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Are Remittances Still Resilient?

Exploring the Impact of the Global Economic Downturn
on Migration and Remittances

Moderator: Borany Penh (USAID/MD)

Panelists: Kathleen Newland (MPI)
Sanket Mohapatra (World Bank)
DeVere Kutscher (MFIC)

Fifth in a *Microfinance Learning and Innovations After Hours* mini-series
on the impact of the global financial crisis on MFIs & their clients.

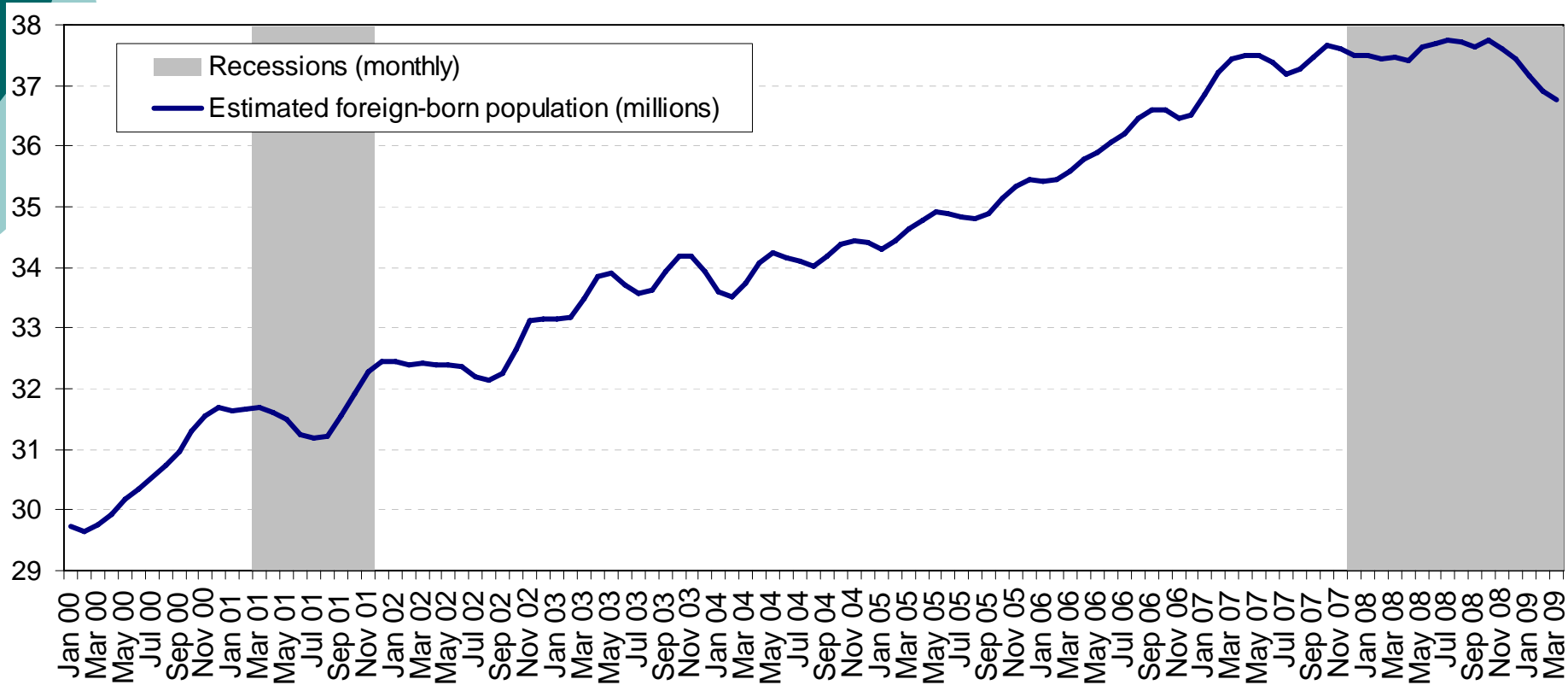
April 15, 2009

Remittances and the Economic Crisis

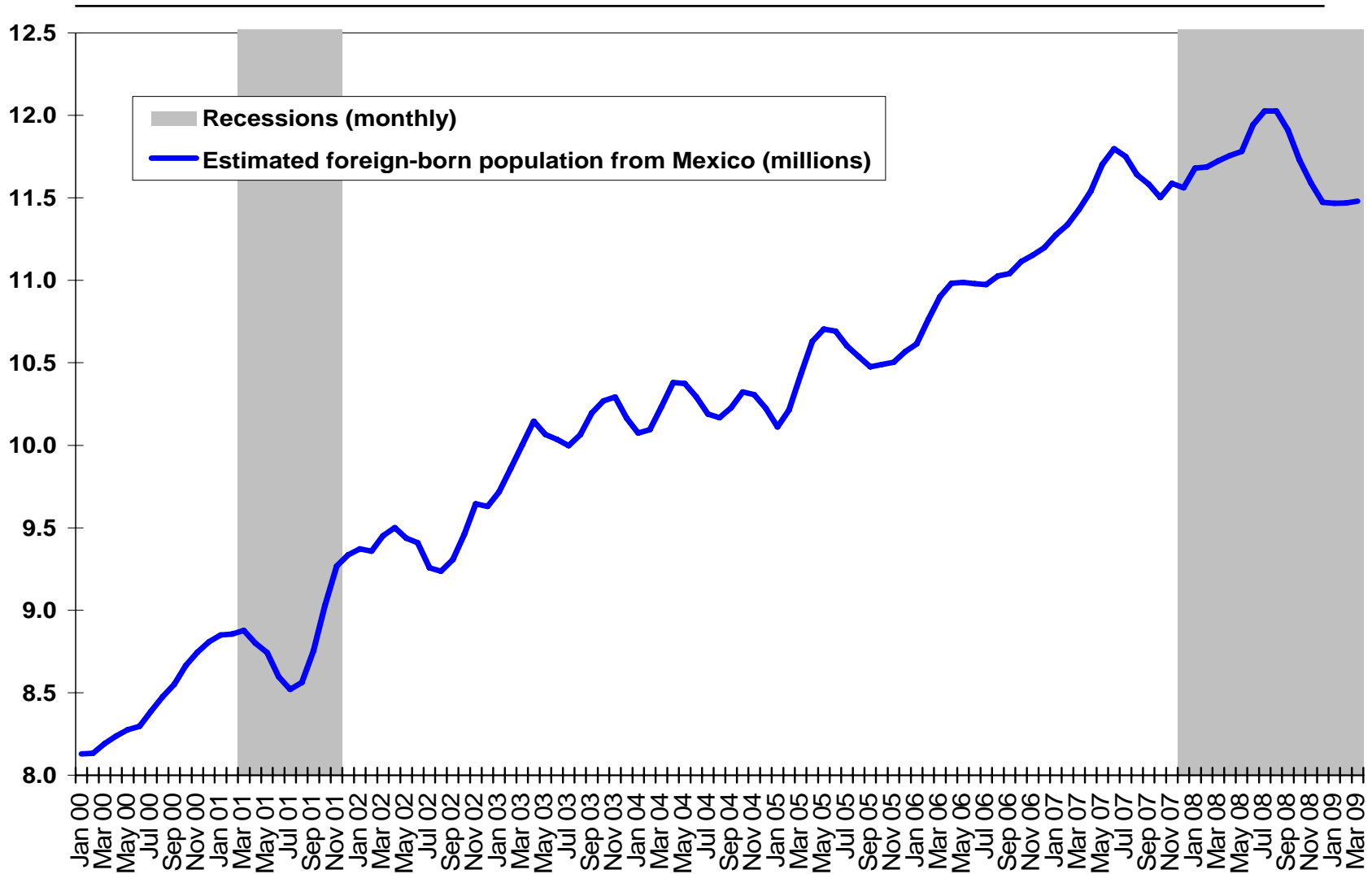
Kathleen Newland
Migration Policy Institute

USAID Microfinance After Hours Seminar
April 15, 2009
Washington, DC

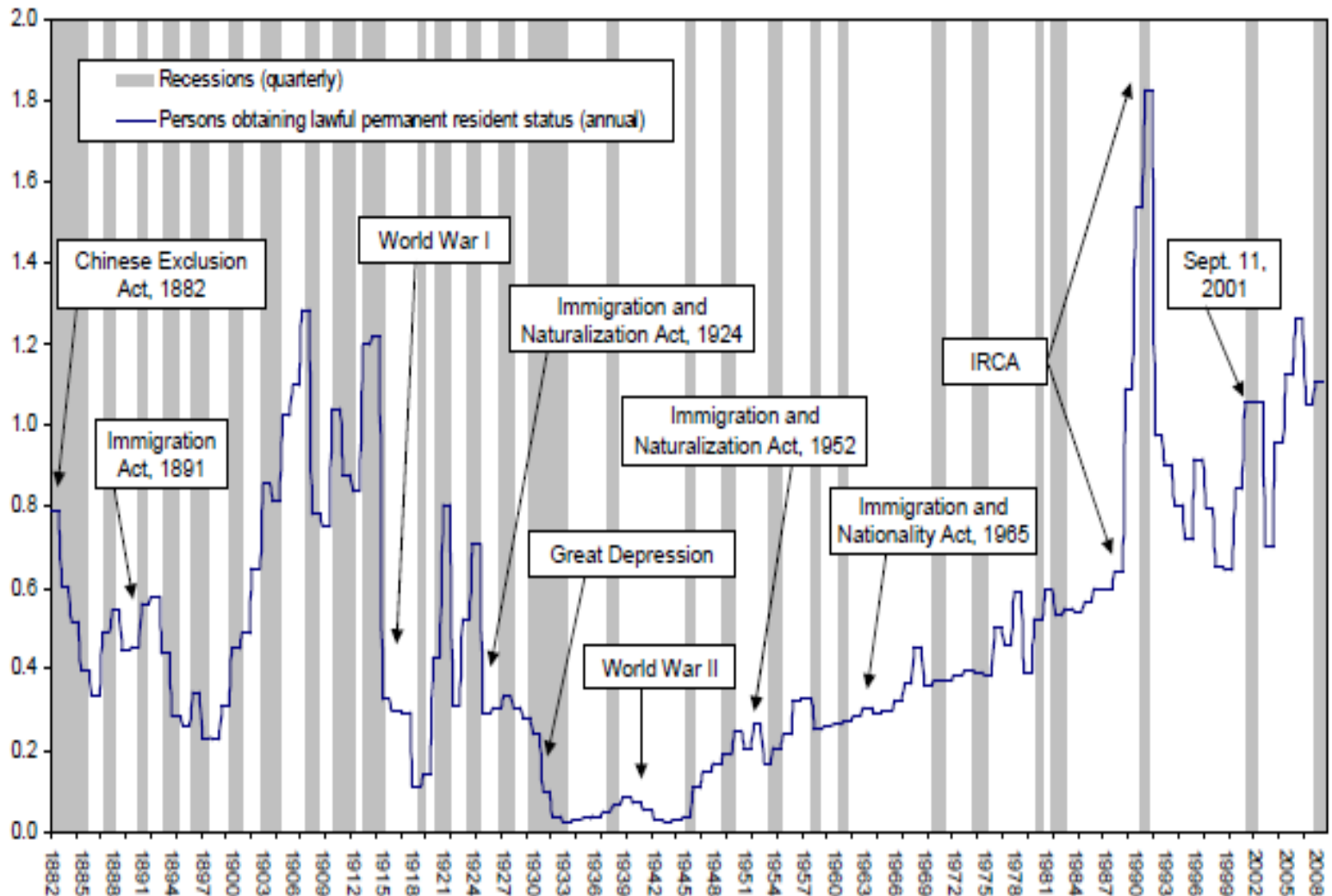
Growth in the foreign-born population slowed in 2007-2009



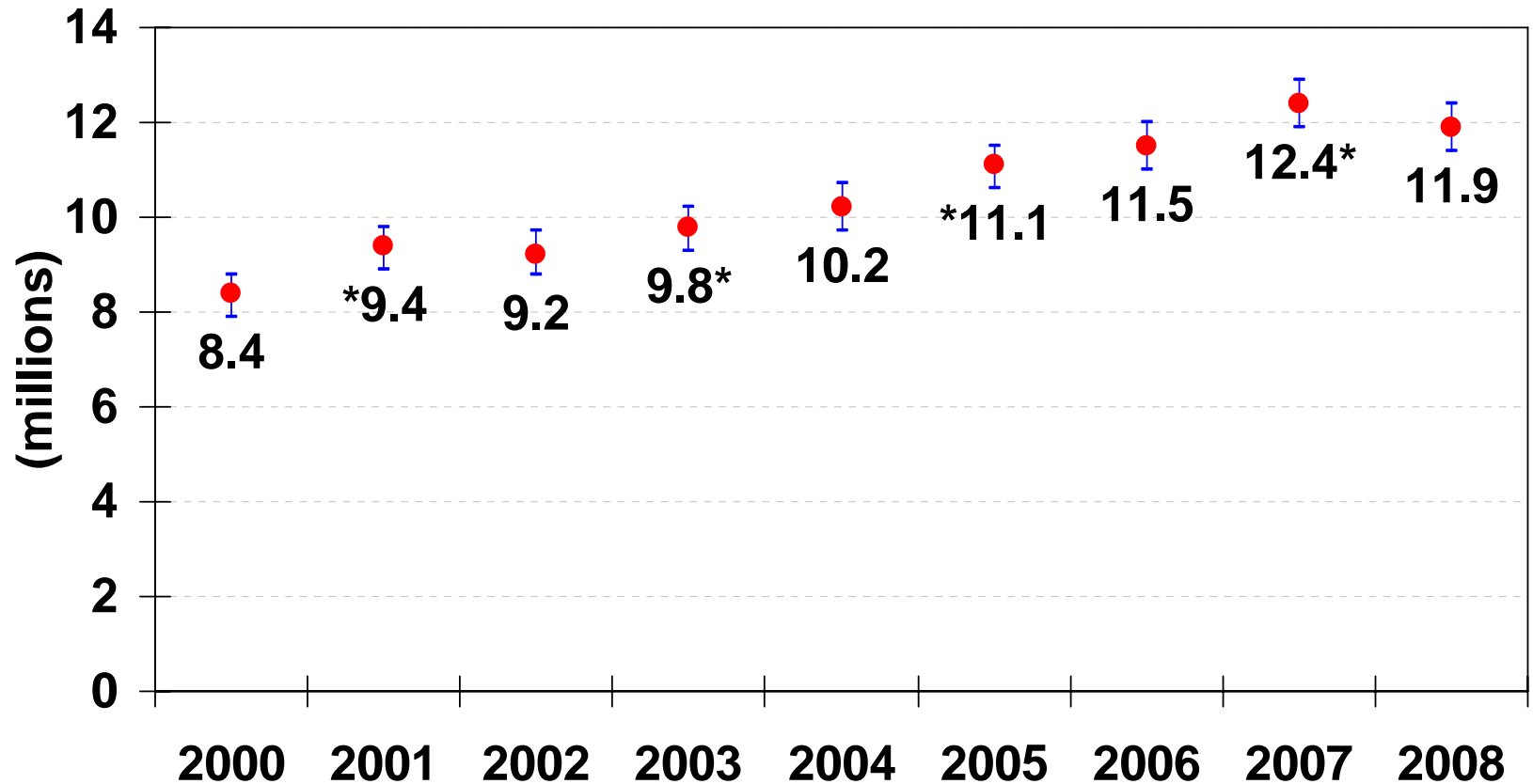
Growth in the foreign-born population from Mexico slowed especially sharply in 2007-2009



Historically, legal immigration flows do not seem to respond directly to the business cycle



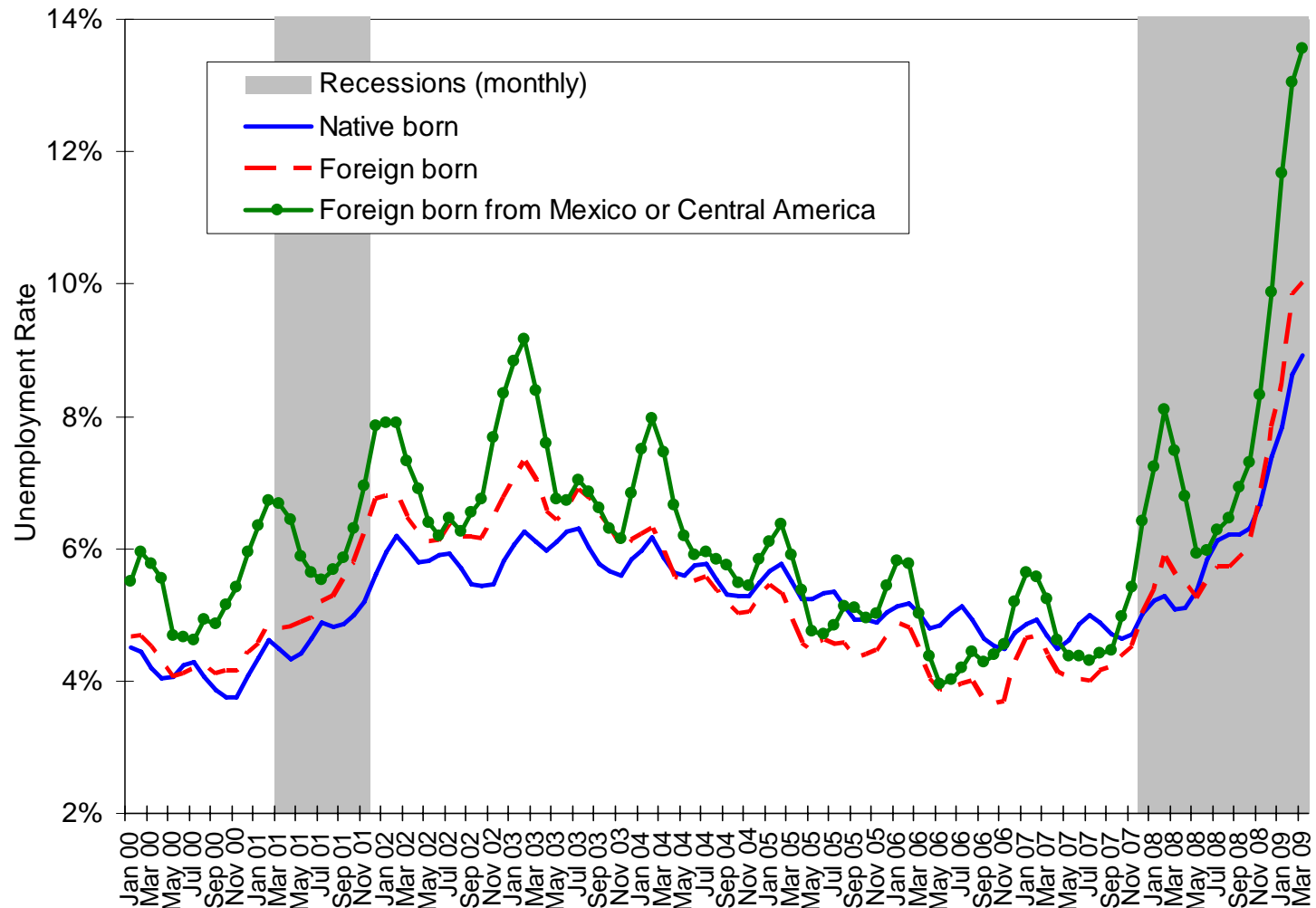
Unauthorized immigration to the US has slowed, but the data are still inconclusive



Notes: Estimates are based on residual methodology. Bars indicate low and high points of the estimated 90% confidence interval. The symbol * indicates that the change from the previous year is statistically significant.

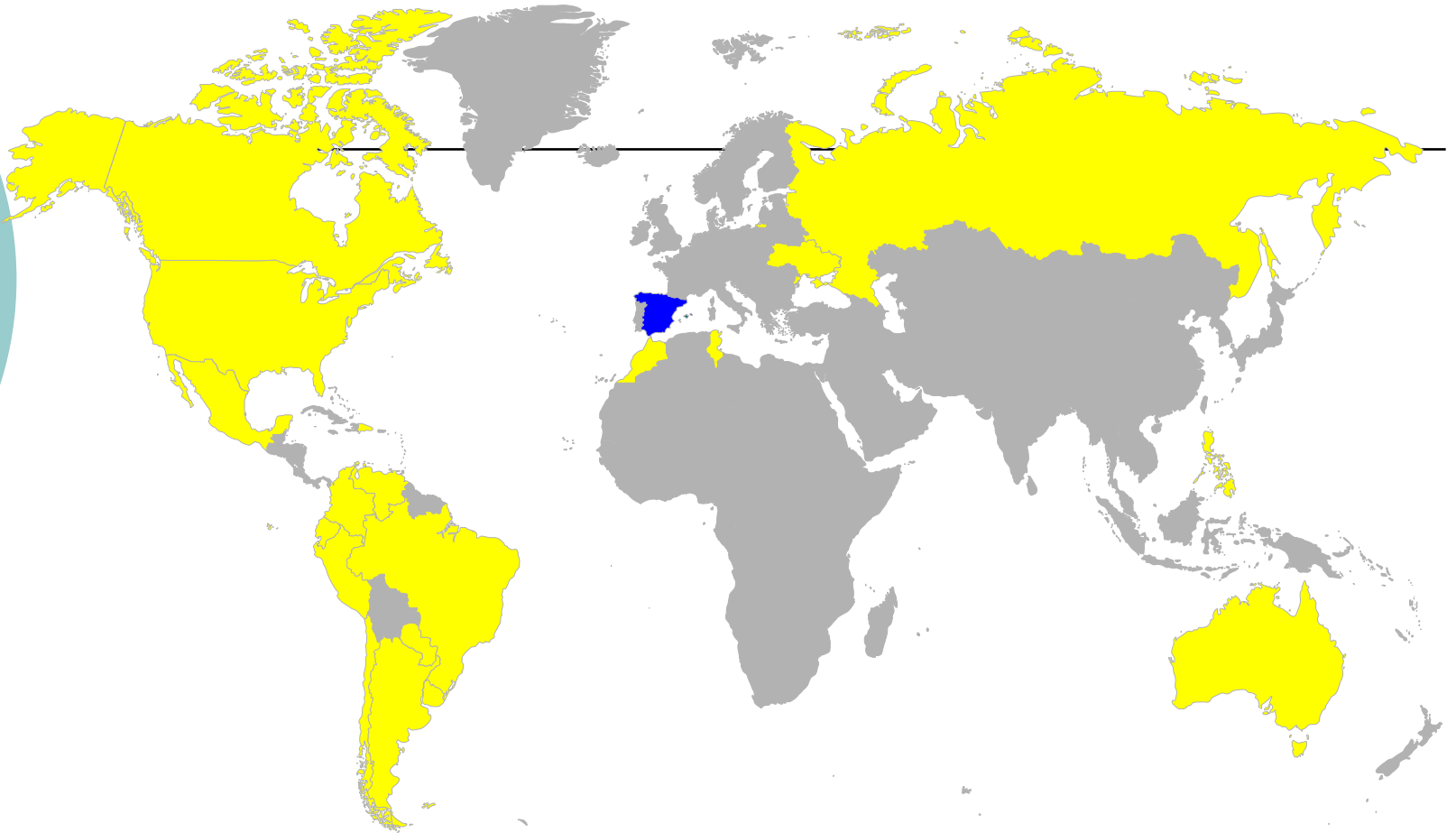
Source: Jeffrey Passel and D'Vera Cohn, Pew Hispanic Center. March 2008 Supplements to the Current Population Survey.

Unemployment among immigrants rises faster than native-born during a recession



Spain's Return Incentives


Nationals of countries in yellow are eligible to participate in Spain's incentivized return program.



Results of Spain's return program

The Spanish government estimated in summer 2008 that about 95,000 people were eligible to participate.

- 58 participated in 2006,
- 104 in 2007, and
- 74 in 2008



Immigrants' demographic and labor force characteristics make them more likely to lose jobs during recessions.

- Immigrants are on average younger than natives
- On average, immigrants are less educated than natives; especially immigrants from Mexico and Central America
- Immigrants are more likely to work in sectors of the economy prone to layoffs during recession: construction, manufacturing, leisure and hospitality
- More immigrants are recent entries to the labor market



The Bottom Line

- Trends in remittances depend heavily on trends in the levels of international migration
- The foreign-born population in the US has stabilized or even declined slightly during the current recession as a result of lower new inflows, especially of unauthorized
- Inflows of legal permanent residents is least responsive to recession
- Unusually large-scale return is unlikely absent a severe and prolonged recession
- Return migration correlates with economic and political conditions in the country of origin
- Return migration correlates with ease of circulation

Outlook for Remittances 2009-11: Resilience in the face of crisis

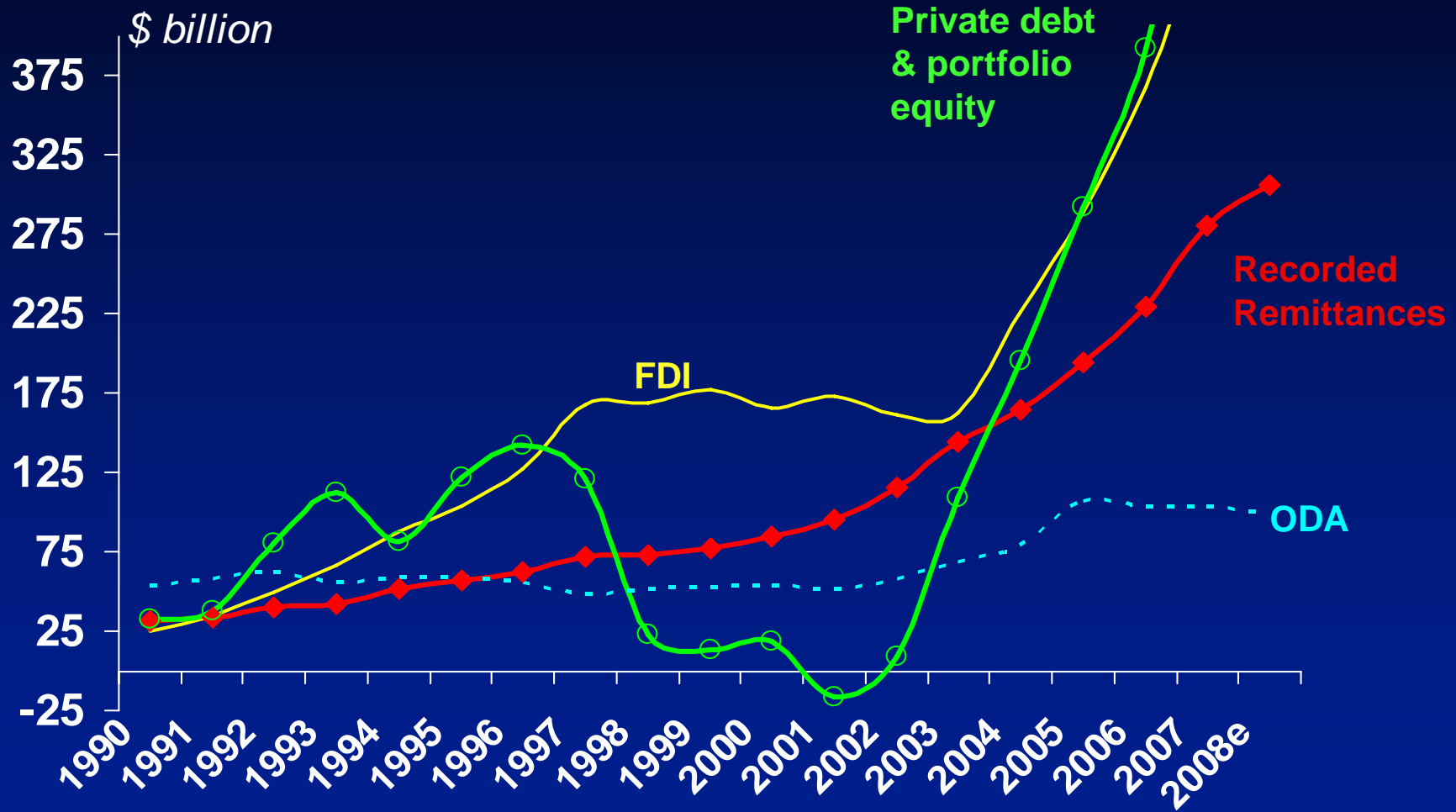
Dilip Ratha and Sanket Mohapatra
World Bank

USAID After Hours Seminar
Washington DC
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Outline

- Recent trends
- Outlook for 2009-11
- Policy options

Remittances exceeded \$300 billion in 2008

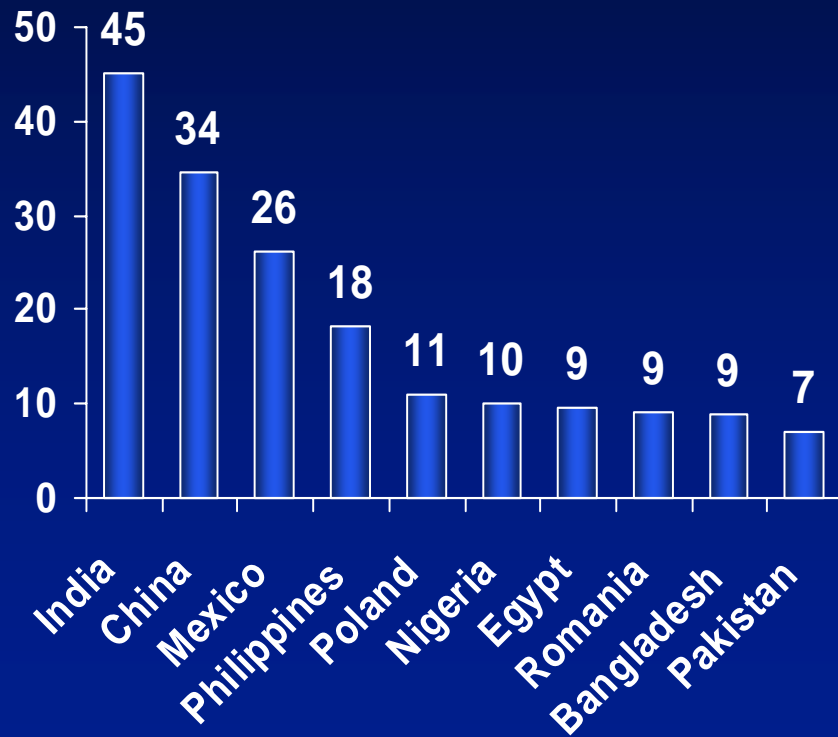


Remittance flows to developing countries

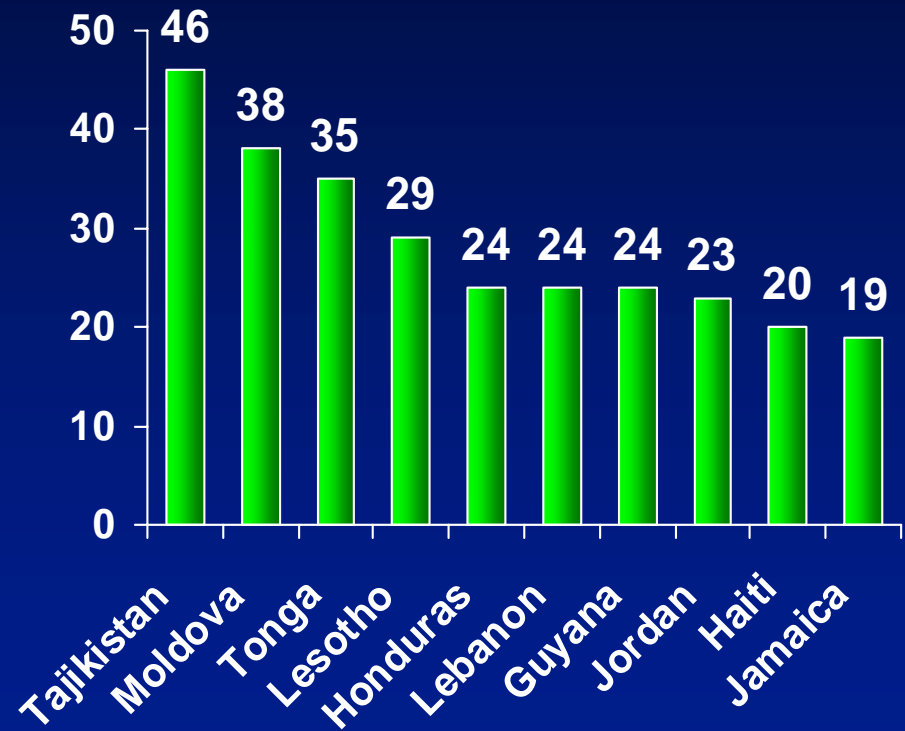
<i>US\$ billion</i>	2006	2007	2008e
Developing countries	229	281	305
East Asia and Pacific	53	65	70
Europe and Central Asia	38	50	53
Latin America and Caribbean	59	63	63
Middle-East and North Africa	26	31	34
South Asia	40	52	66
Sub-Saharan Africa	13	19	20
<u>Growth rate (%)</u>			
Developing countries	17%	23%*	9%
<i>East Asia and Pacific</i>	13%	23%	7%
<i>Europe and Central Asia</i>	23%	31%	5%
<i>Latin America and Caribbean</i>	18%	7%	0%
<i>Middle-East and North Africa</i>	6%	22%	8%
<i>South Asia</i>	20%	31%	27%
<i>Sub-Saharan Africa</i>	37%	44%*	6%

Top recipients of remittances

\$ billion, 2008e



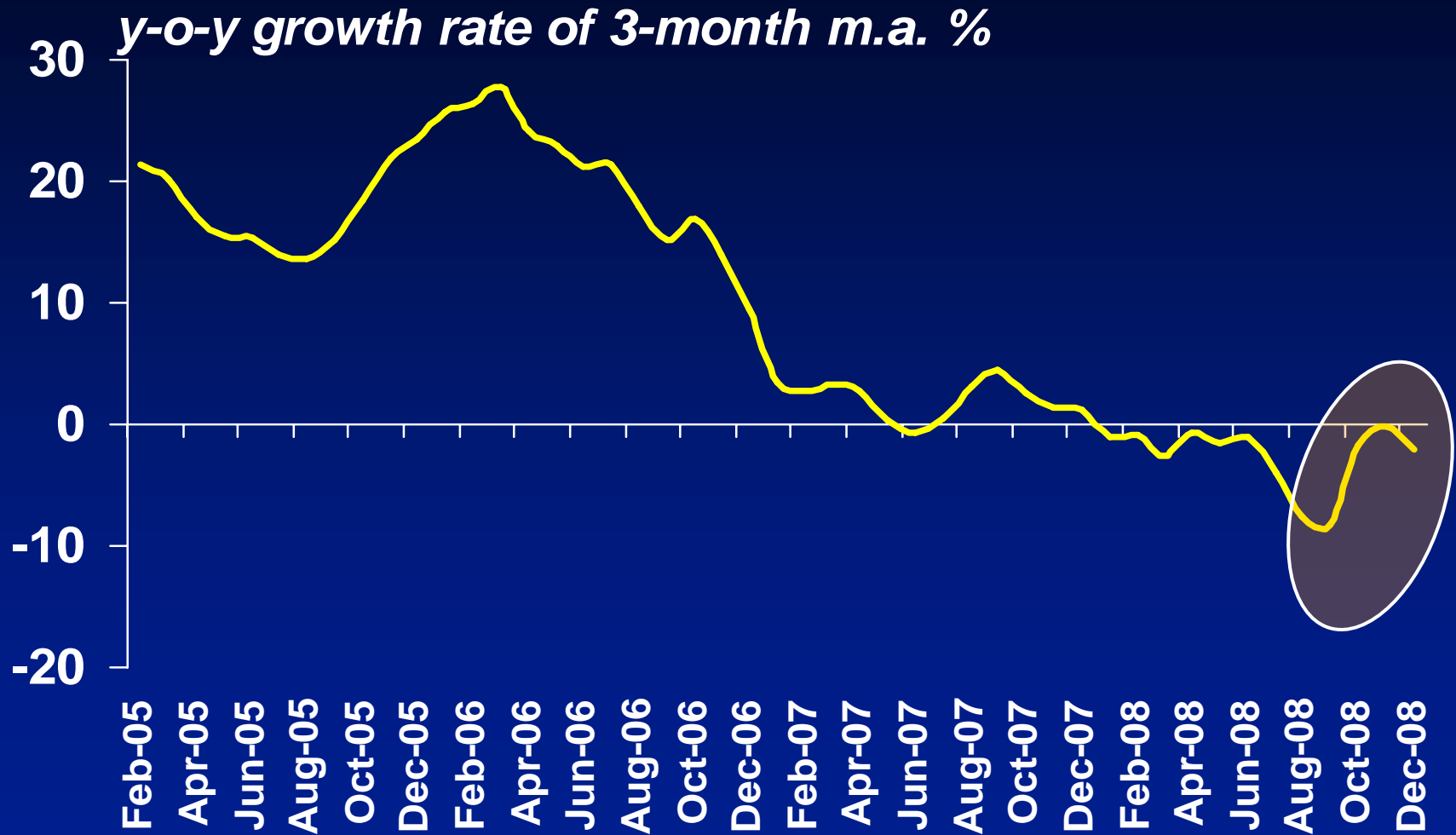
% of GDP, 2007



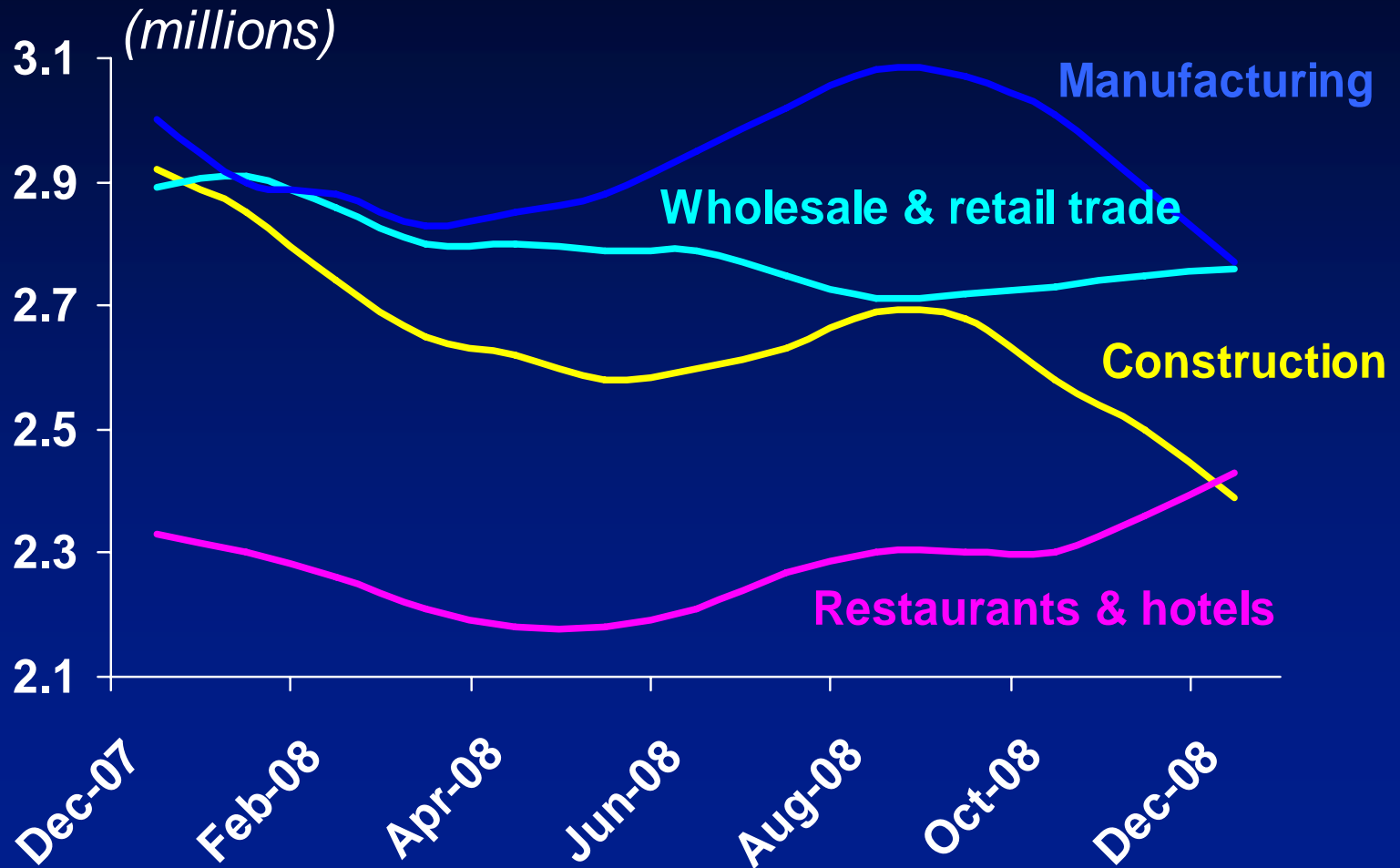
Near-term outlook

- The current crisis is unique, the environment extremely uncertain
- Slowdown in remittance flows in 2008 -- expected to deepen further in 2009
- Flow – not the stock – of migration to decrease

Remittance flows to Mexico have slowed



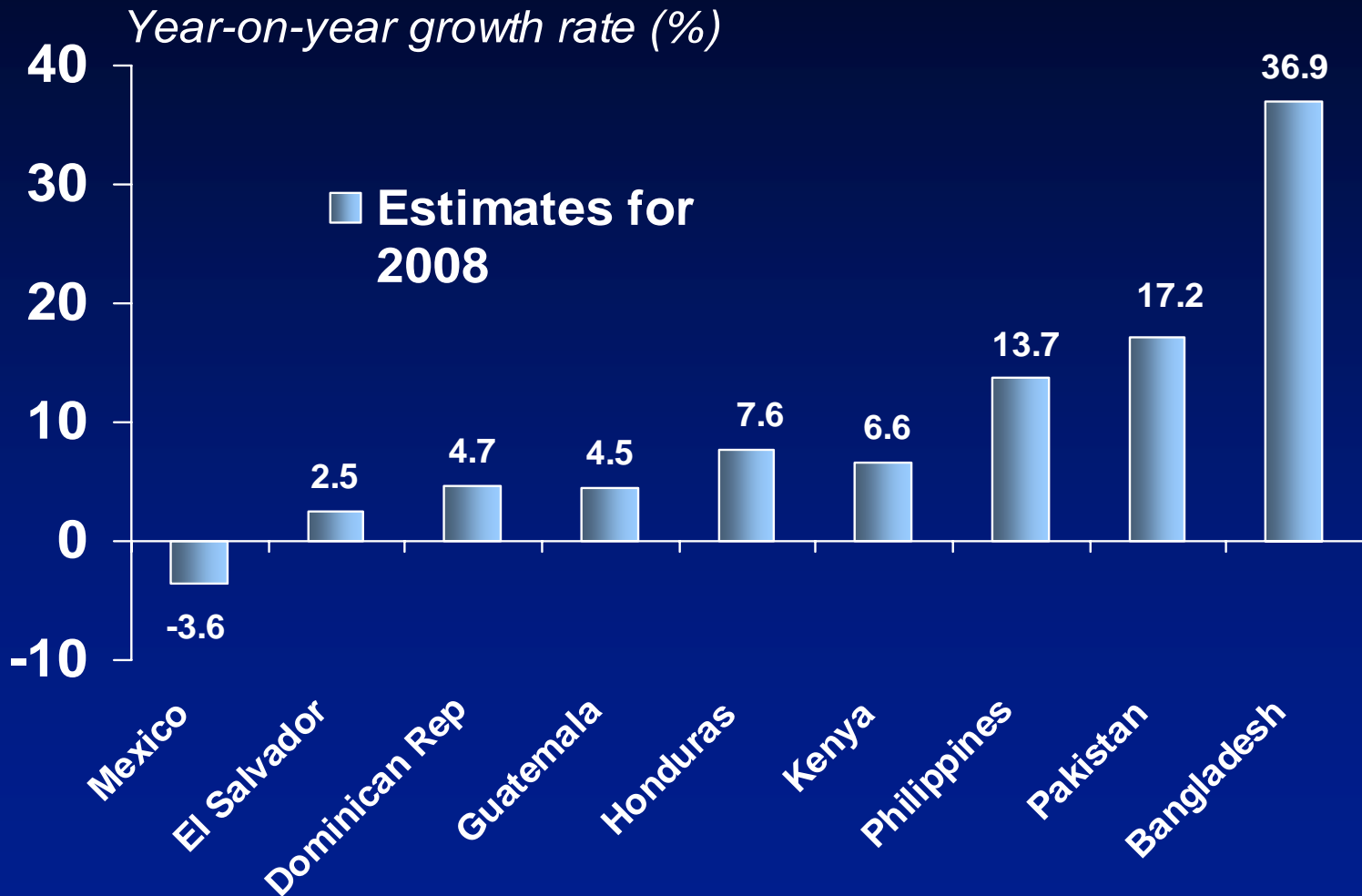
Sharp decline US migrant employment in construction and manufacturing; switch to wholesale and retail and restaurants



3-month moving average

Source: Current population survey.

Remittances have grown outside Latin America, but are expected to slow



Growth relative to same period last year. Jan-Dec for all countries, except Dominican Republic (Jan-Sep actual data and estimates for remaining months)

Outlook for 2009-2010

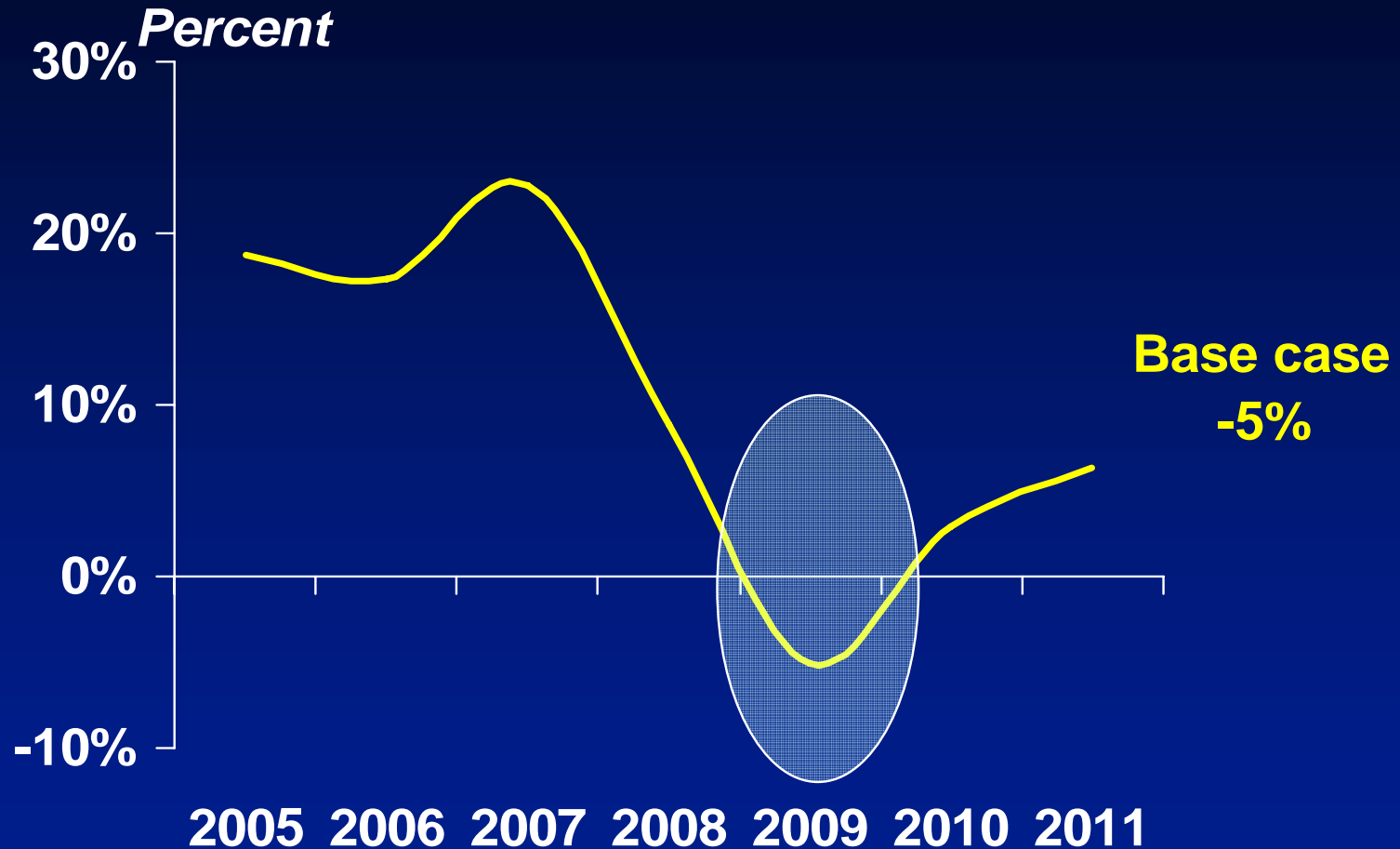
Medium-term outlook for remittance flows to developing countries

- Magnitude of the growth moderation or decline difficult to predict
- Remittances as a share of GDP are expected to fall, although not to the same extent as private flows or official aid.
- Migration flows from developing countries may slow as a result of the global growth slowdown, but the stock of international migrants is unlikely to decrease.

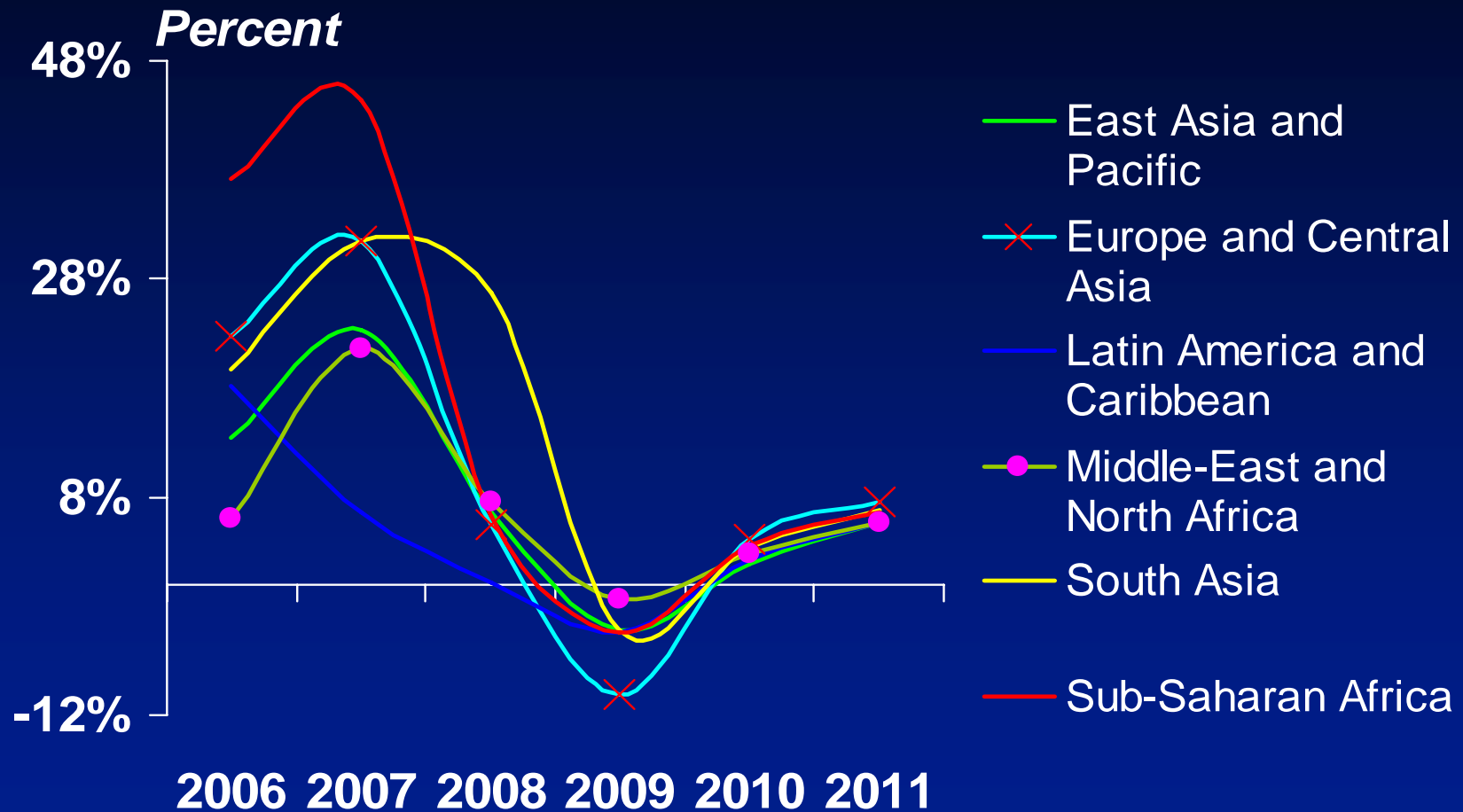
Remittances will be resilient w/ regards to downturns in host countries

- Remittances are sent by the stock (cumulated flows) of migrants
- Remittances are a small part of migrants' incomes that can be cushioned against income shocks by migrants
- Duration of migration may increase in response to tighter border controls
- “Safe haven” factor or “home-bias” -- returnees will take back accumulated savings
- Sectoral shifts – and fiscal stimulus packages – may help some migrants
- Documented migrants are likely to try to make up for a fall in remittances by undocumented migrants

Growth of remittance flows to developing countries will moderate significantly in 2009



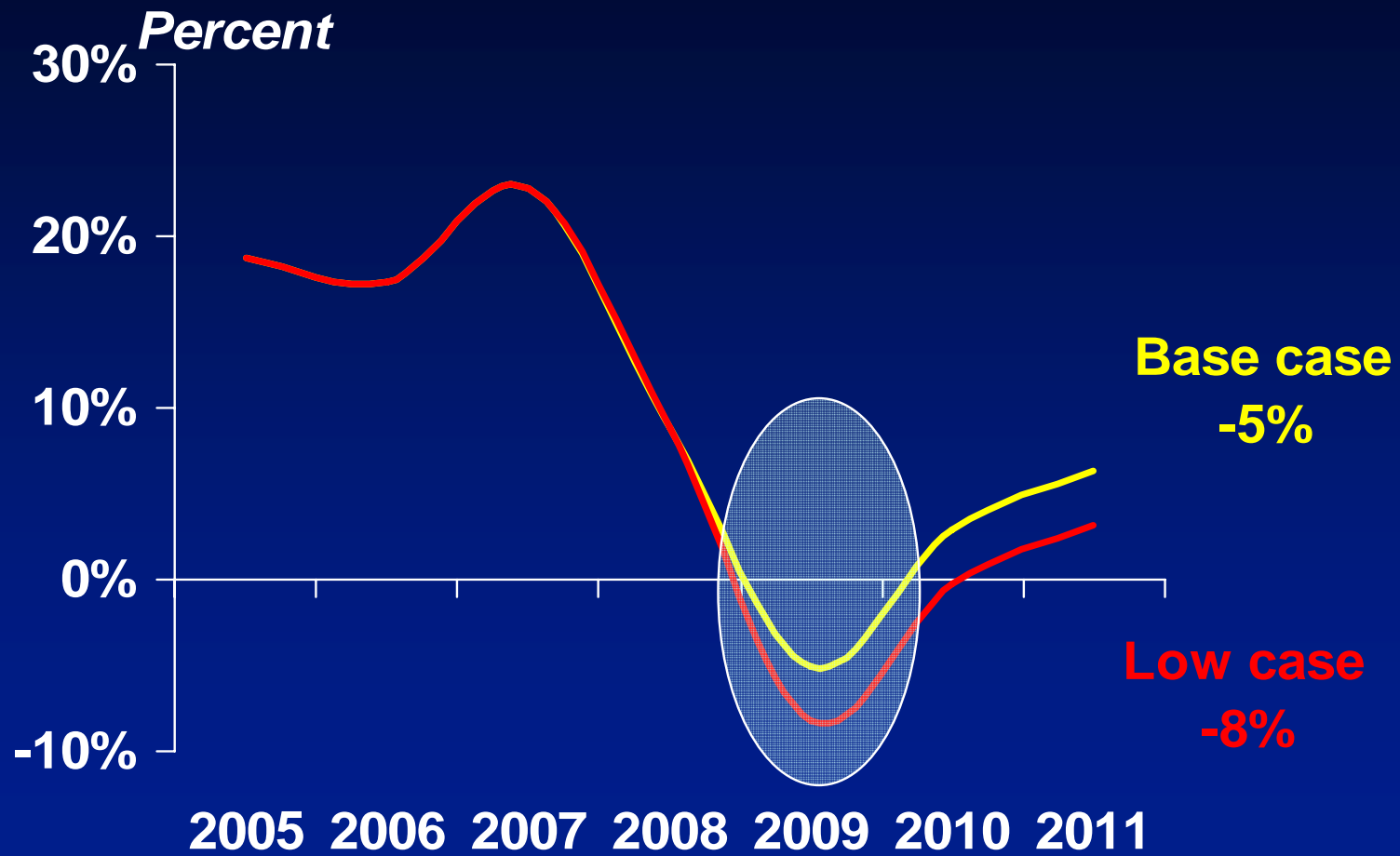
Growth of remittance flows to regions



Remittance flows to developing countries

	2008e	Base case 2009 forecast	Low case 2009 forecast
\$ billion			
Developing countries	305	290	280
East Asia and Pacific	70	67	64
Europe and Central Asia	53	48	46
Latin America and Caribbean	63	60	58
Middle-East and North Africa	34	33	32
South Asia	66	63	61
Sub-Saharan Africa	20	19	18
 <u>Growth rate (%)</u>			
Developing countries	8.8%	-5.0%	-8.2%
East Asia and Pacific	6.6%	-4.2%	-7.5%
Europe and Central Asia	5.4%	-10.1%	-12.7%
Latin America and Caribbean	0.2%	-4.4%	-7.7%
Middle-East and North Africa	7.6%	-1.4%	-5.2%
South Asia	26.7%	-4.2%	-7.3%
Sub-Saharan Africa	6.3%	-4.4%	-7.9%

Growth of remittance flows to developing countries will moderate significantly in 2009



Policy options

- Facilitate remittance flows
- Avoid protectionism in the labor market

1. Monitoring, analysis, projection

- Size, corridors, channels
- Counter-cyclical
- Effects on poverty, education, health, investment
- Policy (costs, competition, exchange controls)

3. Financial access

- Deposit and saving products
- Loan products (mortgages, consumer loans, microfinance)
- Credit history for MFI clients
- Insurance products

International Remittances Agenda

4. Capital market access

- Private banks and corporations (securitization)
- Governments (diaspora bonds)
- Sovereign credit rating

2. Retail payment systems

- Payment platforms/instruments
- Regulation (clearing and settlement, capital adequacy, exchange controls, disclosure, cross-border arbitration)
- Anti-money laundering/Countering financing of terrorism (AML/CFT)

Summary

- Remittances will moderate significantly, causing hardships to the poor and macroeconomic challenges to governments
- Slowdown in migration flows will exacerbate the need for more jobs at home
- This is a wrong time for tightening immigration

For more, please visit:

www.worldbank.org/prospects/migrationandremittances

<http://peoplemove.worldbank.org> (blog)

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DeVere Kutscher
Assistant Vice President

April 15, 2009





Microfinance International Corporation

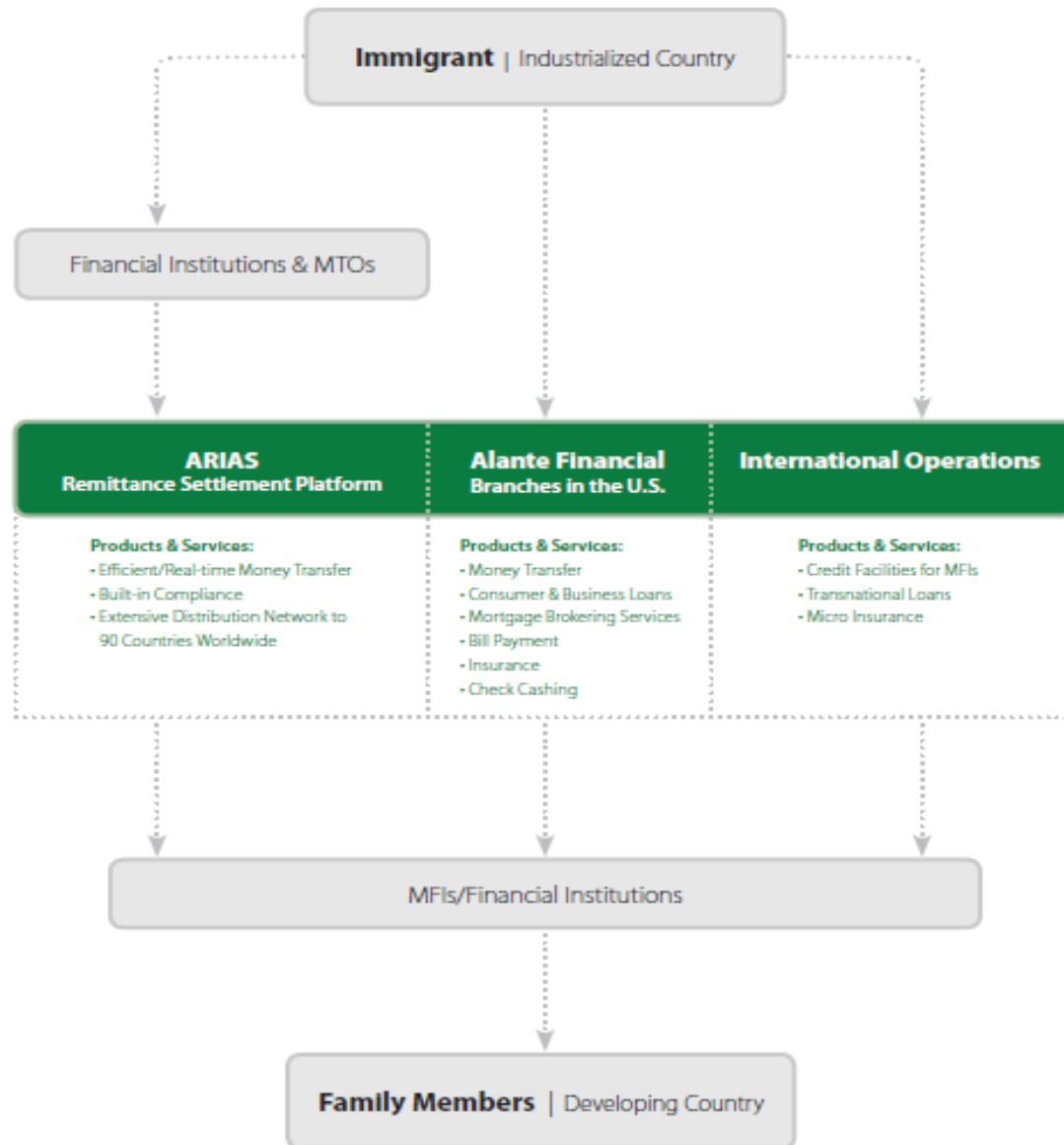
- MFIC was founded in June 2003 by Atsumasa Tochisako after his 27-year career at Bank of Tokyo-Mitsubishi
- **Mission:** expand professional and affordable financial services to immigrants and their families back home
- **Investors:** FMO of the Netherlands, Tokyo Marine and Fire Insurance, Development Bank of Japan, and over 100 individual investors
- Active partnerships with USAID, OPIC, IFAD and the Inter-American Development Bank





MFIC BUSINESS MODEL

Serving Transnational Families





Our Remittance Distribution Network



In USA:

- **9 Alante Financial retail branches in the Washington DC region and Delaware**

In Latin America:

- **Network of 23 Financial Institutions in 10 countries**

Global Expansion:

- **Partnership with UAE Exchange to expand remittance network to 90 countries worldwide**

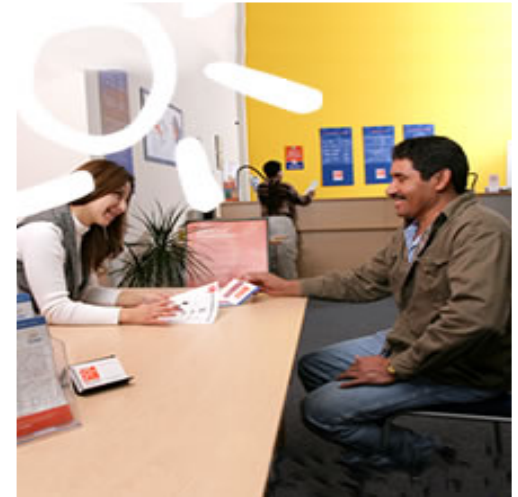




Alante Financial Growing Despite Downturn



- Year-on-year volumes for money transfers at our Alante Financial retail locations have grown by 5%
- Average \$ amount sent per transaction has decreased by approximately 10% from the same time period last year (before the start of the financial crisis)
- In-line with what we know and expect: Other expenses are cut before remittances are. Remittances may be decreased but are more rarely severed.





Moderate Declines in Check Cashing



- Moderate declines in check cashing as fewer construction jobs have been available.
- Partially due to seasonality (winter slowdown in construction is cyclical normal).
- Full impact will be seen when spring/ summer operations report results.





Are Migrants Returning Home?



- Focus has been heavily on Mexico; our client base is heavily Salvadoran and Bolivian.
- El Salvador has shown other trends: Higher remittance volumes and fewer immigrants returning: TPS & difficulty of return
- Many Bolivian immigrants are well-established and are wary of the political situation in their home country



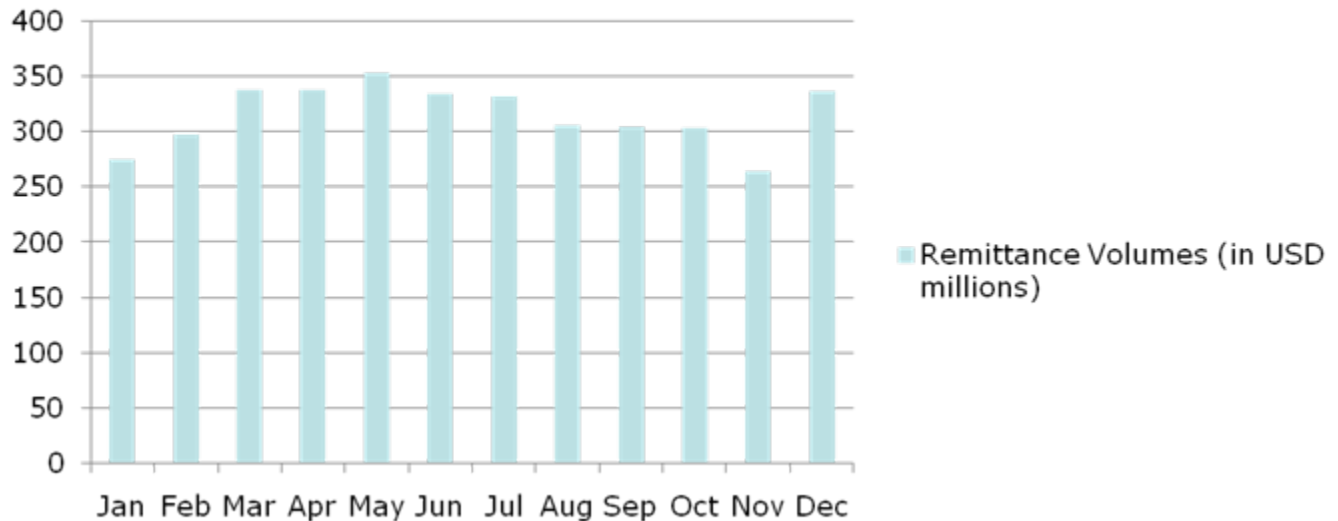


Country Example: El Salvador



- There are exceptions...
- **2007**: Remittances to El Salvador from the U.S. = \$ **3.69 billion**
- **2008**: Remittances to El Salvador from the U.S. exceeded **\$3.78 billion**

2008
Remittance Volumes (in USD millions)



Thank You!

DeVere Kutscher

dkutscher@mfi-corp.com

www.mfi-corp.com

www.ariasfs.com

www.alantefinancial.com



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Thank you!

A screencast of this presentation will be available shortly at www.microlinks.org/afterhours.

For more news and resources on the global financial crisis, visit www.microlinks.org/financialcrisis.