Migrant Remittances and Economic Development

SIPA U8159
Tuesdays 4:10 pm – 6:00 pm
IAB 410

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What are migrants' remittances?

Workers' remittances: Current transfers from migrants employed and considered residents outside their home countries (IMF BPM5)

- Unrequited transfers
- Personal contributions primarily intended for income enhancement and consumption

Migrant transfers: movements of goods or capital in the national accounts (IMF BPM5)

Compensation of employees: wages/salaries and benefits to migrants employed outside the country of origin for work performed for/paid by residents of adopted country (IMF BPM5)

What are migrants' remittances?

Beyond strict definitions:

Family or worker remittances

Collective remittances

Transnational investments

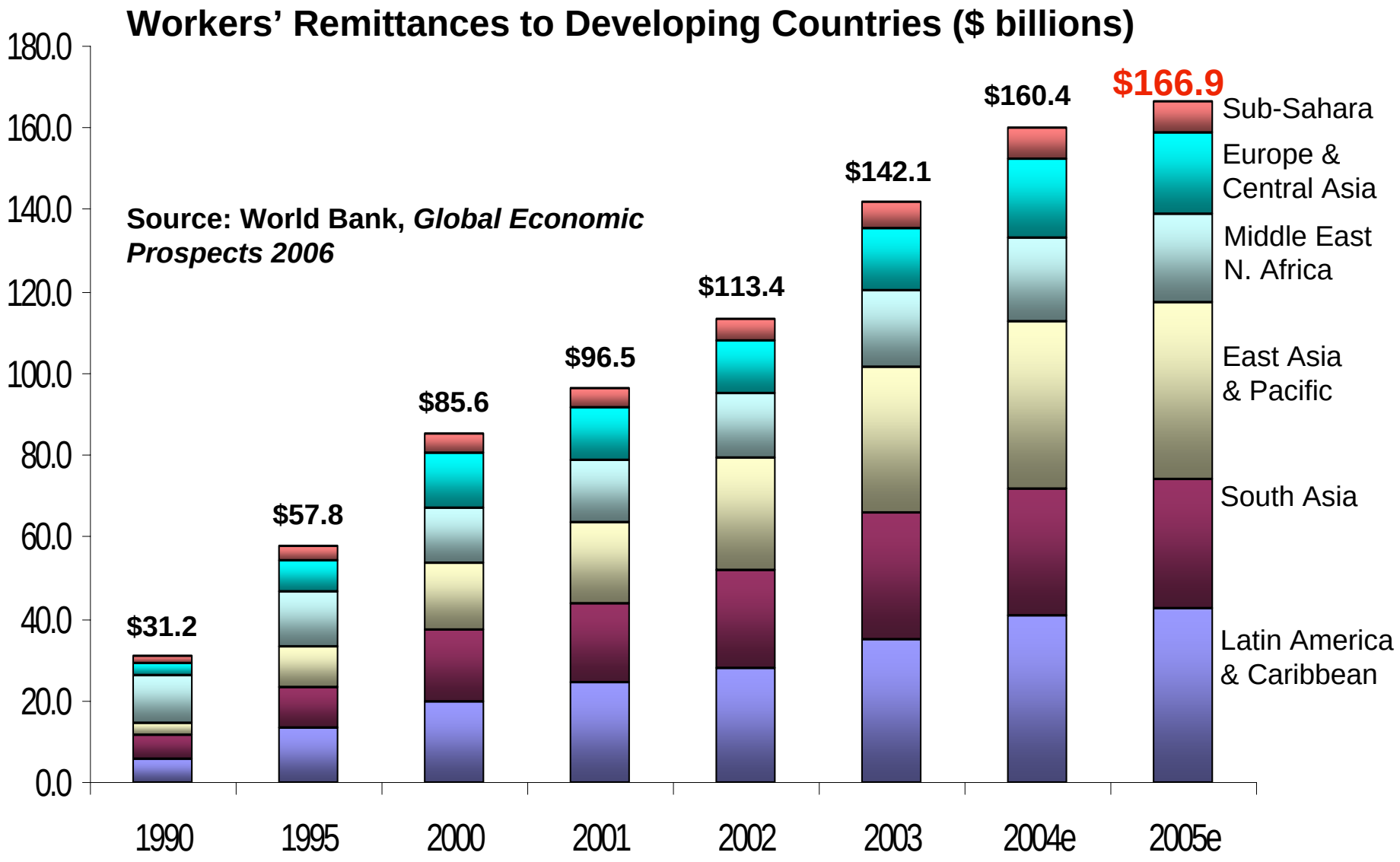
Political and social remittances

Other concepts and extensions:

In kind remittances

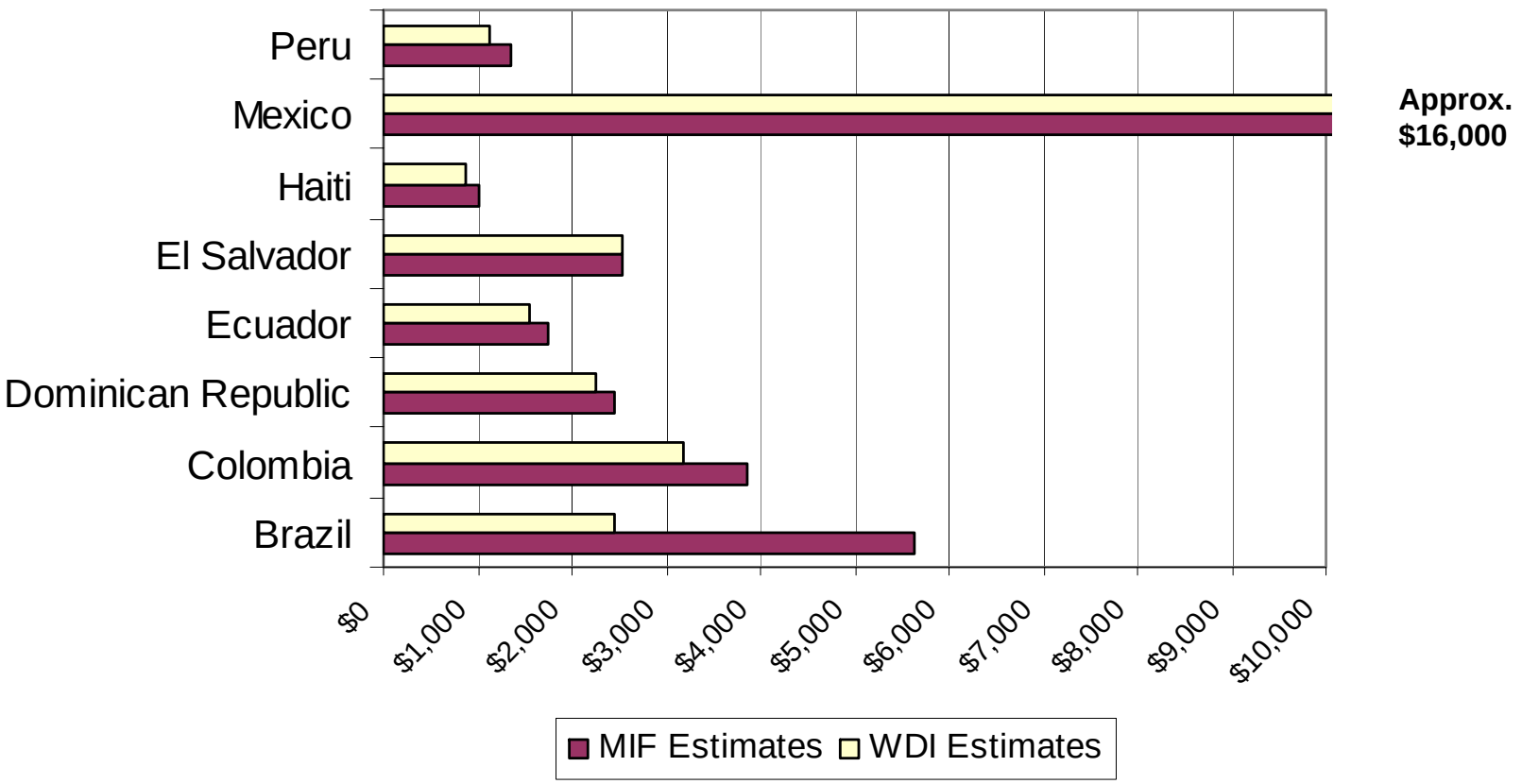
Domestic and regional remittances

How large is the flow of remittances?



How large is the flow of remittances?

Disparities in Remittance Estimates ($ billions, 2004)

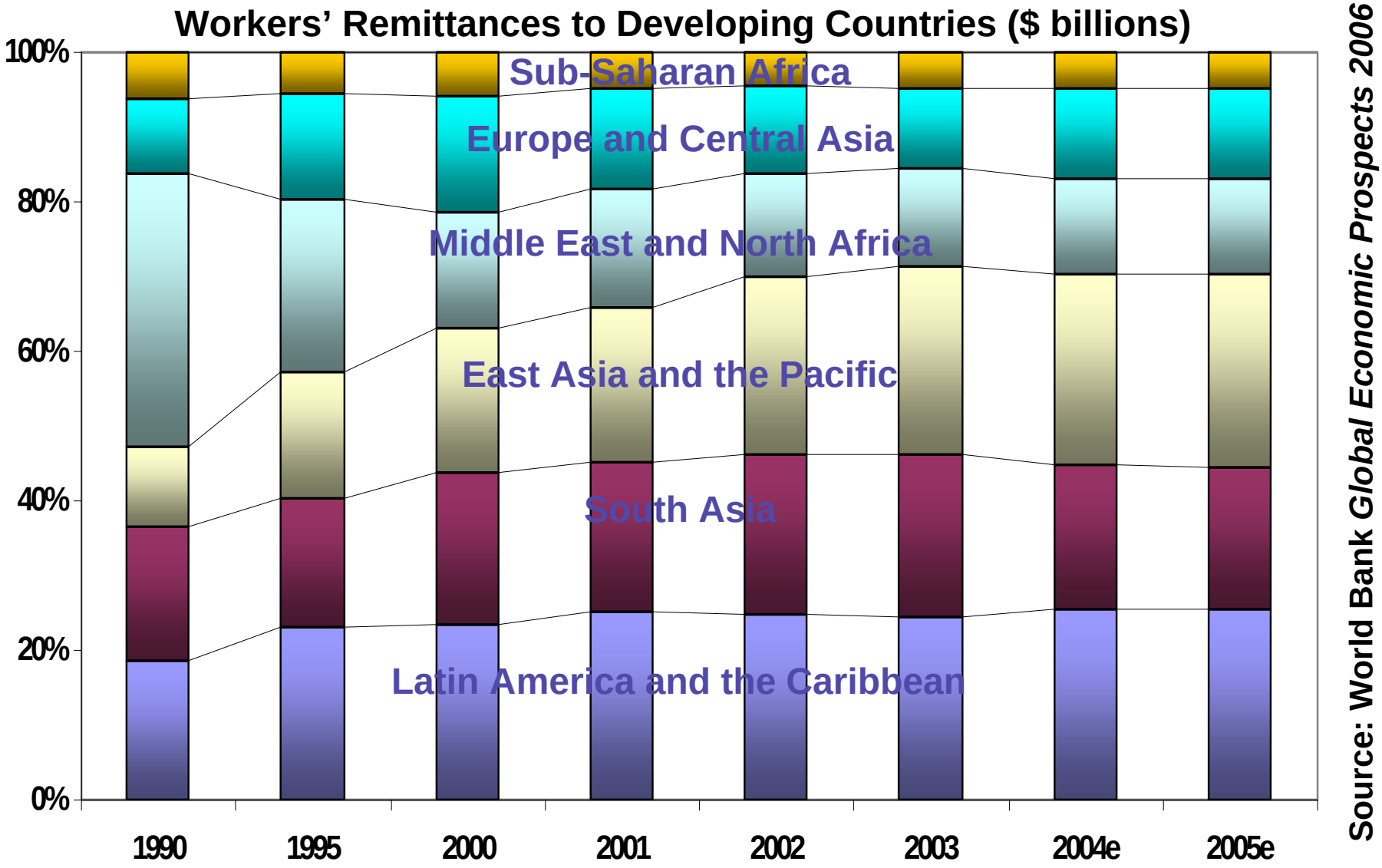


How large is the flow of remittances?

Global Distribution of Workers' Remittances ($ billions)	1990	1995	2000	2001	2002	2003	2004	2005	*Change (%) 2005-2001*
Developing Countries	**31.2**	**57.8**	**85.6**	**96.5**	**113.4**	**142.1**	**160.4**	**166.9**	**73**
Lower Middle Income	13.9	30.0	42.6	47.4	57.3	72.5	83.5	88.0	86
Upper Middle Income	9.1	14.5	20.0	22.3	23.0	27.8	33.0	33.8	52
Low Income	8.1	13.3	22.8	26.8	33.1	41.8	43.9	45.0	68
Latin America and the Caribbean	5.8	13.4	20.1	24.4	28.1	34.8	40.7	42.4	74
South Asia	5.6	10.0	17.2	19.2	24.2	31.1	31.4	32.0	67
East Asia and the Pacific	3.3	9.7	16.7	20.1	27.2	35.8	40.9	43.1	114
Middle East and North Africa	11.4	13.4	13.2	15.1	15.6	18.6	20.3	21.3	41
Europe and Central Asia	3.2	8.1	13.4	13.0	13.3	15.1	19.4	19.9	53
Sub-Saharan Africa	1.9	3.2	4.9	4.7	5.2	6.8	7.7	8.1	72
World (developing & industrial)	**68.6**	**101.6**	**131.5**	**147.1**	**166.2**	**200.2**	**225.8**	**232.3**	**58**
Outward remittances from developing countries	6.1	12.5	12.1	14.3	18.7	20.2	24.1	*	*
Outward remittances from Saudi Arabia	11.2	16.6	15.4	15.1	15.9	14.8	13.6	*	*

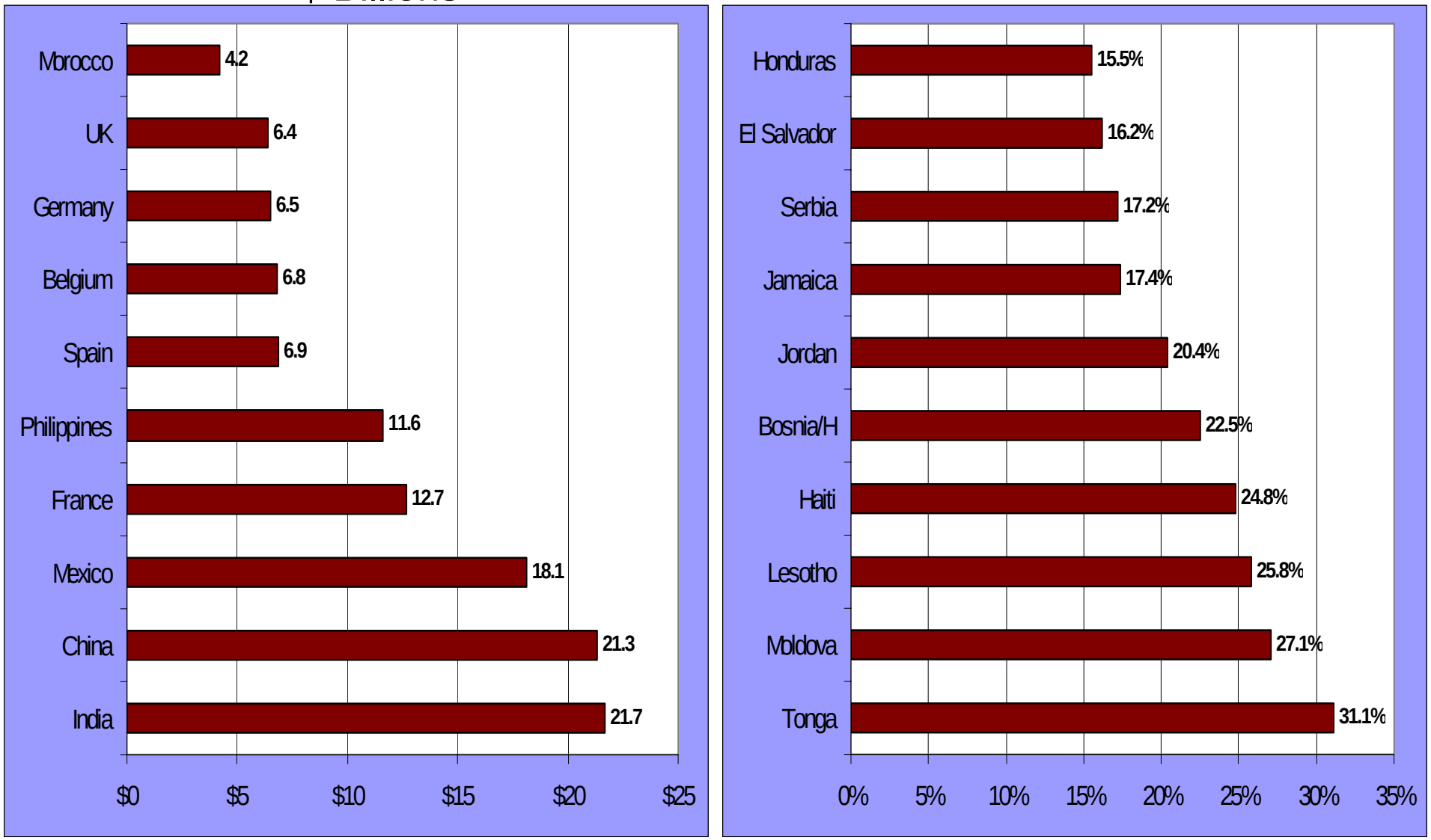
Source: World Bank, *Global Economic Prospects 2006*

Where are remittances going?



Top 10 Remittance Receivers, 2004
Absolute Amounts vs. Share of GDP

$ Billions vs. Share of GDP



Source: World Bank, *Global Economic Prospects 2006*

Where are remittances going?

Top 10 Remittance Receivers, 2004
Absolute Amounts vs. Share of GDP

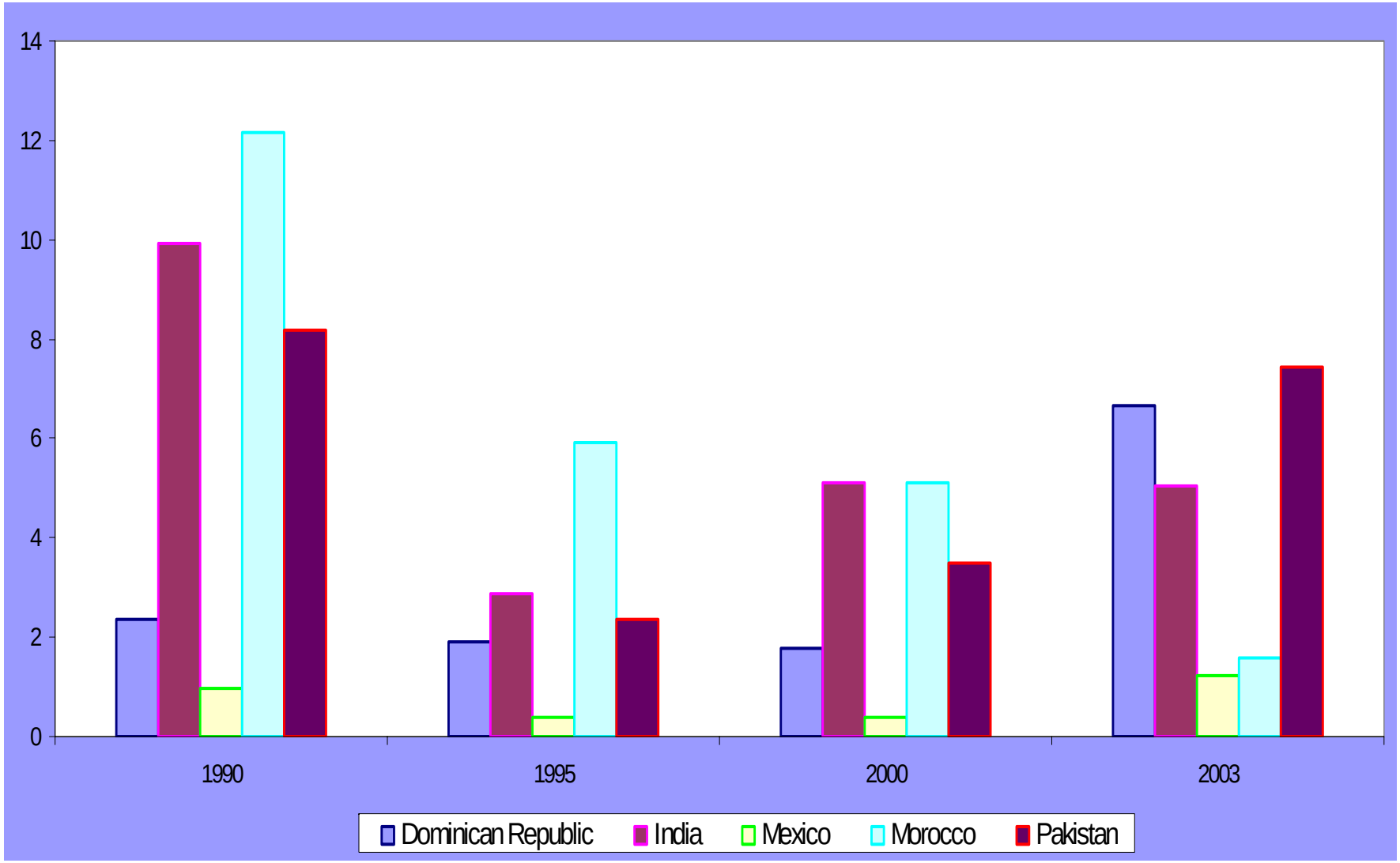
	In Current US Dollars	
1	India	19,100,000,000
2	Mexico	16,600,000,000
3	Spain	5,180,000,000
4	Serbia	4,130,000,000
5	China	4,090,000,000
6	Pakistan	3,940,000,000
7	Morocco	3,720,000,000
8	Bangladesh	3,500,000,000
9	Colombia	3,170,000,000
10	Portugal	3,030,000,000

	As a Percentage of GDP	
1	Haiti	24.8%
2	Jordan	19.3%
3	Serbia	17.2%
4	Bosnia	16.1%
5	El Salvador	16.1%
6	Albania	13.4%
7	Nepal	13.2%
8	Dominican Republic	12.2%
9	Nicaragua	10.8%
10	Cape Verde	9.9%

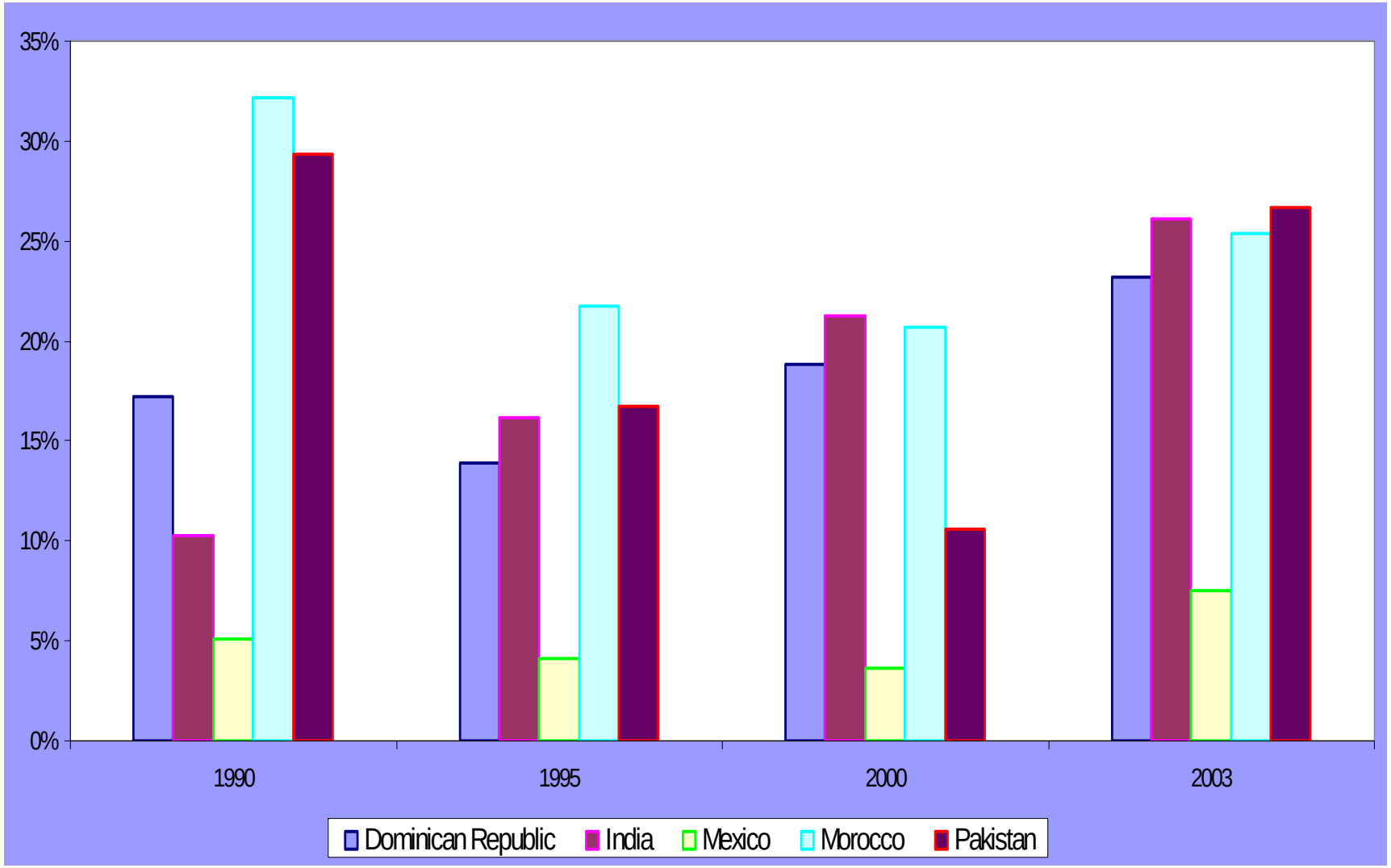
Source: World Development Indicators

Growth of Remittances as a Percentage of Foreign Direct Investment

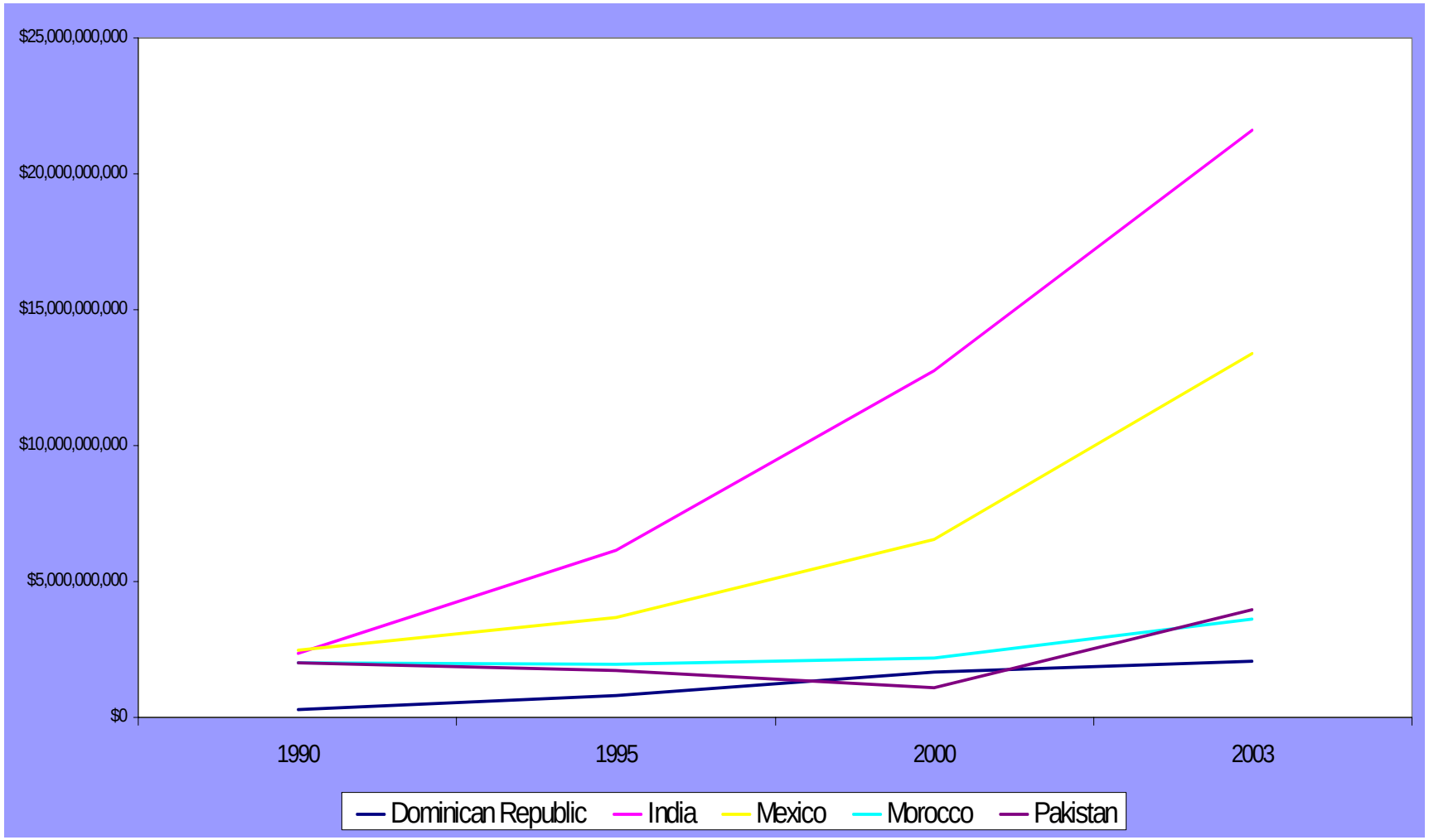
(times FDI)



Growth of Remittances as a Percentage of Net Exports

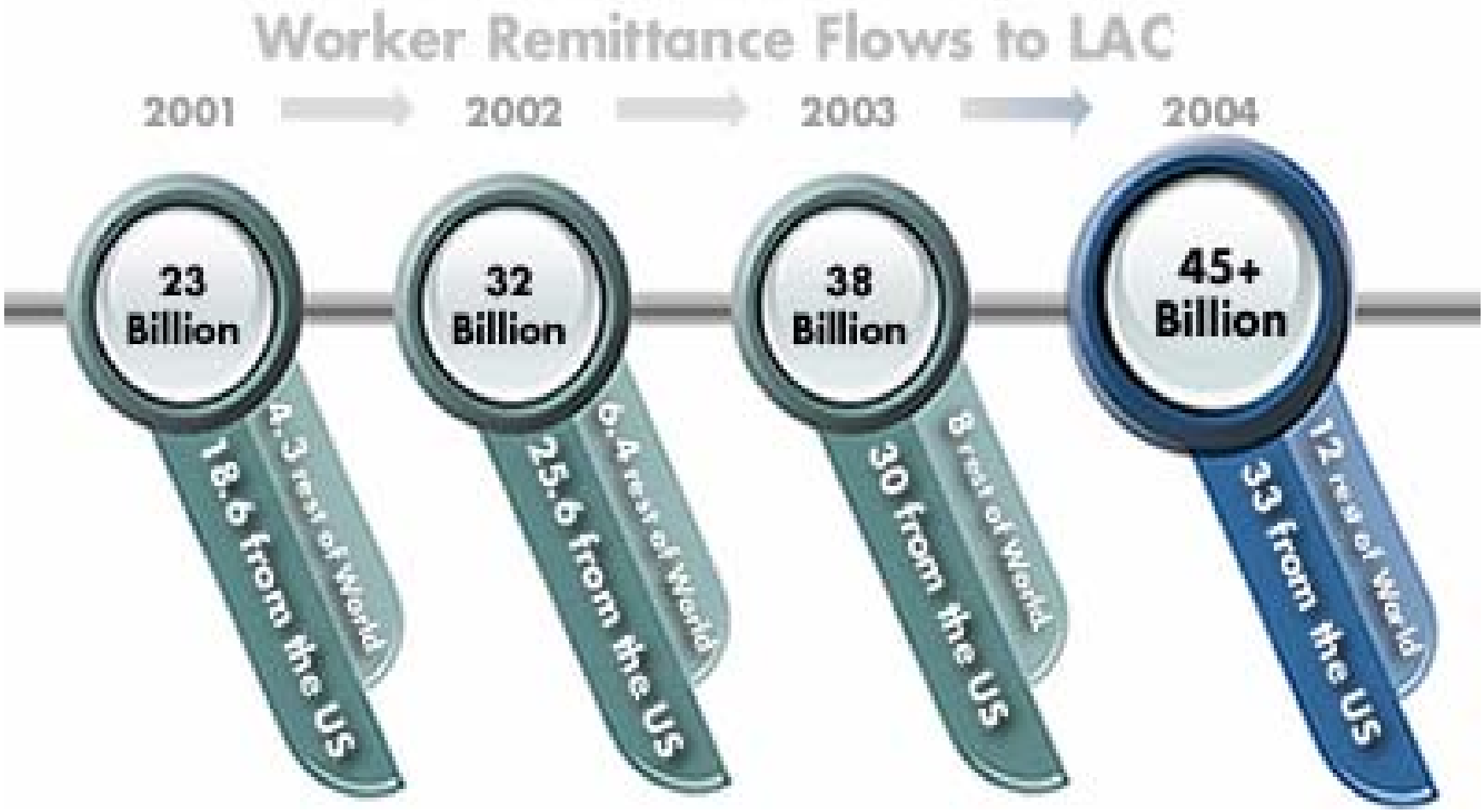


Growth of Remittances in Current US$
1990 - 2003

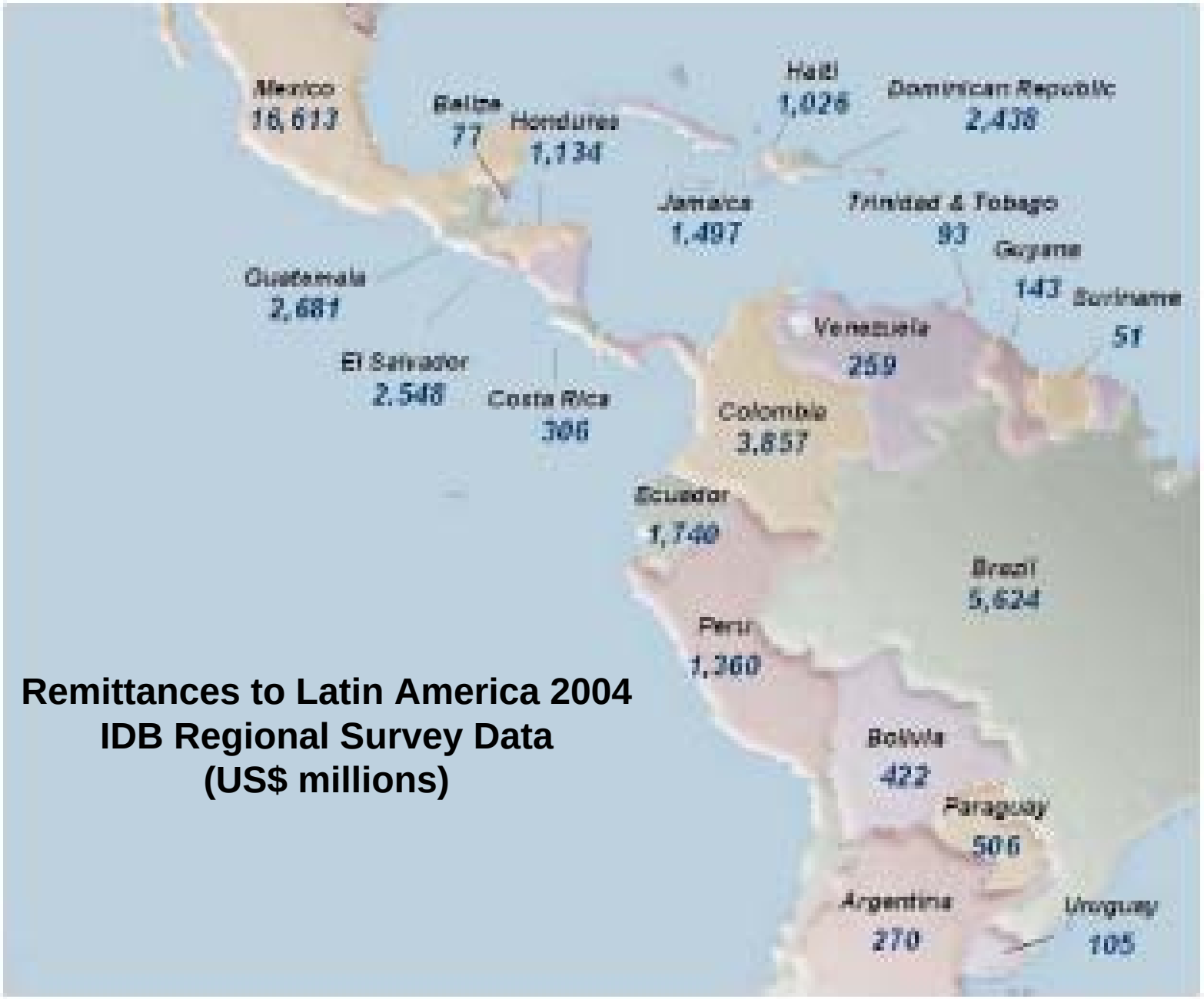


Where are remittances going?

Remittance flows to Latin America



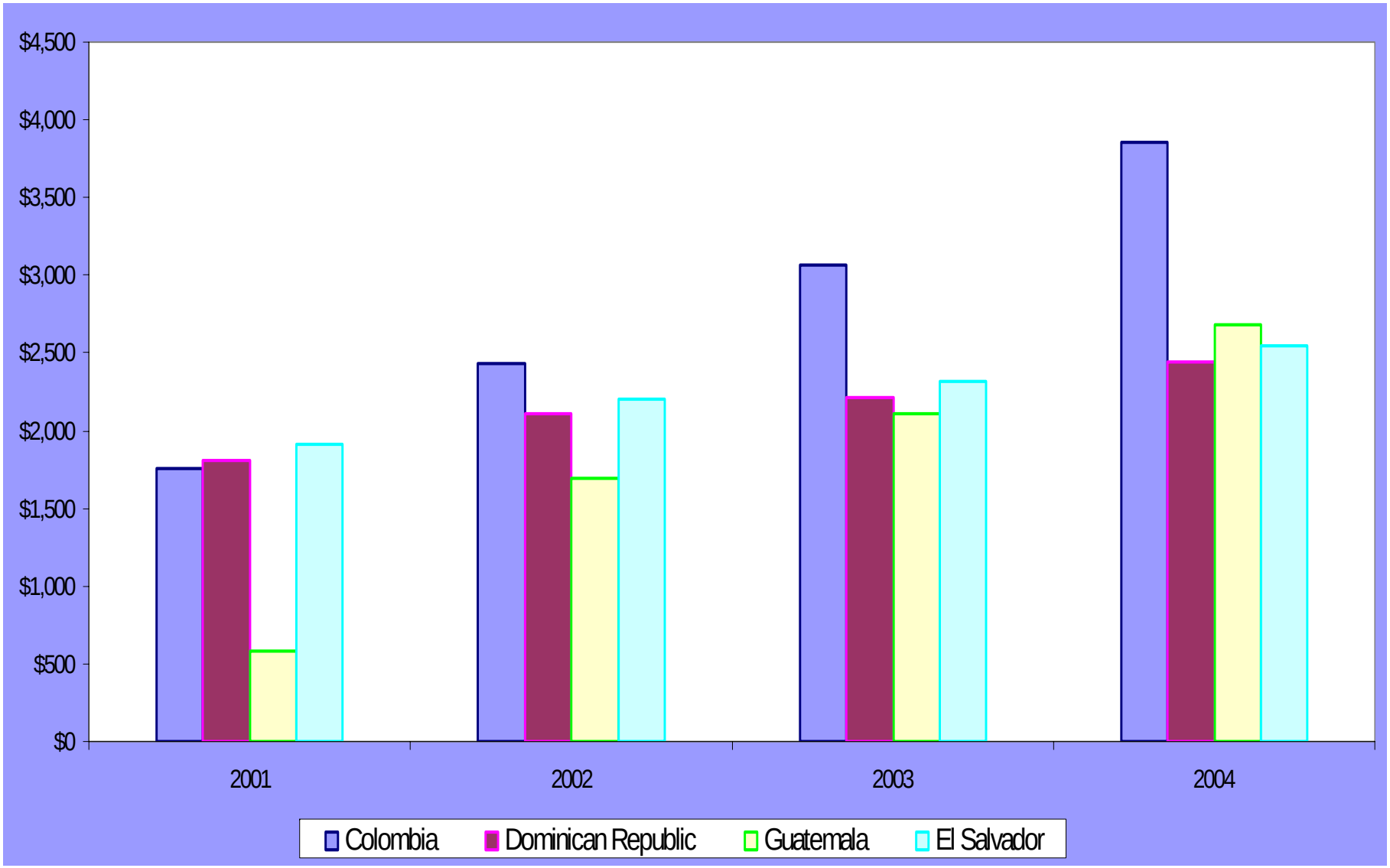
Source: IADB Remittances Flows to Latin America (2004)



Remittances to Latin America 2004
IDB Regional Survey Data
(US$ millions)

Source: IADB *Transforming Labor Markets and Promoting Financial Democracy*

Growth of Remittances for Selected Latin American Countries (US $ millions)



What drives remittances?

(1) What drives migration?

- Globalization – lower costs of information and travel (social networks, intermediaries, etc.)
- Income differentials
- Economic, political, financial crises, wars

(2) What drives remittances and propensity to remit?

- Transnational ties, intergenerational investments, social security, insurance

=> Few conclusions, country variation

Who are the stakeholders/participants?

SENDING COUNTRY STAKEHOLDERS

Private Sector

Small immigrant-owned businesses (groceries, pharmacies, restaurants, etc.)

Medium-sized package companies (sometimes immigrant-owned)

Large multinational money transfer companies

Large multinational financial institutions

Private Individuals

Sender

Sender's household

Immigrant community

Carriers

Public Sector

National and sub-national governments

Central Banks/Superintendencies of Banks

Other regulators/supervisors (anti-money laundering, financial supervision)

Consumer protection agencies

Civil Society

Private foundations

Immigrant Support Organizations

Hometown associations and other diaspora organizations

Who are the stakeholders/participants?

RECEIVING COUNTRY STAKEHOLDERS

Private Sector

Foreign exchange houses

Package and delivery services

Money transfer companies (large/intl. and smaller national)

Microfinance institutions

Large commercial banks, mortgage finance, etc.

Retail stores (supermarkets, white goods, etc.)

Private Individuals

Recipient

Recipient's household

Migrant's home community

Moneylenders and other private intermediaries

Public Sector

National and sub-national governments

Central Banks/Superintendencies of Banks

Other regulators/supervisors (anti-money laundering, financial supervision)

Consumer protection agencies

Civil Society

Migrant families' groups

Hometown association counterparts

Rural NGOs

Do we care? Why?

One school of thought says:

- Private transfers
- Used primarily for consumption
- Little directed at productive investments
- Best means of improving the development impact is to provide a stable macroeconomy, improve the investment climate, put more resources into human development, esp. education

Do we care? Why?

On the other hand, near-term reforms can enhance the impact of these flows:

- Lower transaction costs
- More information about services
- More competition
- Regulatory reforms
- “Financial democracy” – increased access to financial services
- Improved national data
- New payment options – account to account, card-based and cel phone transfers

Do we care? Why?

Development impact - effects at the household, community, sub-national and national levels

Household: money for personal use

Community: economic spillover or borrowing

Sub-national government: allocate public resources to health, housing, education, infrastructure, etc.

National government: monetary policy, fiscal policy and external affairs

Cost and benefits of remittances

Benefits

National/sub-national	*Household/community*
- Stable foreign exchange flow	- Additional resources for subsistence
- Finance current account	- Opportunity for human resource investment
- National savings mobilization for capital formation	- Use as insurance against crop failure or other disaster
- Lower unemployment	- Investments in small business
	- Funds for return migration or future retirement
	- Funds often lent on to other families
	- Spending in local communities

Cost and benefits of remittances

Costs/challenges

National/sub-national	*Household/community*
- Sudden interruptions	- Few options for appropriate investments
- Potential inflationary impacts	- "Over-investment" in housing
- Increased demand for imports	- Spending on luxury items
- Little investment in capital formation	- Mimicry of spending among non-migrants
- Increased dependency, reduced labor supply	

Remittances and Development
Course themes

1. Trends, drivers, determinants, economics
2. Migration and remittances
3. The impact on development
4. First generation reforms and responses – data issues, regulation, formalization
5. Second generation reforms and responses – infrastructure, institutions, new products