

Development Implications of Migration and Remittances: The International Remittances Agenda

Dilip Ratha

Development Prospects Group
World Bank

CSM-IOM Meeting

New York

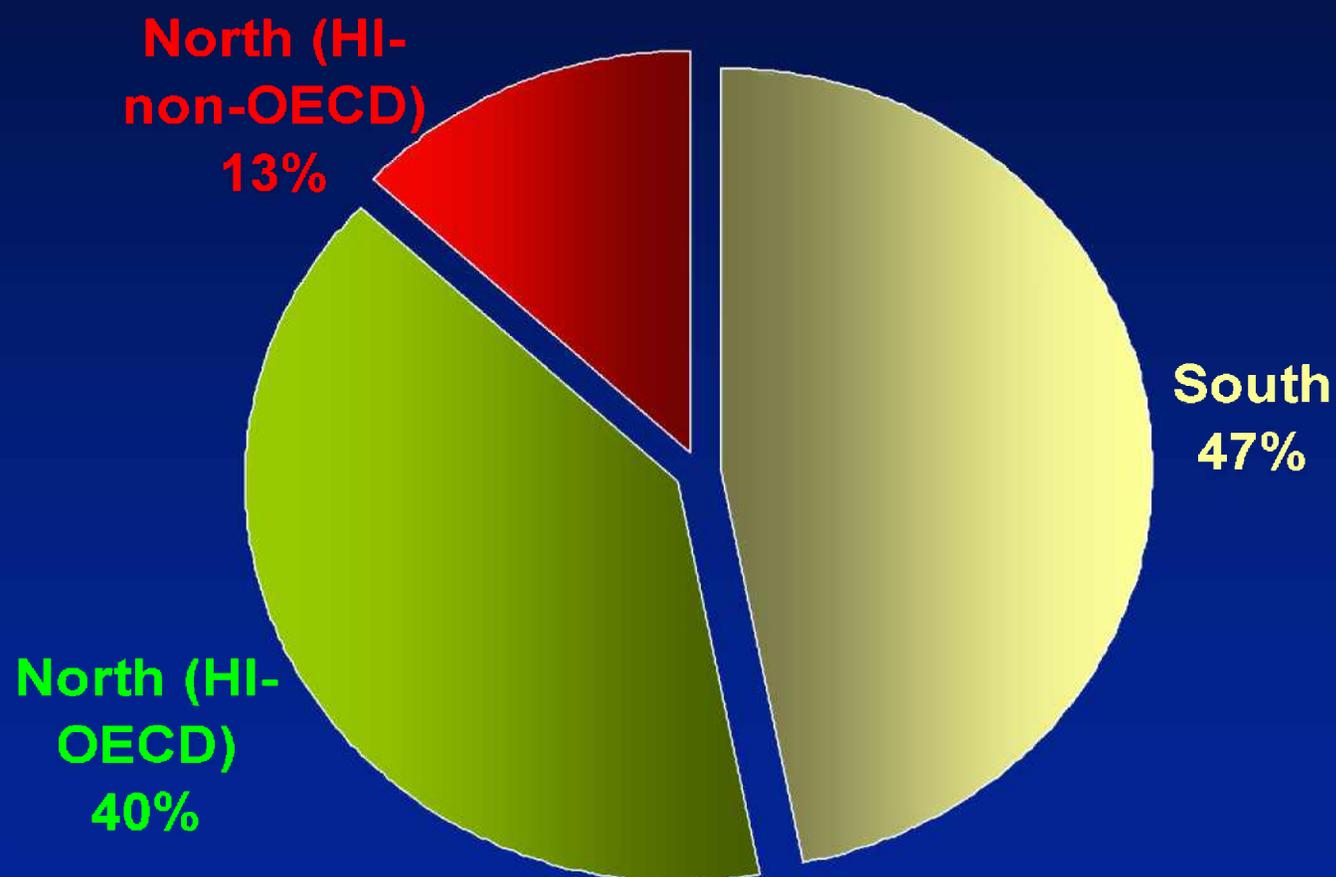
January 18, 2008

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

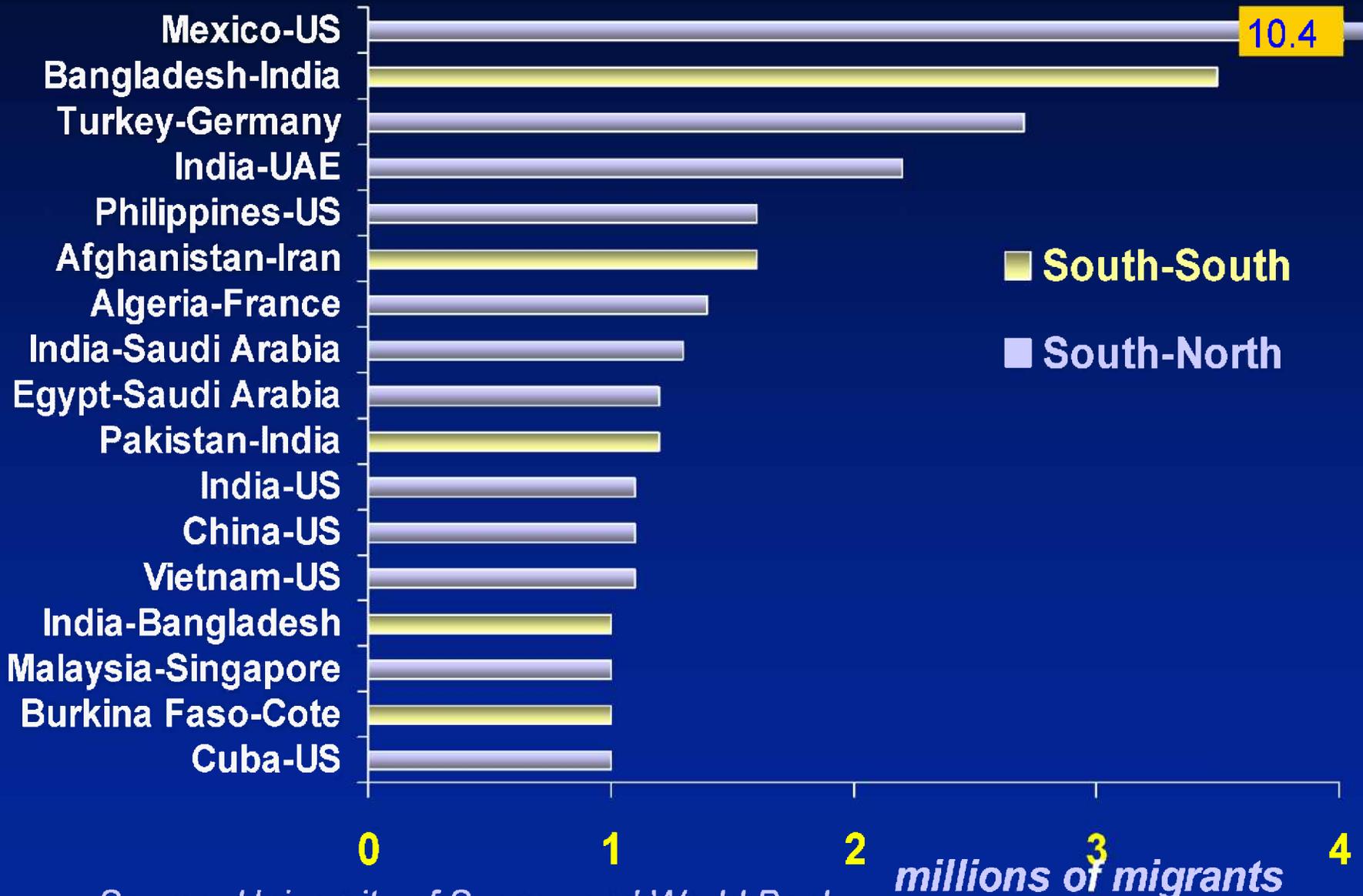
South-South migration is almost as large as South-North migration

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

Remittances are large, have continued to increase

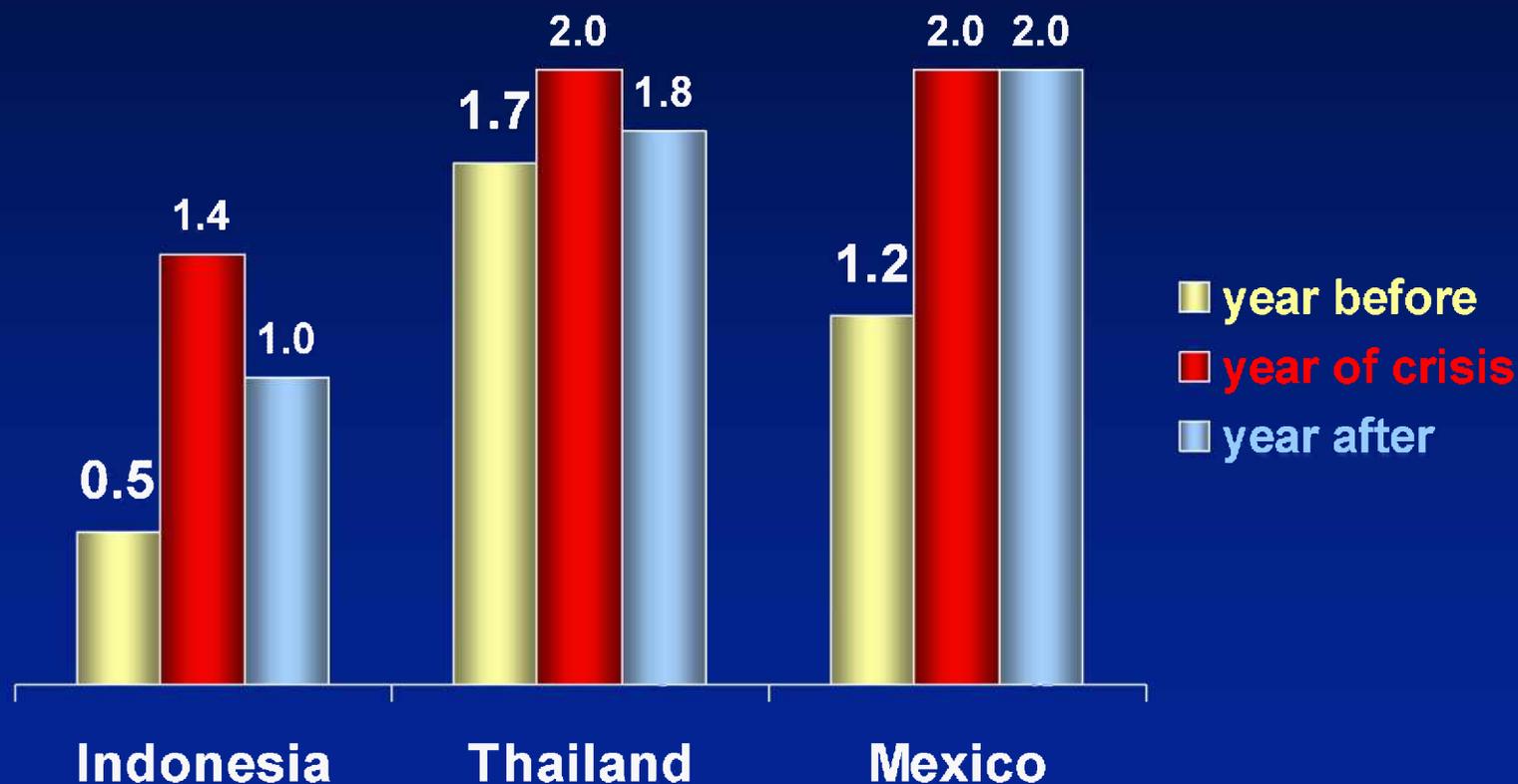


Remittances reduce poverty

- 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



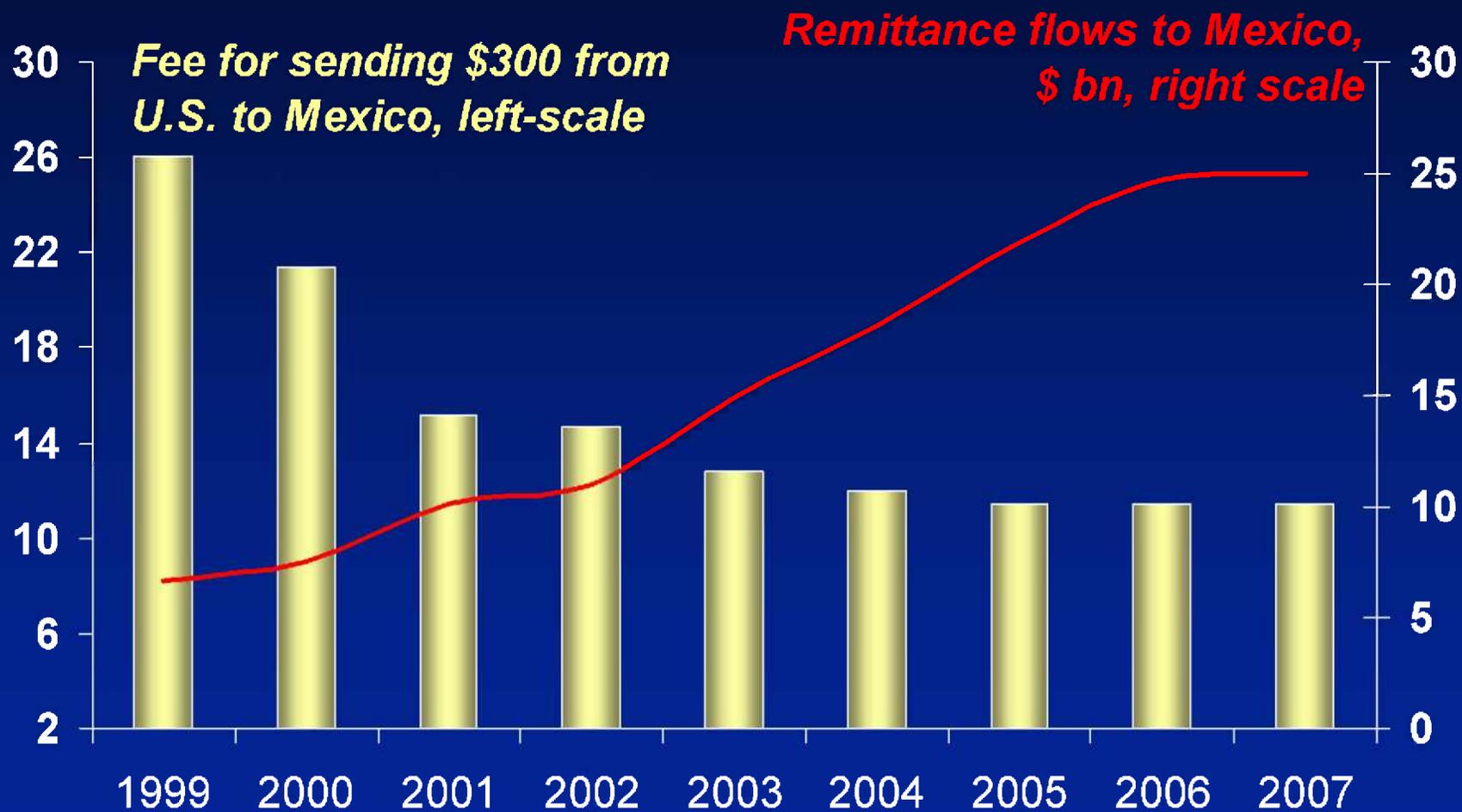
Downside

- 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

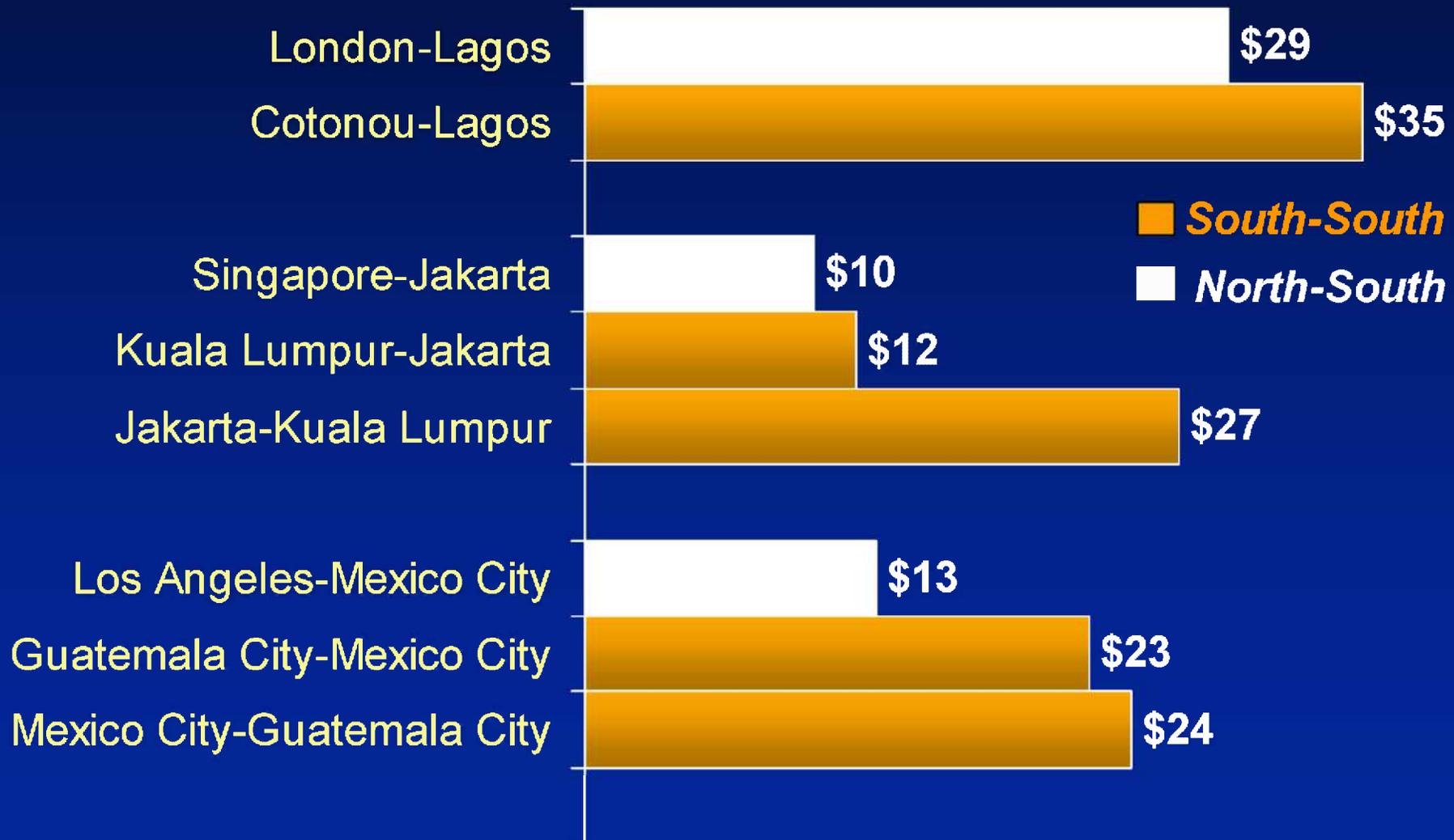
Remittance fees are falling, but not fast enough



Source: Condusef, Mexico

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

Fee and FX commission \$



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

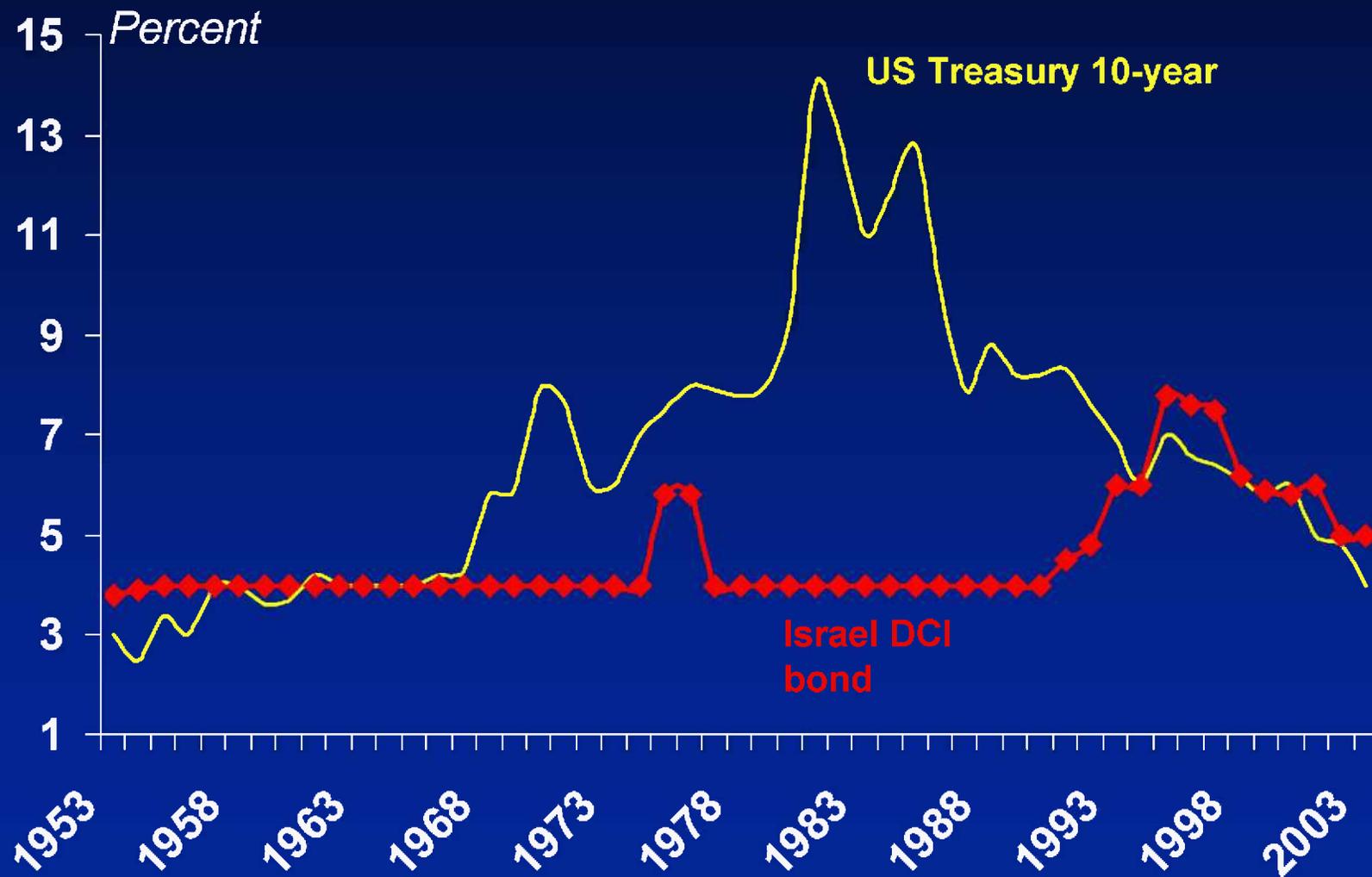
Policy recommendations

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

Diaspora bonds to tap into the wealth of the diaspora

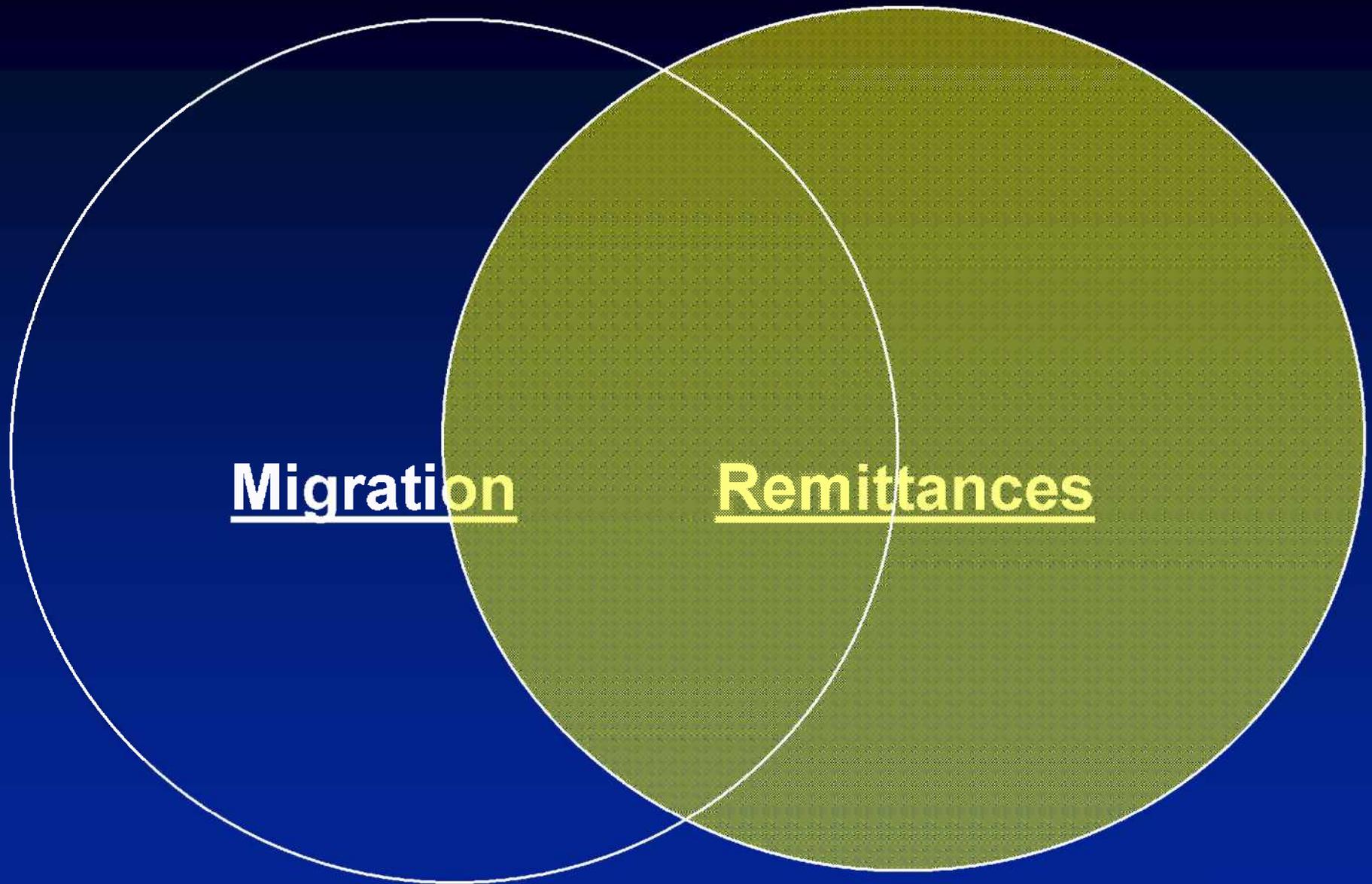
- Israel and India have raised nearly \$40 billion financing, often in times of crisis
- There is scope for other countries with large diaspora abroad to issue diaspora bonds for financing development. . .
- . . . At a discount

Discount on Israel diaspora bonds



Policy recommendations

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



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

1. Monitoring,
analysis, projection

3. Financial
access



4. Capital
market access

2. Retail payment
systems

1. Monitoring, analysis, projection

- Size, corridors, channels
- Counter-cyclical
- 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)