Remittances: Recent Trends and Development Implications

Remittances are a large, stable and countercyclical source of external financing in many poor countries

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This article describes recent trends in migrants' remittances to developing countries and provides an overview of the implications of remittances for development. It concludes by outlining some new technologies for remittance transfers and the regulatory and other challenges that have still to be overcome.

Recent Trends

Remittance flows to developing countries are estimated to have reached US$240 billion in 2007, up from US$221 billion in 2006 and more than double the level reached in 2002 (see Table). This amount, however, reflects only transfers through official channels — the true size of remittances received by developing countries including unrecorded flows through formal and informal channels is believed to be in excess of US$300 billion, or nearly three times the size of official development assistance.

Latin America and the Caribbean remains the largest recipient of (recorded) remittances, but the growth of remittances to this region has slowed markedly in recent months. Remittances received by Mexico grew by only 1% during 2007, compared to over 20% annual growth in 2002-06. The slowdown in Mexico is partly due to the weak job market in the United States, especially in the construction sector as well as the recent increase in enforcement efforts. Apprehensions along the US-Mexico border have declined by nearly 50% from the level in 2000, indicating a decline in the number of migrants trying to enter the United States without proper documentation. The deceleration in the growth of remittances is less marked in rest of the Latin America and the Caribbean region. Interestingly, while the US remains the major destination for Latin American migrants, there appears to have been a shift towards Spain and other European countries in recent years.

Countries in South Asia and East Asia are experiencing robust growth in remittances. Remittances rose by 13% in the Philippines and by over 20% in Bangladesh and Pakistan in 2007. High oil prices and strong economies in the oil-exporting Middle Eastern countries are contributing to strong demand for migrant labour. Many of these remittance-receiving countries are also experiencing an appreciation of their currencies relative to the U.S dollar (and also relative to currencies linked to the US dollar such as the UAE dirham) which is reducing the purchasing power of remittance recipients. While remittances to Mexico, India and the Philippines increased by 38%, 44%, and 48% respectively during 2004-2007 in nominal U.S dollars, after accounting for the appreciation of these countries' currencies against the U.S dollar and domestic inflation, the respective increases were by 19%, 13%, and 3% during the three year period. Recorded remittance flows to Sub-Saharan Africa are very small and a large share of remittances appears to be through informal channels.

In 2007, India, Mexico, China and the Philippines were the top four recipients of remittances. The top ten recipients list also includes several high-income countries such as France, Spain and Britain — these countries receive remittances mostly from the other high-income European countries. As a share of GDP, however, remittances to these countries were about 0.5% or less in 2007. In contrast, remittances as a share of GDP are the highest in smaller countries such as Tajikistan, Moldova, Tonga, and the Kyrgyz Republic, where remittances exceeded a quarter of the GDP (see Figure).

Global Flows of International Migrant Remittances (US$ billion)

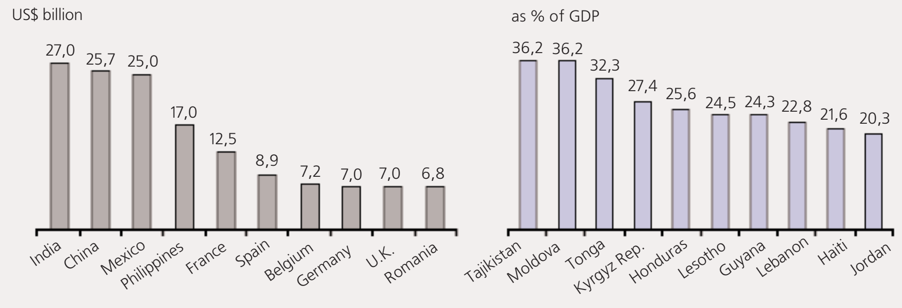
							Change
INFLOWS	2002	2003	2004	2005	2006	2007e	*2002-07*
Developing countries	116	144	161	191	221	240	107%
East Asia and the Pacific	29	35	39	47	53	58	97%
Europe and Central Asia	**14**	**17**	**21**	**29**	**35**	**39**	**175%**
Latin America and the Caribbean	28	35	41	49	57	60	115%
Middle-East and North Africa	15	20	23	24	27	28	86%
South Asia	24	30	29	33	40	44	81%
Sub-Saharan Africa	5	6	8	9	10	11	116%
Low-income countries	32	39	40	46	56	60	88%
Middle-income countries (MICs)	84	105	121	145	166	179	114%
Lower MICs	55	68	76	90	102	112	103%
Upper MICs	29	37	45	55	63	67	136%
High income OECD countries	53	60	67	68	72	74	40%
High income non-OECD countries	1	2	3	4	4	4	298%

Source: Authors' calculation based on data from IMF Balance of Payments Statistics Yearbook 2007. Remittances are defined as the sum of workers' remittances, compensation of employees, and migrant transfers – see www.worldbank.org/prospects for data definitions and the entire dataset.

Implications for Development

Remittances are a large, stable and countercyclical source of external financing in many poor countries. Remittances as a share of personal consumption expenditure rose in Indonesia, Mexico and the Philippines following financial crisis and in Central America following natural disasters. Remittances have provided a lifeline to the poor in Haiti and Somalia, in countries affected by political conflict.

Top Recipient Countries



Sources: See Table.

Cross-country analysis shows that a 10% increase in per capita remittances is associated with a 3.5% decline in the share of poor people. In Nepal, remittances are believed to have reduced the extent of poverty by 3-5 percentage points over the last decade. Remittances may have reduced the share of poor people in the population by 11 percentage points in Uganda, 6 percentage points in Bangladesh and 5 percentage points in Ghana.

Remittances are also associated with increased household investments in education, health, and small business investments. In Mexico, Guatemala, Nicaragua and Sri Lanka children in remittance recipient households have higher birth weights and better health indicators than other households. Remittances from the United States accounted for about one fifth of the capital invested in microenterprises in urban Mexico.

Remittances can improve financial access for migrants and remittance recipients. Increasing access to bank accounts for migrants and their families back home would not only provide them a lower cost and more secure remittance channel, it would also enable them to save more. Banks, private firms and microfinance institutions in Mexico, El Salvador, India, Peru, and the Philippines offer transnational consumer loans, mortgage loans, and microfinance products.

Remittances can improve the access to international finance of the countries of origin. Large banks in some countries (e.g., Turkey, Brazil) have used their access to foreign currency-denominated remittances as collateral for raising international bond financing at lower costs and longer maturities. Preliminary estimates suggest that countries in Sub-Saharan Africa alone can potentially raise, annually, US$1-3 billion by reducing the cost of international migrant remittances, US$5-10 billion by issuing bonds to the overseas diaspora, and US$17 billion by securitizing future remittances and other future receivables. These mechanisms can be used to raise funds for development projects such as low-income housing, or power and water supply.

New Opportunities and Challenges

The remittance industry has experienced a shift in remittances from informal to formal channels and remittance costs have fallen in recent years. Average remittance costs in the US-Mexico corridor, one of the largest remittance corridors, fell dramatically by nearly 55% between 1999 and 2004, but appear to have levelled off lately. The cost for send-

Migration in Europe and Central Asia: Some Facts

Population in Europe and Central Asia, millions, 2006	460
Labor force, millions, 2006	210
Urban population, % of population, 2006	63.8
GNI, US$ billions, 2006	2,421
GNI per capita, Atlas method, US$, 2006	4,796
GDP growth, avg. annual %, 2002-2006	6.2

Emigration, 2005

- Stock of emigrants: 47.6 million or 10.0% of population
- Top 10 emigration countries: Russia, Ukraine, Turkey, Kazakhstan, Poland, Serbia and Montenegro, Uzbekistan, Belarus, Bosnia and Herzegovina, Azerbaijan.
- Identified destinations: high-income OECD countries (28.5%), high-income non-OECD countries (5.3%), intra-regional (57.6%), other developing countries (0.2%).

Skilled Emigration, 2000

- Emigration rate of tertiary educated (top 10 countries): Croatia (29%), Bosnia and Herzegovina (29%), Macedonia FYR (21%), Albania (20%), Serbia and Montenegro (17%), Slovak Republic (15%), Romania (14%), Estonia (14%), Poland (12%), Hungary (12%).
- Emigration of physicians: 19,555 or 1.3% of physicians trained in the region.

Immigration, 2005

- Stock of immigrants: 31.1 million or 6.5% of population (compared to 190.6 million or 3.0% for the world)
- Female as percentage of immigrants: 57.2% (compared to 49.6% for the world).
- Top 10 immigration countries: Russia, Ukraine, Kazakhstan, Turkey, Uzbekistan, Belarus, Poland, Croatia, Serbia and Montenegro, Czech Republic.

Remittances, 2007

Top five remittance recipients: Romania (US$6.8 bn), Poland (US$5.0 bn), Serbia and Montenegro (US$4.9bn), Russia (US$4.0 bn), Bosnia and Herzegovina (US$1.9 bn).

Source: Migration and Remittances Factbook compiled by Dilip Ratha and Zhimei Xu, the World Bank, www.worldbank.org/prospects/migrationandremittances. **BT** ing money between developing countries (South-South remittances) continues to remain high.

The remittance industry has also seen the introduction of cell phone-based remittances and several pilots involving remittance-linked financial products. In the Philippines, G-Cash and SMART provide deposit, credit and money transfers through mobile phones. In Kenya, Vodafone through its subsidiary Safaricom, has launched a mobile banking service M-PESA which has more than one million clients. In India, Visa has linked up with some of the major commercial banks to extend its domestic card-to-card transfer service to mobile phones. Western Union and the GSM Association have also announced a pilot project for mobile phone remittances.

Regulations to stop money laundering and counter the financing of terrorism appear to have become a constraint to reducing remittance costs, especially for smaller remittance service providers and mobile operators dependent on correspondent banks. Many countries are now considering simpler prudential regulations for remittance service providers. Many governments are also beginning to realize that exclusivity contracts between national post offices and a single money transfer company stifles competition and in the end, hurts poor migrants and their families. It is time now for policymakers to find ways for harmonising telecom and financial services regulations.

This article draws on "Leveraging Remittances for Development" Policy Brief by Dilip Ratha, Migration Policy Institute, Washington DC, 2007 (www.migrationpolicy.org/pubs/MigDevPB_062507.pdf), and "Remittance Trends" 2007 brief (http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/BriefingNote3.pdf) issued by the Development Prospects Group, the World Bank. Dilip Ratha is Senior Economist and Manager of the Migration and Remittances Team at the Development Prospects Group of the World Bank. Thanks to Uri Dadush, Sanket Mohapatra and Sonia Plaza of the World Bank for discussions and K.M. Vijayalakshmi and Zhimei Xu for collaboration and data collection. **BT**

Debt–Financed Migration in the 21st Century

Illegal migration is a problem of growing scale and importance. The most conservative estimates amount to tens of millions of irregular immigrants worldwide; in the US only, this number stands at 12 million. The International Organization for Migration believes that half of all new entrants into developed economies are illegal.

According to the United Kingdom Home Department, 75% of illegal migrants use the expensive services of smugglers. Given increasing international wage differentials, unstable political circumstances and the importance of financial constraints in most source countries of migration, the demand for human smuggling services may rise further.

Migrants and their families often cannot self-finance costs that can reach or even exceed US$50,000 (estimated China-US smuggling fees) and, hence, put themselves in debt. According to surveys among illegal Chinese immigrants 90% had to borrow money to pay the fee. Smugglers and other intermediaries finance the costs of transportation, provide forged documents and assist in entering the country of destination. The debt repayment is taken out of migrants' wages in sweatshops and restaurants that are related to these intermediaries. The migrant thus provides his labor as collateral to the smuggler or the smuggler's business partners until the debt is paid back.

As long as a migrant is employed in the illegal sector, the debt-holders can enforce the contract through coercion. This is more difficult when a migrant works in the legal sector of the economy, where s/he receives some protection from the host country's legal system. Thus, migrants who move successfully to the legal sector can default on their debt payment. But, at the same time, they become visible to law enforcement agencies and bear higher risks of being deported to the source country.

Our theory of financial contracting between wealth-constrained migrants and intermediaries examines the effect of various policies on illegal immigration and finds that:

- Stricter border controls decrease overall immigration, but may result in an increase of debt-financed migration, as they may induce illegal migrants to move from self-financed migration to debt/labor contracts.
- Stricter deportation policies increase rather than decrease the flow of illegal migrants, as migrants are less likely to try moving to the legal sector of the economy and there are, therefore, less defaults on debt repayments. Financing migrants becomes more rewarding for intermediaries and, hence, that the flow of migrants financed by debt/labor contracts increases. At the same time, the net present value of migration for wealthier self-financed migrants decreases, which reduces their inflow. Migrant skill composition deteriorates, given the strong positive correlations between wealth and skills in developing countries.
- There can be complementarities between employer sanctions and deportation policies. With intensified employer inspections and sanctions, deportation policy becomes a more effective tool for decreasing migration.

What about the effect of amnesties on decisions to migrate? Since each amnesty raises expectations for future amnesties, it results in higher incentives to migrate, especially for the highly skilled. On the other hand, anticipating that immigrants may obtain legal status through amnesty, intermediaries will refuse to lend. Hence, amnesties will decrease low-skilled migration and improve the skill composition of incoming migrants.

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