

Development Implications of Migration and Remittances: The International Remittances Agenda

Dilip Ratha

Development Prospects Group

World Bank

Annual Meeting of the International Agricultural Trade Research Consortium: Immigration and Labor in a Global Economy

Washington, DC

January 7, 2008

Development implications of migration and remittances

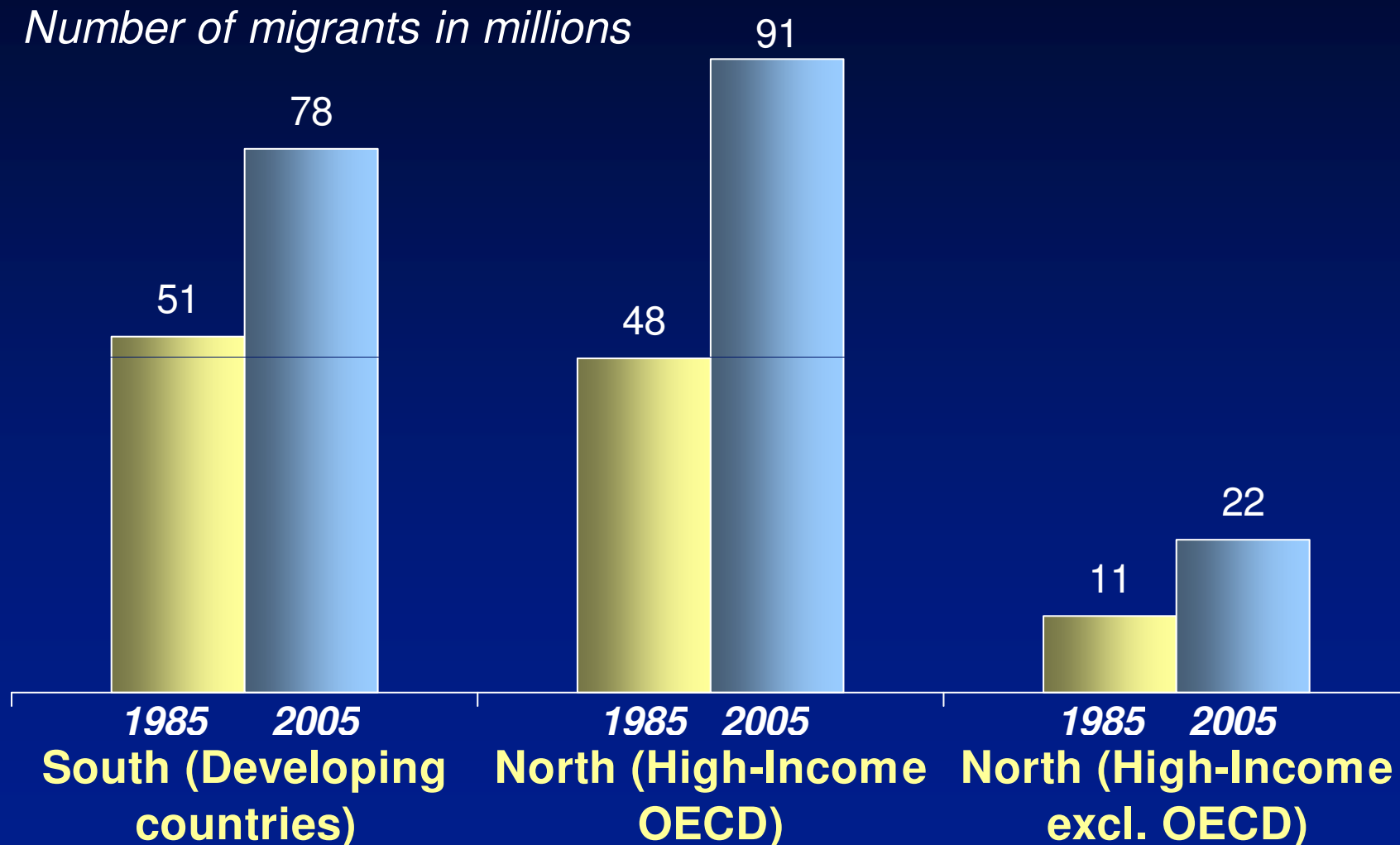
- Migration and remittances continue to increase. South-South migration may be as large as South-North migration
- Migration generates substantial welfare gains and reduces poverty. Benefits to countries of origin are mostly through remittances
- There is considerable scope for leveraging remittances for development

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 leveraging remittances for development

Global migrant stock is rising

Number of migrants in millions



Source: United Nations

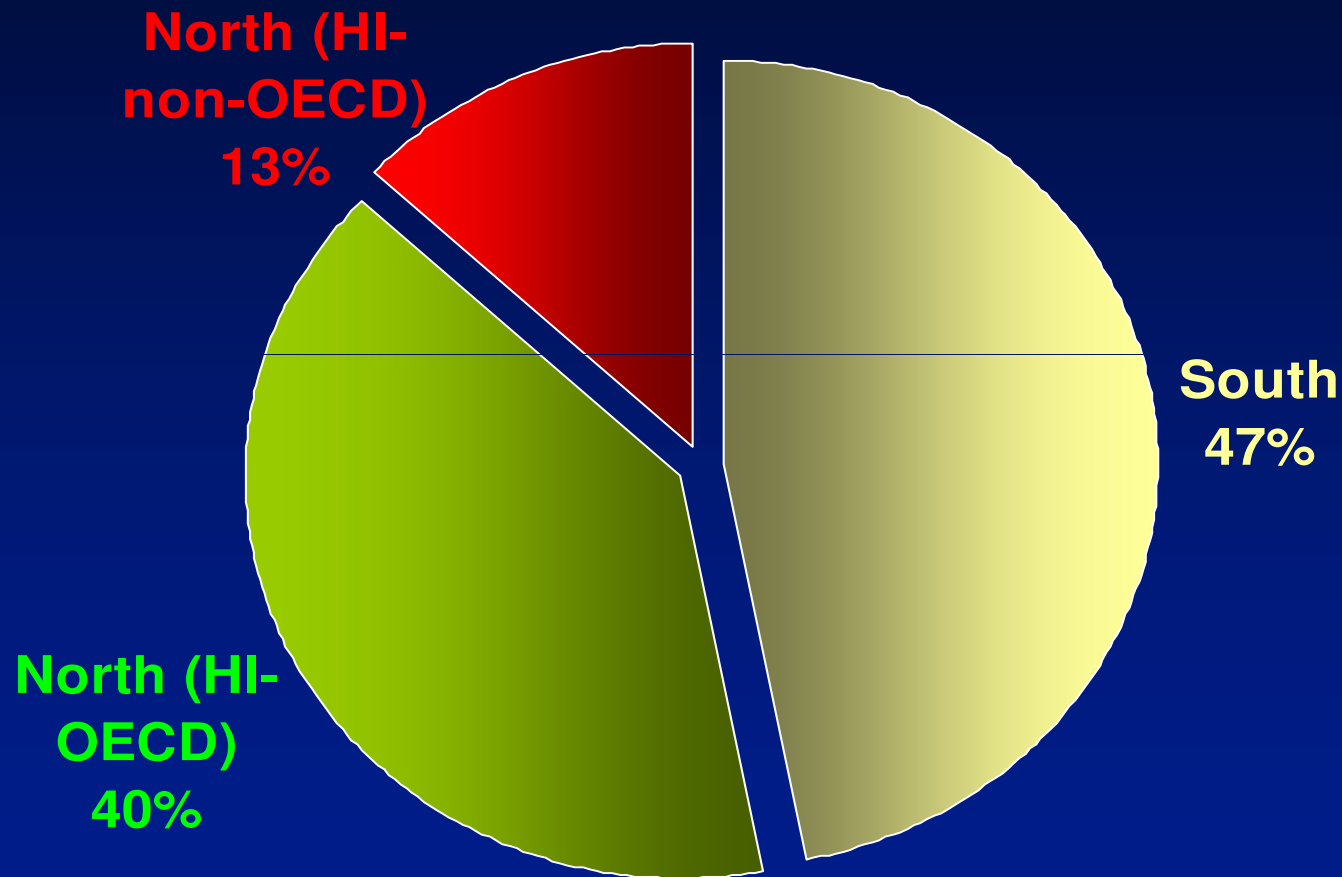
South-South migration is almost as large as South-North migration

<i>(millions, 2005)</i>	<u><i>Migrant stock in</i></u>			
	South	North (HI OECD)	North (HI non-OECD)	Total
<u><i>Migrants from:</i></u>				
South	74	62	20	156
North (HI OECD)	3	25	1.2	30
North (HI non-OECD)	1	4	0.3	5
TOTAL	78	91	22	191

Source: Ratha and others (2006)

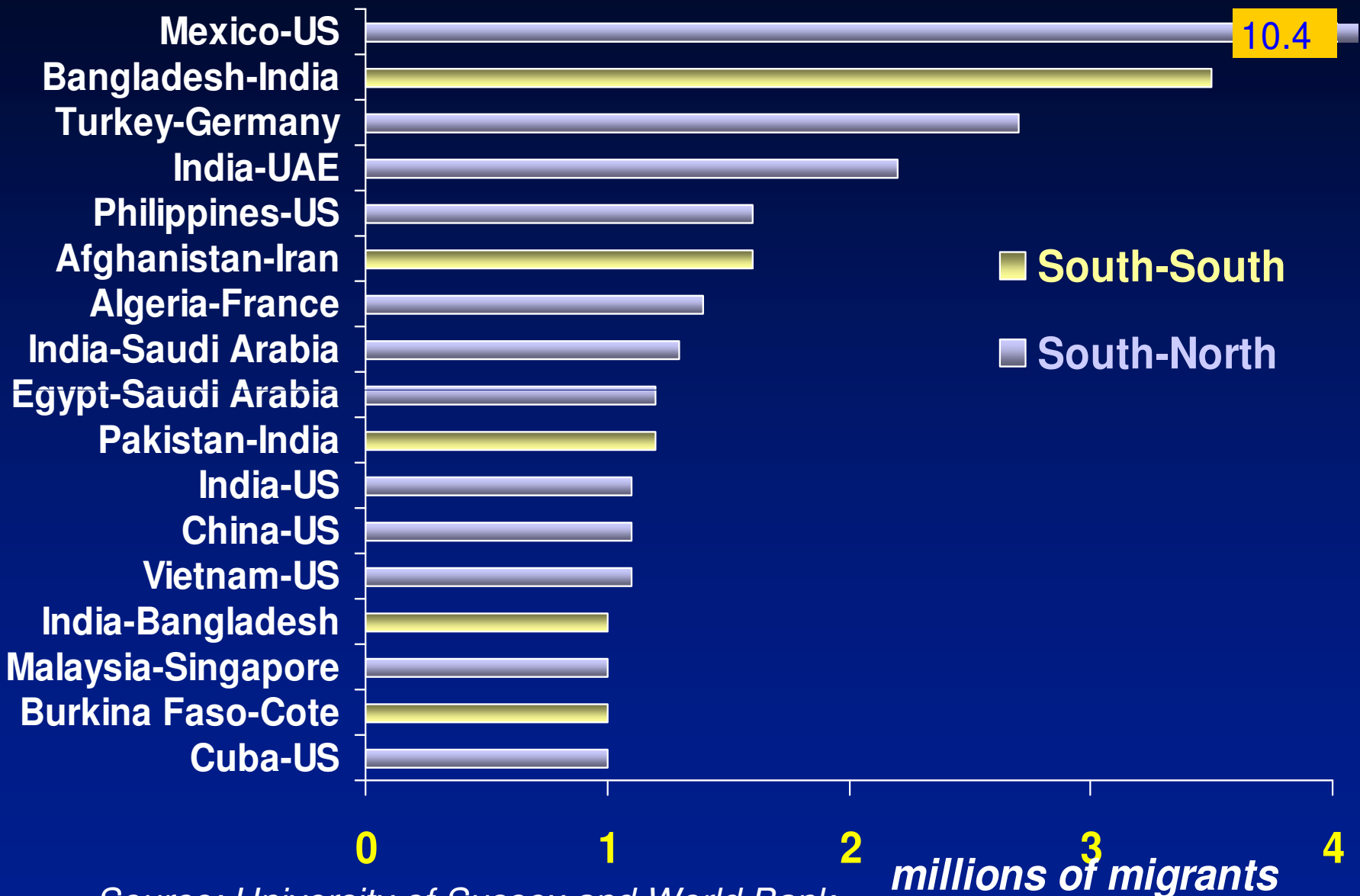
South-South migration is almost as large as South-North migration

Destination of migrants from the South



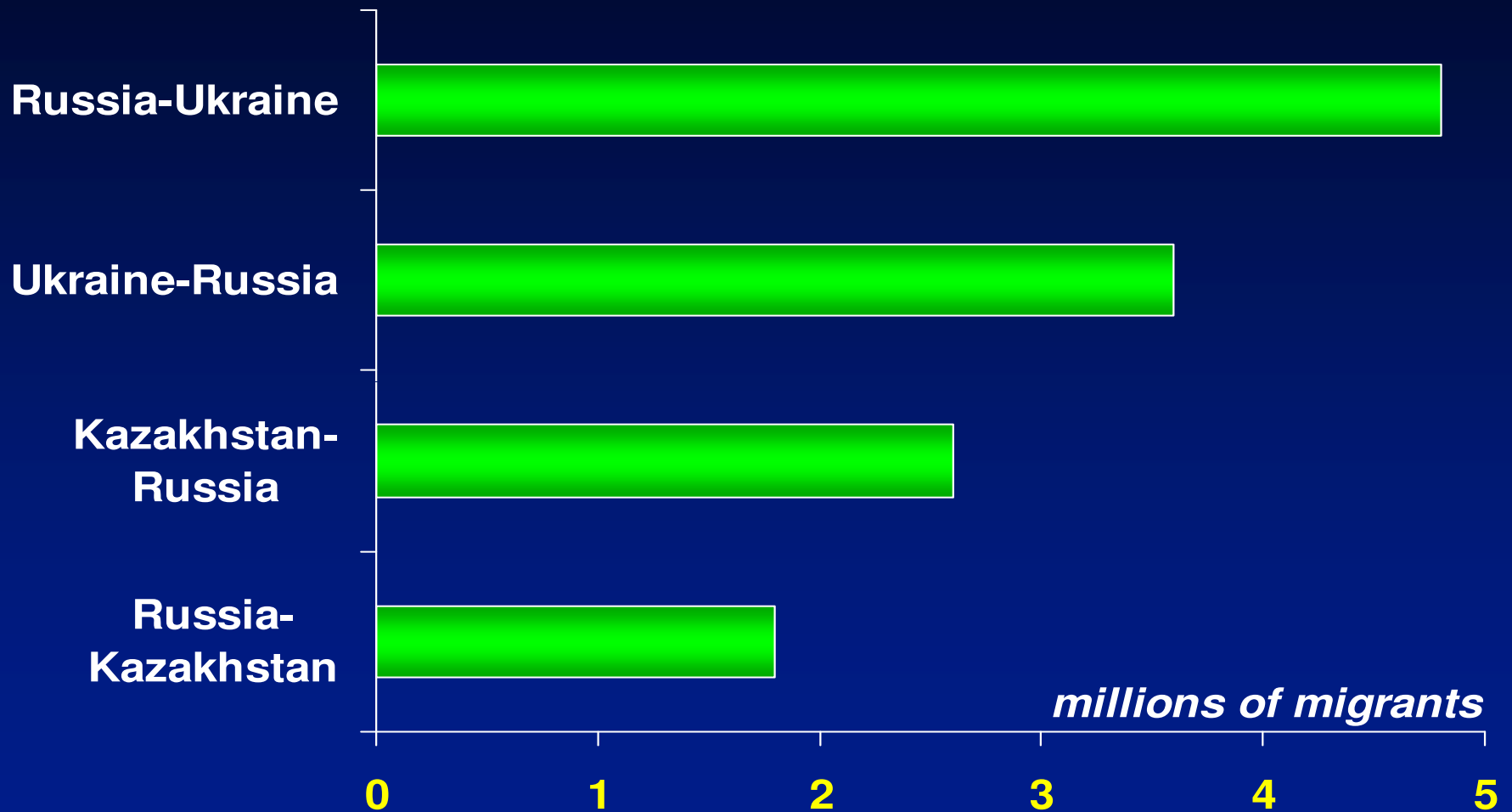
Source: Ratha and Shaw (2007)

Top migration corridors include several South-South corridors (excluding the FSU)



Source: University of Sussex and World Bank

Former Soviet Union corridors are among the largest South-South corridors

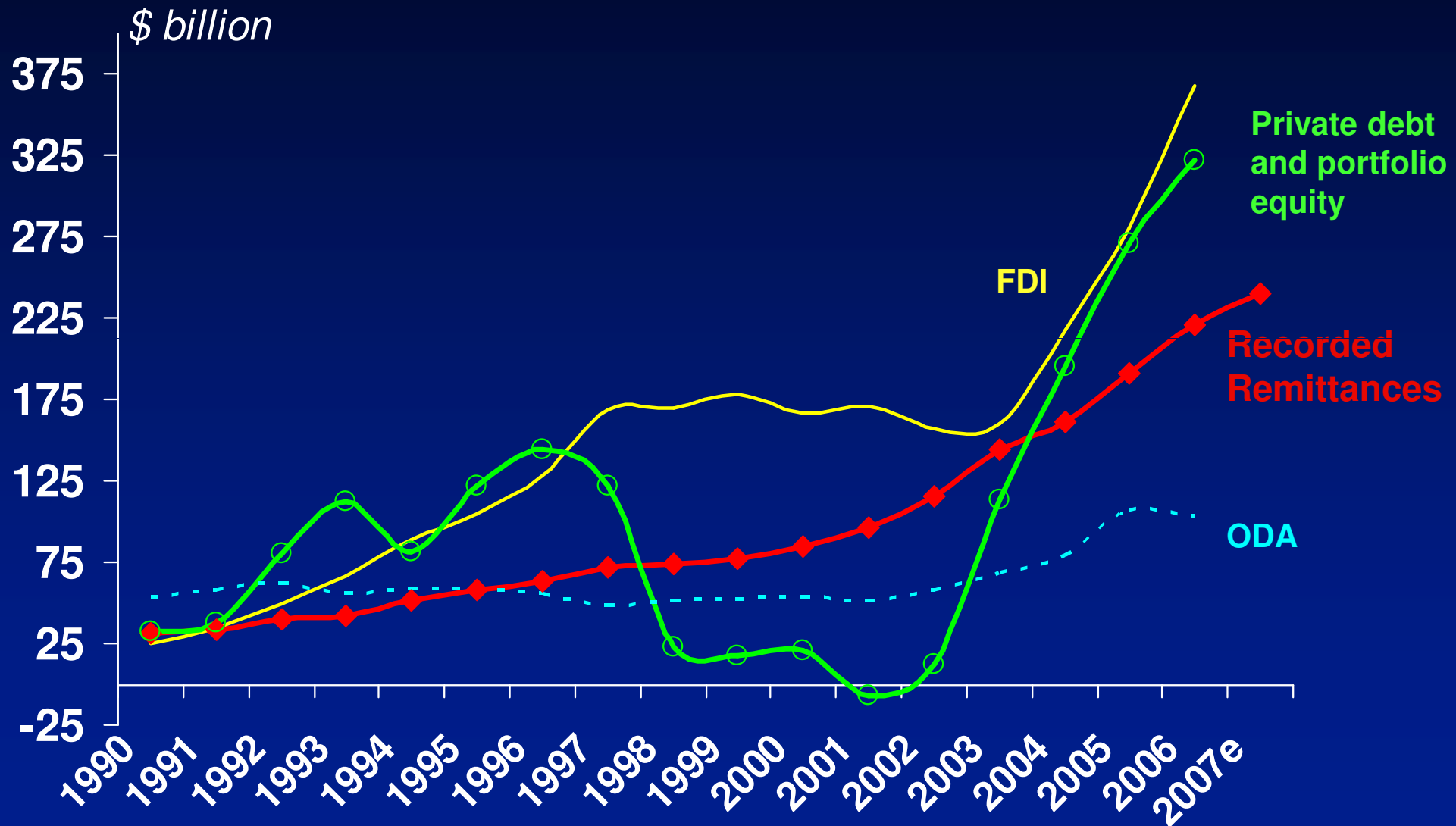


Source: University of Sussex and World Bank

Main messages

- Remittances are the most tangible and least controversial link between migration and development
- Remittances are large, relatively stable - they reduce poverty
- Reducing remittance costs would benefit all retail payments
- Remittances can be leveraged for financial access of households, and capital market access of financial intermediaries
- Anti-money laundering and other regulations need to be further clarified

Remittances are large, have continued to increase



Remittances are large, have continued to increase

(\$ billion)

	<u>1995</u>	<u>2007</u> <u>estimate</u>
Recorded remittances	58	240
ODA*	59	104
FDI*	105	368
Pvt. debt & portfolio equity*	122	322

* 2006

Global flows of remittances (US\$ billion)

<i>INFLOWS</i>	<i>2000</i>	<i>2006</i>	<i>2007_e</i>	<i>Change 2006-07</i>	<i>Change 2002-07</i>
All developing countries	85	221	240	8%	107%
East Asia and Pacific	17	53	58	10%	97%
Europe and Central Asia	13	35	39	10%	175%
Latin America and Carib.	20	57	60	6%	115%
Middle-East and N Africa	13	27	28	7%	86%
South Asia	17	40	44	10%	81%
Sub-Saharan Africa	5	10	11	5%	116%
High income OECD	46	72	74	3%	40%
World	132	297	318	7%	87%
<i>OUTFLOWS</i>	<i>2000</i>	<i>2005</i>	<i>2006</i>	<i>Change 2005-06</i>	<i>Change 2001-06</i>
All developing countries	12	36	44	23%	226%
High income OECD	76	124	136	10%	64%
High income non-OECD	23	24	27	15%	20%
World	110	183	207	13%	74%

Remittances flows outside LAC continue to grow



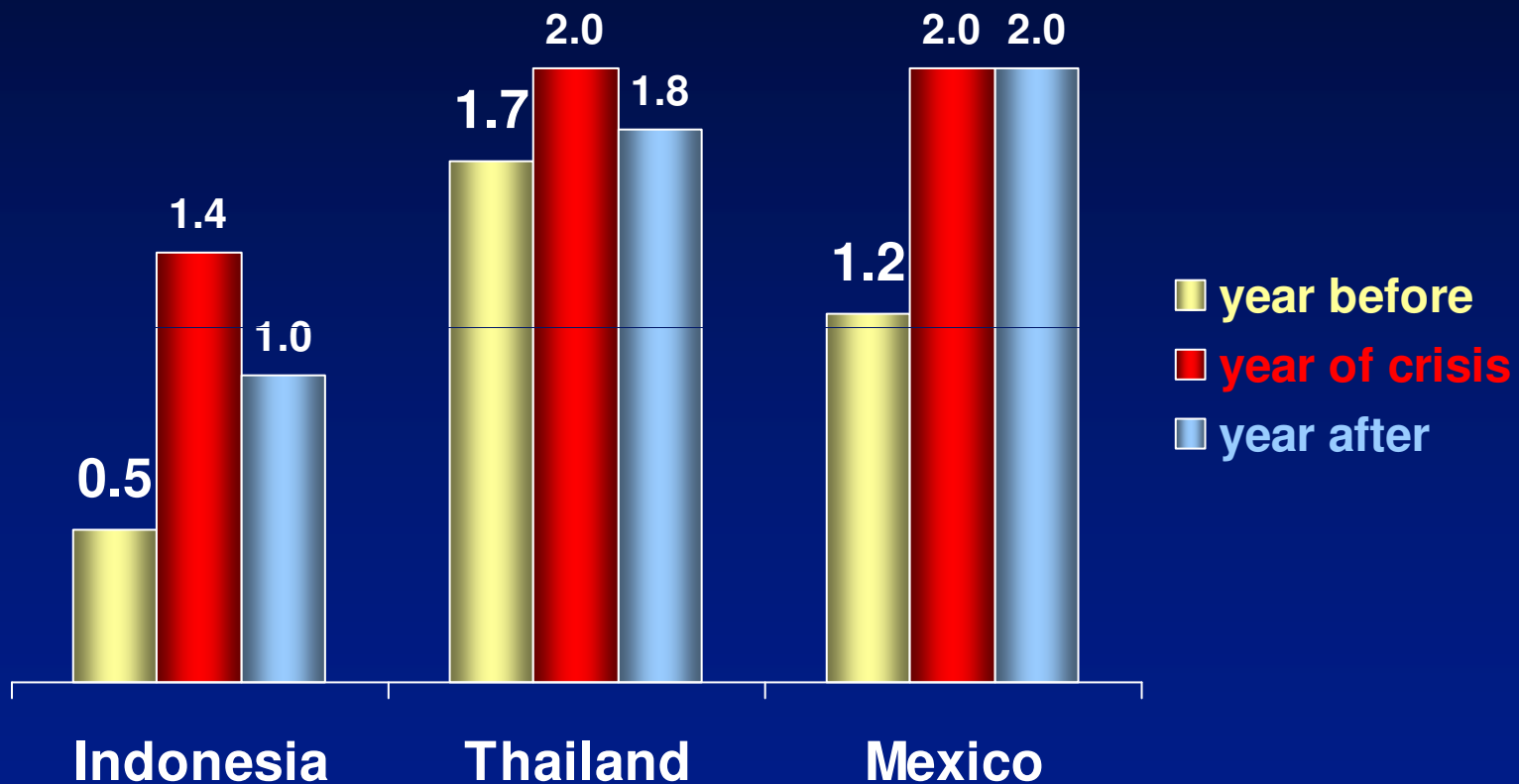
Note: Year-on-year growth rate (%) of 3-month moving average

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

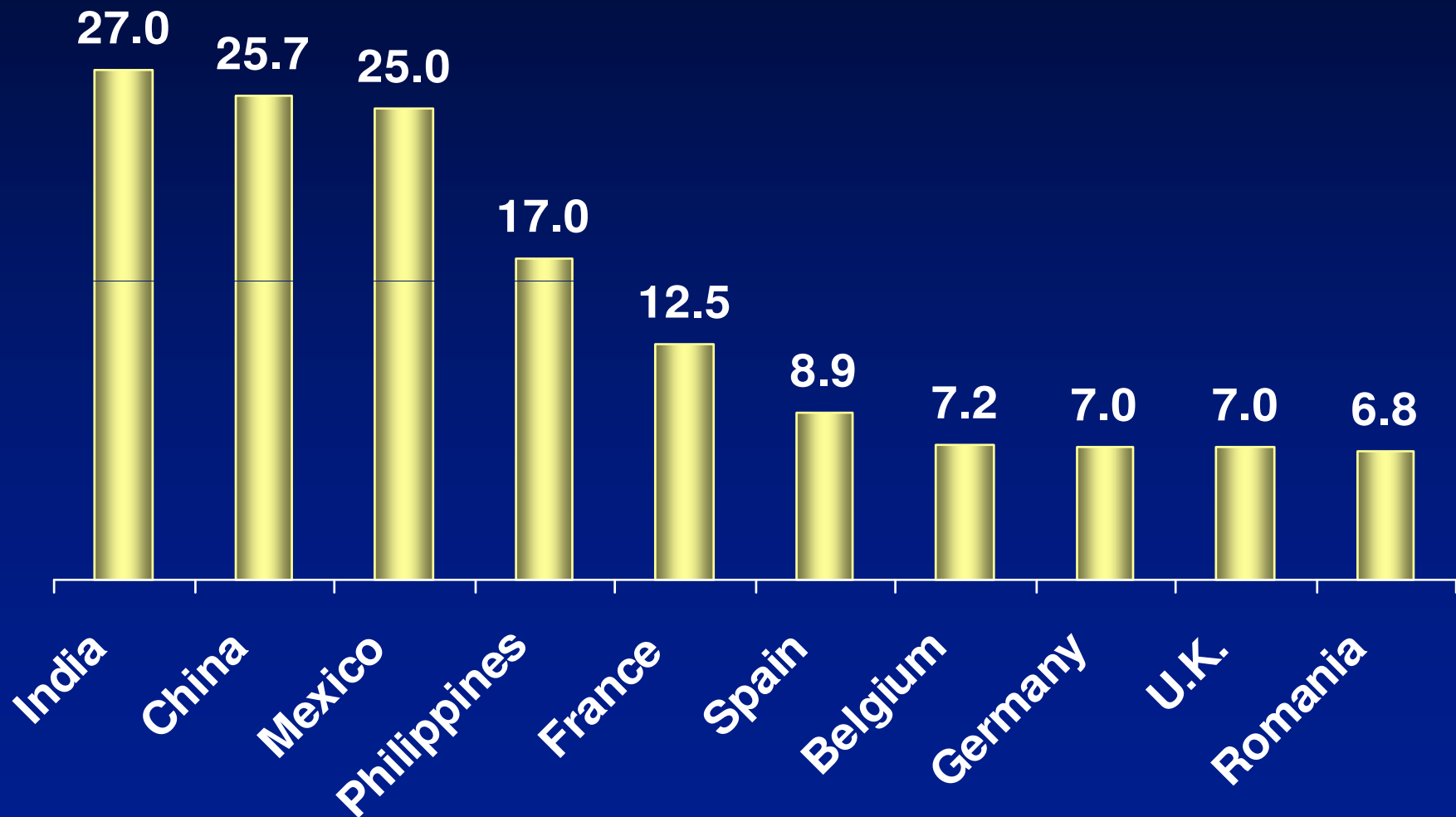
Remittances tend to rise following crisis, natural disaster, or conflict

Remittances as % of private consumption



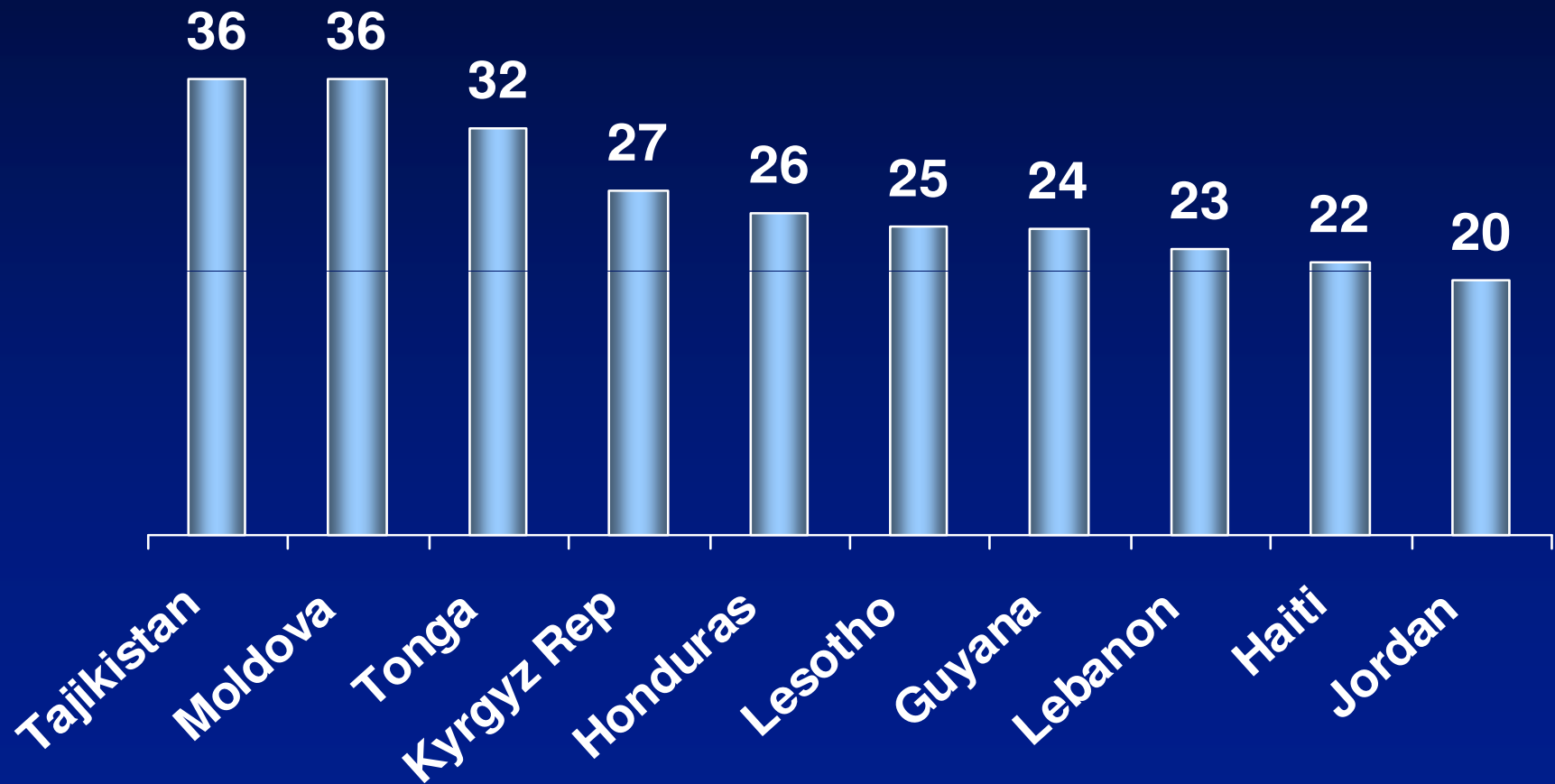
Large countries receive more remittances in dollar terms...

Top recipients of remittances, 2007 estimated (\$ bn)

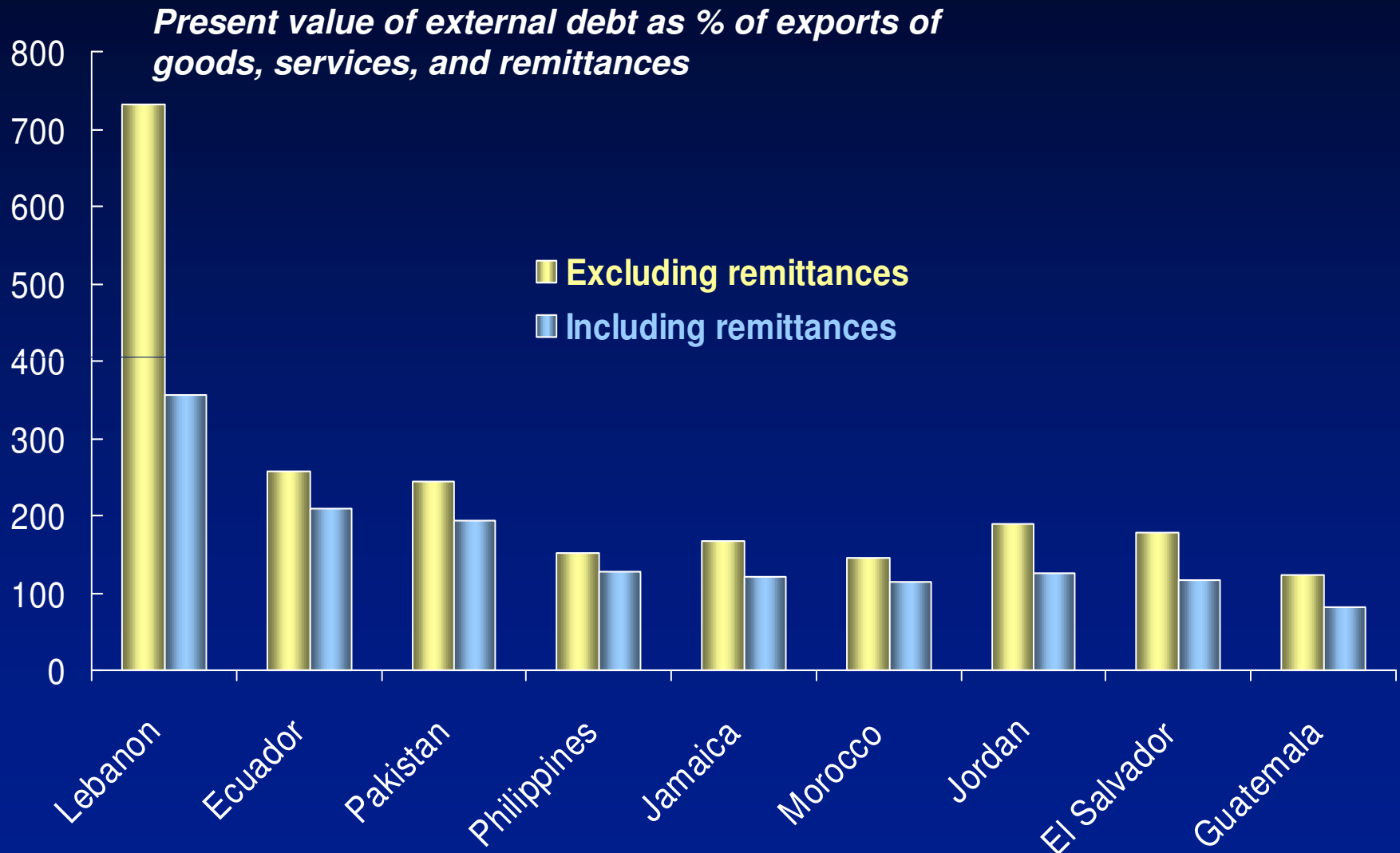


...but smaller countries receive more as a share of GDP

Top recipients of remittances, 2006 (% of GDP)



Remittances improve countries' access to capital



Downside

- 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

Policy implications

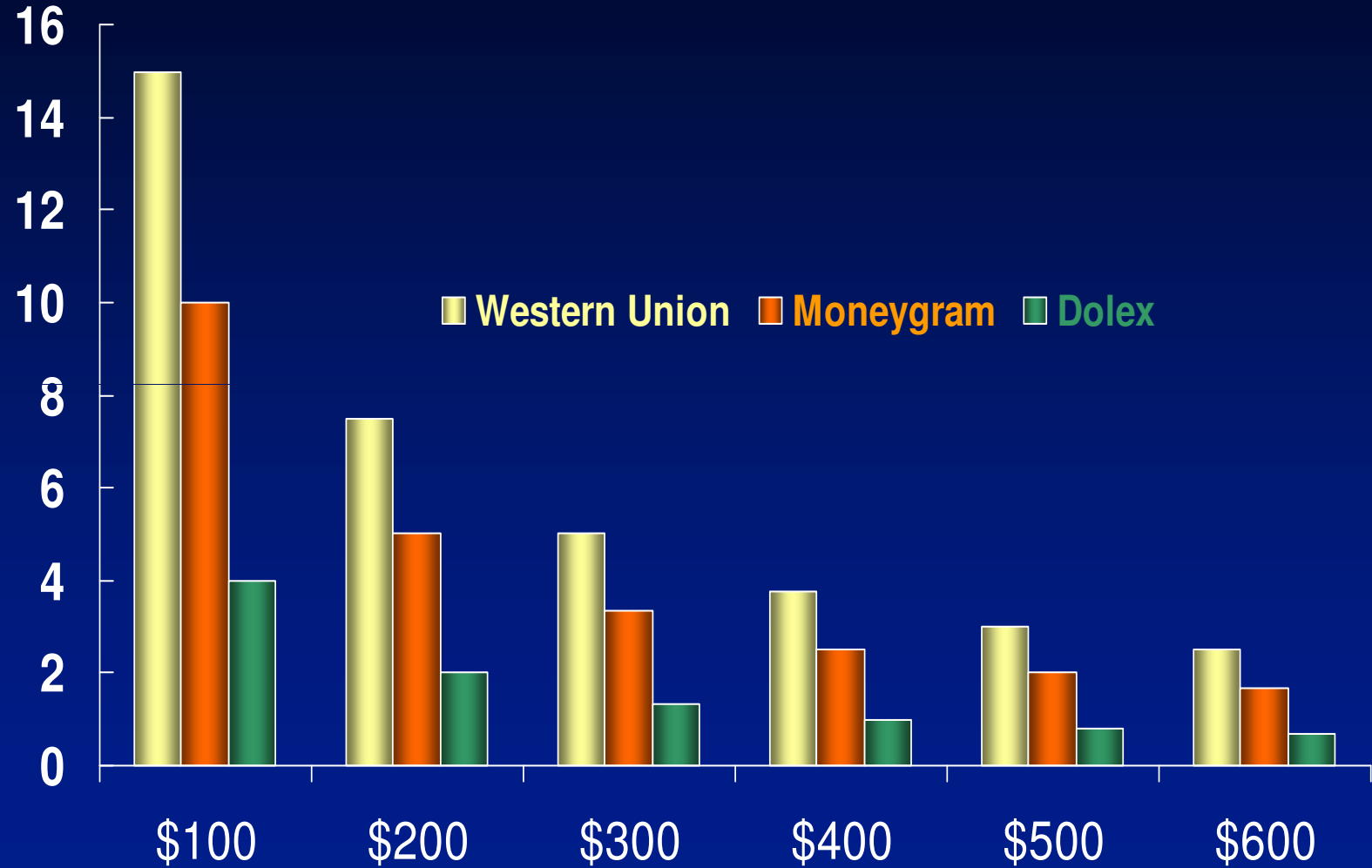
- Reduce remittance costs
- Prudential banking regulations and AML/CFT regulations may need rebalancing
- Leverage for financial access of households
- Leverage for capital market access of intermediaries

Policy implications

- Reduce remittance costs
- Prudential banking regulations and AML/CFT regulations may need rebalancing
- Leverage for financial access of households
- Leverage for capital market access of intermediaries

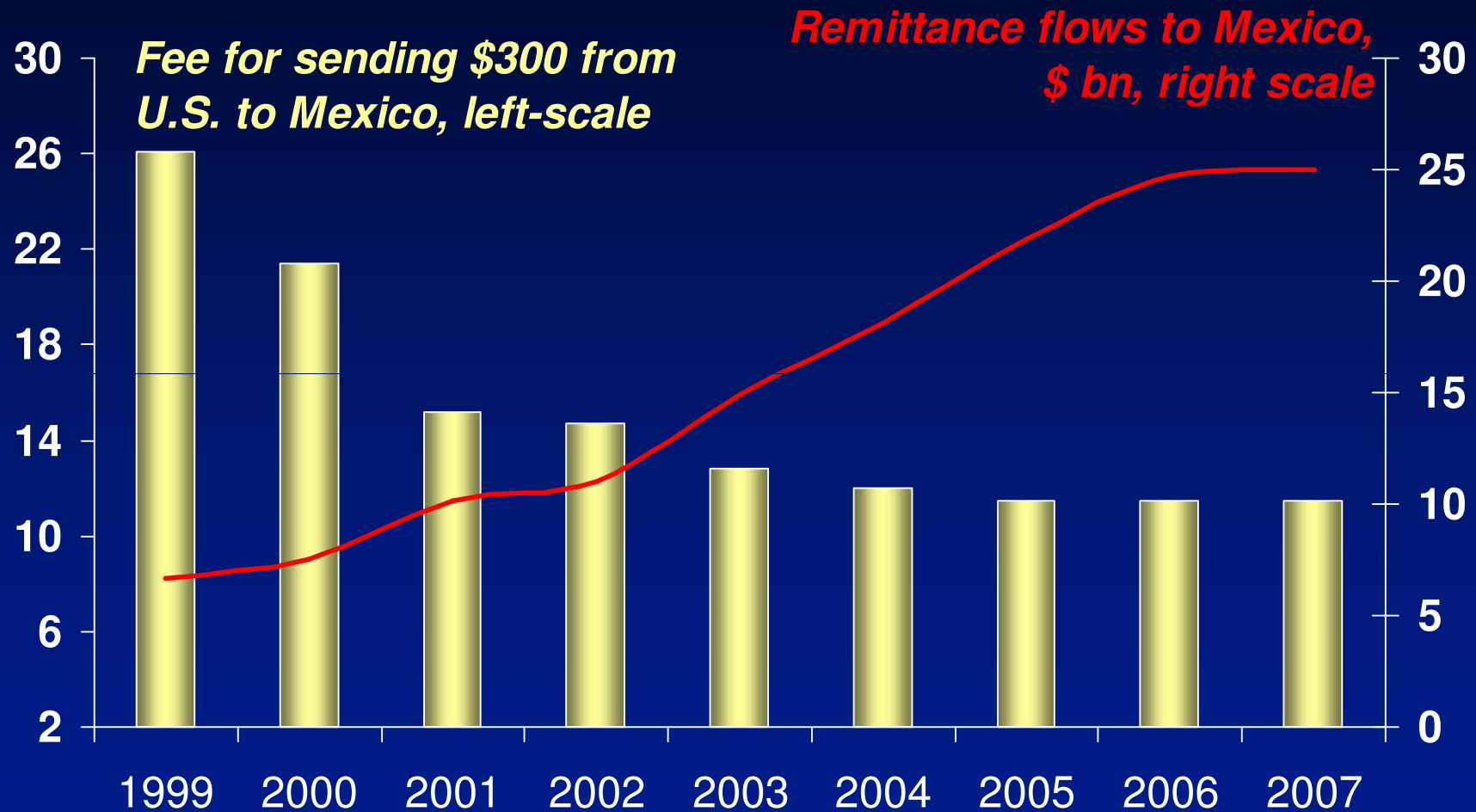
Remittance fees are high, and regressive

*Fee as % of principal **



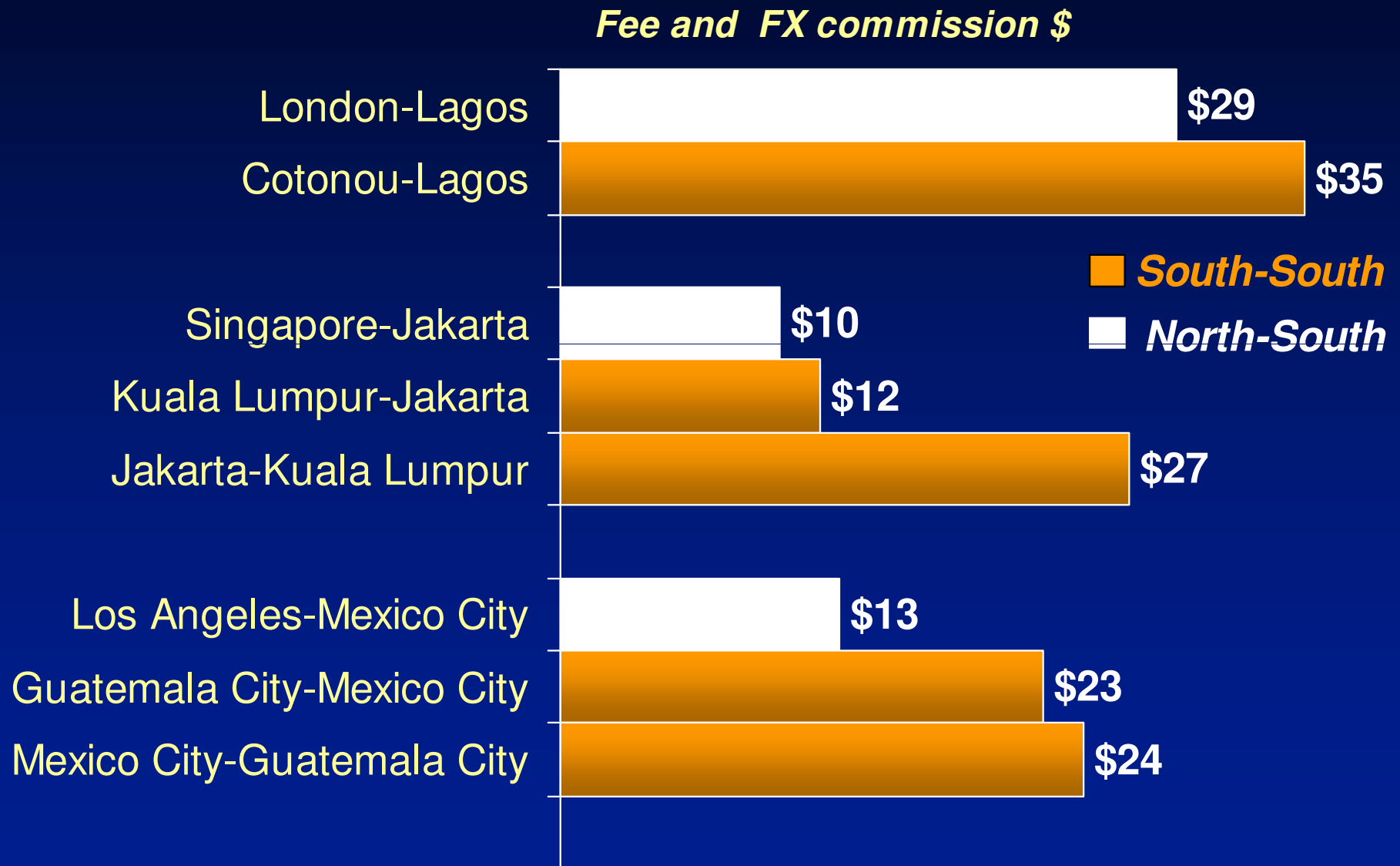
** As of November 2006*

Remittance fees are falling, but not fast enough



Source: Condusef, Mexico

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



Policy implications

- Reduce remittance costs
- Prudential banking regulations and AML/CFT regulations may need rebalancing
- Leverage for financial access of households
- Leverage for capital market access of intermediaries

Policy recommendations

1. Country risk analysis should account for remittances

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)

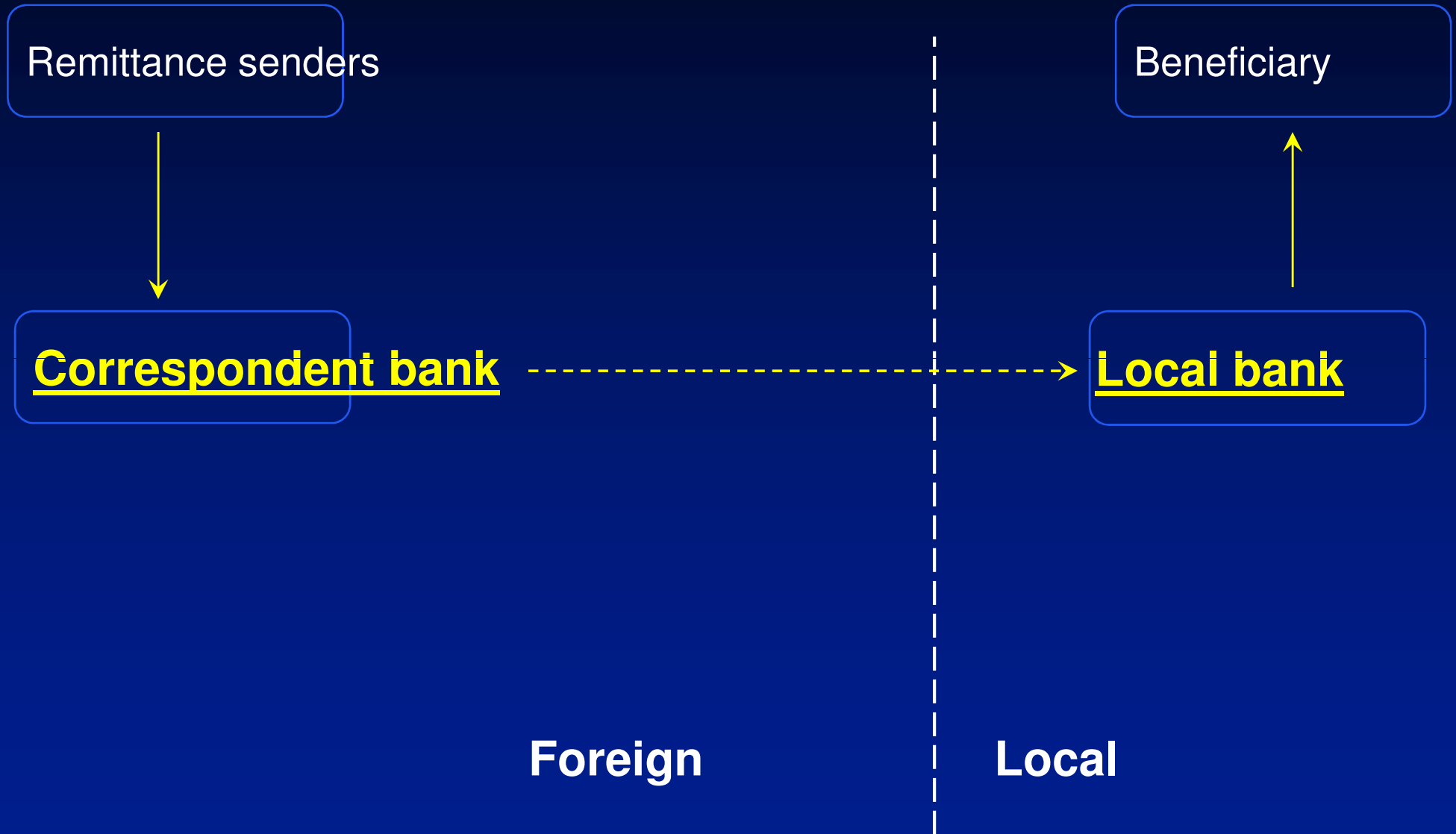
Policy recommendations

1. Country risk analysis should account for remittances
2. Financial institutions can securitize future remittances for raising capital from international markets

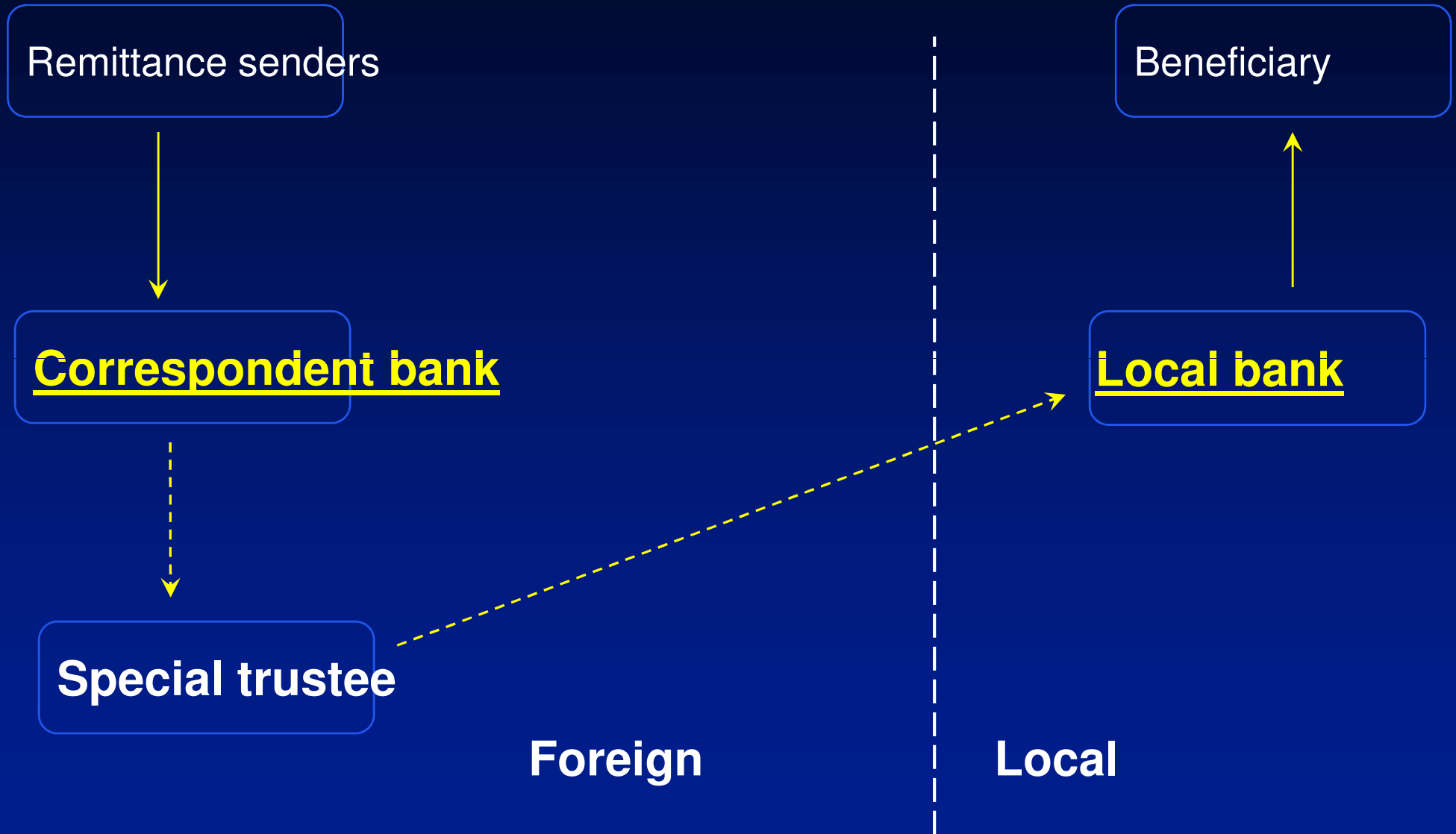
Securitization of future remittances can improve credit rating above investment grade

<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



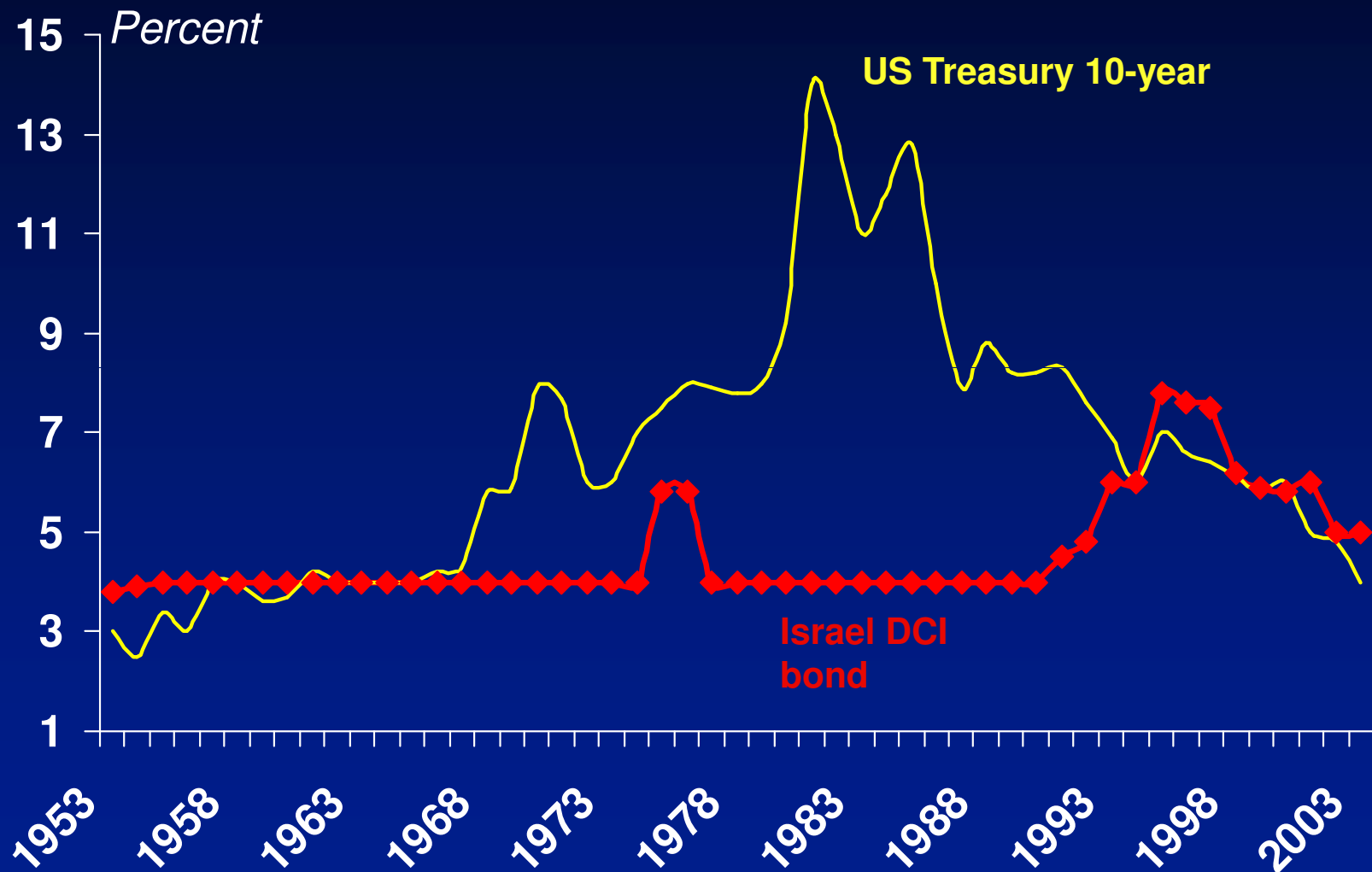
Policy recommendations

1. Country risk analysis should account for remittances
2. Financial institutions can securitize future remittances for raising capital from international markets
3. Diaspora bonds can potentially raise development financing

Diaspora bonds to tap into the wealth of the diaspora

- Israel and India have raised nearly \$40 billion financing, often in times of crisis
- There is scope for other countries with large diaspora abroad to issue diaspora bonds for financing development. . .
- . . . At a discount

Discount on Israel diaspora bonds is decreasing

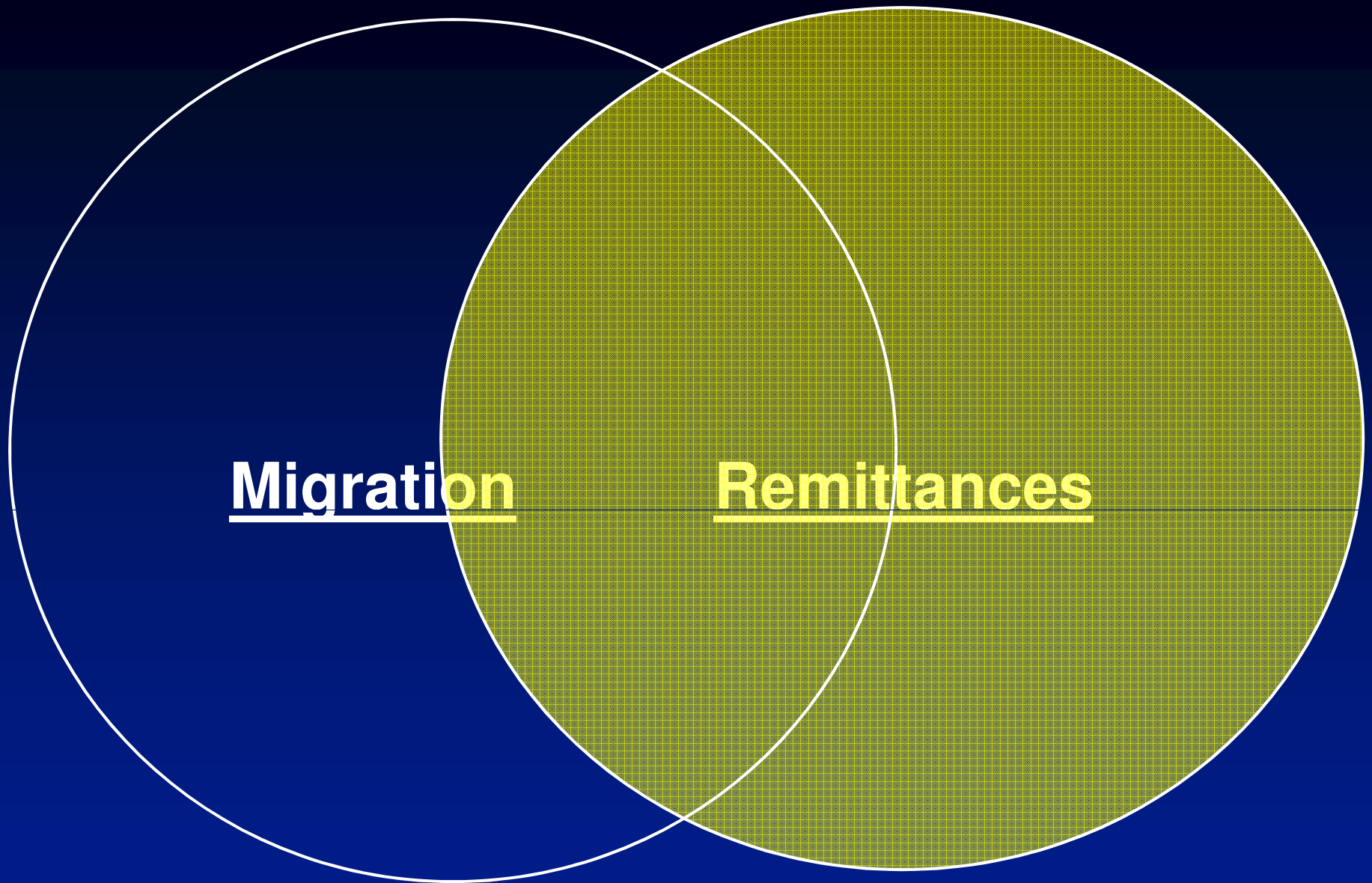


Policy recommendations

1. Country risk analysis should account for remittances
2. Financial institutions can securitize future remittances for raising capital from international markets
3. Diaspora bonds can potentially raise development financing
4. Governments should not tax remittances or direct the allocation of expenditures financed by remittance

Policy recommendations

1. Country risk analysis should account for remittances
2. Financial institutions can securitize future remittances for raising capital from international markets
3. Diaspora bonds can potentially raise development financing
4. Governments should not tax remittances or direct the allocation of expenditures financed by remittances
5. Remittances are not a substitute for official aid



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

The International Remittances Agenda

1. Monitoring,
analysis, projection

3. Financial
access

4. Capital
market access



2. Retail payment
systems

1. Monitoring, analysis, projection

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

3. Financial access

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

International Remittances Agenda

4. Capital market access

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

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)

Latest data available at

www.worldbank.org/prospects/migrationandremittances