Олимпиада для студентов и выпускников – 2016 г.

Направление «Государственное и муниципальное управление»
Профиль:
«Население и развитие»/«Population and Development» **КОД - 162**

Время выполнения задания – 180 мин.
You have 180 min to complete this task.

Read the article and analyze it critically in English answering the questions below.

Remittances flowing into developing countries are attracting increasing attention because of their rising volume and their impact on recipient countries. In 2005, they totaled $188 billion—twice the amount of official assistance developing countries received. Moreover, there is evidence that such flows are underreported. Indeed, remittances through informal channels could add at least 50 percent to global recorded flows. Most of the reported flows go to regions other than sub-Saharan Africa (SSA), but SSA has still been part of the overall rising global trend. Between 2000 and 2005, remittances to the region increased by more than 55 percent, to nearly $7 billion, whereas they increased for developing countries as a group by 81 percent.

Studies relying on household data from different countries in SSA yield some insights into how remittances are used. At their core, remittances are private intrafamily or intracommunity income transfers that directly address the single most relevant challenge for SSA countries: poverty. Their long-term development potential is determined by what is left over after basic consumption needs are met. By contrast, study of the impact of remittances at the aggregate level is confined mostly to Latin America and South Asia, where remittance volumes swamp those going to SSA. This article adds some insights about the role of remittances in SSA and offers suggestions for their more effective use.

A snapshot of remittances

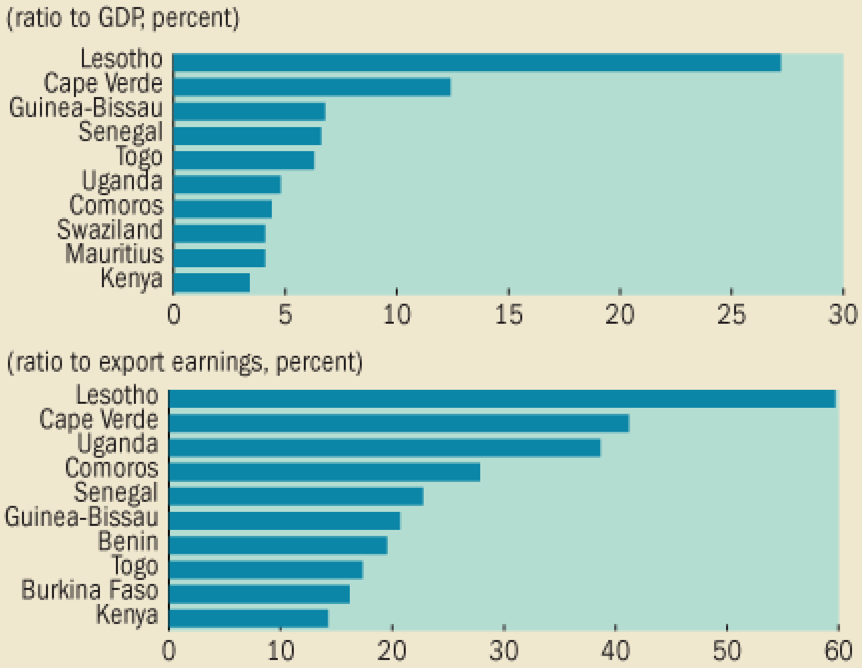
Africa receives just 4 percent of total remittances—by far the smallest share—to developing countries and just 33 percent of those to India, the top recipient. In contrast, countries in Latin America and the Caribbean receive about 25 percent of all remittances, as do countries in the East Asia and Pacific region. Since the 1980s, these flows to countries in Latin America and the Caribbean, and East Asia and the Pacific have grown more rapidly than the average for developing countries. In 2005, the top three recipients—China, India, and Mexico—accounted for more than one-third of the remittances to developing countries. Among the top 25 recipients, only one (Nigeria) was in Africa, but three South Asian countries were on the list (Bangladesh, India, and Pakistan).

Relative to GDP, too, the volume of remittances to SSA is smaller than to other developing countries: about 2.5 percent of GDP on average between 2000 and 2005 compared with almost 5 percent for other developing countries. But Lesotho, Cape Verde, Guinea-Bissau, and Senegal are striking exceptions (see Chart 1), and, in some countries, remittances are an important source of foreign exchange.

Chart 1

Top African destinations

Lesotho and Cape Verde receive the largest remittance flows relative to their size.

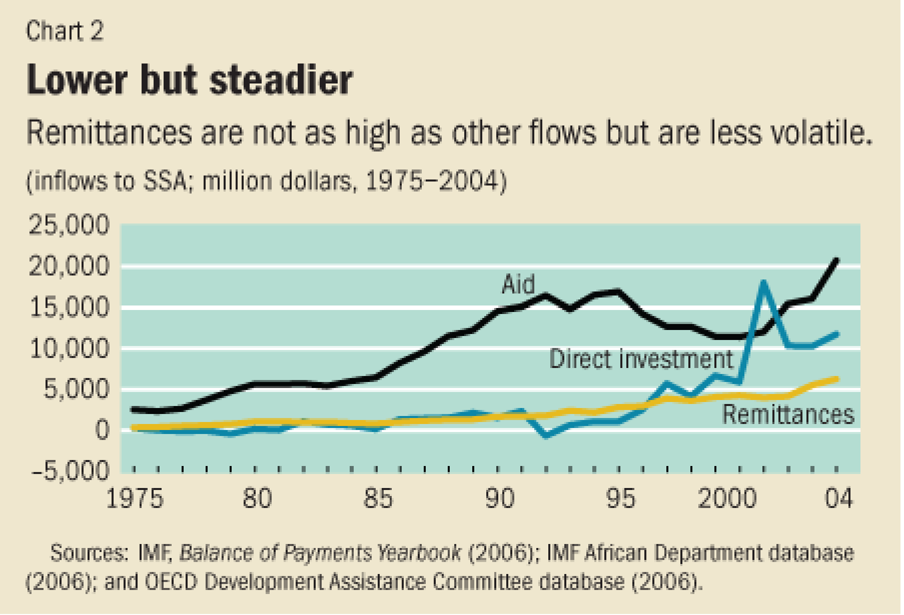


Sources: IMF, *Balance of Payments Yearbook* (2006); IMF, World Economic Outlook database (2006); and World Bank staff estimates.

Note: Rankings are based on average remittance inflows for 2000–05.

Remittances sent to SSA through informal channels, at 45–65 percent of formal flows, are significantly higher than in other regions. In addition, the balance of payments very likely underreports intraregional remittances. Intraregional migration is common in SSA; for example, Botswana and South Africa attract migrant workers from neighboring countries, and strong sociocultural ties in West Africa encourage labor mobility in that subregion.

How do remittances stack up against other flows to SSA? Both official development assistance (ODA) and foreign direct investment (FDI) are considerably higher than remittance receipts but are also more volatile (see Chart 2). The stability of remittances suggests that, through the securitization of future flows, they can potentially ease access to, and lower borrowing costs for, international capital. Some studies have concluded that because remittances are widely dispersed, their Dutch disease effects are relatively contained. However, as with any form of external flows, remittances do carry the risk of real exchange rate appreciation and could hurt export competitiveness in the recipient country—something policymakers must be prepared for.



Remittances, especially those from skilled migrant workers, have been associated with brain drain, a cause for concern in the region. Some analysts attribute the crisis in SSA's health sector to the emigration of skilled health care professionals, who increasingly find employment in the high-demand countries of the Organization for Economic Cooperation and Development (OECD). By one estimate, almost one-fourth of the new overseas-trained physicians that registered with the U.K. National Health Service between 2002 and 2003 came from SSA. About 80 percent of nurses from Liberia and an equal number of doctors from Mozambique are working in industrial countries. High job vacancy or attrition rates in the public health systems of countries like Ghana, Zambia, and Zimbabwe are all attributed to migration. On average, 20 percent of SSA's population over the age of 15 with a postsecondary education works in OECD countries compared with less than 10 percent in South Asia. For some countries, expatriation rates exceed 50 percent of the educated population.

Some analysts, however, contend that the possibility of higher wages abroad has, in fact, increased the region's supply of health care professionals, even after accounting for emigration. Although the explicit costs of the migration of skilled workers are still being debated, they provide a useful context in which to evaluate the benefits of remittances.

Impact of remittances

How are remittances affecting Africa as a whole? We begin by looking at their ***impact on poverty***. Remittances augment recipient households' resources, smooth consumption, provide working capital, and have multiplier effects through increased household spending. Evidence from Ghana indicates that remittances are countercyclical and, over time, help smooth household consumption and welfare, especially for food crop farmers, who are typically the most disadvantaged socioeconomic group. For the most part, remittances are used to finance consumption or invest in education, health care, and nutrition. Studies from a cross-section of developing countries tend to confirm the findings of these localized surveys.

The relationship between remittances and poverty is not unidirectional. Poverty and the accompanying lack of economic opportunities play a role in motivating emigration and incoming remittances. Villages in Senegal sometimes pool resources to pay for the migration expenses of their most skilled young men. Remittances are the return on this joint investment. Poorer households with migrant worker members are also more likely to get a steady income supplement from abroad—another reason that higher poverty might mean more remittances.

Our empirical analysis—using data from 233 poverty surveys in 76 developing countries, including 24 in SSA—confirms the poverty-reducing effect of remittances: a 10 percent rise in the remittances-to-GDP ratio is associated with a fall of a little more than 1 percent in the percentage of people living on less than $1 a day and the poverty gap (which measures how far below the poverty line the average poor person's income is). Further, we find that even taking into account the impact of poverty on remittances, in a model in which both poverty and remittances are simultaneously and endogenously determined, the poverty-reducing effect of remittances remains. However, the average remittance-inducing effect is slightly greater.

How about the impact of ***remittances on long-term growth potential***? The direct impact depends on how households use the remittances, how migration affects the domestic labor supply and output, how recipient households respond to this steady transfer, and whether remittances promote financial deepening. Studies that focus on the labor supply response of recipient households find that remittances lower growth. But studies that link remittances to the investment channel, whereby remittances either substitute for or improve financial access, tend to conclude that remittances stimulate growth.

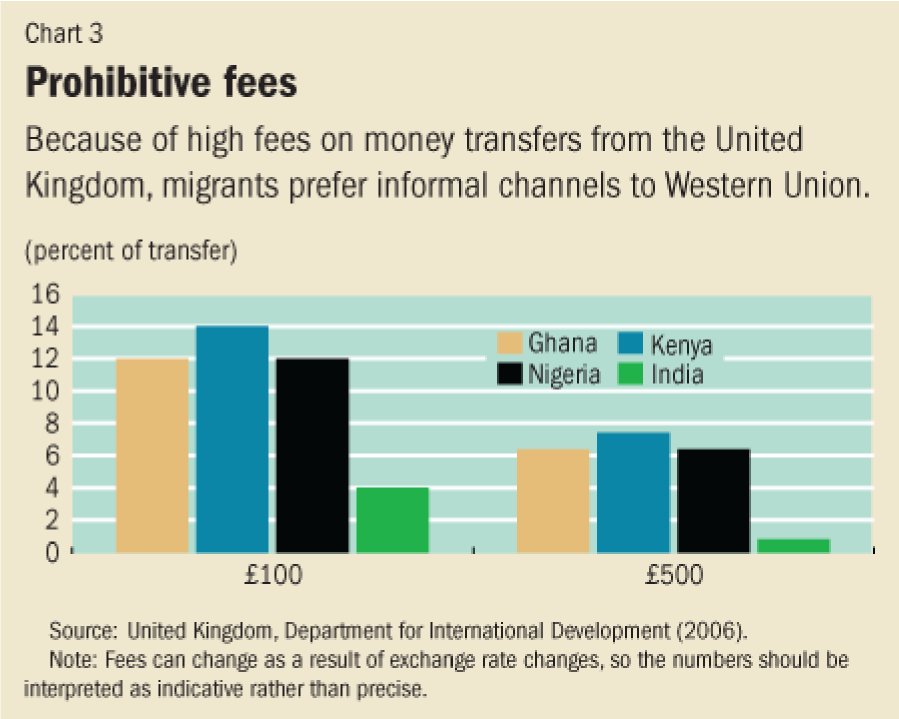
We looked at an indirect consequence of cross-border money transfers: ***their impact on financial development***. Because migrant transfers entail cross-border flows of relatively modest sums of money, they enable low-income households to access formal financial services, starting, most likely, with savings products. But the growing interest of microfinance institutions in this segment of the market raises the possibility of remittances serving as collateral for small business start-up capital for individuals previously excluded from the formal sector. For SSA in particular, a lack of access to formal financial services impedes financial deepening.

We investigated the impact of remittances on financial development in 44 African countries over six time periods, composed of five-year averages from 1975 to 2004. Our findings confirm that remittances promote financial deepening in the region, after controlling for macroeconomic and institutional variables that are commonly used to explain financial development in low-income countries. These results hold even after accounting for the possibility that reported remittances are likely to be higher in better-developed financial markets. Although SSA receives only a small portion of the remittances going to developing countries, their estimated effect on financial development in our study compares favorably with other studies that use a larger sample of developing countries.

Making formal money transfers affordable

Although remittances can facilitate the entry of households into formal financial markets, only a fraction of them find their way into the formal system. The high fees formal providers charge deter poor migrants, who want to send small sums of money home. Even if a migrant has access to banks, the recipient may not. As a result, many migrants rely more on import-export operators, retail shops, and currency dealers, which do not keep records of their transactions. Informal money transfer systems modeled on the hawala system in the Middle East dominate the remittance market in several African countries. Informal providers offer such client-friendly features as anonymity, minimal paperwork, and speed. But the lack of supervision of these markets makes it a risky proposition for the recipients of small remittances to continue to rely on these channels.

The cost of formally transferring funds to SSA, especially small sums, is high. A survey of U.K. money transfer operators (MTOs) found that the fee on money transfers was lower between the United Kingdom and India, where volume is high, than between the United Kingdom and Africa (see Chart 3). The market in money transfers between SSA countries is especially underserved by formal institutions, and the prohibitive fees they charge severely depress their use. A study in South Africa found that the comparative cost of an international transfer of 250 rand was the lowest when it went through a friend or a taxi driver and the highest when it went through a bank. Although cross-border post office transfers are competitively priced, they are slower and less secure.



The underdeveloped financial infrastructure is another deterrent. The absence in South Africa of a major MTO like Western Union further limits competition among the players in the formal market and increases the likelihood that migrant workers will use informal channels to send money home. Since September 11, 2001, scrutiny of international money transfers has increased, and many banks are imposing more identification requirements on both individuals and small MTOs. In South Africa, only authorized dealers, who must have a banking license and have invested in an expensive exchange control reporting system, can remit funds. By further increasing the effective cost, the rules discourage remittances through formal channels. Although these costs are unavoidable for preventing money laundering and terrorist financing, there is some leeway in the extent to which they are passed on to clients.

Moreover, given excess liquidity in most SSA banks, there is little interest in the small remittances market. Most analysts see significant, untapped opportunities for banks to reduce the transaction costs on remittances, especially small remittances sent by poor migrants. Financial sector reforms that address any or all of the structural problems in the recipient and sending countries are also likely to lower the cost of remittances. In Uganda, measures permitting residents to open foreign currency accounts led to a dramatic surge in private transfers in the early 1990s. Cross-border uniformity in the regulations related to remittances and regulatory interventions where fees are prohibitive have been proposed as other cost-reducing measures.

The growing demand for remittance services in well-developed financial markets like the United States has captured the attention of major commercial banks, such as Citizens Bank and Wells Fargo. These banks see remittance services as a way to draw the attention of a significant unbanked population to their more mainstream financial products. In an arrangement with two banks in Cape Verde, Citizens Bank offers Cape Verdean migrants a remittance facility that is less expensive than Western Union. In three years of operation, this program has made more than 1,000 formerly unbanked migrants customers of Citizens Bank. However, most such programs require that the migrant open a bank account and are thus unlikely to appeal to undocumented workers.

Among formal providers, it is the smaller banks and microfinance institutions that have gauged the untapped potential of this market. Microfinance institutions are well suited to meet the needs of the typical remittance-receiving household. At the same time, these institutions view remittances as a timely capital infusion to overcome the operational problems that currently plague the sector. In countries with a long history of migration, some small banks have adapted to the needs of the migrant community. For instance, Theba Bank, a miners' bank, offers low-cost transfers from South Africa to families that have bank accounts in Mozambique and Swaziland. The International Remittance Network—about 200 credit unions that offer low-cost remittance services in 40 countries in Asia, Africa, Europe, and Latin America—does not require that the recipient family have an account.

New technologies are also lowering the cost of transferring funds. Recent strides in cell phone encryption technology have facilitated fast, low-cost money transfers between OECD countries and recipient countries as diverse as the Philippines and Zambia, allowing customers to avoid the higher fees and longer waiting periods associated with MTOs and banks. Recently, telephone operators with networks in more than 100 countries announced that they would allow clients to send money home simply as text messages. If households at the receiving end do not have a bank account, the remitted sum can be converted to a pre-paid debit card that can be used directly to make purchases. Financial institutions can make these technological innovations work to their advantage most effectively in areas in which retail banking networks are weakest. Recently, South Africa's First Rand Bank bought Celpay, a cell phone banking service provider operating in Zambia and the Democratic Republic of the Congo.

Getting more out of remittances

Bringing recipient households into the formal financial sector is only the first step in using remittances more effectively. Country surveys indicate that, although households typically spend a large proportion of their remittances, their propensity to save can be as high as 40 percent. For policymakers, the challenge is to channel these savings into productive uses.

Most studies indicate that a large proportion of remittances is used for human capital development, whose long-term benefits are apparent, or consumption. The construction of large houses for migrant workers in West Africa has spurred local economic activity through multiplier effects. In Mexico, the Sociedad Hipotecaria Federal, a government financial institution, provides long-term financing and partial mortgage insurance to Mexican mortgage providers that extend peso-denominated loans to emigrants for housing construction in Mexico. The scheme simultaneously encourages remittances and their productive use. Because of Africa's inadequate financial infrastructure, similar schemes can be more challenging to launch there, but they can spur a sustained housing boom with positive spillovers on the real and financial sectors of the economy.

SSA banks can promote investment from remittances by bundling financial services like savings products and entrepreneurial loans for households that receive remittances. The market is currently dominated by specialized MTOs like Western Union that are less likely to offer their clients ancillary financial products. Banks could also consider using the flow of remittances as collateral for small business loans.

The bottom line is that remittances cannot be a substitute for a sustained, domestically engineered development effort. Moreover, large-scale migration may hurt domestic labor markets in specific sectors, particularly when those leaving are mostly skilled workers. High and rising remittance flows also require policymakers to remain alert to possible Dutch disease effects on the real exchange rate. Nevertheless, migrant transfers can help ease the immediate budget constraints of recipient households. For developing countries as a whole, they are a larger transfer of resources than all development assistance and have a more direct impact on poverty.

And the vast, untapped market in money transfers is an opportunity for small savers to gain a foothold in the formal financial sector.

SOURSE:

Sanjeev Gupta, Catherine Pattillo, and Smita Wagh (2007) Making Remittances Work for Africa // Finance and Development. A quarterly magazine of the IMF, 44 (2)

QUESTIONS:

1. How can you characterize the position of sub-Sahara African (SSA) countries in the world from the remittances point of view? Do you think the current position of the SSA countries differ from the situation in early and middle 2000s?

2. How important are remittances for social and economic development for the third-world countries in the long-term and short-term period?

3. What connections between remittances and brain drain were found in the article?

4. What were the reasons for the high fees on money transfers to the SSA countres?

5. What are the solutions of the high fee problems? Can you suggest any additional solutions to those mentioned in the text?

6. The author mentioned the certain problems with the remittance in SSA countries (the article was published in 2007). What do you think about current situation?

7. Does the current situation with remittances differ from the situation described in the article? What are the main directions of changes (if any)? What was the impact of the world crisis to the remittances?

8. How can you describe the place of Russia in the world remittances system?