Development Implications of Migration and Remittances: The International Remittances Agenda

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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

- South (Developing countries)
  - 1985: 51
  - 2005: 78

- North (High-Income OECD)
  - 1985: 48
  - 2005: 91

- North (High-Income excl. OECD)
  - 1985: 11
  - 2005: 22

Source: United Nations
South-South migration is almost as large as South-North migration

<table>
<thead>
<tr>
<th>Migrants from:</th>
<th>Migrant stock in</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>South (HI OECD)</td>
<td>North (HI OECD)</td>
<td>North (HI non-OECD)</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>South</td>
<td>74</td>
<td>62</td>
<td>20</td>
<td>156</td>
<td></td>
</tr>
<tr>
<td>North (HI OECD)</td>
<td>3</td>
<td>25</td>
<td>1.2</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>North (HI non-OECD)</td>
<td>1</td>
<td>4</td>
<td>0.3</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>78</td>
<td>91</td>
<td>22</td>
<td>191</td>
<td></td>
</tr>
</tbody>
</table>

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 Shaw (2007)
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
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

- Recorded Remittances
- Private debt and portfolio equity
- FDI
- ODA

Records are in billions of dollars.
Remittances are large, have continued to increase

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>2007 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recorded remittances</td>
<td>58</td>
<td>240</td>
</tr>
<tr>
<td>ODA*</td>
<td>59</td>
<td>104</td>
</tr>
<tr>
<td>FDI*</td>
<td>105</td>
<td>368</td>
</tr>
<tr>
<td>Pvt. debt &amp; portfolio equity*</td>
<td>122</td>
<td>322</td>
</tr>
</tbody>
</table>

* 2006
### Global flows of remittances (US$ billion)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INFLOWS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All developing countries</td>
<td>85</td>
<td>221</td>
<td>240</td>
<td>8%</td>
<td>107%</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>17</td>
<td>53</td>
<td>58</td>
<td>10%</td>
<td>97%</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>13</td>
<td>35</td>
<td>39</td>
<td>10%</td>
<td>175%</td>
</tr>
<tr>
<td>Latin America and Carib.</td>
<td>20</td>
<td>57</td>
<td>60</td>
<td>6%</td>
<td>115%</td>
</tr>
<tr>
<td>Middle-East and N Africa</td>
<td>13</td>
<td>27</td>
<td>28</td>
<td>7%</td>
<td>86%</td>
</tr>
<tr>
<td>South Asia</td>
<td>17</td>
<td>40</td>
<td>44</td>
<td>10%</td>
<td>81%</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>5</td>
<td>10</td>
<td>11</td>
<td>5%</td>
<td>116%</td>
</tr>
<tr>
<td>High income OECD</td>
<td>46</td>
<td>72</td>
<td>74</td>
<td>3%</td>
<td>40%</td>
</tr>
<tr>
<td><strong>World</strong></td>
<td>132</td>
<td>297</td>
<td>318</td>
<td>7%</td>
<td>87%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2005</th>
<th>2006</th>
<th>Change 2005-06</th>
<th>Change 2001-06</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OUTFLOWS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All developing countries</td>
<td>12</td>
<td>36</td>
<td>44</td>
<td>23%</td>
<td>226%</td>
</tr>
<tr>
<td>High income OECD</td>
<td>76</td>
<td>124</td>
<td>136</td>
<td>10%</td>
<td>64%</td>
</tr>
<tr>
<td>High income non-OECD</td>
<td>23</td>
<td>24</td>
<td>27</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td><strong>World</strong></td>
<td>110</td>
<td>183</td>
<td>207</td>
<td>13%</td>
<td>74%</td>
</tr>
</tbody>
</table>
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

<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>1.7</td>
<td>2.0</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>
Large countries receive more remittances in dollar terms...

Top recipients of remittances, 2007 estimated ($ bn)

- India: 27.0
- China: 25.7
- Mexico: 25.0
- Philippines: 17.0
- France: 12.5
- Spain: 8.9
- Belgium: 7.2
- Germany: 7.0
- U.K.: 7.0
- Romania: 6.8
…but smaller countries receive more as a share of GDP

Top recipients of remittances, 2006 (% of GDP)
Remittances improve countries’ access to capital

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

Excluding remittances
Including remittances
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

Fee for sending $300 from U.S. to Mexico, left-scale

Remittance flows to Mexico, $ bn, right scale

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

Fee and FX commission $

<table>
<thead>
<tr>
<th>Route</th>
<th>South-South</th>
<th>North-South</th>
</tr>
</thead>
<tbody>
<tr>
<td>London-Lagos</td>
<td>$29</td>
<td></td>
</tr>
<tr>
<td>Cotonou-Lagos</td>
<td>$35</td>
<td></td>
</tr>
<tr>
<td>Singapore-Jakarta</td>
<td>$10</td>
<td>$12</td>
</tr>
<tr>
<td>Kuala Lumpur-Jakarta</td>
<td>$12</td>
<td></td>
</tr>
<tr>
<td>Jakarta-Kuala Lumpur</td>
<td>$27</td>
<td></td>
</tr>
<tr>
<td>Los Angeles-Mexico City</td>
<td>$13</td>
<td>$23</td>
</tr>
<tr>
<td>Guatemala City-Mexico City</td>
<td>$23</td>
<td></td>
</tr>
<tr>
<td>Mexico City-Guatemala City</td>
<td>$24</td>
<td></td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th></th>
<th>Remittances (% of GDP, 2004)</th>
<th>Rating excluding remittances</th>
<th>Rating including remittances</th>
<th>Spread reduction (basis pts)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lebanon</td>
<td>14</td>
<td>B+</td>
<td>BB-</td>
<td>150</td>
</tr>
<tr>
<td>Haiti*</td>
<td>28</td>
<td>CCC</td>
<td>B-</td>
<td>334</td>
</tr>
<tr>
<td>Nicaragua*</td>
<td>11</td>
<td>CCC+</td>
<td>B-</td>
<td>209</td>
</tr>
<tr>
<td>Uganda*</td>
<td>5</td>
<td>B-</td>
<td>B</td>
<td>161</td>
</tr>
</tbody>
</table>

* Calculated using a model similar to Cantor and Packer (1995), see Ratha, 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

<table>
<thead>
<tr>
<th>Year</th>
<th>Issuer</th>
<th>Amount (US$ mn)</th>
<th>Transaction rating</th>
<th>Country rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>Banco Cuscatlan</td>
<td>50</td>
<td>BBB</td>
<td>BB</td>
</tr>
<tr>
<td>2002</td>
<td>Banco do Brasil</td>
<td>250</td>
<td>BBB+</td>
<td>BB-</td>
</tr>
</tbody>
</table>
Remittance securitization structure

Remittance senders

Correspondent bank

Local bank

Beneficiary

Foreign

Local
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

2. Retail payment systems

3. Financial access

4. Capital market access

International Remittances Agenda
1. Monitoring, analysis, projection
   - Size, corridors, channels
   - Counter-cyclicality
   - Effects on poverty, education, health, investment
   - Policy (costs, competition, exchange controls)

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)

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)
   - Governments (diaspora bonds)
   - Sovereign credit rating

International Remittances Agenda
Latest data available at

www.worldbank.org/prospects/migrationandremittances