

Migration and Development: International Remittances Agenda

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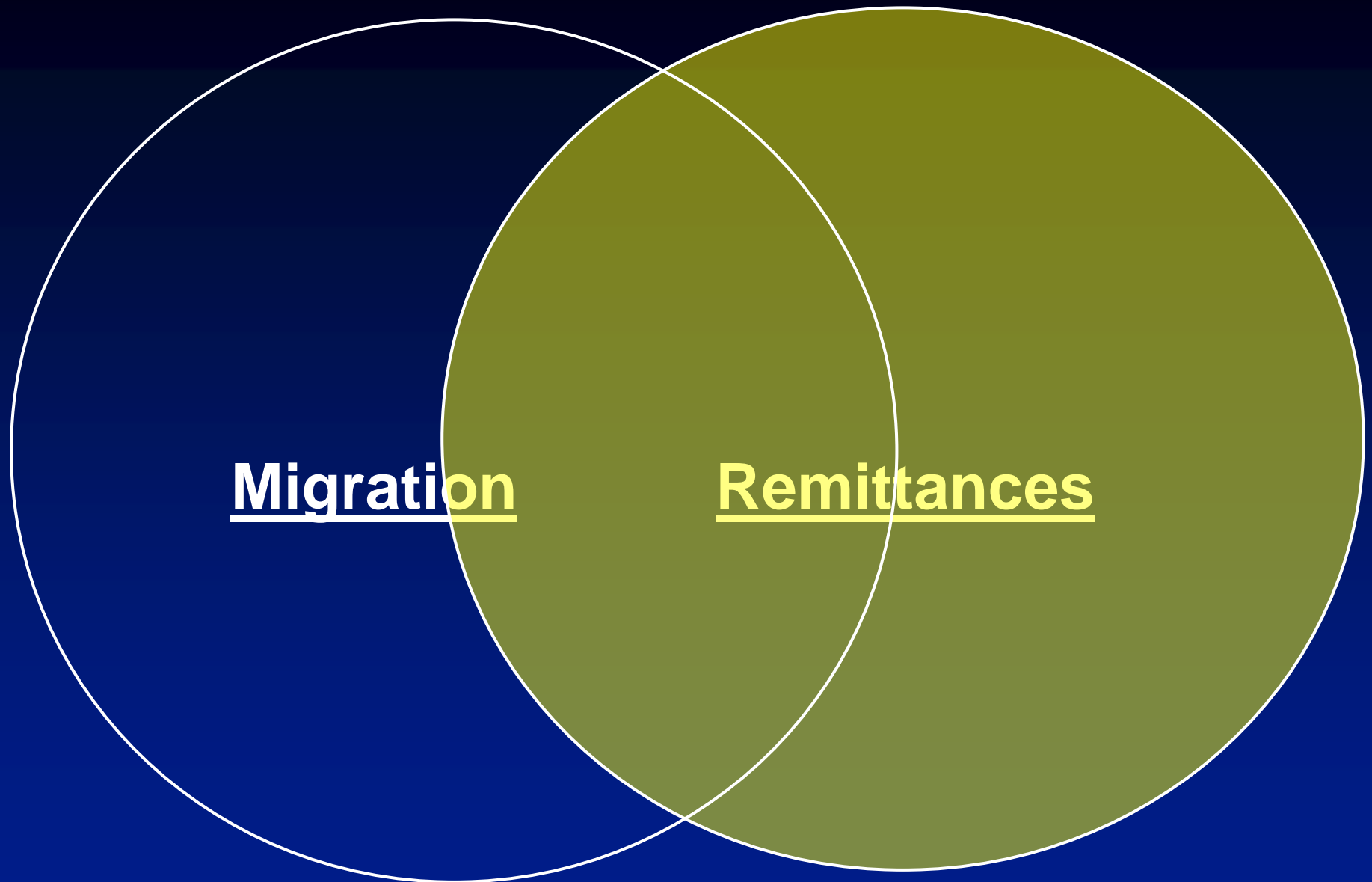
PREM Learning Week

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Development implications of migration and remittances

- Migration and remittances continue to increase. South-South migration may be as large as South-North migration
- Migration generates substantial welfare gains and reduces poverty. Benefits to countries of origin are mostly through remittances, and also through trade, investments, and transfer of knowledge, skill and technology
- Migration and remittances can be leveraged for the development of poor countries, but they are not a substitute for development at home



Remittances are the most tangible – and non-controversial - link between migration and development

1. Monitoring,
analysis, projection

3. Financial
access

4. Capital
market access

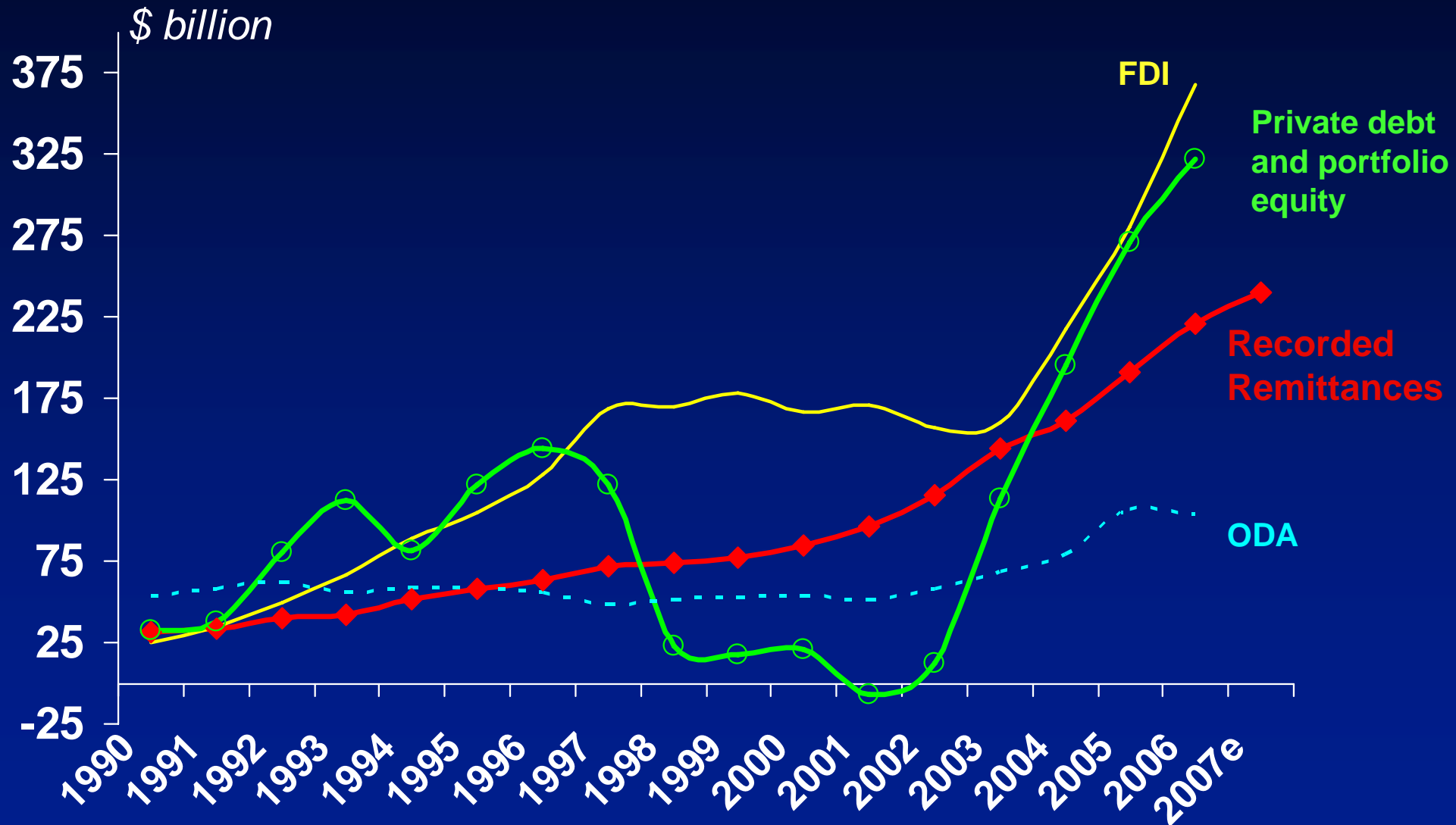


2. Retail payment
systems

1. Monitoring, Analysis, and Projection

- Size, corridors, channels
- Counter-cyclical
- Effects on poverty, education, health, investment
- Policy (costs, competition, exchange controls)

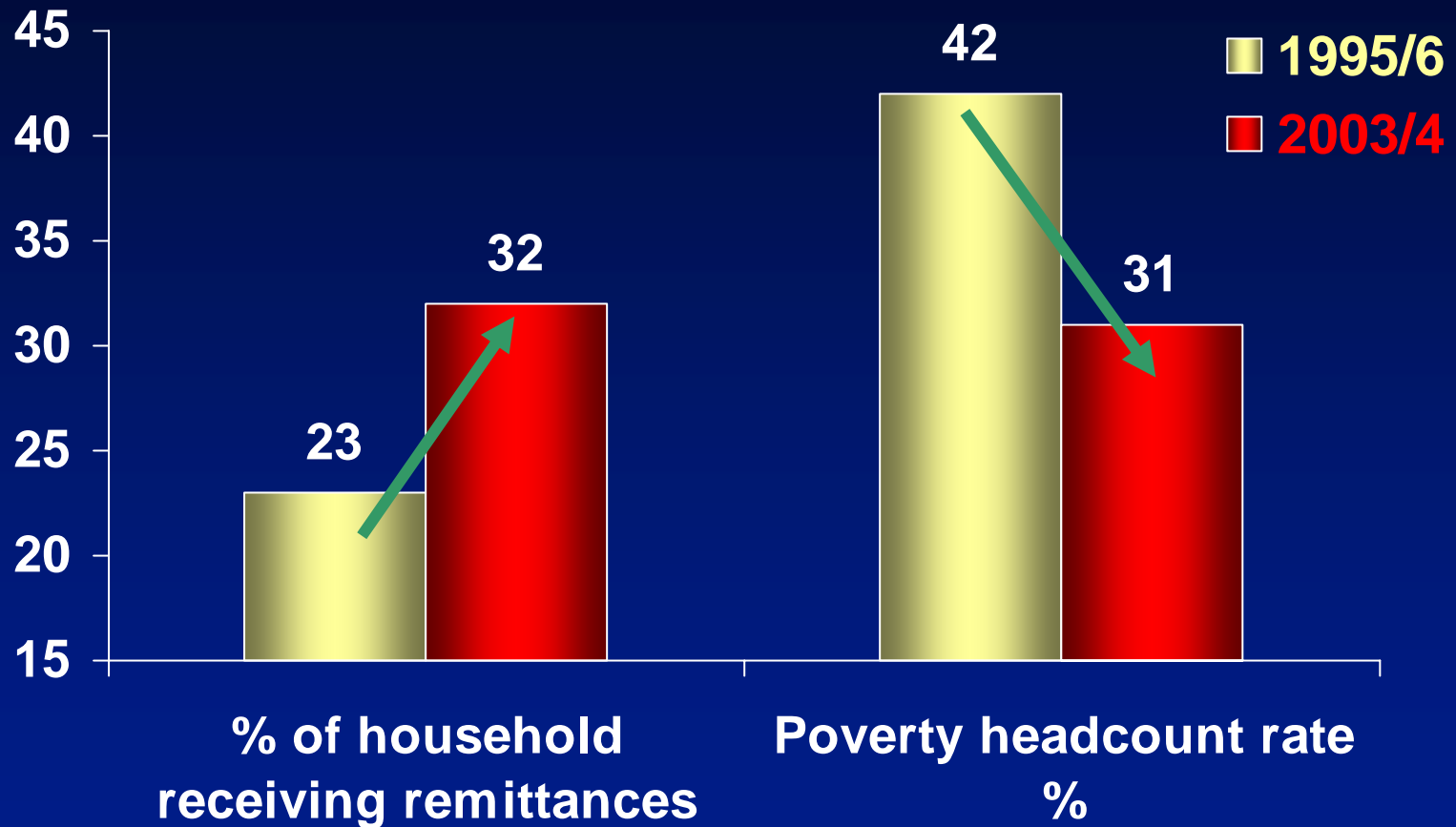
Remittances to developing countries are large, have continued to increase



Remittances reduce poverty

- Evidence from a few household surveys shows that remittances reduce poverty
- Remittances also finance education and health expenditures, and ease credit constraints on small businesses

Remittances have reduced poverty in Nepal



Source: World Bank, DFID, ADB Study 2006, Glinskaya and others 2006

Remittances help reduce poverty in Sri Lanka

*% of Sri Lankan households that moved up to a higher income decile after receiving remittances, 1999-2000**



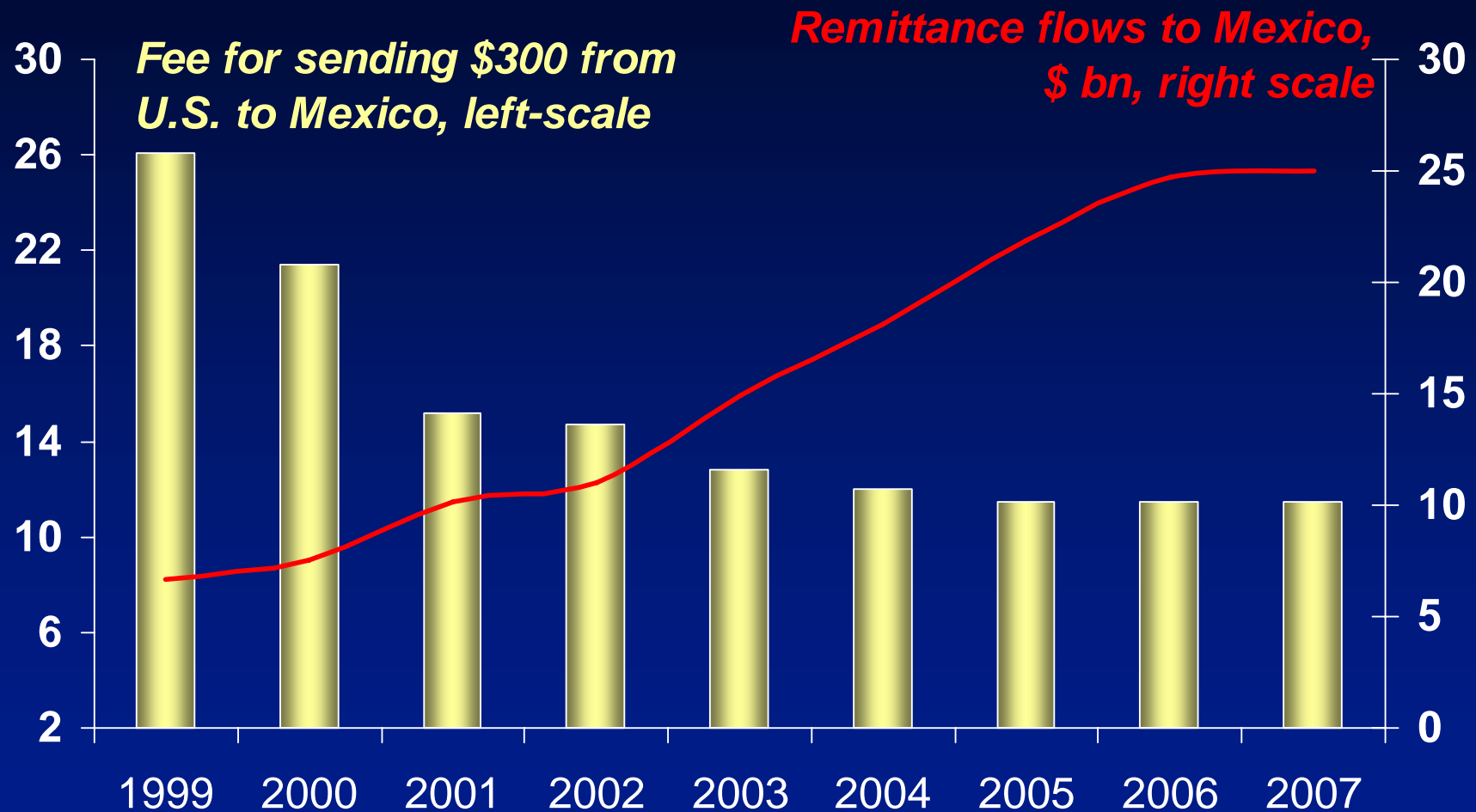
Downside of remittances

- Large remittance flows may lead to currency appreciation and adverse effects on exports; but sterilization of inflows may not be an appropriate policy response
- Remittances may create dependency
- Remittance channels may be misused for money laundering and financing of terror

2. Retail Payment Systems

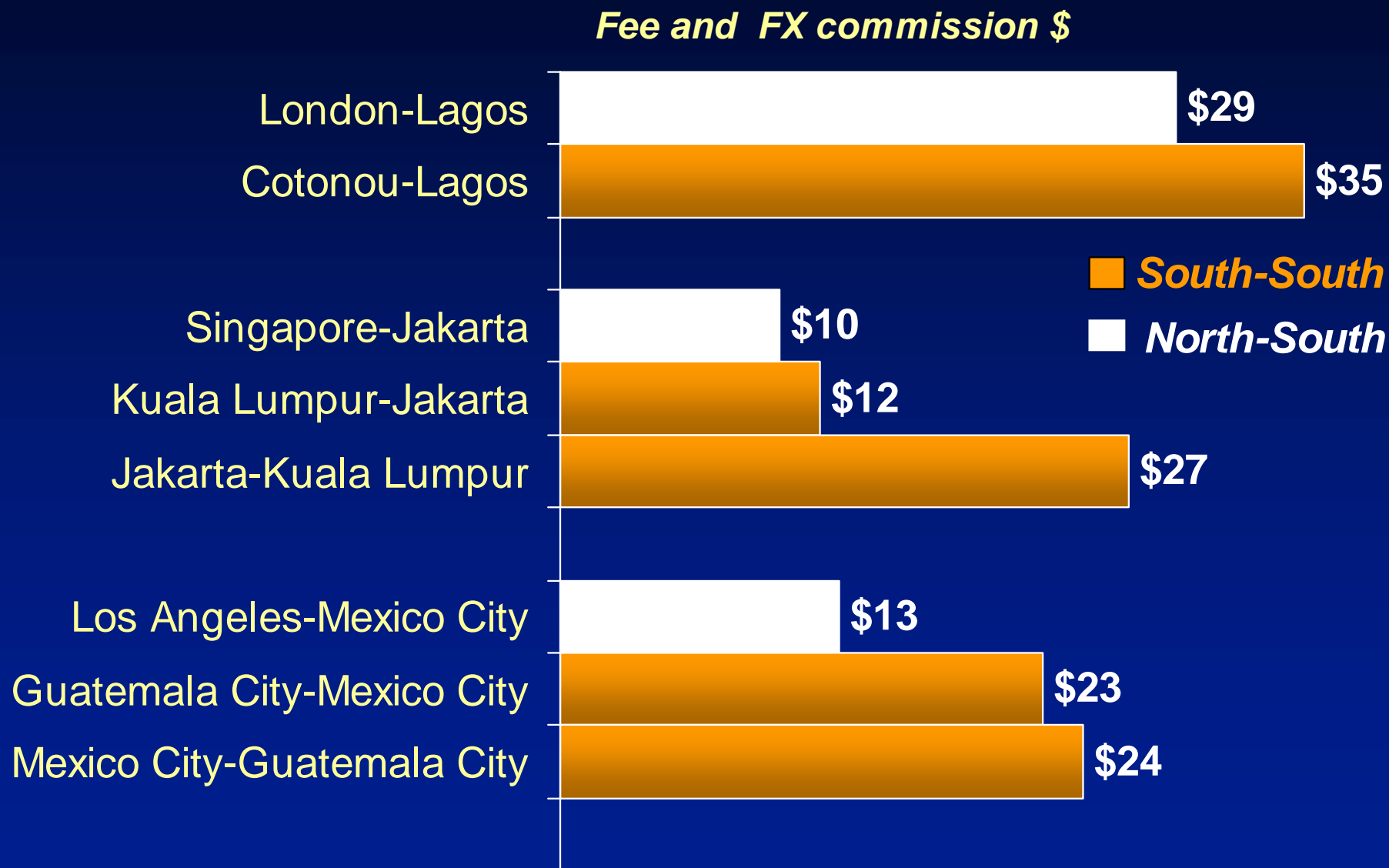
- Payment platforms/instruments
- Regulation (clearing and settlement, capital adequacy, exchange controls, disclosure, cross-border arbitration)
- Anti-money laundering/Countering financing of terrorism (AML/CFT)

Remittance fees are falling, but not fast enough



Source: Condusef, Mexico

South-South remittance costs tend to be higher than North-South costs



3. Financial Access

- Deposit and saving products
- Loan products (mortgages, consumer loans, microfinance)
- Credit history for MFI clients
- Insurance products

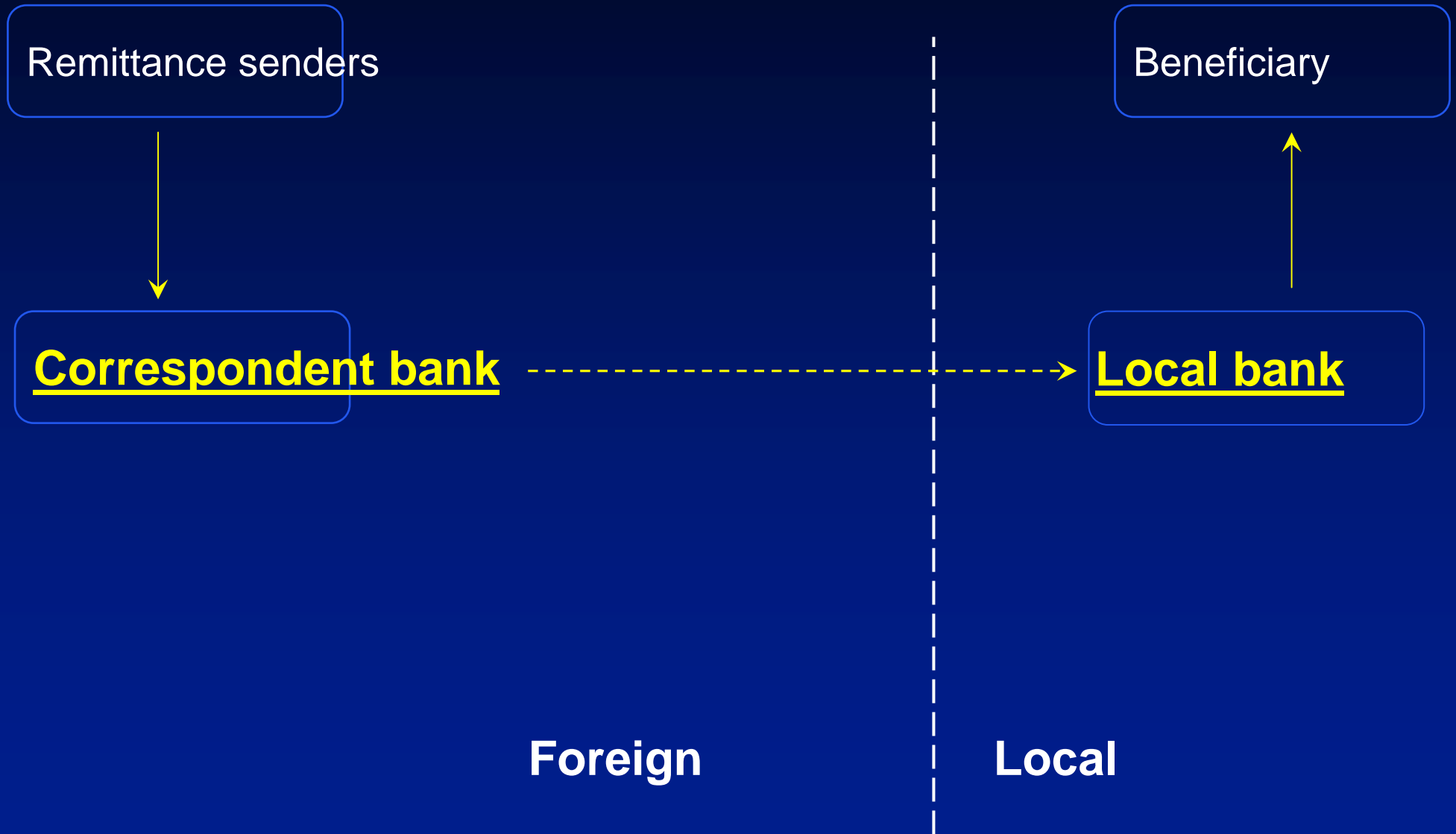
4. Capital Market Access

- Private banks and corporations (securitization)

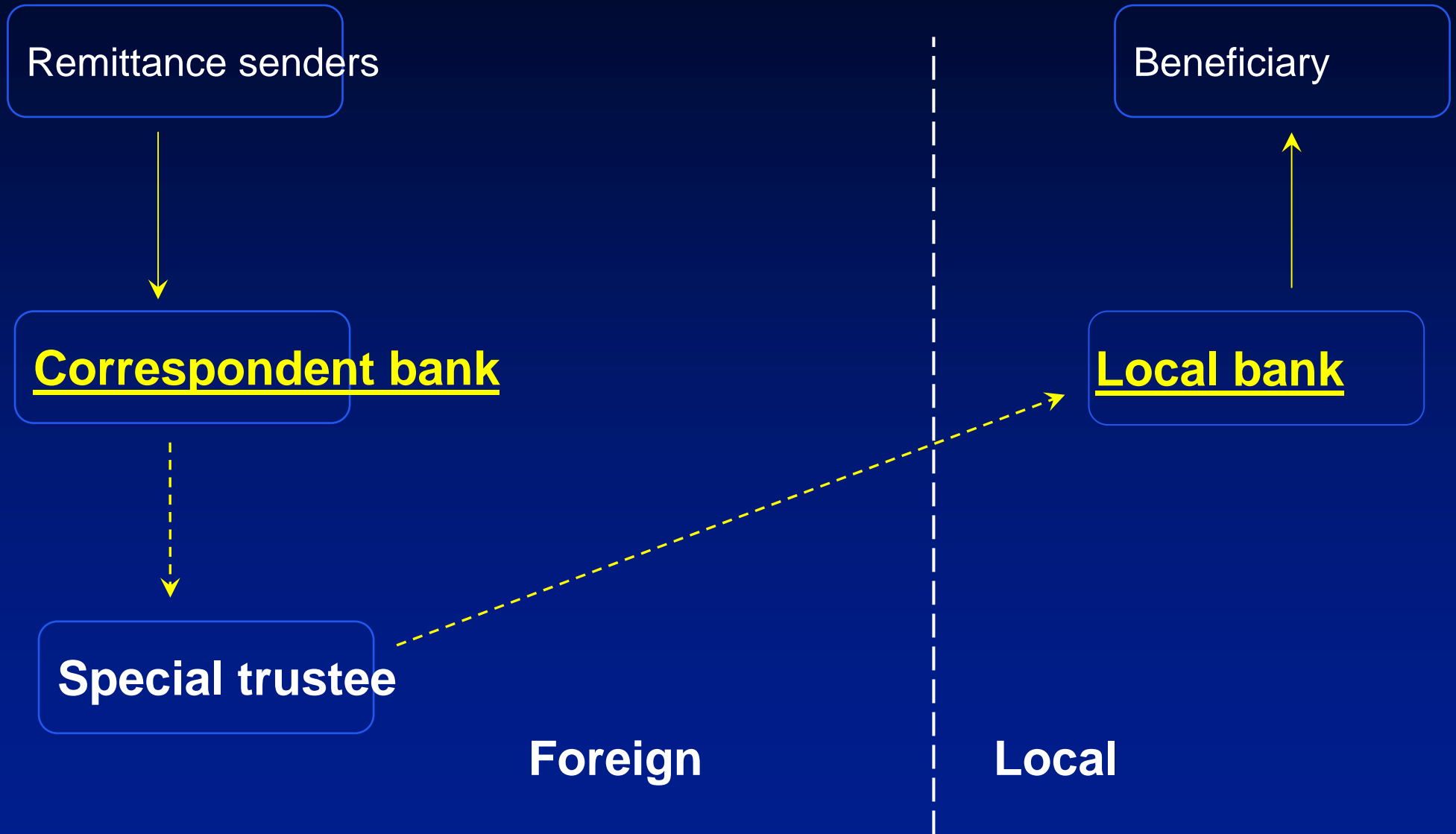
Securitization of future remittances can improve credit rating above investment grade

<u>Year</u>	<u>Issuer</u>	<u>Amount (US\$ mn)</u>	<u>Transaction rating</u>	<u>Country rating</u>
1998	Banco Cuscatlan	50	BBB	BB
2002	Banco do Brasil	250	BBB+	BB-

Remittance securitization structure



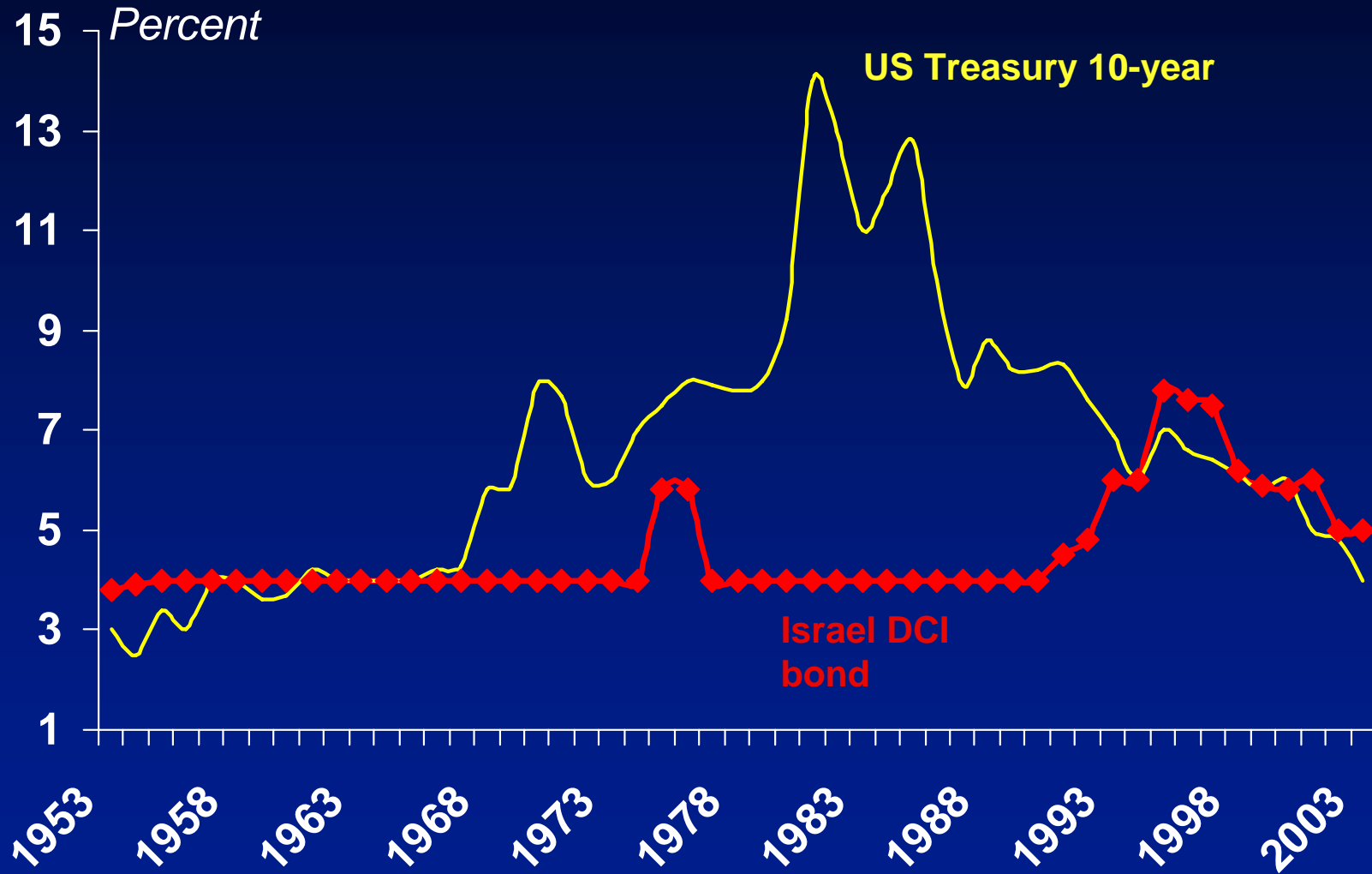
Remittance securitization structure



4. Capital Market Access

- Private banks and corporations (securitization)
- Governments (diaspora bonds)

Discount on Israel diaspora bonds



4. Capital Market Access

- Private banks and corporations (securitization)
- Governments (diaspora bonds)
- Sovereign credit rating

Remittances can help obtain and improve credit rating

	Remittances (% of GDP, 2004)	Rating excluding remittances	Rating including remittances	Spread reduction (basis pts)
Lebanon	14	B+	BB-	150
Haiti*	28	CCC	B-	334
Nicaragua*	11	CCC+	B-	209
Uganda*	5	B-	B	161

* Calculated using a model similar to Cantor and Packer (1995), see Ra tha, De and Mohapatra (2007)

1. Monitoring, analysis, projection

- Size, corridors, channels
- Counter-cyclicality
- Effects on poverty, education, health, investment
- Policy (costs, competition, exchange controls)

3. Financial access

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- Governments (diaspora bonds)
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Policy recommendations

- Governments should not tax remittances or direct the allocation of expenditures financed by remittances
- Remittances are not a substitute for official aid

Policy recommendations

- Know your diaspora
- Provide training and support to potential and existing migrants
- Help potential migrants acquire globally marketable skills
- Improve transparency in recruitment process
- But migration is not a substitute for employment creation at home

www.worldbank.org/prospects/migrationandremittances