

Remittances and Development

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based on work by **Dilip Ratha**

LINK meeting
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Remittances and Development

- Why has development community become so interested in remittances?
- How can the development-effectiveness of remittances be increased?
- Is the impact of migration on development also positive?

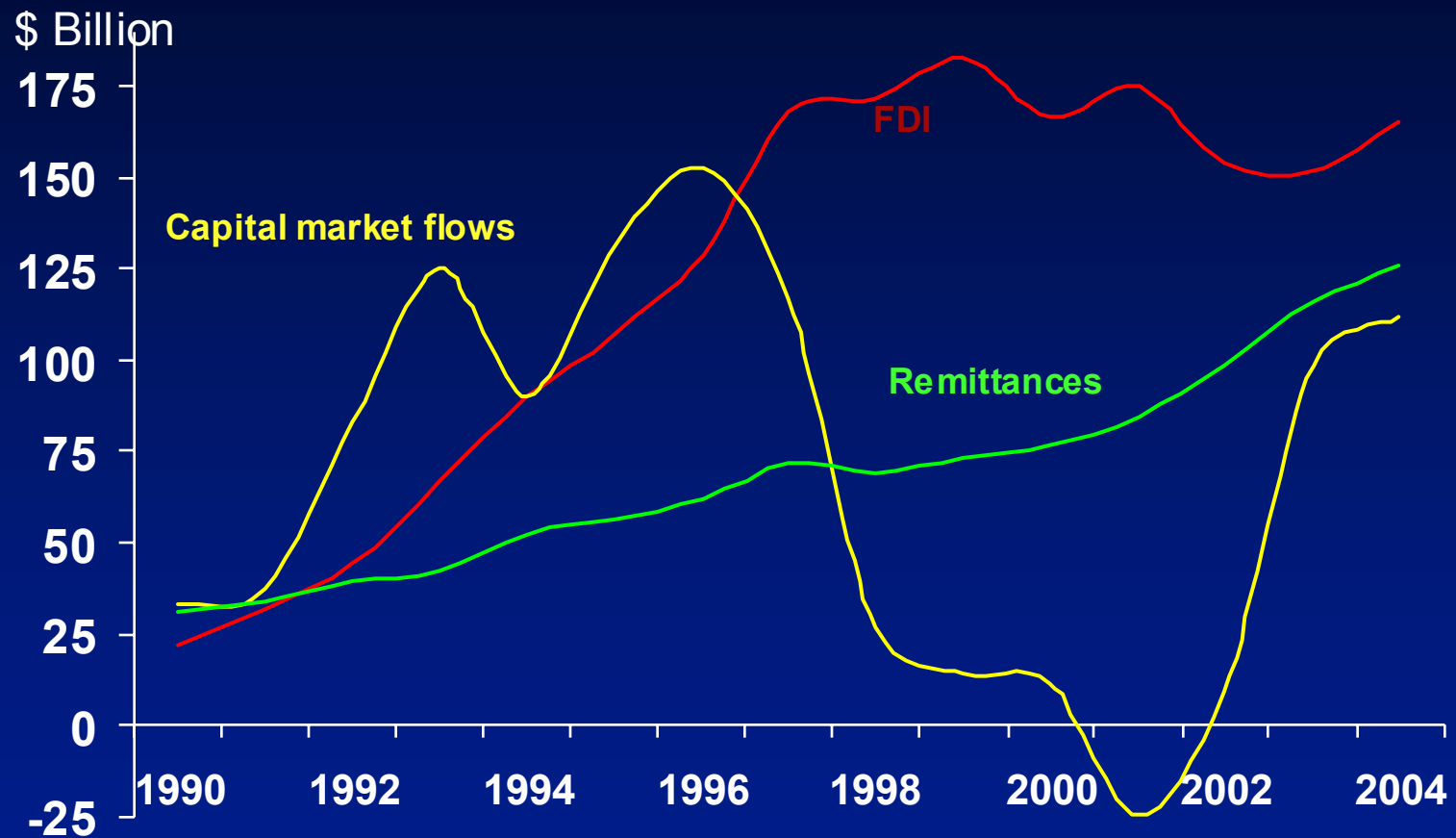


Why the interest?

- Remittances are a large, growing, and stable source of foreign exchange
- Remittances go more than proportionally to the poor
- Remittances don't create debt problems



Remittances are stable



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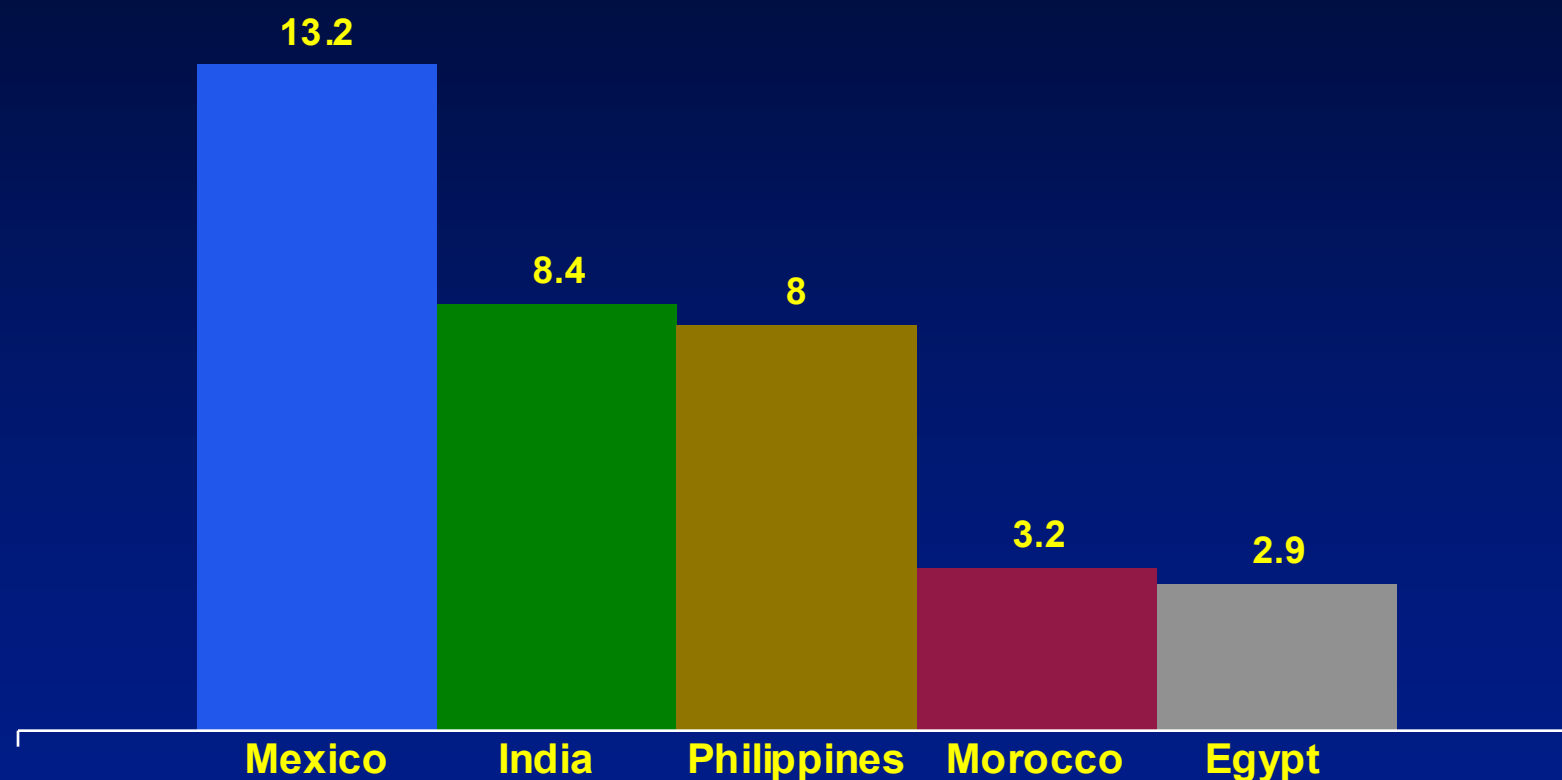
Remittances go more than proportionally to poor countries

\$ billions, 2003	All developing	Low- income	Lower middle- income	Upper middle- income
Total remittance receipts	116.0	36.7	54.9	24.4
as % of GDP	1.6	3.3	1.3	1.3
as % of merchandise imports	6.2	18.5	5.1	4.0
as % of domestic investment	6.7	15.3	4.8	7.1
as % of FDI inflows	76.4	228.0	55.1	67.6



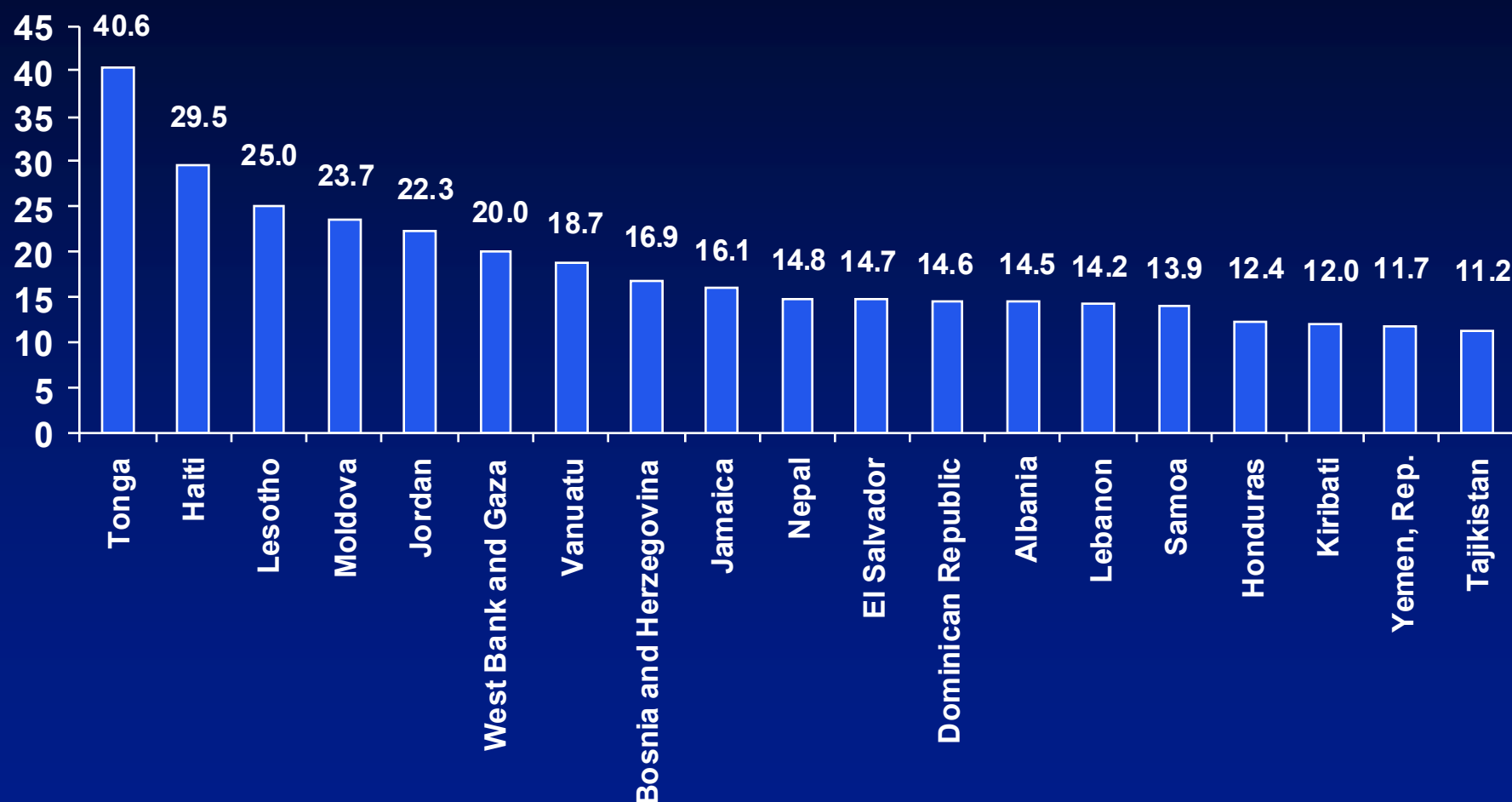
Although top recipients are large countries....

\$ billion, 2003



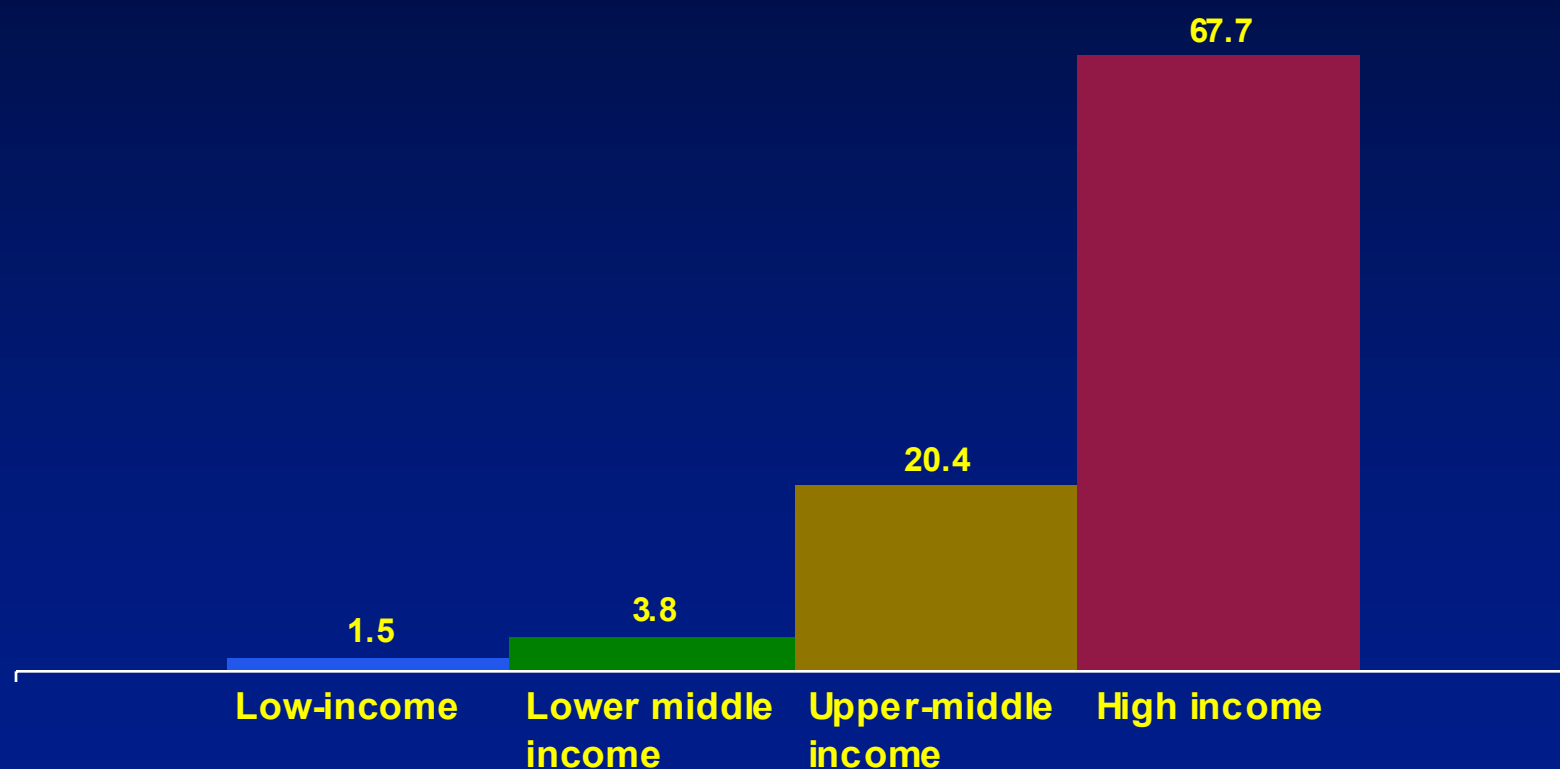
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Remittances are relatively larger in smaller countries



Remittance payments are larger in richer countries...

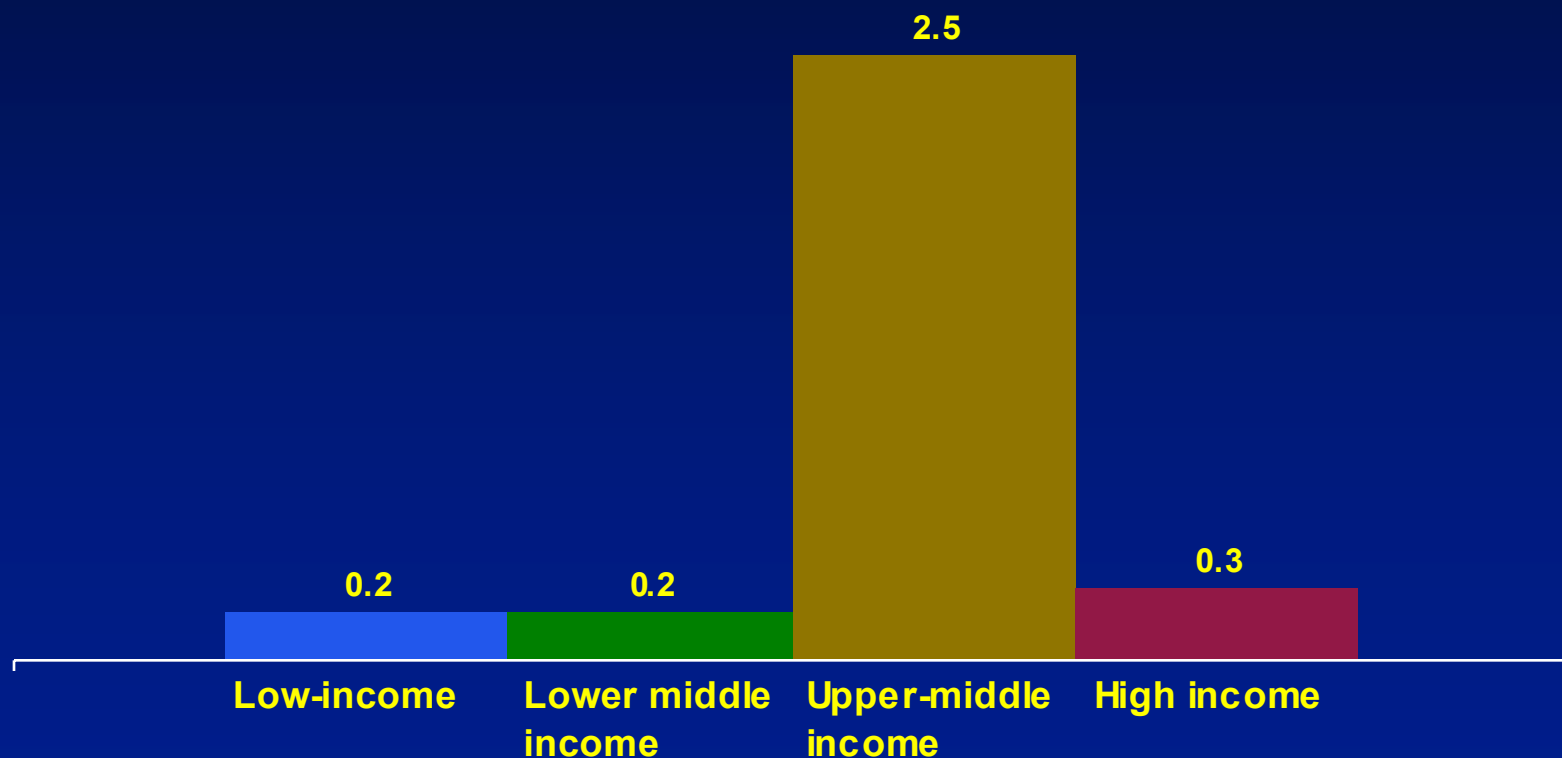
Remittance payments \$ bn



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...But as a share of GDP, remittance payments are larger in upper middle income countries

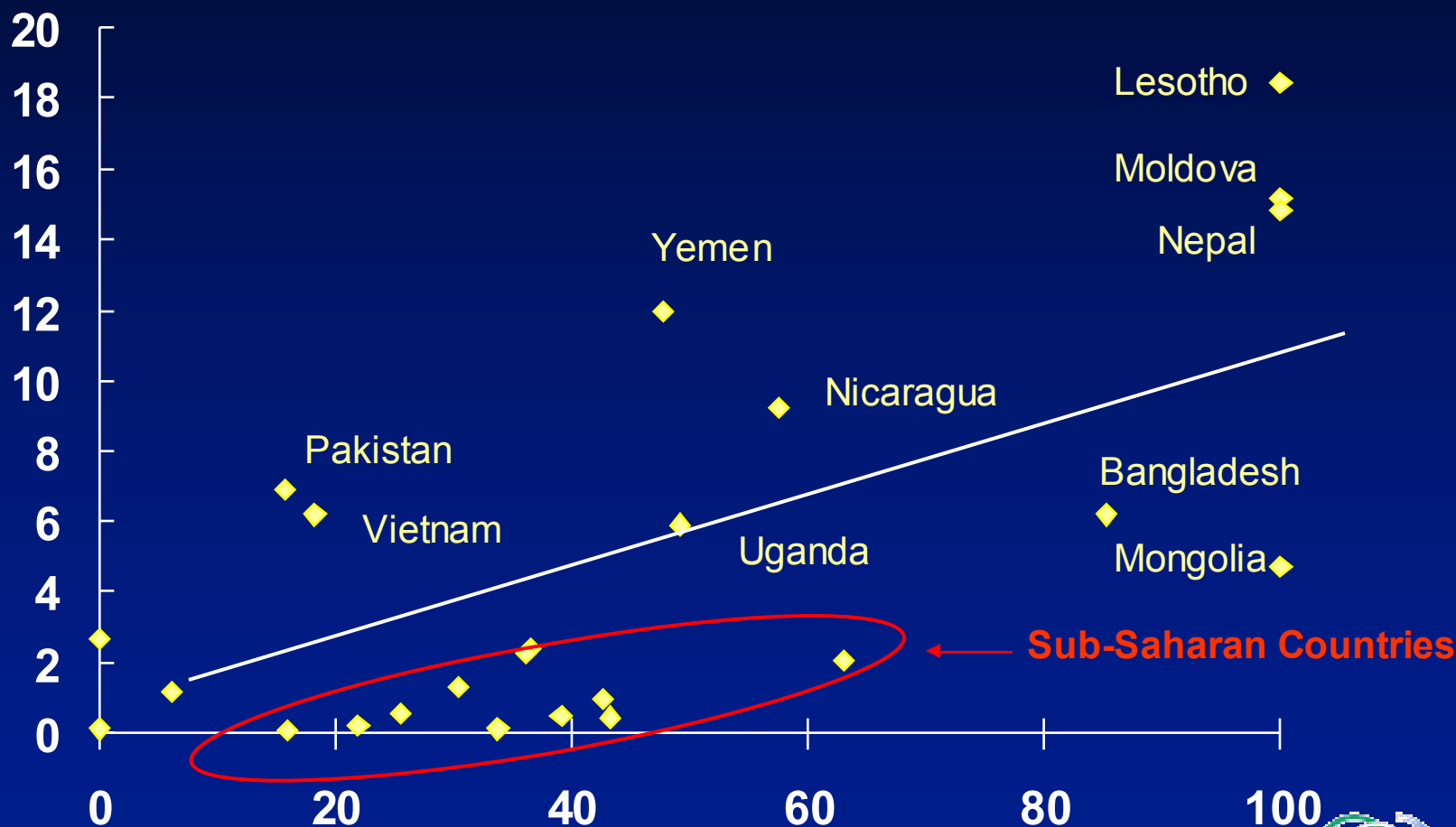
Remittance payments as % of GDP



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“Neighborhood” effect on remittances to the poorest countries, 2000-02`

Remittances (%GDP)



Share of country border with richer countries not in conflict



Data and Definition

- Workers' remittances + Compensation of Employees + Migrants' transfers
- No-reporting or under-reporting of informal flows
- Bilateral flows missing



Improving data

- G7 working group to improve statistics
- Scrutiny of existing data for misclassification or under-reporting
- Surveys of remittance service providers
- Surveys of senders
- Surveys of recipients
- Surveys of central banks



Central Banks that have participated in the survey so far*

Asia	Europe and Central Asia	Latin America	Middle East
1. Bangladesh	7. Azerbaijan	17. Bolivia	27. Egypt
2. India	8. Belarus	18. Brazil	28. Tunis
3. Indonesia	9. Croatia	19. Costa Rica	
4. Pakistan	10. Cyprus	20. Ecuador	
5. Philippines	11. Georgia	21. Guatemala	
6. Thailand	12. Latvia	22. Guyana	
	13. Moldova	23. Haiti	
	14. Poland	24. Honduras	
	15. Serbia	25. Mexico	
	16. Slovenia	26. Nicaragua	

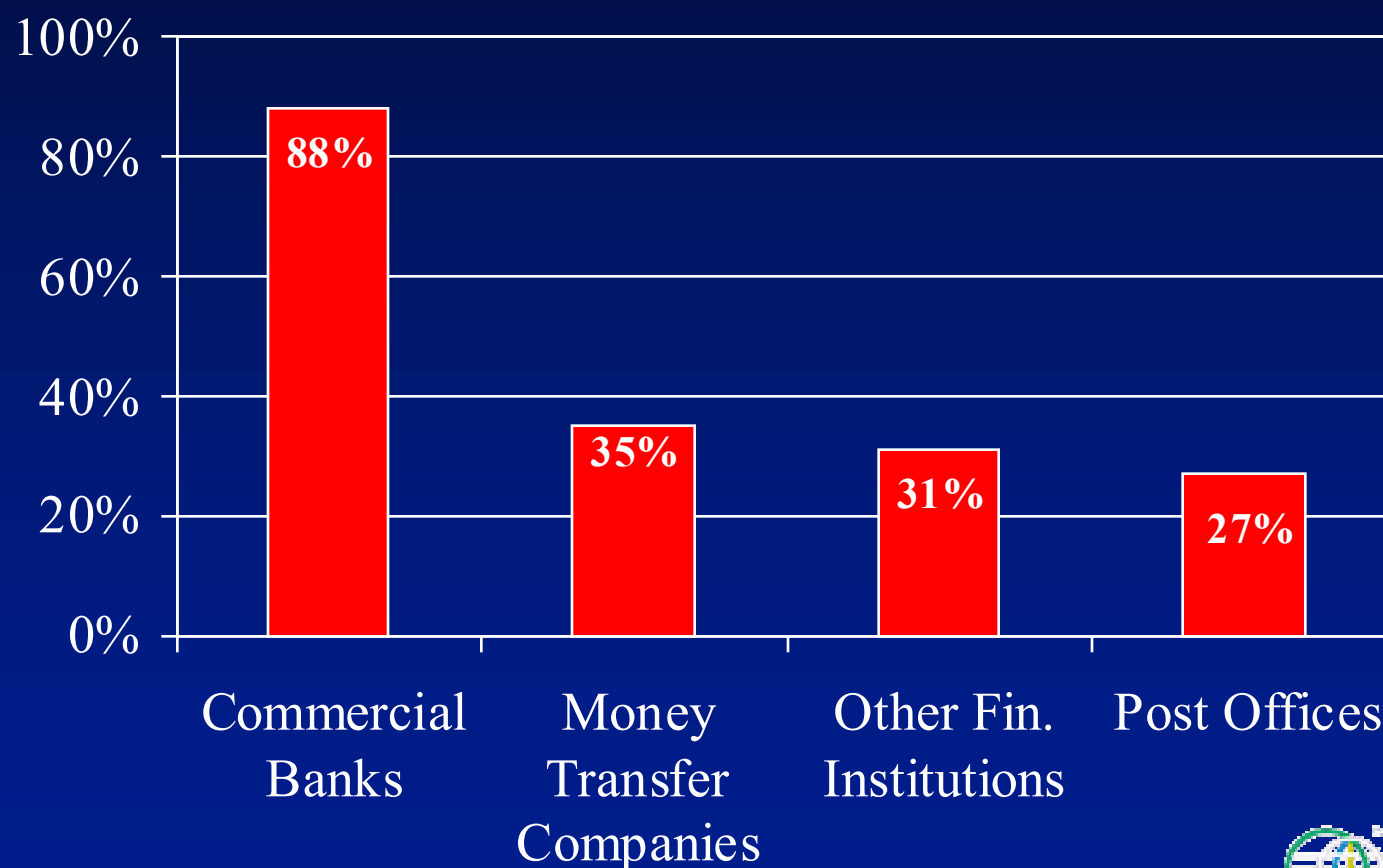
***Total = 28 countries** that received \$49 billion in remittance flows during 2002, over half of flows to developing countries.



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Sources of Data on Remittances

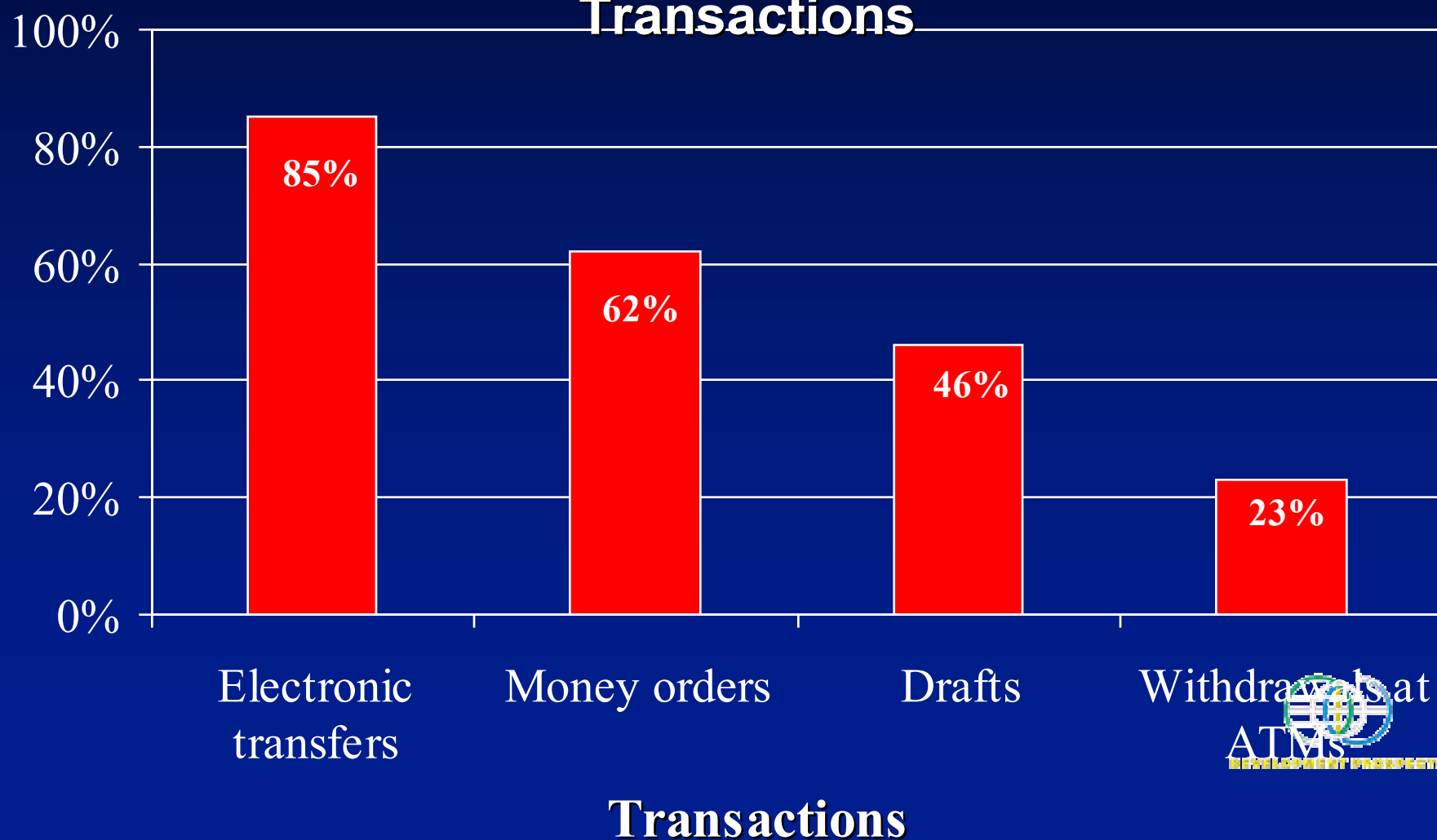
**Percent of Central Banks
that Collect Data from:**



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What Type of Transactions are Recorded as Remittances?

Percent of Central Banks that Record Remittances from the following Types of Transactions



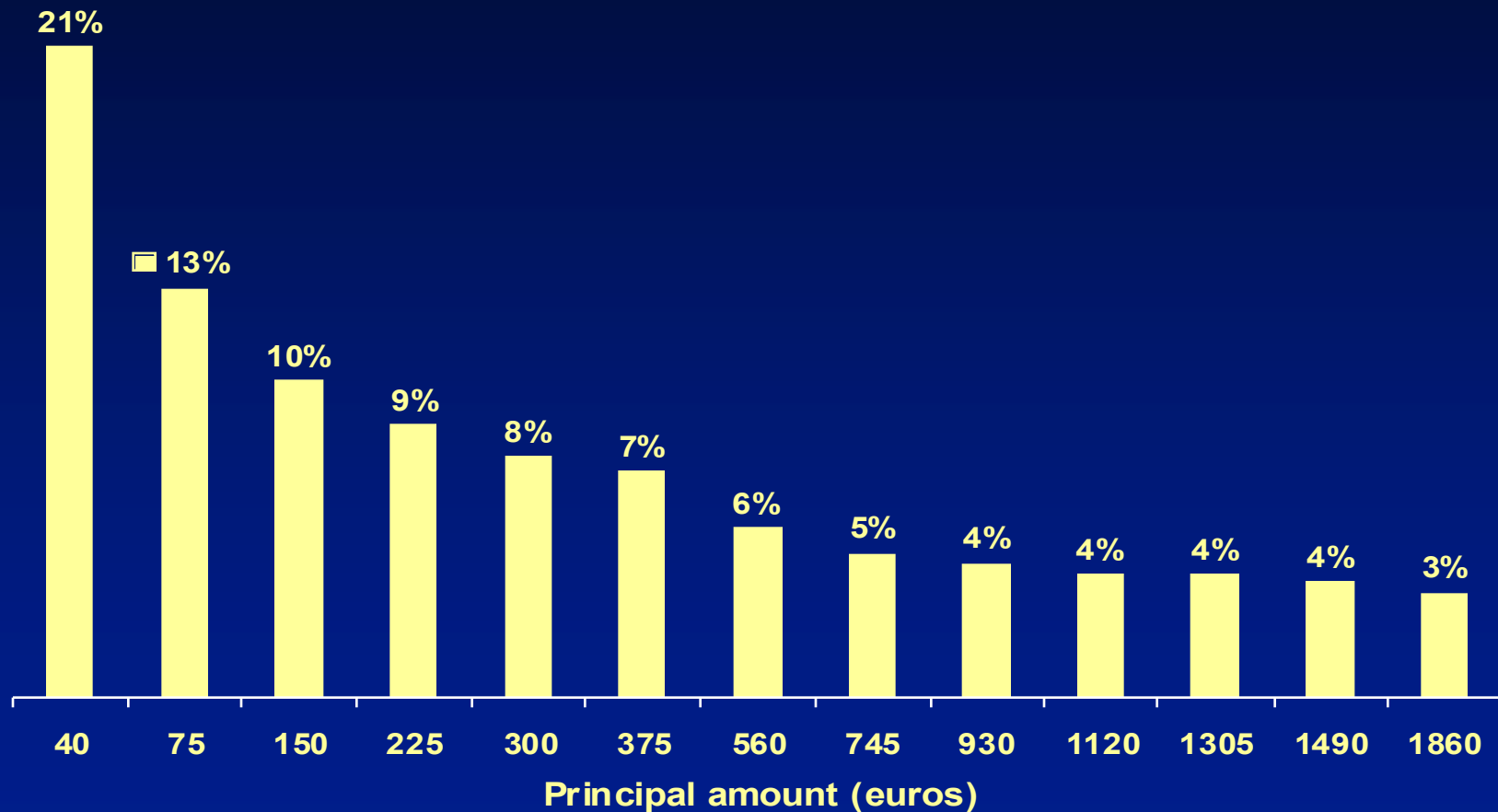
How to improve effectiveness?

- Lower cost of transfers
- Offer special incentives to diasporas
- Facilitate international travel
- Improve financial system and improve investment climate
- But ... recognize the person-to-person nature of remittances.



Remittance costs are high, and regressive

Charge



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Improve migrants' access to banks



Festival of Finances!

Saturday, August 17, 2002, 9am – 2pm

El Centro Macías-Flores
290 S. 10th Street, Kansas City, KS 66101

An opportunity to:

\$\$ Open **bank accounts**

\$\$ Sign up for matched savings accounts (IDAs)

\$\$ Get a **Matrícula Consular** from the Mexican Consulate

\$\$ Request your **Individual Taxpayer Identification Number** from the IRS

\$\$ Attend Spanish Money Smart financial
education classes

All in one place!

Food and prizes too!

Bring your Mexican Consulate ID and Individual Taxpayer Identification Number to open an account. If you don't have these documents, come to the fair and we can help you sign up for them.

For list of other acceptable documents, including drivers licenses, Social Security numbers, etc., please contact Melinda Lewis at 913.677.0100 or Liz Kelderhouse at 816.234.8151

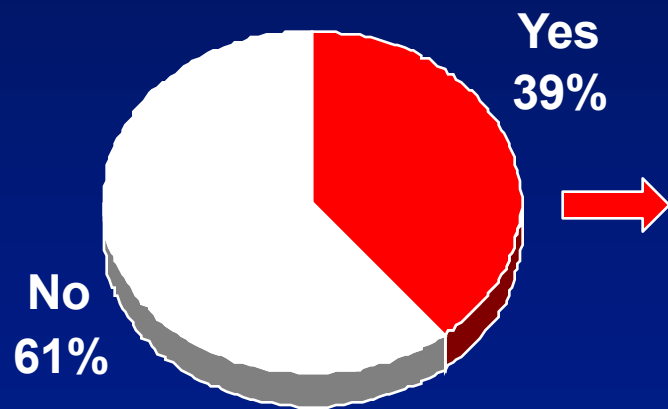
Offered by: • El Centro, Inc. • Federal Deposit Insurance Corporation • Consulado de Mexico •
• Bank of America • Central Bank of Kansas City • Commerce Bank • The First National Bank of Olathe •
• Heart of America Family Services • Industrial State Bank • Internal Revenue Service •
• Money Skill Foundation • U. S. Bank •



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Government Incentives to Transfer Remittances Through Formal Channels

Which countries grant migrants special incentives to send money back home?



1. Azerbaijan
2. Bangladesh
3. Ecuador
4. Egypt
5. India
6. Moldova
7. Pakistan
8. Philippines
9. Serbia
10. Tunis

- Tax breaks
- Higher interest rates for deposits
- Facilities for land purchases
- Etc.



Improve investment climate in recipient countries

Remittances as % of GDP, 1996-2000

	High	Low
Corruption	0.5	1.9
Inequality	0.9	1.5
M2/GDP	1.2	0.9
Trade/GDP	1.2	1.0



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What about migration?

- Large gains for migrants (and receivers of remittances)
- Mixed impacts on country of origin and host country.
- Brain drain or brain gain?

