



UNITED NATIONS
UNCTAD


AD-HOC EXPERT MEETING
Contribution of Migrants to Development:
Trade, Investment and Development Linkages

Geneva, 29 July 2009

MAKING REMITTANCES WORK

By

Raju Jan SINGH
International Monetary Fund



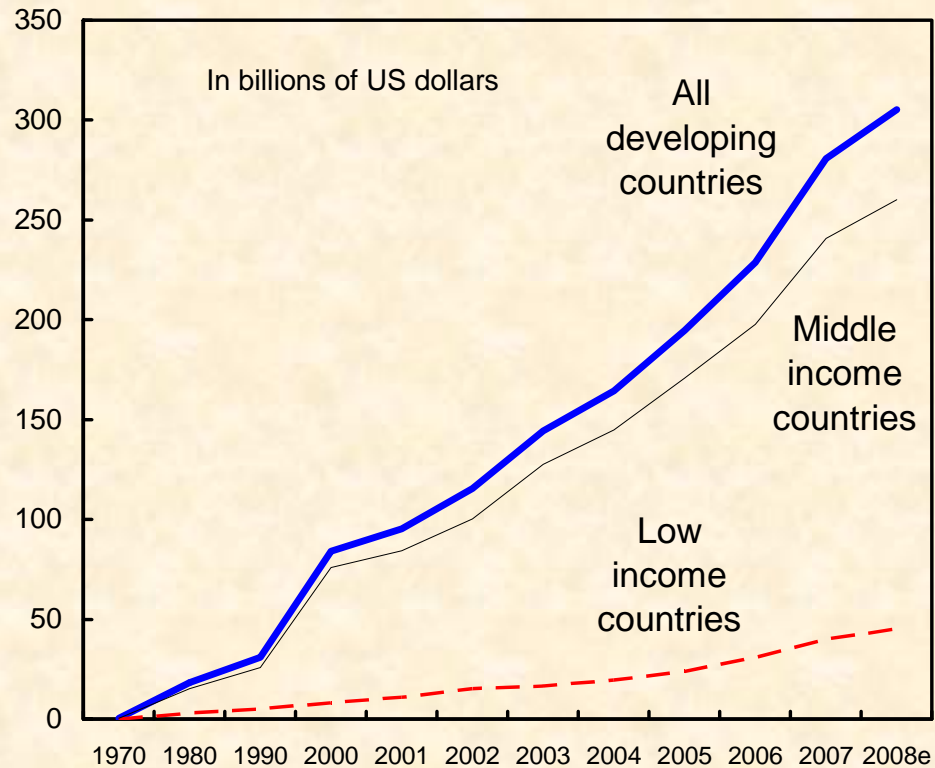
Making Remittances Work

Raju Jan Singh
International Monetary Fund



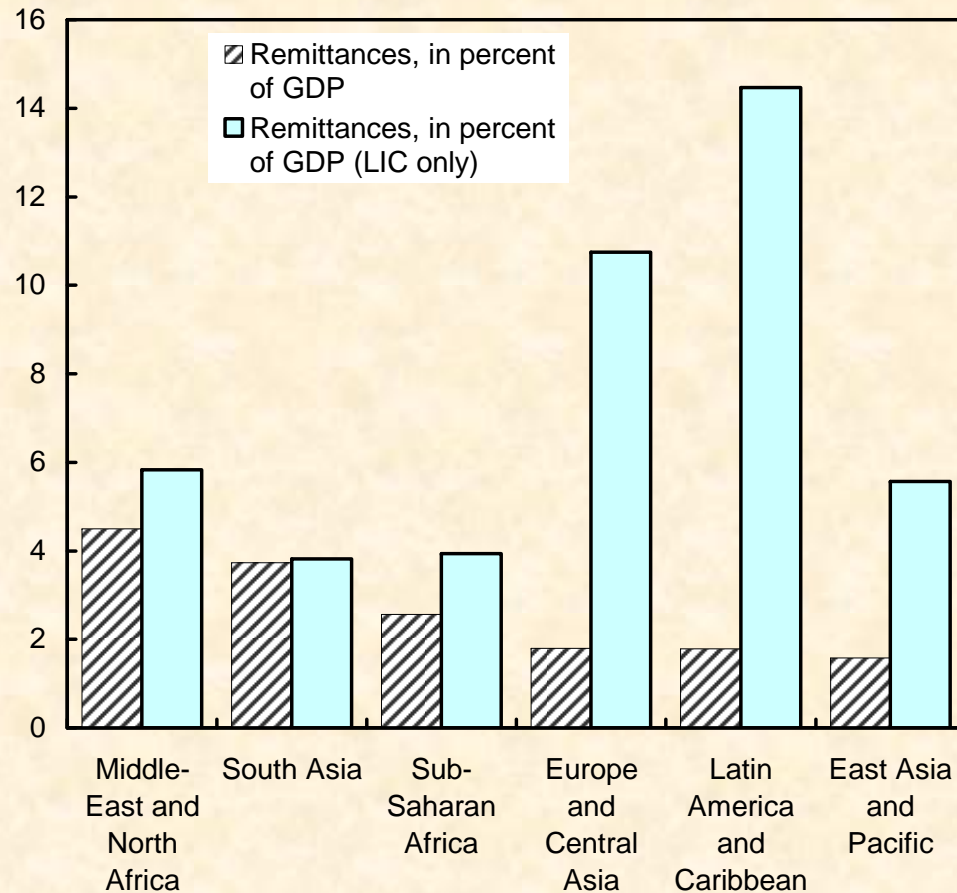
Wednesday, July 29, 2009
UNCTAD Ad-Hoc Expert Meeting
Palais des Nations, Geneva

Remittances have grown substantially ...



Sources: IMF, World Bank, and IMF staff estimates.

... and represent significant external resources for many LICs.



Sources: IMF, World Bank, and IMF staff estimates.

Question

Can we mobilize remittances for faster development ?

Outline

1. Determinants of remittances ?
2. Impact on poverty ?
3. Impact on growth ?
4. Possible ways forward ?

Determinants of Remittances ?

- Home (migrants-sending country) income (-)
- Host (migrants-receiving country) income (+)
- Number of migrants (+)
- Transaction costs (-)
- The quality of economic policies institutions in the home country (+)

Impact on Poverty ?

- Direct income support to the poor
- Smooth consumption
- Often used for education, health care, and nutrition
- Working capital

Impact on Growth ?

Though remittances tend to raise income, it is not obvious whether they also promote growth.

Theoretically ...

- Provides collateral to start up small businesses (+)
- Improves macroeconomic stability (+)
- Improvement in development indicators (access to education, population health) (+)

... their effect is ambiguous.

- Dutch disease (-)
- Brain drain (-)
- Labor force participation (-)
- Consumption rather than investment (-)

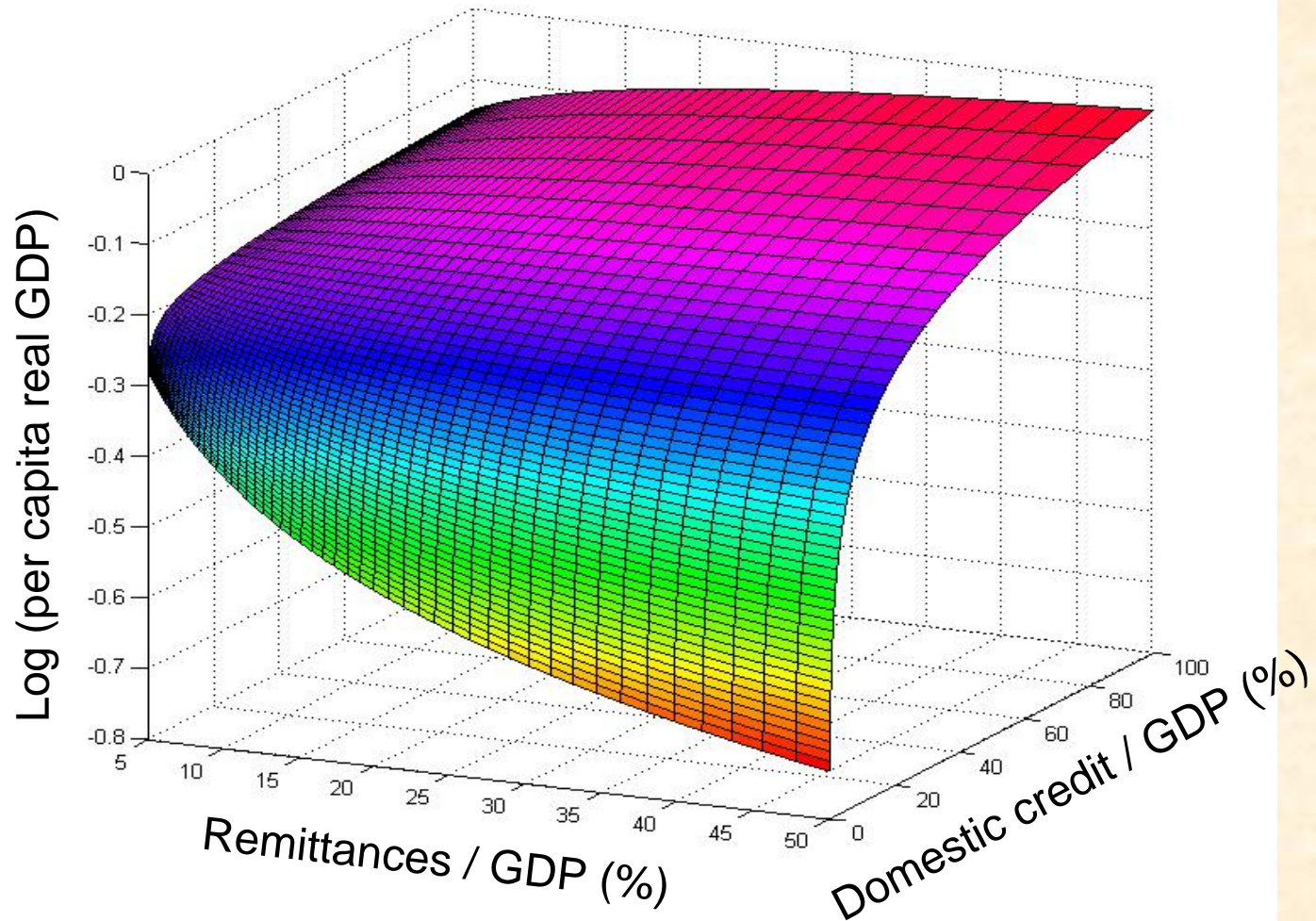
Empirically ?

- Remittances do not seem to promote economic growth.
- But building stronger institutions and a deeper financial sector would help remittances to have a positive impact on growth.

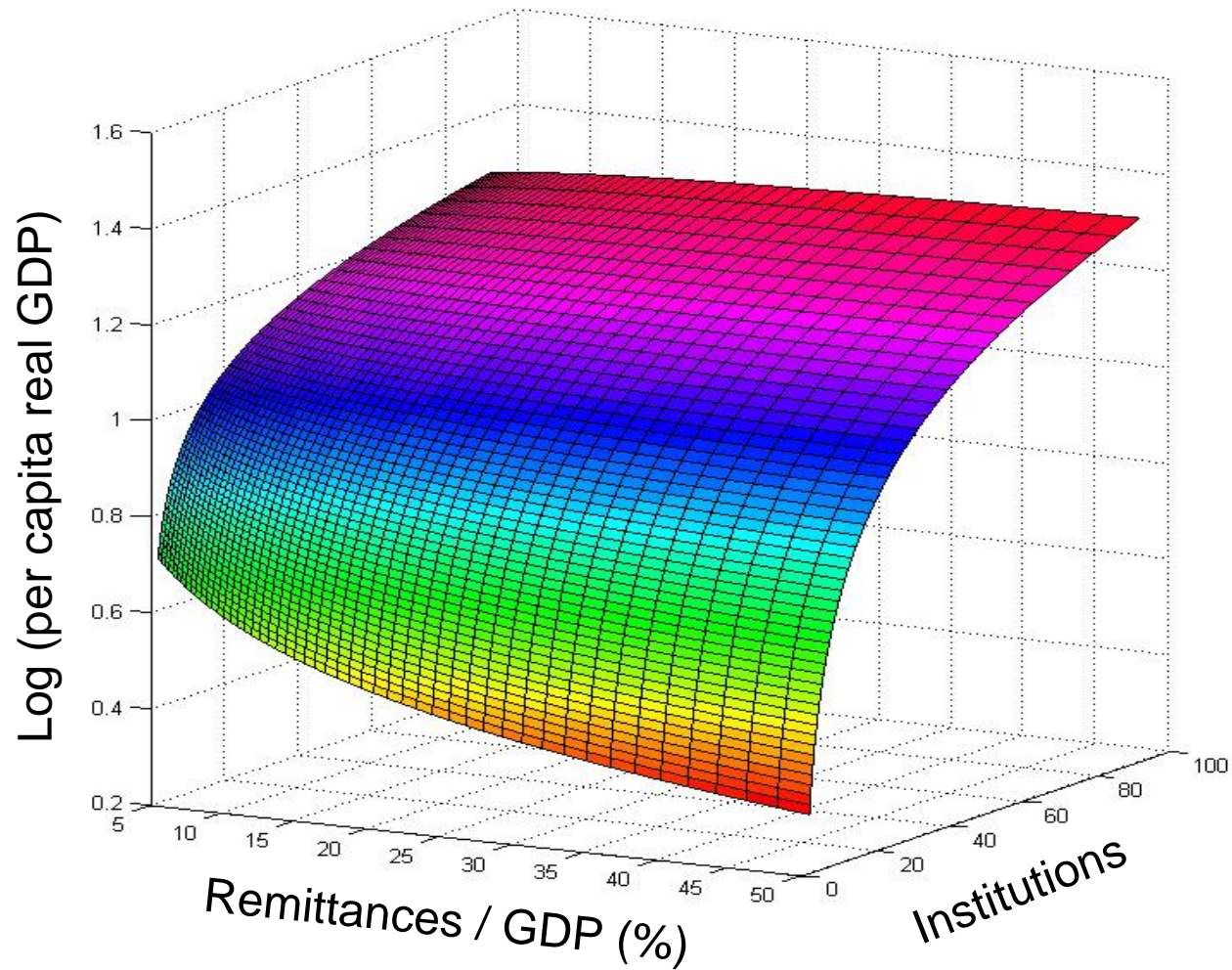
The case of sub-Saharan Africa

- Greater financial intermediation would dampen the negative effect of remittances.
- Stronger institutions would enhance their positive contribution.

Graphically (1)



Graphically (2)



Challenge

How to unlock the development potential of remittances while containing their adverse effects ?

Possible Ways Forward ?

- Make formal transfers affordable
- Channel more remittances into productive uses
- Improve the business environment
- Deepen financial intermediation

THANK YOU