framework of the company’s transnationalisation process.

---

27 The euroisation is quite high in Serbia, comparing to international standards. According to IMF estimates, more than 66% of the bank deposits and more than 75% of the bank credits are denominated in Euro. This would be due to the high inflation and to the fact that real interest rates in Serbian dinar are negative.
4.4 Comparative analysis

The three immigrant groups included in this study differ significantly in terms of their skill composition. The Afghan immigrant group consists of people being employed on average in lower skilled jobs. The majority of the Serbian immigrants arrived in Germany as guest workers and belong to the middle-skilled worker class. While the Egyptian immigrants originate form Egypt’s upper middle-class. They came to Germany mainly for the reason of studying and are nowadays on average a highly-skilled immigrant group, belonging to the German upper middle-class28.

The remittance habits as well as the use of remittances in the home countries also seem to be quite different among the three immigrant groups. Afghan immigrants usually remit lower amounts on a regular basis (€200/month), which largely serve as a means of subsistence for the recipients. Beside financing consumption expenditures of their relatives, many Serbian immigrants use the money remitted for buying real estate or deposit it in Serbian bank accounts. Finally, Egyptian immigrants, having the highest financial potential from the three groups, remit money mainly for the acquisition of real estate and for investments in the manufacturing and the service sector.

However, the more frequent remittance activity of the Afghan immigrants does not mean that Afghans remit on average more. Buying of real estate (i.e. in the case of Serbs) and productive investments (i.e. in the case of Egyptians) occur more seldom. Nevertheless, the related amounts are much higher29. Thus, the resulted per capita annual averages might be higher as well, meaning that a high (i.e. Egyptians) and/or middle skilled (i.e. Serbs) immigrant group remits on average also more than a low skilled one.

Moreover, the remittance behaviour does not depend only on the financial potential (e.g. the education, skills, and income level) of the immigrants but also on the development level (i.e. infrastructure, availability of skilled labour) and investment climate (i.e. political and macroeconomic stability, rule of law, interest rates, development strategies) in their home country.

Afghan immigrants who have the skills and financial means for investing in Afghanistan are not doing so but are still expecting the infrastructure destroyed in the long lasting war to be rebuilt by means of official financial assistance and monitor the political evolution in their home country. Similarly, due to the political and macroeconomic instability in Serbia in the 1990s, Serbian skilled migrants prefer to make investment savings that

28 The three immigrant groups were described in more detail in Section 3.
29 The amount of about €5,000/migrant and year indicated by one of the interviewees seem, however, to be rather overestimated.
involve a lower degree of risk (i.e. acquisition of real estate, foreign exchange deposits on bank accounts) and engage in direct investment projects only as middlemen. In contrast, Egypt enjoyed in the last decades political and macroeconomic stability and the government made in the last years important efforts in liberalising the economy as well as improving communications and physical infrastructure. This is perhaps a major reason why the high skilled Egyptian migrants invest their wealth accumulated in both the home and host country in Egypt’s manufacturing and service sector.

Thus, the amount remitted might be equally depending on migrants’ financial potential (i.e. skill level and income) and on the political and economic environment in the home country. For a developing country, having a large skilled Diaspora does not necessarily mean having large remittance inflows. A sound financial system, the guarantee of property rights, the set-up of free and open markets and development strategies involving all actors of the economy seem to be the key to assuring large inflows of remittances (but also of foreign capital) as investment savings and as productive investments.

5. Conclusions
This paper aimed to provide insight about the way in which the education and skill level of migrants affects the remittance habits, purpose, and use, in the context of Afghan, Egyptian and Serbian immigrant groups in Germany. The information about the remittance patterns of the immigrants was collected through guided interviews with key stakeholders of the immigrant groups, identified by a snowball sampling technique.

The socio-economic structure of the three immigrant groups differs significantly, with the Afghan immigrants being on average low skilled, the Serbian immigrants middle skilled and the Egyptian immigrants high skilled. This allowed, besides looking at the remittance behaviour in each group with respect to skills, to have a comparative perspective on the remittance behaviour among the immigrant groups.

While the conclusion whether skilled migrants remit more or less compared to low skilled ones is not straightforward, this study provides evidence that the skill level significantly affects the purpose of remittances towards more productive investment. Whilst low skilled migrants mainly remit for securing the consumption need of their family members, the remittances of middle skilled migrants are more often used for investment saving (e.g. buying of real estate or bank account deposits), and high skilled migrants make also productive investments in their home countries.
The migrant’s endowment with human capital often assures that he/she earns more money than he/she and his/her family require for meeting their basic needs and money is left for savings and investments. Moreover, the skills and expertise accumulated through education and work experience are also very important for the implementation of investment projects. However, investments remittances are strongly conditioned by the investment climate in the home country.

While the qualitative approach in this paper aimed to provide some insights about the effect of skills on the remittance behaviour of migrants, more in-depth quantitative research is needed for analysing the sign of the relationship.

However, there should be noted that the remittances made by skilled migrants are often not included in the official statistics. On the one hand, skilled migrants have a higher propensity of being naturalised in the host country. In this case, their remittance payments are registered under *Other Current Transfers of Other Sectors* and not under the classical migrants’ remittance categories (i.e. *Compensation of Employees* and *Workers’ Remittances*). On the other hand, as resulting form this study, high-skilled migrants are more likely to invest in their home countries compared to low-skilled ones. Because skilled migrants are also more likely to naturalise in their host country, these investment transfers are often not booked under the migrants’ remittance categories but under *Portfolio Investments* and/or *Direct Investments* and can not be distinguished from other investments. The macroeconomic analysis on the effects of skills/education on the remitting behaviour of households has, therefore, to deal with serious selection bias.

National central banks and the International Monetary Fund (IMF) increased efforts in the last years for improving the statistical data collection on migrants’ remittances. However, until they succeed to produce better and more transparent statistical data, more robust analyses on the interdependence between skills/education and the remittance behaviour could be performed on the micro level.
References


HWWI Research Papers
by the HWWI Research Programme „Migration Research Group”

8. Rethinking the effects of immigration in wages
   Gianmarco I.P. Ottaviano, Giovanni Peri
   Hamburg, April 2007

7. Regional disparities in employment of high-skilled foreigners – Determinants and options for migration policy in Germany
   Carola Burkert, Ankekatrin Niebuhr, Rüdiger Wapler
   Hamburg, March 2007

6. Social relations and remittances: evidence from Canadian micro data
   Don J. DeVoretz, Florin Vadean
   Hamburg, February 2007

5. Egyptian, Afghan, and Serbian diaspora communities in Germany: How do they contribute to their country of origin?
   T. Baraulina, M. Bommes, T. El-Chekeh, H. Daume, F. Vadean
   Hamburg, January 2007

4. Arbeitsmarkt und Migration – eine empirische Analyse der Lohn- und Beschäftigungseffekte der Zuwanderung in Deutschland
   Max Steinhardt
   Hamburg, November 2006

3. Peer Effects, Social Multipliers and Migration at School: An International Comparison
   Horst Entorf, Martina Lauk
   Hamburg, July 2006

2. The Impact of Student Diversity in Secondary Schools. An Analysis of the International PISA Data and Implications for the German Education System
   Katharina Michaelowa, Jean Bourdon
   Hamburg, July 2006

1. Migration and Innovation. Does Cultural Diversity Matter for Regional R&D Activity?
   Ankekatrin Niebuhr
   Hamburg, July 2006
The Hamburg Institute of International Economics (HWWI) is an independent economic research institute, based on a non-profit public-private partnership, which was founded in 2005. The University of Hamburg and the Hamburg Chamber of Commerce are shareholders in the Institute.

The HWWI’s main goals are to:
• Promote economic sciences in research and teaching;
• Conduct high-quality economic research;
• Transfer and disseminate economic knowledge to policy makers, stakeholders and the general public.

The HWWI carries out interdisciplinary research activities in the context of the following research programmes: Economic Trends and Hamburg, International Trade and Development, Migration Research and International Climate Policy.