A Road Map

- Remittances and development
- Contrast: Foreign aid

Questions:
- What are the similarities and differences?
- What are the impacts on economic development?
- What can we learn from these two phenomena?
Remittances

- Remittances: transfers of money by foreign workers to their home countries:
  - About 200 million migrants send money back home
  - Around 1 billion recipients across the globe
  - An estimated $300 billion was sent last year—nearly three times all public foreign aid budgets combined
  - The total amount has doubled in the past five years
## Remittances Compare to...

<table>
<thead>
<tr>
<th>Private Remittances per Dollar of</th>
<th>Official Foreign Aid</th>
<th>Private Foreign Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income Countries</td>
<td>$1.29</td>
<td>$2.58</td>
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<tr>
<td>Lower middle income countries</td>
<td>$3.59</td>
<td>$0.76</td>
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<tr>
<td>World</td>
<td>$2.61</td>
<td>$0.36</td>
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<tr>
<td>India</td>
<td>$31.43</td>
<td>$4.07</td>
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<tr>
<td>Mexico</td>
<td>$149.86</td>
<td>$1.04</td>
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<tr>
<td>Morocco</td>
<td>$5.98</td>
<td>$5.49</td>
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<tr>
<td>Philippines</td>
<td>$25.14</td>
<td>$24.81</td>
</tr>
</tbody>
</table>

Source: Bernard Wasow, The Century Foundation
Magnitudes and Importance

- Top receivers in 2006: India ($25 billion), China ($24 billion), and Mexico ($24 billion)
- In 22 countries, remittances exceed a tenth percent of total GDP: Moldova (32 percent), Haiti (23 percent) and Lebanon (22 percent)
- Yet, studies are relatively recent
- The Mexican case
Total Remittances and Average Amount of Remittance, 1995-2006

## Composition of Remittance Flows to Mexico, 1997-2006

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<tbody>
<tr>
<td><strong>Total Remittances</strong></td>
<td>4864.9</td>
<td>5626.8</td>
<td>5909.6</td>
<td>6572.8</td>
<td>8895.3</td>
<td>10749.0</td>
<td>13396.2</td>
<td>16612.9</td>
<td>20034.9</td>
<td>23053.8</td>
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<tr>
<td>(millions of $US)</td>
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<tr>
<td><strong>Money Orders</strong></td>
<td>35.5%</td>
<td>33.2%</td>
<td>24.5%</td>
<td>21.8%</td>
<td>9.0%</td>
<td>7.4%</td>
<td>12.1%</td>
<td>11.3%</td>
<td>9.3%</td>
<td>5.9%</td>
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<tr>
<td><strong>Personal Checks</strong></td>
<td>1.6%</td>
<td>1.1%</td>
<td>0.9%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.0%</td>
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<tr>
<td><strong>Electronic Transfers</strong></td>
<td>54.2%</td>
<td>57.8%</td>
<td>66.6%</td>
<td>70.6%</td>
<td>87.5%</td>
<td>89.3%</td>
<td>85.9%</td>
<td>87.3%</td>
<td>89.3%</td>
<td>92.6%</td>
</tr>
<tr>
<td><strong>Cash and In-kind</strong></td>
<td>8.6%</td>
<td>7.9%</td>
<td>8.0%</td>
<td>7.4%</td>
<td>3.4%</td>
<td>3.2%</td>
<td>1.9%</td>
<td>1.4%</td>
<td>1.4%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Mexico Remittances Facts: IADB and Banxico Surveys

- Twenty-five percent of recipients are concentrated in five Mexican states: Guanajuato, Jalisco, Michoacán, San Luis Potosí, and Zacatecas
- Michoacán was Mexico’s top receiving state, with nearly $2.5 billion
- Recipient households are predominantly poor: 73 percent are at the bottom three income quintiles
- 60 percent are females
Mexico Remittances Facts: IADB and Banxico Surveys

- 54 percent of senders were either brothers or sisters (34 percent) or sons or daughters (20 percent) of the recipients. Only 27 percent of senders were spouses or parents.
- In 2006 almost $1 billion was used for “property acquisition” or “property renovations.”
- 14 percent of survey respondents said they use part of the money for savings and five percent reported using remittances for business operations.
- 13 percent of recipients reported using some of the resources on education expenses.
Remittances Empirical Evidence

- Research challenges: Data, Diversity and Causality
- Remittances are important for basic consumption
  - Effects on poverty rates: extreme poverty headcount is reduced by 39.9 percent and moderate poverty is reduced by 15.5 percent
  - Related economic effects on small communities
  - The big numbers effect: If 80 percent of the money sent to Latin America is spent on consumption, that leaves nearly $12 billion for investment.
Remittances Empirical Evidence

- Remittances increase school attendance and decrease employment of school age children.
- Remittances help with home acquisition and home improvements.
- Remittances have a modest positive effect on domestic investment.
- Remittances have a modest positive effect on savings.
Remittances increase the foreign exchange reserves, thus reducing government borrowing costs.

Remittances can also:
- support an overvalued exchange rate
- stimulate consumption and leisure while discouraging work.

But, compare to what?
Foreign Aid Facts

- Sub-Saharan Africa:
  - Official development assistance and official aid to SSA from 1980 to 2003 was $345 billion
  - Subsequent debt forgiveness program for about $40 billion
- More than 50 percent of Africans suffer from water-related diseases such as cholera and infant diarrhea
- More than 40 percent of women in Africa do not have access to basic education
- Economic growth?
Figure 2: Aid and growth in Africa (10-year moving averages)
Foreign Aid Empirical Evidence

- Little, if any, evidence of a robust positive impact of aid on growth.
- No evidence that aid works better in better policy or institutional or geographical environments.
- No evidence that certain kinds of aid work better than others.
- Implication: Need to reconsider the way aid programs work.

Rajan and Subramanian (2005)
Remittances vs. Foreign Aid: What is Different?

- Human connection
- Incentives: rewards and performance
- Evaluating progress
- Knowledge problem: needs and goals
- Transaction costs
  - International bureaucracy
  - Implementation and its challenges
- Accountability and corruption
- Economic related impacts
- Sending ideas back home
Policy implications

- Economic prosperity requires:
  - Strong rule of law
  - Sound economic policies
  - Political stability
  - An independent judiciary system
  - Strong private property rights
  - Etc., etc.
- Remittances and foreign aid are not and cannot be a substitute for these important elements
- However there are some important lessons…
Policy implications

- The importance of incentives
- Immigrants from poor and developing countries can be highly productive and prosperous
- No cultural, social, or historical factor can fully abolish the entrepreneurship spirit of free individuals facing adequate incentives:
  - Since 1997, the number of Hispanic-owned companies grew 82 percent; the fastest growth in the United States.
  - In 2006, Hispanic-owned businesses generated almost $300 billion in annual gross revenue. Estimates suggest that by 2010 this figure will be more than $450 billion.
Policy Implications

- Remittances phenomena will continue, given that the current cycle is:
  - Aging industrial economies need workers
  - People in poor countries need jobs
  - Moving is easier and cheaper
  - There are potential economic gains for both parts

- “Trade not Aid” may become “Immigration not Aid”