Economic Implications of Remittances and Migration

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Remittances are the most tangible – and non-controversial - link between migration and development.
Remittances
1. Monitoring, analysis, projection
- Size, corridors, channels
- Counter-cyclical
- Effects on poverty, education, health, investment

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   - Payment platforms/instruments
   - Competition
   - Regulation (clearing and settlement, capital adequacy, exchange controls, AML/CFT, disclosure, cross-border arbitration)
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   - Loan products (mortgages, consumer loans, microfinance)
   - Credit history for MFI clients
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4. Capital market access
   - Private banks and corporates (securitization)
   - Governments (diaspora bonds)
   - Sovereign credit rating

Remittances
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.

- There is considerable scope for reducing remittance costs faced by poor migrants.
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Over 40% of international migrants are in the South

Destination of global migrants

- High income OECD: 47%
- High income non-OECD: 12%
- South: 41%, 78 million

Source: Ratha and others (2006)
South-South migration is almost as large as South-North migration

Destination of migrants from the South

- North (HI-non-OECD): 13%
- North (HI-OECD): 40%
- South: 47%

Source: Ratha and others (2006)
Top migration corridors include several South-South corridors (excluding the FSU)

Mexico-US
Bangladesh-India
Turkey-Germany
India-UAE
Philippines-US
Afghanistan-Iran
Algeria-France
India-Saudi Arabia
Egypt-Saudi Arabia
Pakistan-India
India-US
China-US
Vietnam-US
India-Bangladesh
Malaysia-Singapore
Burkina Faso-Cote
Cuba-US

Source: University of Sussex and World Bank
Former Soviet Union corridors are among the largest South-South corridors

Russia-Ukraine

Ukraine-Russia

Kazakhstan-Russia

Russia-Kazakhstan

Source: University of Sussex and World Bank
Remittances are large, have continued to increase

<table>
<thead>
<tr>
<th>$ billion</th>
<th>1995</th>
<th>2005e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remittances*</td>
<td>58</td>
<td>188</td>
</tr>
<tr>
<td>ODA</td>
<td>59</td>
<td>106</td>
</tr>
<tr>
<td>FDI</td>
<td>107</td>
<td>237</td>
</tr>
<tr>
<td>Private debt &amp; portfolio equity</td>
<td>126</td>
<td>253</td>
</tr>
</tbody>
</table>

*Recorded remittances only*
Remittances are large, have continued to increase.

Graph showing the increase in remittances from 1990 to 2006e, with categories for Private debt and portfolio equity, FDI, Recorded remittances, and ODA. The graph indicates a steady increase in remittances over time.
Top recipients of remittances, 2005 (estimate)

<table>
<thead>
<tr>
<th>Country</th>
<th>$ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>23.5</td>
</tr>
<tr>
<td>China</td>
<td>22.5</td>
</tr>
<tr>
<td>Mexico</td>
<td>21.8</td>
</tr>
<tr>
<td>Philippines</td>
<td>13.4</td>
</tr>
<tr>
<td>France</td>
<td>12.8</td>
</tr>
<tr>
<td>Spain</td>
<td>7.9</td>
</tr>
<tr>
<td>Belgium</td>
<td>7.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>6.7</td>
</tr>
<tr>
<td>Germany</td>
<td>6.5</td>
</tr>
<tr>
<td>Lebanon</td>
<td>5.7</td>
</tr>
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</table>
Top recipients of remittances, 2005 (est.)

% of GDP

Moldova: 32
Tonga: 27
Lebanon: 26
Lesotho: 24
Haiti: 22
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Remittances reduce poverty

- Evidence from a few household surveys shows that remittances reduce poverty.
- Cross-country evidence shows that a 10% increase in per capita remittances leads to a 3.5% decline in the share of poor people.
- Remittances also finance education and health expenditures, and ease credit constraints on small businesses.
Remittances tend to rise following crisis, natural disaster, or conflict

*Remittances as % of private consumption*

<table>
<thead>
<tr>
<th>Country</th>
<th>Year Before</th>
<th>Year of Crisis</th>
<th>Year After</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>0.5</td>
<td>1.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>1.2</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Mexico</td>
<td>1.2</td>
<td>2.0</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Legend:
- Yellow: year before
- Red: year of crisis
- Light blue: year after
Remittances improve countries’ access to capital

Present value of external debt as % of exports of goods, services, and remittances

Excluding remittances
Including remittances

Lebanon  Ecuador  Pakistan  Philippines  Jamaica  Morocco  Jordan  El Salvador  Guatemala
Downside

- Large remittance flows may lead to currency appreciation and adverse effects on exports
- Remittances may create dependency
- Remittance channels may be misused for money laundering and financing of terror
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Remittance fees are high, and regressive

* Fee as % of principal *

* As of November 2006
Remittance fees are falling, but not fast enough

Source: Condusef, Mexico
South-South remittance costs tend to be higher than North-South costs.
Policy priorities

- **High remittance costs faced by poor migrants can be reduced by increasing access to banking and strengthening competition in the remittance industry**

- Urgent need to balance AML/CFT with facilitating cross-border retail payments

- Governments should not tax remittances or direct the allocation of expenditures financed by remittances
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