Development Impact of Remittances

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Outline

A. Stylized facts on international migration

B. Development impact of international migration and remittances

C. Remittance trends during global financial crisis and outlook for 2010-11

D. Policy implications
A. Stylized Facts on international migration

1. Only 3% of world population are international migrants; 97% are not.

2. Economic migrants account for 93% of global migrant stock. Economic migration is set to increase in future.

3. South-South migration is as high as South-North migration.
South-South migration is almost as large as South-North migration

Destination of migrants from the South

- High-income non-OECD: 14%
- High-income OECD: 43%
- South: 43%

Source: Migration and Remittances Factbook 2011
Outline

A. Stylized facts on international migration

B. Development impact of international migration and remittances
B. Development impact of international migration

1. Migration benefits all parties – the migrants, the destination country, and the origin country.
Migration benefits all parties

- Global income gains of $356 billion from a 3% (14 million) increase in labor force of industrial countries (GEP 2006)
- Global income gains of $675 billion (Anderson and Winters, 2008)
- “A conservative estimate of the welfare gain to a moderately skilled worker… moving to the US is PPP$10,000 per worker, per year…” (Clemens, Montenegro and Pritchett, 2008)
- Dixon and Rimmer (2009) estimate that the difference between the welfare effects for U.S. households of a tighter border policy and a liberalized guest worker program with an visa charge is about $260 billion a year
B. Development impact of international migration

1. Migration benefits all parties – the migrants, the destination country, and the origin country.

2. Benefits to countries of origin are mostly through remittances.
Remittance flows to developing countries remained resilient during the crisis.
Smaller countries are top recipients of remittances as share of GDP

$ billions, 2009

% of GDP, 2008
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 reduce poverty: Nepal

Remittances help reduce poverty in Sri Lanka

% of Sri Lankan households that moved up to a higher income decile after receiving remittances, 1999-2000*
Remittances tend to rise following crisis, natural disaster, or conflict

Remittances as % of private consumption

<table>
<thead>
<tr>
<th>Year</th>
<th>Indonesia</th>
<th>Thailand</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year before</td>
<td>0.5</td>
<td>1.7</td>
<td>1.2</td>
</tr>
<tr>
<td>Year of crisis</td>
<td>1.4</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Year after</td>
<td>1.0</td>
<td>1.8</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Legend:
- **year before**
- **year of crisis**
- **year after**
Remittances have partially or fully offset trade deficits in some large recipients.
Remittances contribute to sovereign creditworthiness

Debt as a percent of exports

Including remittances
Excluding remittances
## Improving ratings

<table>
<thead>
<tr>
<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>
</tr>
<tr>
<td>Haiti*</td>
<td>28</td>
<td>CCC</td>
<td>B-</td>
</tr>
<tr>
<td>Nicaragua*</td>
<td>11</td>
<td>CCC+</td>
<td>B-</td>
</tr>
<tr>
<td>Uganda*</td>
<td>5</td>
<td>B-</td>
<td>B</td>
</tr>
</tbody>
</table>

* Calculated using the benchmark model of Ratha, De and Mohapatra (2010)
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
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Recent remittance trends

• Remittances estimated to have declined by only 6% in 2009, but expected to grow by 6.2% in 2010 and 7.1% in 2011

• Risks to the outlook include jobless recovery, currency movements, and rising protectionism
### Outlook for remittance flows for 2009-11

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010f</th>
<th>2011f</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$ billion</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developing countries</td>
<td>335.8</td>
<td>315.7</td>
<td>335.4</td>
<td>359.1</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>86.1</td>
<td>85.7</td>
<td>94.1</td>
<td>102.7</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>57.5</td>
<td>45.6</td>
<td>48.1</td>
<td>51.7</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>64.4</td>
<td>56.5</td>
<td>59.8</td>
<td>64.5</td>
</tr>
<tr>
<td>Middle-East and North Africa</td>
<td>34.8</td>
<td>32.0</td>
<td>33.1</td>
<td>34.4</td>
</tr>
<tr>
<td>South Asia</td>
<td>71.7</td>
<td>75.2</td>
<td>78.7</td>
<td>82.8</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>21.3</td>
<td>20.7</td>
<td>21.6</td>
<td>22.9</td>
</tr>
</tbody>
</table>

| **Growth rate (%)** |        |        |        |        |
| Develop *ing countries* | 15.9%  | -6.0%  | 6.2%   | 7.1%   |
| East Asia and Pacific | 20.7%  | -0.4%  | 9.8%   | 9.2%   |
| Europe and Central Asia | 13.3%  | -20.7% | 5.4%   | 7.6%   |
| Latin America and Caribbean | 2.1%   | -12.3% | 5.7%   | 7.9%   |
| Middle-East and North Africa | 9.8%   | -8.1%  | 3.6%   | 4.0%   |
| South Asia           | 32.6%  | 4.9%   | 4.7%   | 5.2%   |
| Sub-Saharan Africa   | 14.1%  | -2.7%  | 4.4%   | 5.8%   |
Remittances proved to be resilient compared to other flows.
Remittance flows to developing countries to recover at a modest pace in 2010 and 2011

- 2009: -6.0%
- 2010F: 6.2%
- 2011F: 7.1%
Remittances remain resilient during downturns in host countries

- Remittances are sent by the stock (cumulated flows) of migrants.
- Remittances are a small part of migrants’ incomes that can be cushioned against income shocks by migrants.
- Duration of migration may increase in response to tighter border controls.
- “Safe haven” factor or “home-bias” -- returnees will take back accumulated savings.
- Sectoral shifts – and fiscal stimulus packages – may help some migrants.
Regional trends

- Remittances to Latin America and Caribbean have bottomed out since 4Q 2009
- Flows to South Asia and East Asia have continued to grow, but at a markedly lower pace
- Flows to Europe & Central Asia and Middle-East and North Africa fell more than expected
- Flows to Sub-Saharan Africa remained flat, judging from sparse data
Remittances to Mexico started declining in early 2008, but the pace of decline has slowed. 

*year-on-year growth of 3-month moving-averages

Note: Mexico saw an unusual increase in remittances in October 2008 due to a sudden peso depreciation; this resulted in a 36 percent decline in remittances in October 2009. The dotted line in the chart corrects for this anomaly by smoothening the remittance flow in October 2008.
Remittances to Latin America and Caribbean appear to have bottomed out
Remittances to Ecuador have started falling again
Remittances to Bangladesh and Pakistan have decelerated, in a lagged response to crisis.
Remittances to Philippines have been growing since Q3 2009.
Remittances to India grew through the crisis except in Q1 2009

Note: Private transfers comprise mostly remittances from Indian migrants, but also include other transfers.
Remittances outflows from Russia are correlated with oil prices

Remittance outflows from Saudi Arabia have been uncorrelated with oil price since early 1990s.
Three observations

• The more diverse the migration destinations, the more resilient are remittances

• The lower the barriers to labor mobility, the stronger the link between remittances and economic cycles in that corridor

• Exchange rate movements produce valuation effects, but they also influence the consumption-investment motive for remittances
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1. The international remittances agenda
1. Monitoring, analysis, projection

2. Retail payment systems

3. Financial access for households

4. Capital market access for institutions
International remittances Agenda

1. Improve monitoring, analysis, projection (MAPping)

2. Improve retail payment systems:
   - Reduce remittance costs
   - Improve competition in remittance industry
   - Share networks - avoid exclusivity contracts
   - Avoid overregulation of remittance industry
   - Introduce new technology

3. Leverage remittances for financial access for households

4. Leverage remittances for improving access to capital markets for institutions/countries
D. Policy implications

1. The international remittances agenda
2. Know your migrants/diaspora
3. Help potential migrants acquire globally marketable skills
4. Ethical recruitment policies may be ineffective, and unethical –
5. Improve transparency in recruitment of migrants
6. Border control policies should be revisited
7. Migration is not a substitute for employment creation at home
Summary

• 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)

• Remittances flows have been resilient during global financial crisis, but risks to outlook from jobless economic recovery and rising protectionism
Thank you!