Session 1
Guest Lecturer: Don Terry

Fundamentals

a. Remittances are often described as a "strategy" of a "tool" for development among practitioners. This is a central question to the remittances/development discussion. Should remittances be described in this way? This course will contend that it is inappropriate to consider remittances as a strategy that can stand without a comprehensive sustainable development strategy. No strategy for development can rely solely on the private actions of migrants, often themselves of limited means, in a way that addresses the range of necessities for sustainable human and economic development.
b. We will examine remittances as a phenomenon related to globalization and as an international resource flow that can be compared in some ways to private capital. As remittances are obviously influenced by very distinct factors from private capital flows, we will also be examining them as a product of migration in their social, economic and political context.
c. Definitions
    i. Official Definition – Balance of Payments Manual 5 (BoP 5)
        1. current transfers by migrants employed in new economies and considered residents in the new economy;
        2. no quid pro quo; and
        3. person to person transfers.
        4. Remittances are not part of the capital account. They appear in the current account.
    ii. Arriving at a global standard for the definition of remittances for data collection purposes remains an important challenge. Definitions used by many central banks may include compensation, wages and salaries. Although these violate the requirement that transfers be unrequited, there are moves to include migrants' purchases of financial assets and other personal cross-border flows in the definition.
    iii. The dialogue in the development community is moving beyond strict definitions into extensions of the concept, of which the following stand out:
        1. Family remittances - closest to the official definition described above. May include worker remittances, which include compensation.
        2. Collective remittances - remittances sent by a group of migrants for community investments, often specific purposes such as restoration of a church or donations to schools. Hometown associations (HTAs) are the key actors. Mexico is an example of an active and developing HTA community.

3. Transnational investments - investments in homes, diaspora bonds and other sorts of financial and real assets.
4. Political and social remittances - continued sustained social contact with migrants (or circular migration) can influence behavior and change values in their home communities, touching on everything from consumption patterns to political involvement.
5. In kind remittances – direct goods transfers. Retailers and money transfer operators in many countries offer the service of purchasing goods directly for family in place of origin.
6. Domestic and regional remittances - As migration is often driven by geographic proximity and cultural or colonial heritage, regional remittances among developing countries are likewise substantial. Domestic migration is more likely for the poor and a very common strategy for coping with poor economic conditions.

Size of Flow

a. $167 billion world-wide (World Bank). Not even close to the real number which is likely 50% to 75% larger. A substantial proportion of the flow is unobservable because it still moves through informal channels. The majority of remittances sent to Africa cannot be measured with current practice.
b. Data collection challenges are apparent from a comparison of the MIF and WDI data.
    i. In some countries the estimates are close, while in others the estimates may vary by hundreds of millions or billions of dollars.
    ii. To some degree, data collection improvements have driven the massive surges in remittance numbers over the past several years.
c. Developing countries typically receive about 70% of remittance flows
    i. Only about 25% of that goes to low income countries as opposed to lower middle income countries, which receive about 50%. In extreme poverty, migration is difficult because of travel costs. Often, exit is not an option.
    ii. LAC gets approximately 25% of remittances, of which Mexico receives nearly 50%. Asia 25% of the total. Africa accounts only about 5%. Africa's declining percentage of the total represents increases elsewhere rather than remittance receipts.
d. Latin America remittances
    i. From 2001 to 2004, increased from $23 billion to $45+ billion
    ii. The bulk comes from the US although a growing and significant portion for many countries is coming from Spain and other parts of Europe.

What drives remittances? Drivers vary from country to country. Two fundamental questions:

a. What drives migration?
    i. Globalization, information, trade, growing networks of migrants, etc.
    ii. Income differentials - people move to find the best paying jobs.
    iii. Economic, political, financial crises; wars
b. What drives remittances and propensity to remit?
    i. Transnational ties
    ii. intergenerational investments
    iii. social security (parents of migrants)
    iv. insurance (in case of crop failure or natural disaster, which are normally followed by increases in remittances).

Who are stakeholders/participants? In both sending and receiving, there are a range of actors.

a. Private Sector – supply side
    i. Immigrant owned businesses – bodegas (such as Western Union agents)
    ii. Package companies – sending hard cash and money orders
    iii. Multinational money transfer operators (MTOs) – Western Union, MoneyGram
    iv. Second and third tier money transfer companies (often specialists in particular corridors)
    v. Multinational financial institutions – Citibank, Wells Fargo
    vi. Credit unions on both sides
    vii. Domestic banks on receiving side
    viii. Other receiving agents of MTOs – pharmacies, supermarkets, factories, etc.
b. Private Individuals – demand side
    i. Senders
    ii. Senders' household
    iii. Immigrant community on sending side and communities in high migration areas on receiving side
    iv. Carriers - "mules"
    v. People who arrange migration – *coyotes,* waiting for initial payment for safe passage
c. Public Sector
    i. Government regulation such as USA Patriot Act
    ii. Central banks – data collection
    iii. Other regulators – banking supervisors, US Dept of Treasury (IRS, OCC, FinCen, etc.)
    iv. Consumer protection
    v. Federal and state level engagement
d. Civil Society
    i. Private foundations

ii. Immigrant support organizations
iii. Hometown associations
iv. On receiving side, there are very few civil society institutions. In Ecuador, many cooperatives of migrants' families have been formed, but this is the exception.

Commentators on the theme of remittances (practitioners, academics, etc.) disagree as to the necessary policy stance with respect to remittances.

a. One school of thought believes that remittances, as private transfers directed primarily towards consumption, don't merit much attention as contributing to development. Therefore, it is more important to focus on meeting broader development objectives to prevent the need for migration. This school of thought also believes that the best way to encourage return migration of both people and investment capital is to improve the investment climate and economic management.
b. Another school of thought suggests there are important reasons to pay attention to remittances for the immediate benefit to living standards that can be achieved through those resources:
    i. facilitate transfers and lower transaction costs;
    ii. increase competition in the MTO industry;
    iii. introduce regulatory reforms intended to formalize the flow of remittances (more controversial);
    iv. improve information about remittance origins and destinations, profiles of senders and receivers
    v. improve data about remittances (institutions more likely to invest in new sevices if substantial flows exist);
    vi. financial development and infrastructure, new payment media and options (e.g. pay and receive by cel phone in the Philippines).
    vii. Banking the unbanked - open new investment and savings opportunities.
    viii. For these and many other reasons, there are real benefits to development that can be gained from remittances. Giving more options to migrants can contribute strongly to achieving development goals.

Development Impact

a. Household - At the most basic level, remittances contribute to family and household income for consumption, lending and investment opportunities.
b. Community - Remittances often have a spill-over effect in local economies. There is some controversy as to the nature of that spillover. To the extent that consumption targets imports or goods purchased outside the local area of the recipient (ie., Nike shoes and televisions), the spillover impact may be lessened. Nonetheless, some money is clearly spent in local communities.

c. Sub-national government – This level of government – states, provinces, municipalities – allocate or participate in the allocation of fiscal resources for public services (health, education, infrastructure, etc.). Migration and remittances can change the needs of the population, and may also relieve pressure on governments to address serious issues. Sub-national governments must understand and respond to the impact of migration and remittances on the needs of the population.
d. National government – Monetary policy and fiscal policy may be influenced significantly by remittances. Exchange rate and interest rate policies may hinder remittances or drive them to informal channels. Some concerns about Dutch disease (not corroborated by evidence) exist as well.

Guest Lecturer:
Donald Terry
Multilateral Investment Fund
Inter American Development Bank

Data issues are extremely important.
Every number that so far is wrong, but they are less wrong than they used to be. Compared to broader macro-economic indicators, such as FDI, ODA, GDP, which are counted with great precision, remittance estimations are very new and unreliable.

i. The role of the MIF's interventions – MIF work started five or six years ago, asking for the first time about trying to count the amount of remittances being sent.
ii. These numbers haven't been counted because there is a perception that the people who send remittances don't really matter. One or two hundred dollars at a time isn't important to macroeconomists. Remitters are not perceived to be important players.
iii. Conventional Wisdom - Get the macroeconomic situation into place and everything else will work out. Increasing consumption is not desirable from the perspective of international organizations.
iv. Remittances are too big to ignore any further. Macroeconomists should pay closer attention given that attending to macroeconomic management has not yielded the desired results in past decades. New approaches in development that pay attention to smaller capital movements are increasingly of interest.
v. Global Economic Prospects 2005 (World Bank) – $167 billion – the numbers are wrong, but these are official data presented by central banks. Central Banks haven't proven to be the best judges of these numbers.
    1. Real number is somewhere between $250 and $300 billion.
    2. Growth figures are distorted because we have no base.
    3. "Hidden in plain view" – It's an attitude problem. Since the money was never considered worth looking at, we are now playing catch-up.
vi. Latin America and Caribbean (LAC) – Remittances exceed FDI and ODA combined. While MIF has made the estimations for LAC, a similar situation is true for most receiving countries in the world.

Costs are falling from very high levels

i. The failure of financial institutions to enter the market of money transfers allowed MTO's to take advantage of their unique market position to extract large profits from remitters.
ii. Western Union once charged between 10%-25% to send money.
iii. Financial institutions could provide this service at very low cost to themselves and to senders.
iv. However, again, because the individual amounts and the people who are sending/receiving them are financially small there has been little interest in pursuing this.

v. As competition has begun to enter the MTO market, Western Union transaction costs have been cut in half and it will be cut again.

Leveraging Remittances: Financial Empowerment

i. Even if there were no transaction costs, most remittance senders still wouldn't have bank account or be able to get a loan. They are relegated to cash economy.
ii. Providing "account to account" transfers rather than "cash to cash" transfers would help to get senders and receivers into the formal sector and create more opportunities.
iii. It is a fallacy to suggest that all the money is being used for consumption. Poor people save and invest. Even if most of it is used for consumption, up to 20% of the amount is used for things other than consumption. This number alone is larger than ODA in some countries.

Current Issues of Interest to MIF

i. Transaction costs are coming down, so reducing them is lower priority.
ii. Leverage resources for economic development one family at a time - Give families more options. How can this be achieved? Hometown Associations (HTAs) are important actors, but they aren't the answer. Mexico they sent $20 or $30 million last year through HTAs, which is only about 0.1% of the total remittance amount flowing into Mexico
iii. Microfinance institutions - The MIF wants to increase remittances flow through these institutions - a natural partnership leading to substantial local capital accumulation.

Unfounded criticisms and the current political climate.

i. Immigration fears and terrorist fears are leading for calls to restrict border security.
ii. There is no balance in applying this to remittances: the amounts that are being used for good purposes far outweighs the amount being used for bad. Calls this "fighting terror with error"
iii. Money laundering - The remittance industry is a very poor way to launder money.
iv. Fears about Dutch disease and inflation - It's meaningless to pursue this: no one is going to not send remittances because they're afraid of Dutch disease. Additionally, the balance of positive effects compensates.
v. Migration trends are not generally subject to rapid change. Existing trends are not likely to stop because of sudden interruptions. Pakistanis returned to Kuwait after the first Gulf War. People will continue to follow the jobs. There aren't many jobs in developing countries, but there is an excess of labor.
vi. People don't emigrate because they want to. They leave their homes in search of work. Developed countries allow this because there is a shortage of cheap labor and a ready supply.

Question and Answer Period

Microfinance and remittances?

a. So many people in LAC are outside of the formal system. Today there is an approximately $4 billion portfolio in microfinance, but they're still only reaching about 10% of the potential market! This is the fastest growing, most stable, most profitable segment of the LAC financial system. But remittances is still 10 times that. If we could funnel these flows, perhaps only some of it, into micro institutions, that would be huge!! The MIF is targeting 10% of remittance flows to be channeled through microfinance institutions.
b. The best practice thus far is between Spain and the Andean countries. Ecuador's financial and economic crisis drove massive migration, migration that was driven by remittances. When they got to Spain, there were no channels to get money back home – Western Union was gouging them. Now, the MIF has linked up large Spanish banks and credit unions with banks in Ecuador. Banco Solidario is one example, in which the transaction cost is zero.
c. El Salvador – An institution surveyed senders and convinced them them to send money through the microfinance institution.
d. In the large economies of LAC, microfinance is nowhere. In Bolivia, the best practice in microfinance has come through NGOs up-scaling. As a result, now large institutions are moving down the market to offer services to the same clientele.