# Thirteen possible improvements in UK migration policies to promote development

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Immigration raises welfare for poor people and is a net gain to receiving countries by increasing productivity of incumbent workers and contributing to the tax base.

This note sets out possible options to increase immigration's positive impact on low-income people and their families or households. (These are offered in the spirit of avenues for further analysis and research, rather than fully worked-out ideas.) The emphasis is on balancing positive development impact with what is feasible within the current political climate. There is currently little political appetite for overall increases in immigration, so these proposals focus on ways to increase the benefits from migration that can be obtained by people from developing countries.

## 1. Make the UK a leader in Global Skill Partnerships (GSPs)

*The UK could take the lead on developing and implementing GSPs, which finance education in developing countries that supports skilled (potentially temporary) migrants to industrialised countries. The UK's bilateral aid agency- the Department for International Development (DFID)- is well-placed to play an important role by convening the relevant ministries in countries from which migrants come and countries to which they move, providing technical assistance to training facilities in origin countries, and start-up finance.*

Lowering migration barriers for specific professions might generate an increase in training for those skills in third countries, but relying on this mechanism alone is problematic:

- It may not happen: students' lack of funds and education systems' lack of resources mean too few workers are educated
- Rhetoric based on the 'brain drain' hypothesis makes it difficult for some employers (particularly in health care) to recruit from low-income countries

The Center for Global Development (CGD) has proposed a solution: in a Global Skill Partnership (GSP), training occurs completely or partially in the migrant origin country, financed from the migrant destination country—either by the employer, the government, the trainee him/herself post-migration, or some mix of these. The combined repayment is designed to exceed the cost of training, offering the origin country 1) additional finance for the training of non-migrants and 2) technology transfer as the training centre is created or strengthened. It also has the potential to eliminate fiscal losses at the origin from skilled migration, fill shortage occupations at the destination, and unlock the benefits of migration for young people and their families.

Demographic shifts mean some skills are especially valuable. Nursing services, for example, are worth five to eight times in Western Europe what they are worth in many parts of North Africa, where the costs of training a nurse are five to eight times lower, so differences in training costs and demand create opportunities for arbitrage-through-migration.

The specific contours of a GSP should be negotiated bilaterally or multilaterally, and need to ensure protection of workers' rights. For example, GSP's should not require a 'minimum term' of employment overseas to repay the educational investment.

## 2. Mainstream Global Skill Partnerships into human resources for health (HRH)

*The government could work with the WHO's Human Resources for Health (HRH) programme to mainstream GSPs and related mechanisms to increase the total numbers of healthcare workers in sending and receiving countries, while lowering the fiscal burden of training costs on the sending country.*

The WHO's human resources for health (HRH) programme has focused attention on health worker shortages in some countries, mainly in sub-Saharan Africa; countries believed to face shortages of practitioners (medical staff broadly defined) are designated 'critical shortage countries.'

But this designation makes progress on GSPs difficult. For example, it led to the German government terminating scoping work for a scheme to train nurses in Kerala for employment in Germany (a health worker migration corridor that has been active since at least the late 1960s).

## 3. End the UK's blanket ban on recruitment of foreign health professionals

*The government could work within government and the medical profession to roll back the National Health Service ban on hiring non-UK citizens. This could be accomplished within the context of a larger programme of Global Skill Partnerships.*

The NHS code of practice does not allow offering jobs directly to health workers who live in any of 150 countries, including countries defined as Upper Middle Income by the World Bank (such as Mexico and Turkey), as well as countries defined as High Income (such as Chile and Uruguay).

The NHS rule targets anyone doing health-related work in nearly every country that is not rich, including the entire continent of Africa, *regardless* of how their education was funded, any contractual commitment to return to their country of training after a UK-based contract, their current employment status, or discrimination in their current country of work or residence.

## 4. Replace distortionary and opaque prices with a single immigration fee

*The UK immigration system includes many opaque charges and implicit taxes. A relevant line Ministry could propose changes to replace these with a more transparent and fairer single price-at-entry which can be more easily adjusted to deliver the government's policy aims. Such a simplified single charge could be charged at a lower rate for immigrants from developing countries.*

The UK visa system costs immigrants much more than the advertised price through charges for extra services (for example, employers pay £8,000 a year for support from a 'license manager'), and implicit taxes such as limited interview slots, uncertainty about the outcome of applications, long waiting periods, and significant investments in filling out and providing accurate paperwork.

These charges can be consolidated into a single, unified immigration fee in place of a quota: immigrants able to pay the fee would be allowed to come to the UK and work for a pre-defined term and then return home or apply for indefinite leave to remain (ILR).

This is a better policy lever than arbitrary barriers: raising or lowering the fee increases or decreases the number of immigrants in line with policy objectives, in contrast to the current system under which many factors (like additional fees and implicit costs) distort the relationship between policy and effect. A unified fee would lower transaction costs to migrants, reduce the bureaucratic processing and oversight costs to the government, and capture the revenues for government rather than rent-seeking intermediaries.

This idea is already reflected implicitly in the Tier 1 visa which allows applicants with proved investment capital of £1 million or more to work in the UK, and Tier 2 applicants with salary offers of £150,000 or more are exempt from the quota on these visas. Other OECD countries operate similar programmes. In the US, for example, applicants who invest $1 million (half that in a rural area) receive an EB-5 visa.

Setting a unified price for immigration and using this rather than quota restrictions gives policymakers a more targeted, fairer tool and reduces rent seeking by intermediaries. Development impact can be maximised by charging less for applicants from less-developed countries or small island states affected by climate change.

## 5. Shelter student visas from the migration debate and use them to promote development

*Work across Whitehall to roll back restrictions that reduce student visas for non-EEA applicants. Students are not immigrants, and the clamp down on these visas reduces university revenues and the development impact of studying in the UK without reducing long-term immigration and settlement.*

The current political commitment to reducing net migration has been implemented in part by reducing the number of student visas granted to non-EEA applicants. Non-EU students that want to remain in the UK to work still need to transfer to other visa categories, and permanent settlement still requires a successful application for Indefinite Leave to Remain (ILR).

The reduction has been achieved through tightening regulations rather than quotas. For example, the government announced in July that if the Home Office rejected more than 10% of visa applications from students offered places at a university or college, the institution would lose its 'highly trusted sponsor' designation, making it much harder for it to accept international students in the future. This increases the expected cost of offers to non-EEA students, reducing the number of places offered and Tier 4 visas granted.

Higher education in the UK has a direct development impact: it increases earnings by upgrading skills, conferring a recognised qualification, and expanding networks. Research shows that English-language skills are associated with wage premium of up to 20%. The British education system may be an important tool of soft power: research by the IMF shows a credible, causal relationship between students studying in democratic countries and promotion of democracy at home.

A study by Universities UK showed that universities generated £73 billion in output and contributed over £36.4 billion to the economy (2.8% of GDP) in 2011, 20% of which is attributed to non-EU students (£13.9 billion). The current policy is at odds with public opinion. A report on polling data released this August found that 20% of over two thousand respondents classify overseas students as immigrants (the same amount support a reduction in their numbers). Almost 59% people say the Government should not reduce the number of international students, *even if it makes it harder to reduce immigration numbers*.

Reducing the number of non-EU students studying in the UK damages British higher education with no offsetting gains and has a negative development impact.

Policymakers can work to roll back these restrictions and re-tool visa policy to have greater development impact in two ways.

First, it can promote the idea that students are not immigrants. The discussion about student visas can be de-politicised in part by taking student visas out of the calculation of net migration.

Second, Tier 4 visas could be structured to preferentially score applications from applicants from specific countries, women, persecuted minorities, or other groups (applicants would still need meet the usual academic and financial requirements). Visa fees (currently £310 per application) could be waived or re-funded for applications from these groups. (Analysis from the US shows removing the cost of sending just one additional test score to universities caused low-income test-takers to attend better universities).

## 6. Reduce distortions in the Tier 2 'general' visa programme

*Revise the 'general' visa requirements so that applicants from low income countries only need to meet a lower salary hurdle rate set by policymakers, rather than sector-specific price floors which give more weight to bureaucratically-determined quotas than to market valuations.*

A 'general' applicant needs to show she has a job offer in the UK that will pay the larger of £20,000 a year (gross) or the amount listed for her job under the Codes of Practice for Skilled Workers (COP), a list of jobs and wage rates for experienced and new hires.

This system creates two harmful distortions on quantity and price:

- Since 2011, Tier 2 visas slots have been capped; the quota is now 20,700.
- Tier 2 visas are only available for confirmed offers of 'skilled jobs', determined based on the job's National Occupation Code (NOC) level on the National Qualifying Framework (NQF).

These distortions are costly: fewer than half the available visa slots were allocated last year. This prevents British firms from accessing internationally-mobile talent.

The policy could be re-configured as a minimum price floor for all occupations: it makes no difference to GDP if value is added in woodworking or engineering. Migrants who are sufficiently productive to secure a wage offer that meets the requirement should be able to work in the UK.

## 7. Revise the tier 2 Intra-Company Transfer (ICT) requirement

*Lower the Intra-Company Transfer salary hurdle for applicants from low-income countries by implementing a graduated wage requirement, enabling companies to bring in a larger number of workers on shorter ICT visas at lower wage levels. This might be* *graduated: for example, employees would have to show a higher wage offer two years after arrival.*

ICT visas are rationed through a high minimum wage requirement (at least £40,600 for long-term staff and £24,300 for graduates or short-term staff).

Empirical studies confirm that productivity is heavily tied to workers' location: non-EEA workers will be more productive following arrival, so setting a high price hurdle *at entry* increases the number of the number of high-productivity workers misidentified as low-productivity.

## 8. Use burden sharing to minimise the fiscal case against migration

*The government could consider a non-citizenship track Indefinite Leave to Remain scheme with greater burden sharing for immigrants, involving larger national insurance contributions.*

The fiscal case against migration is predicated on the strain that migrants are perceived to put on the UK's public services.

Non-EEA nationals working in the UK are entitled to benefits that pay out their National Insurance (NI) contributions, which are deducted at source from their incomes, but they are not entitled to public funds.

The government could minimise the fiscal case against extending working visa terms or transferring more applicants to ILR status by introducing a *non-citizenship track* ILR scheme with greater burden sharing for immigrants, for example through additional contributions to National Insurance or other contributory benefit programmes.

## 9. Reduce credit constraints to migration, and disintermediate moneylenders

*A UK-capitalised "migration bank" trial project could be implemented through a guarantee to a local financial institution or a direct loan to the migrant.*

Working in the UK—even temporarily—dramatically raises migrants' incomes. Since many migrants cannot meet the upfront costs, this represents a lending opportunity that has been largely captured by informal lenders in sending countries who charge high rates of interest. It also creates opportunities for people trafficking. These practices are a major obstacle to the promotion of international labour mobility by some development agencies and charities concerned with such associated abuses.

DFID or other Ministries could work with local banks to trial migration loan products that could be re-paid upon arrival through additional national insurance or other payments. This alleviates credit constraints that prevent high-productivity migration, reduces the use of high-interest loans from informal lenders, reduces the vulnerability of potential migrants to exploitation, and could be revenue neutral.

## 10. Create opportunities for unskilled (non-EEA) seasonal labour

*Build on the example of successful seasonal labour schemes by setting up a temporary, low-skilled "agriculture and other" labour scheme. We could maximise the scheme's development impact by providing secondary services like savings accounts or remittance services.*

A Registered Seasonal Employer (RSE) scheme for workers from some Pacific islands to take-up seasonal employment on farms in New Zealand increased annual earnings over 350% for participants from Vanuatu and over 750% for those from Tonga. Their households saw gains in consumption, investment, and education. In the words of one of the authors of a report evaluating the project, the scheme's welfare impact makes it *"among the most effective development interventions ever evaluated."*

The UK had a Seasonal Agricultural Workers Scheme (SAWS) in place for 60 years. It closed in 2008, by which time eligibility was limited to a quota of 21,250 Bulgarian and Romanian workers. The UK has relevant administrative infrastructure: the now-defunct Tier 3 visa programme could be amended and implemented with participating employers. Employment demand could be met on a seasonal basis, with workers required to return home at the end of the season.

## 11. Support legislation to create "categorical exceptions" for asylum on humanitarian grounds

*Support legislation for categorical exceptions for some types of asylum applications on humanitarian grounds*

There were 23,507 applications for asylum in 2013, of which just over a third were accepted (without appeal). The UK has a density of immigrants granted asylum (0.5 per 1,000 residents) lower than the EU average (0.9), partially because of a large decline in applications from a high of 84,130 in 2003 to 20,507 in 2013.

Current asylum exceptions are *ad-hoc*. The vulnerable persons relocation scheme (VPR), a programme in place for Syrian refugees, recorded just 24 relocations as of June this year.

The government can innovate further by proposing legislation that would permit a categorical exception on humanitarian grounds under which any application from someone immigrating to escape a specific conflict or risk is automatically assumed to meet the requirements for asylum.

Programmes have to be tailored to minimise the number of false applications, but temporary exceptions have been implemented by other OECD countries, for example by the US, which evacuated Vietnamese fleeing Saigon, and Israel, which has periodically evacuated large numbers of *Beta Israel* from Ethiopia.

## 12. Make the UK a (supply-side) leader on remittances

*Tackle supply-side constraints that keep remittance transaction costs high. A relevant line Ministry or DFID could work with the Financial Conduct Authority to investigate competition in banking services for the MTO market.*

The average cost for remittances from G8 countries was 7.7% in Q1 2014. Lowering average fees and focusing on specific corridors with high transaction costs will deliver big overall gains.

Average costs have been declining since monitoring began, and the Department for International Development already has a work programme in place to pursue the ‘5x5’ commitment to reduce remittance costs across all rich-to-poor corridors to 5% by 2014 (made at the G8 Heads of State Summit in L'Aquila in June 2009).

This should include a close look at the UK’s send-side *banking* bottleneck: end-to-end transaction costs are high in part because the market to provide banking services to operators is not competitive.

## 13. Leverage the development budget to support experimentation in other parts of government

*Be willing to experiment by investing a share of the UK’s aid budget in other line Ministries responsible for immigration to drive innovation and better implementation.*

Maximising the development impact of migration requires the cooperation and expertise of agencies ranging from UK Border Control to the Financial Conduct Authority. DFID can diversify its portfolio by allocating programme funding to key agencies to encourage experimentation and policy innovation in ways that promote international development.

For example, financing a project within the Financial Conduct Authority to facilitate greater competition amongst banks which service remittance operators might be more effective than creating a working group with input from the FCA input.

This approach has a good precedent: DFID has in the past allocated a small part of its programme budget to specialist units in the Metropolitan Police, City of London Police, the Crown Prosecution Service and the Serious Organised Crime Agency to stop foreign or UK criminals from benefitting from corrupt practices in developing countries. Using programme funds in this way could yield significant returns for developing countries and for poverty reduction.

## Background

Net inward migration was 269,000 in 2013 of which 124,000 were from the EU (58,000 from the EU15 and 44,000 from 'Eastern Europe', the EU8) and 146,000 were non-EU.

The UK's current political climate makes it difficult to approach migration from the perspective of improving development impact. Data from the 2013 British Social Attitudes survey eliciting responses about the preferred change in migration found that 56% of respondents would like to see immigration 'reduced a lot', while 77% chose either 'reduced a lot' or 'reduced a little', and immigration is consistently ranked as one of the 'most important' issues by respondents.  Attitude survey data is imprecise- respondents conflate issues of race and migration, and different channels of migration, suggesting political parties have little to gain by pushing for more liberal migration policies. With the door to migration from EU countries (particularly high-salience arrivals from EU8, 'Eastern Europe') wedged open by the UK's Treaty of Rome commitments, efforts to reduce arrivals will fall disproportionately on non-European immigrants (who, on average, would benefit the most).

Much like estimates of foreign aid, IPSOS Mori data shows large gaps between reality and perception– when asked to estimate the share of foreign-born residents living in the UK, the average guess is 31% (the Office of National Statistics estimates the true figure in 2013 to be 12%). Respondents believe the majority of migrants are asylum seekers and underestimate the number of migrants arriving for employment or study. Students are by far the largest component of those moving to the UK– over 199,700 Tier 4 student visas were granted in 2013. In the same year, 23,500 applications for asylum were made, but just 6,500 applicants were granted either asylum or some type of humanitarian protection.

Remittances to developing countries were £246 billion in 2013 compared to total foreign aid from OECD members of £80 billion, providing an indication of the scale of the value created by migrants. Estimates produced by the UK's Department of Business, Innovation and Skills, shows UK migrants in low-skilled occupations produced goods and services worth £37 billion in 2012, which- as noted by the Migration Advisory Committee- does not account for the economic value of their broader participation in the UK economy.

Immigration is not a net cost to UK's public purse. The non-partisan OECD secretariat finds that the migrants in the UK created a fiscal benefit of 0.5% of GDP in 2013, corroborating previous studies that show that between 2001 and 2011, immigrants from the EEA added £22.1 billion to the public purse (34% more than they drew down in benefits), while non-EEA immigrants' net fiscal contribution was £2.9 billion (2% more than they took out). On balance, the fiscal argument against immigration has been greatly overstated.

Because immigrants are complements to—not substitutes for—existing workers, immigration also increases growth but does not reduce the number of jobs available for native workers. A meta-study based on UK data by the Migration Advisory Committee shows either immigration has tiny effects of on average wages of incumbent workers: estimates range from a gain of  £22 to a loss £2 a year for the lowest earners. Research in Denmark showing that migrants are complements to, not substitutes for, incumbent workers.

Increasing quotas for migration at all skill levels will not be enough– fore example, less than half the 20,700 'Tier 2 (General)' visas were taken up in 2013 despite the economic benefits of enabling highly-educated non-EEA migrants with job offers to work in the UK (and pay taxes without receiving benefits). The scheme's administrative and financial burden is probably to blame, a case of flawed policy that should be addressed to ensure the UK maximises the benefits to the British economy and to migrants themselves in a way that delivers more of the benefits to people from the developing countries who have most to gain.