

Remittances and Development

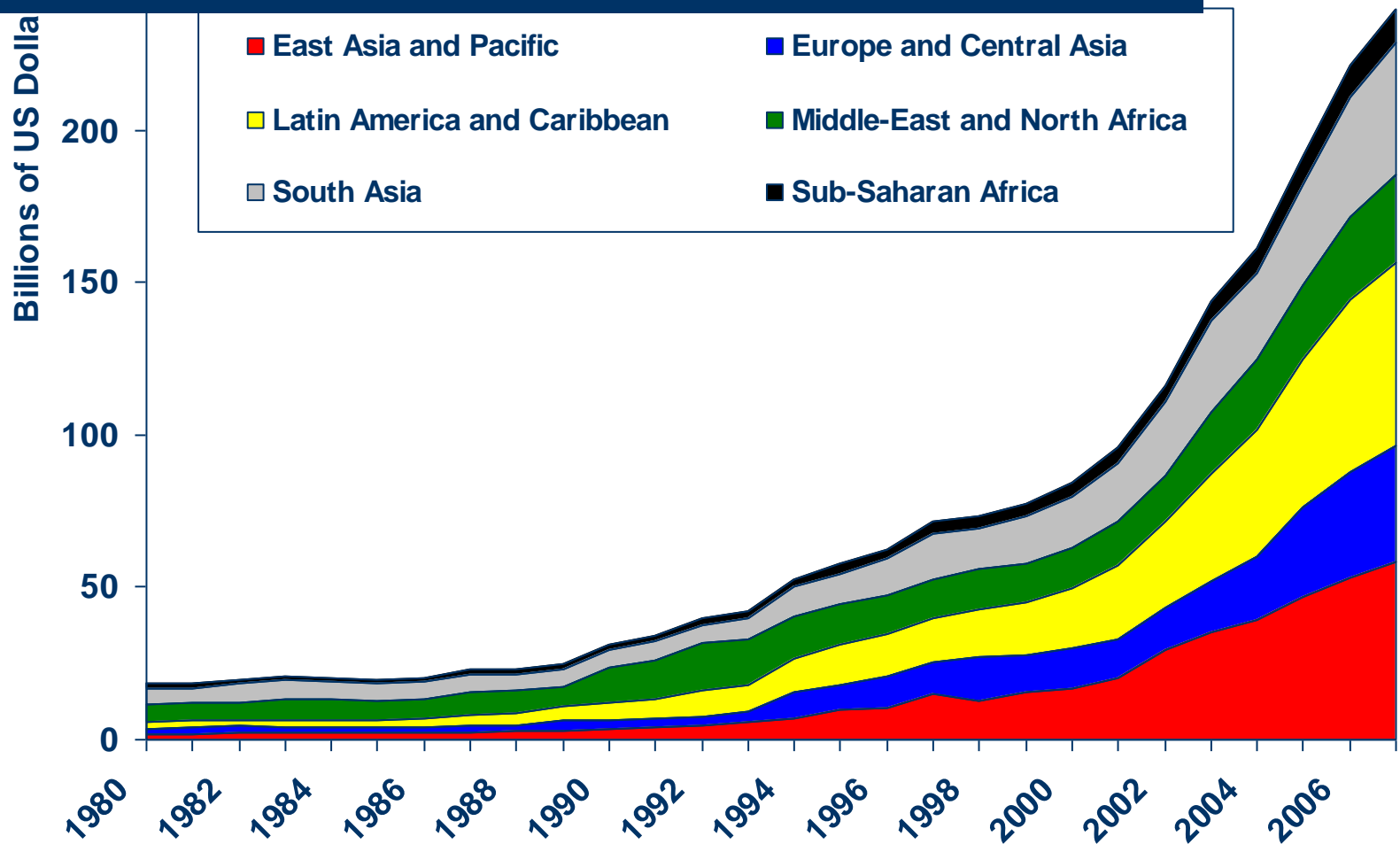
Linkages and Disconnects

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Migration and Development:
Remittances

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Global Remittance Flows by Region, 1980 to 2007



Note: Includes only formal remittance flows.

Source: Development Prospects Group, World Bank.

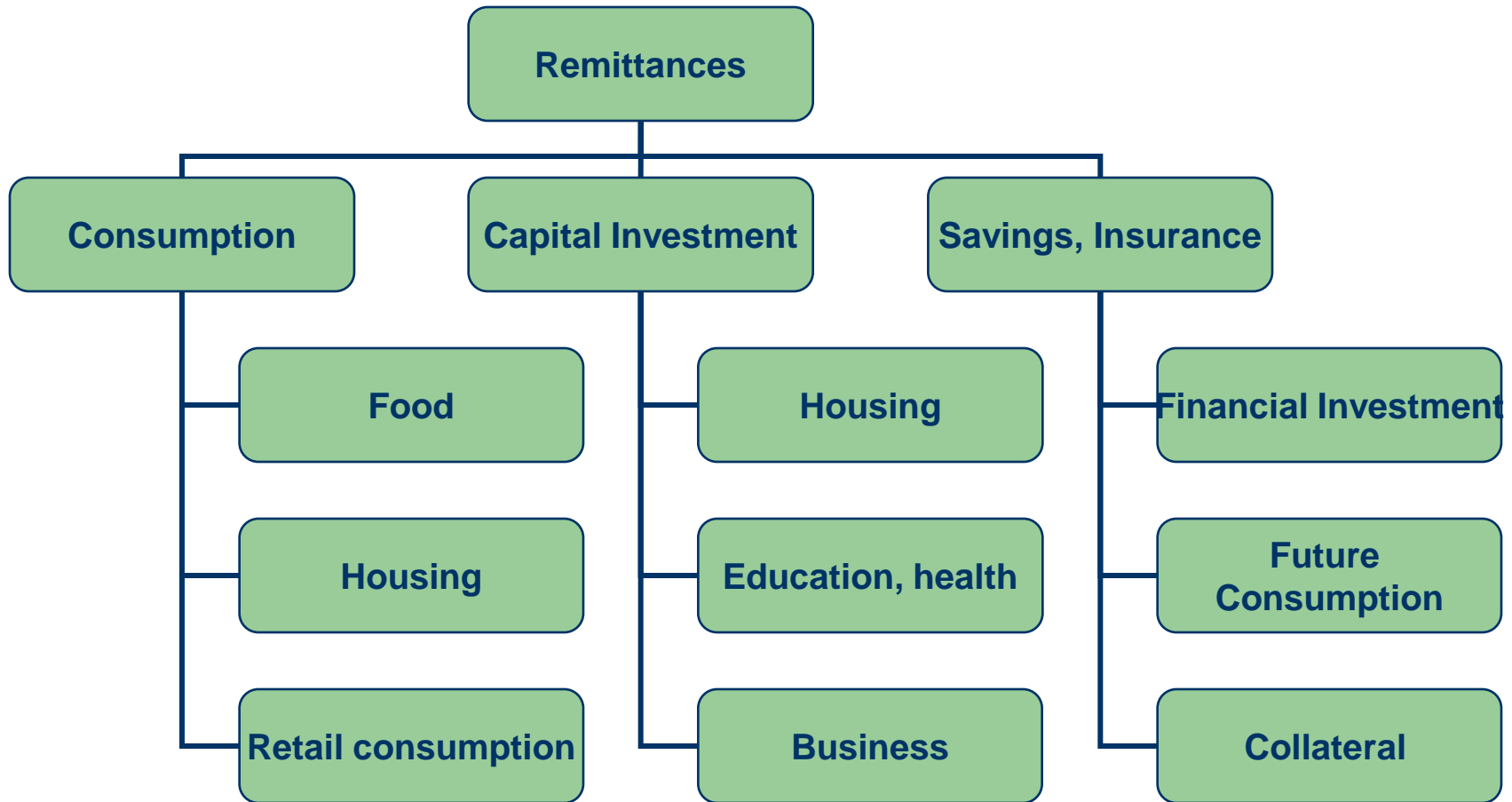
Remittance levels

- *Officially recorded* remittances to developing countries amounted to \$240 billion in 2007
- Estimates of informally transmitted remittances range from 50% to twice the recorded figure

How securitization works

- Improves credit ratings of sovereign (national government) and private sector borrowing on world markets by reducing exchange rate risk
- SPVs hold foreign exchange offshore; their owners create matching local currency liabilities onshore, which pay remittance receivers their money
 - Stronger credit ratings can give developing countries access to international capital markets, and save them billions of dollars in debt service

Remittances-Development Linkages



Remittances-development linkages

Securitization of remittances can facilitate development tasks that disaggregated household remittances can't do:

- Major infrastructure development
- Large-scale business investment

Multiplier effects of remittance spending

New housing construction in Mexico

- Totals 50.7% of all activity in the construction industry
- Benefits 37 other economic sectors
- Uses inputs that are almost entirely (95 percent) produced domestically
- Accounts for 2% of GDP

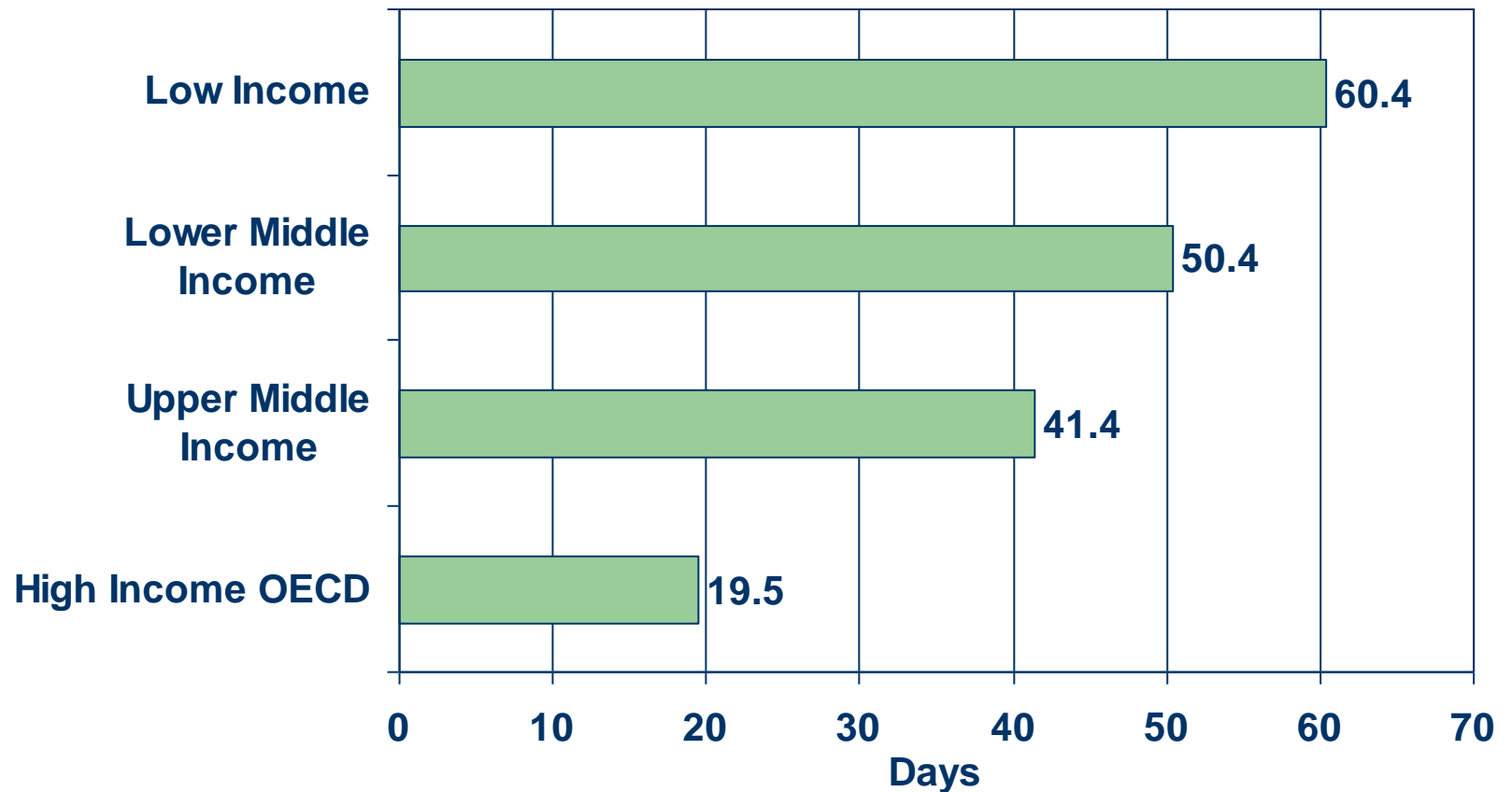
Disconnects

- Uneven distribution within remittance receiving countries
- Dependence and vulnerability (household and national level)
- Distortion of labor market
- Dutch disease (exchange rate appreciation)
- Asset inflation

Things individual remittances can't do

- Establish a favorable business climate
- Create national infrastructure (although securitized remittance flows may help finance it)

Time Required to Start a Business, 2005



Source: World Development Indicators

Doing Business in the Developing World

County	Starting a business		Dealing with licenses		Registering property	
	Procedures (number)	Time (days)	Procedures (number)	Time (days)	Procedures (number)	Time (days)
Argentina	15	32	23	288	5	44
Brazil	17	152	19	460	14	47
Chile	9	27	12	171	6	31
El Salvador	10	26	22	144	6	33
Guatemala	13	30	23	390	5	37
Haiti	12	203	12	141	5	683
Honduras	13	44	14	199	7	36
Mexico	8	27	12	142	5	74
Panama	7	19	22	121	7	44
Peru	10	72	19	201	5	33

Source: World Bank 2007

Realistic expectations

- Poverty reduction
- An element of stability in foreign exchange flows
- Counter-cyclical, especially in response to natural disasters
- Debt service reduction
- Multiplier effects in the domestic economy
- **NOT a magic wand for development**

Policy goals to enhance R-D links

- Good governance
- Strong institutions
- Favorable investment climate

Specific measures for remittances

- Reduce costs of transfers
- Expand financial service networks geographically
- Increase competition among remittance services
- Tailor regulations to the task of money transfer
- Encourage new technology for payments platforms
- Develop appropriate savings, insurance and investment vehicles for the poor

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