DIIS POLICY BRIEF

How to Reduce Migrant Worker Recruitment Costs

August 2013

Low-skilled workers hoping to earn five or even ten times more in foreign jobs than at home can end up paying up to a third of their foreign earnings in recruitment costs. Reducing recruitment costs would help migrants, employers and governments.

Philip Martin, plmartin@ucdavis.edu

Recruitment matches workers with jobs, a process that is often complicated by asymmetric information, viz. employers know more about the jobs they are offering than job seekers, who know more about their abilities than employers. Economists have developed a variety of models to explain how employers screen applicants to find the workers best suited to fill the jobs they offer, and how workers signal their ability to employers by earning degrees and certificates.

International borders complicate job matching, as differences in language, culture, and job descriptions can make it harder to match workers and jobs. For-profit recruiters match workers with jobs across borders in all migration systems, but they are especially prominent in Asia, where they move several million low-skilled workers from South and Southeast Asia into Gulf Cooperation Countries each year. High recruitment costs, which sometimes exceed $2,000 for a worker who will earn $200 a month over three years abroad, can encourage workers to overstay their visas in order to achieve savings targets or take on extra jobs and become irregular.

RECRUITMENT COSTS

Most workers are hired directly by employers who advertise their jobs or use social networks to find qualified workers, as when current employees refer friends and relatives to fill

RECOMMENDATIONS

Policymakers should:

1. Understand why employers pay recruitment costs for some workers and not others and target regulatory policies toward those types of recruitment that are most likely to result in excessive recruitment fees.
2. Consider realistic and easily enforceable maximum recruitment fees rather than asserting that foreign employers should pay all recruitment costs and risk driving worker-paid fees underground.
3. Develop incentives to induce recruiters to abide by regulations rather than rely solely on the threat of penalties for violations.
4. Formulate standard job descriptions and contracts to reduce worker – job mismatches and to lower recruitment costs.

vacant jobs. Almost all countries operate no-cost labour exchanges that allow employers to post vacant jobs and permit local workers to seek jobs, but employer and worker use of public employment services has declined in most countries to less than ten per cent of job matches.

When workers are in one country and jobs in another, intermediaries, including for-profit recruiters, often facilitate job matching. These 'merchants of labour' can play many roles. Some receive job orders from employers and travel to recruit and screen workers, move them over borders, and interact with them while they are abroad. More often, recruiters in one country pass job offers on to recruiters in another country, relying on intermediaries they may have never met to recruit and screen workers for an employer who may not have a continuing relationship with the recruiter.

Recruiters are paid for their services. Employers generally pay some or all the costs of recruitment of highly skilled workers, including managers, healthcare professionals, and engineers, because there are relatively few such workers and the consequences of a poor match can be costly for the business. However, there are often more low-skilled workers than available jobs in occupations such as domestic service and construction labour, prompting some workers to pay high fees in order to move to the front of the queue. Even if low-skilled workers know they are paying high fees, they may not complain if they get what they want: a foreign job offering wages higher than at home.

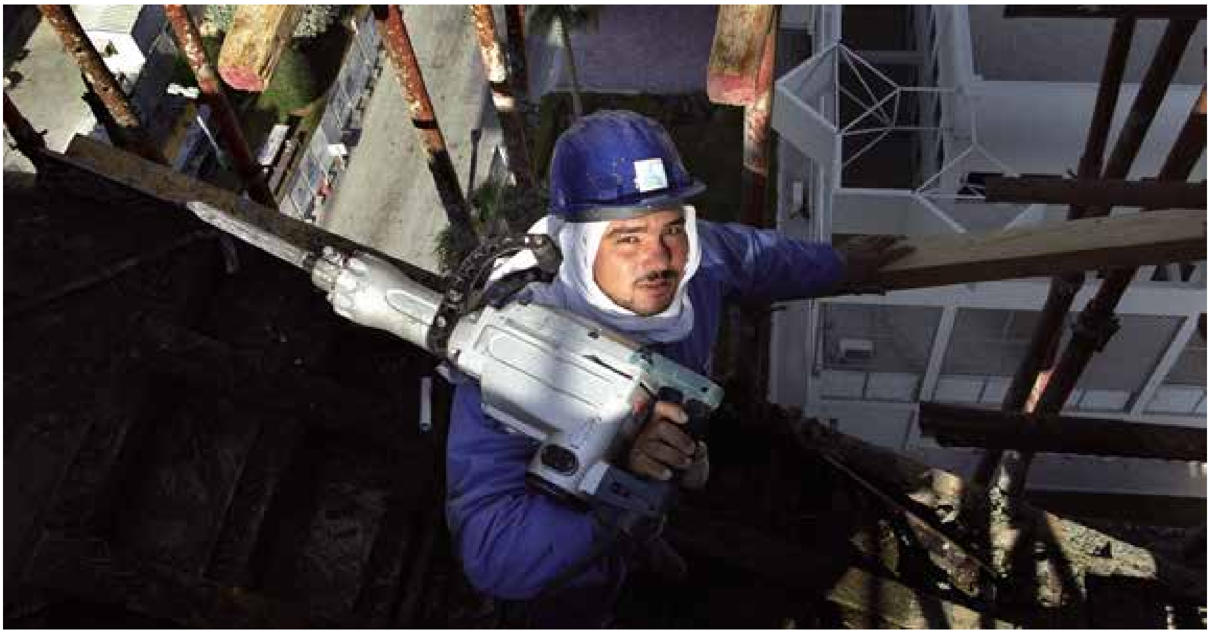
Low recruitment costs and good worker–job matches result in satisfied workers and employers, and labour migration outcomes that satisfy governments in both migrant-sending and -receiving countries. However, high migration costs can prompt workers to violate their work permits by taking second jobs and overstaying. Poor worker–job matches can also lead to employers dismissing unqualified workers who are reluctant to return home because they have no way to repay their recruitment debts. Workers who arrive abroad in debt are especially vulnerable to mistreatment, since all parties know that migrants are counting on higher wages abroad to repay their debts and return with savings.

REGULATING RECRUITERS

International conventions call for employers to pay all of the recruitment costs of the migrant workers they hire. Some governments specify that employers cannot charge migrants recruitment fees, as with the US H-2A and H-2B programmes, for low-skilled farm and nonfarm workers respectively. Other governments specify maximum worker-paid fees, as with the Canada–Mexico Seasonal Agricultural Worker Program. However, unless there are complaints, it is often hard to detect the payment of (excessive) worker-paid fees.

Both workers and recruiters report that recruitment costs are often higher than government-set maximum fees. Governments normally embrace a three-step procedure to regulate recruiters and the fees that they charge, viz. require recruiters to identify themselves by registering, have them establish financial security by posting bonds or making similar financial guarantees, and rely on a complaint system to detect violations of recruitment regulations.

The fundamental problem with complaint-driven enforcement of recruitment regulations is that sending workers abroad can be a 'victimless crime'. If there are more workers who want to depart than there are foreign jobs, employers can charge for the jobs they offer, and recruiters in sending



Construction worker on a building site in Doha, Qatar. © Tim Smith, Panos Pictures

Table 1. Remittance versus Recruitment Savings, Low-skilled Migrants

LOW-SKILLED MIGRANT EARNING $200 A MONTH ON 3-YEAR CONTRACT			
	TYPICAL	REDUCE 50%	WORKER SAVINGS
Earnings	7,200		
Remittances	5,000		
Share of earnings	69%		
Recruitment costs	2,000	1,000	1,000
Share of earnings	28%	14%	
Remittance costs	500	250	250
Share of earnings	7%	3%	

Source: see text

countries can pass these and additional charges on to workers. Workers may willingly pay these extra charges for the opportunity to earn higher wages abroad.

RETHINKING RECRUITMENT

Wage gaps of eight to one or more motivate labour migration. Most workers will not give this entire wage gap to recruiters, but they will pay more than the typical one month's foreign wages that some governments specify as the maximum recruitment charge. If workers have a two-year contract, one month's foreign earnings are 4.2% of foreign earnings; on a three-year contract, one month's earnings are 2.8%.

Dividing the 'wage wedge' between employers, workers, recruiters and governments is a major unresolved issue in migration and development, and migration costs are a major topic of the UN High-level Dialogue on Migration and Development in October 2013. International labour migration involves three Rs, recruitment or who goes abroad to work and what they pay to do so, the remittances migrants send home and how they are used, and returns of migrants or settlement abroad and how these affect development at home.

After the 9/11 terrorist acts, governments cooperated to make it easier to send small sums over borders via regulated financial institutions, and their revised policies plus new technology have reduced the cost of sending $300 from one country to another from fifteen per cent or $45 to ten per cent or $30 over the past decade. The World Bank's 5x5 program aims to reduce remittance costs by another five percentage points over five years, that is, to lower average remittance costs to five per cent.

Recruitment, remittances and returning migrants or diasporas (migrants who stay abroad) can sometimes speed development in migrant-sending countries. There can be virtuous circles when workers who would be unemployed at home find jobs abroad, send remittances that exceed what they would have earned at home, and return with new ideas and energies. On the other hand, vicious circles result when the out-migration of key workers slows development, and migrants abroad reduce ties to their countries of origin. The Global Forum on Migration and Development (GFMD) is exploring policies to encourage more virtuous and fewer vicious migration and development circles.

The GFMD has emphasised that reducing recruitment costs would yield significant benefits. A low-skilled worker who pays $2,000 for a contract promising $7,200 over three years may remit $5,000 of these earnings. Reducing remittance costs from ten per cent to five per cent would save this migrant $250, but cutting recruitment costs in half could save $1,000 – four times more. Furthermore, improved recruitment can reduce debt bondage, trafficking and the other violations of human rights that are sometimes associated with international labour migration.

MOVING FORWARD

The recruitment industry that moves workers from one country to another is large and growing but not well understood. As with reducing recruitment costs, the first step is to learn more about recruitment costs and how they vary across migration corridors. Local researchers who interview workers, recruiters, and government agencies could increase data on recruitment costs and on where in the recruitment process both financial and opportunity costs arise for workers.

For example, many recruiters are in capital cities, while low-skilled workers are often in rural areas, so there may be several layers of agents between workers and recruiters who control access to foreign jobs. Learning more about these agents, and about which procedures add to costs, could provide a better basis for evidence-based recruitment regulation. Government procedures that were put in place in response to specific events abroad, such as pre-departure training after ill-prepared workers were abused abroad, could be subject to benefit-cost tests.

Three concrete suggestions involve standardising contracts, offering incentives for good recruiter behaviour, and encouraging multinationals to move low-skilled workers over borders. One reason that remittance costs have been falling is that the transaction of moving money over borders has been standardised, so that costs can be separated into sending fees, exchange rate costs, and pickup fees. Businesses can standardise each element of the remittance transaction and use technology to achieve economies of scale that lower remittance costs.

Similarly, standardising job descriptions and contracts could help to reduce recruitment costs. Agreements on the skills required to be a domestic worker, labourer, technician, or driver could increase both worker and employer satisfaction by getting the right workers in to the right jobs. Governments could develop worker-held skill passports that record skills acquired at home and abroad, thereby facilitating re-employment at home or a return abroad.

Most countries aim to regulate recruiters by penalising those who violate regulations. However, enforcement normally depends on complaints, which may not be forthcoming if workers get the foreign jobs they seek, albeit at a high cost. Instead of sticks, carrots that encourage recruiters to adhere to regulations may be more effective, especially if A-rated recruiters receive faster service from government agencies or pay lower fees, helping them to attract business at the expense of lower-rated recruiters. A-rated recruiters could also be favoured to receive job offers from particular foreign countries and employers.

The third suggestion is to encourage multinationals such as Adecco and Manpower to move low-skilled workers over borders. Multinationals could speed the development of standard job descriptions and contracts, and could achieve profits via economies of scale rather than overcharging workers. Many recruiters today are relatively small, moving only a few hundred workers a year over borders, which gives them insufficient knowledge or capital to make the business transaction of matching workers with jobs over borders cheaper. An alternative to multinationals would be for unions or international organisations to become recruiters, using their non-profit status to compete with for-profit recruiters while protecting migrant workers.

Moving workers over borders to fill jobs is a complex process of great interest to governments that regulate who can enter the country and what they can do once inside, and to governments that aim to protect their citizens abroad. Recognising that recruitment is a business where costs can be lowered and protection for workers improved would move policy forward on this often-overlooked R-term that links migration and development.

This policy brief forms part of a series from the DIIS-based research network: 'The Migration Industry and New Markets for Migration Control' (MIMM). The network explores the roles various migration industry actors play in contemporary migration flows. For further information, see www.diis.dk

FURTHER READING

Martin, Philip, 2012. "Reducing Migration Costs and Maximising Human Development". In Omelaniuk, Irena (ed.), 2012. Global Perspectives on Migration and Development. Springer. www.springer.com/social+sciences/population+studies/book/978-94-007-4109-6. Manolo Abella and Philip Martin are launching a project to improve the database and make recommendations to reduce recruitment costs in Asia.

DIIS · DANISH INSTITUTE FOR INTERNATIONAL STUDIES
Østbanegade 117, DK-2100 Copenhagen, Denmark · tel: +45 32 69 87 87 · Fax: +45 32 69 87 00 · e-mail: diis@diis.dk · www.diis.dk