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Global Economic Prospects

Economic Implications of Remittances and Migration

2006

International migration creates opportunities for developing countries but also poses challenges. Migration can make migrants and their families better off, while the remittances migrants send home boost developing countries' foreign exchange earnings and help alleviate poverty. But in many cases, the size of flows and their role in poverty reduction is limited—especially for poor migrants—by high transaction costs, restricted access to financial services, and inappropriate regulations or policies. *Global Economic Prospects 2006* analyzes the impact of remittances and migration on migrant households and migrant-sending countries, and considers policies to increase the development impact of remittances.

—François Bourguignon
Senior Vice President and Chief Economist

Global Economic Prospects 2006: Economic Implications of Remittances and Migration explores the gains and losses from international migration and policies to improve the developmental impact of migration, with particular attention to remittances.

Recorded remittances sent home to developing countries by international migrants are expected to reach $167 billion in 2005. Unrecorded remittances through formal and informal channels are estimated to be at least half as large as recorded flows, making remittances the largest source of external financing in developing countries. Remittances substantially reduce the incidence of poverty and help support household consumption in response to adverse events.

International migration generates significant economic gains for migrants, their countries of origin, and their countries of destination. The benefits to the countries of origin are especially large in the case of migration of low-skilled workers. The most feasible means of increasing such migration would be to promote joint origin-destination country programs that combine temporary migration of low-skilled workers with incentives for return.

The price of remittance transactions is often unnecessarily high for the small transfers typically made by poor migrants. Governments could lower fees and expand remittances by improving the access of poor migrants and their families to formal financial services, and by promoting competition in the remittance transfer market (for example, by lowering capital requirements on remittance services, improving transparency, and opening up retail financial networks to nonexclusive partnerships with remittance agencies). Increasing migration of low-skilled workers and reducing remittance fees could significantly help alleviate poverty.

Chapter 1 of this study reviews recent developments in and prospects for the global economy, and their implications for developing countries. Chapters 2 and 3 evaluate the costs and benefits of migration, through model-based simulations and a review of the economic literature. Subsequent chapters address remittances, including their size and macroeconomic impact (chapter 4), their impact on households (chapter 5), and policy measures to lower the cost of remittance transactions for poor migrants (chapter 6).

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ISBN 0-8213-6344-1