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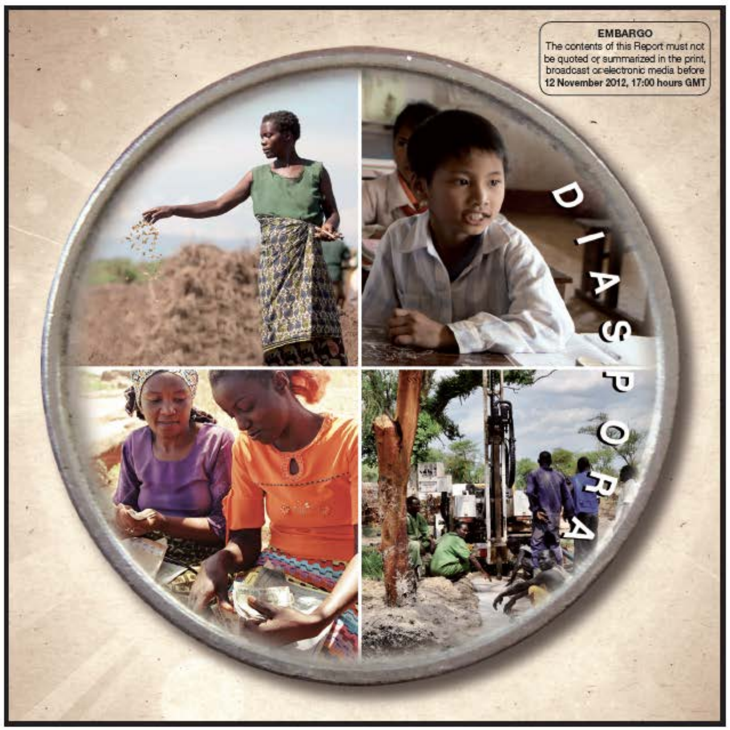
THE LEAST DEVELOPED COUNTRIES REPORT 2012

Harnessing Remittances and Diaspora Knowledge to Build Productive Capacities



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The Least Developed Countries Report 2012

Harnessing Remittances and Diaspora Knowledge to Build Productive Capacities

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Honorary President of **GNEXID**

& President of **Afreximbank**

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Map of the 48 Least Developed Countries

(Africa 33, Asia 9, Caribbean 1, Pacific 5)

This presentation

- Trends and Outlook
- Harnessing Remittances and Diaspora Knowledge to Build Productive Capacities
  - Remittances
  - Diaspora knowledge
  - Policy agenda

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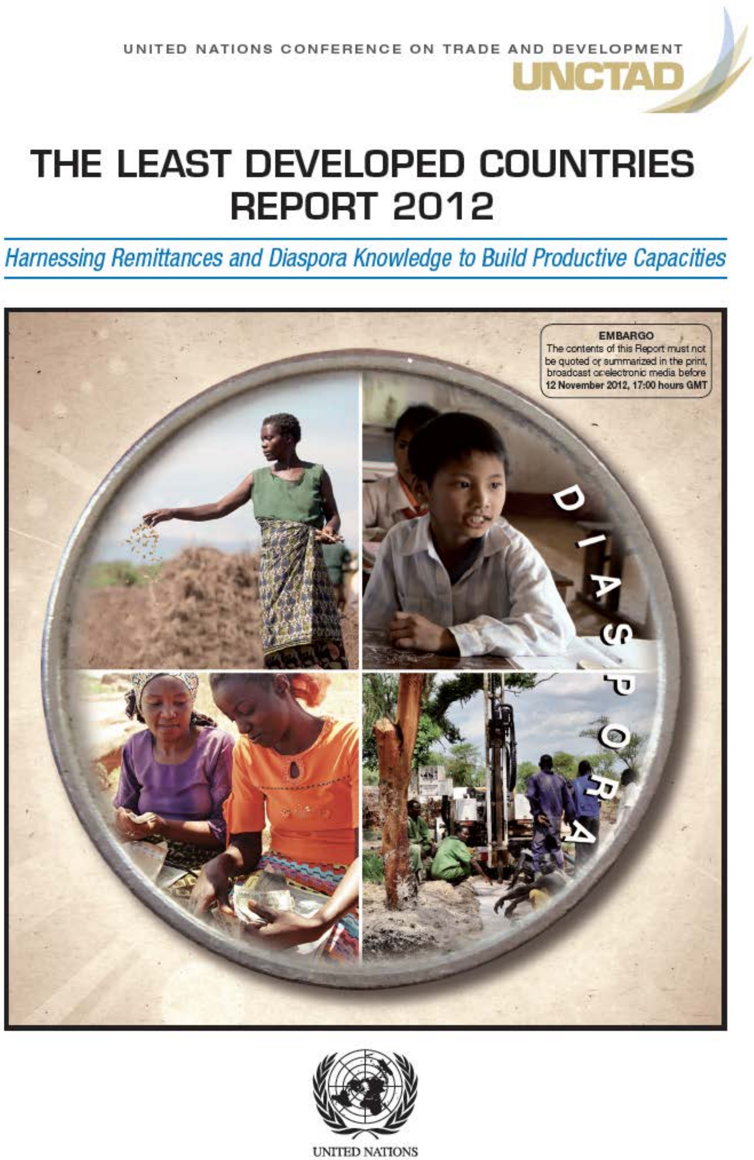


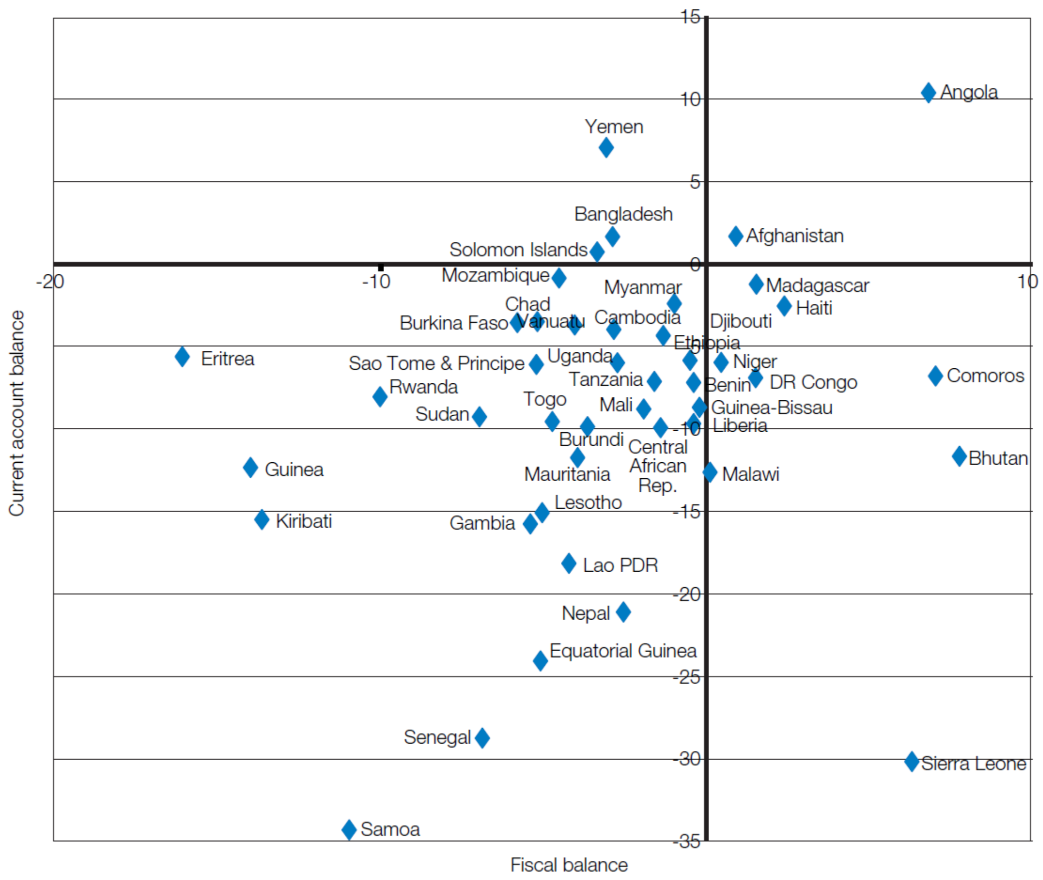
Trends and Outlook

Recent trends

- The average real rate of GDP growth of LDCs was 4.2% in 2011, down from 5.6% in 2010, and was also way below the 7.9% in 2002-2008
- Trade in 2011 increased by 23%, surpassing the pre-crisis level
- Private financial flows declined for three consecutive years, offset by an increase in official flows
- After peaking at almost $19 billion in 2008, FDI has been declining for 3 years, and amounted to only $15 billion in 2011

Recent trends

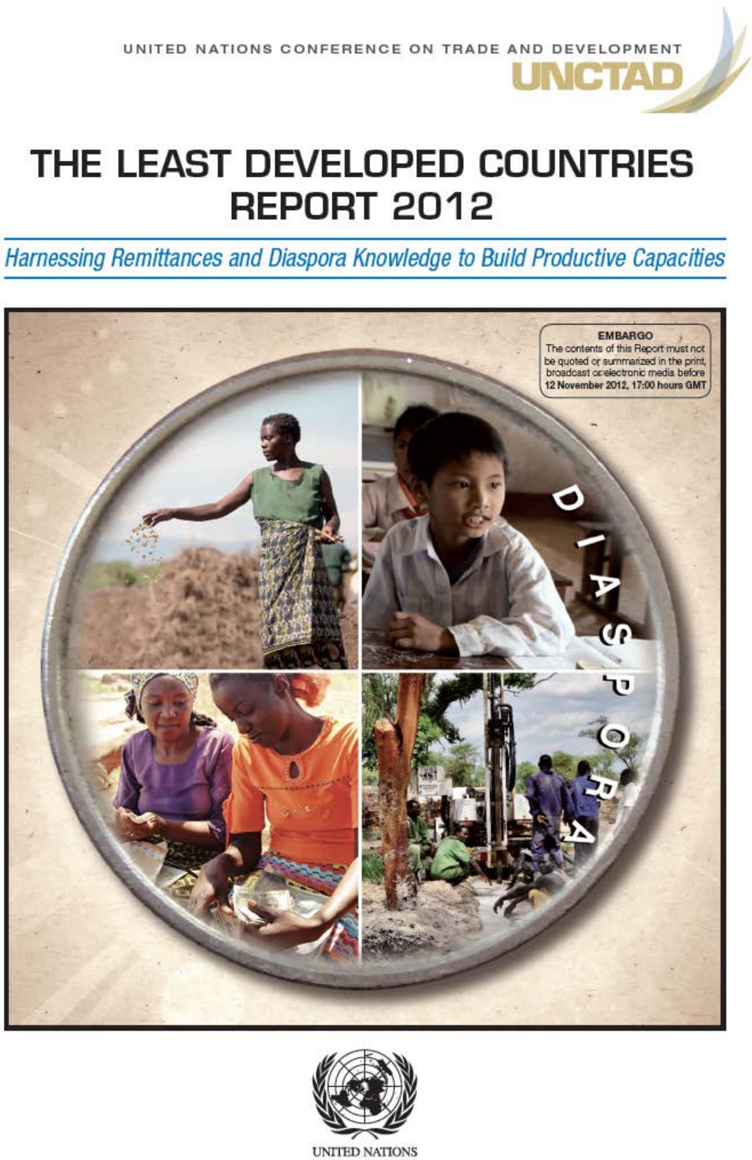
Chart 2. Current account and fiscal balances of individual LDCs, 2010
(Percentage of GDP)



- LDCs continued to be extremely vulnerable to external shocks
- Many countries with high fiscal and current account deficits
- High commodity prices supported growth in the last three years, but also high food prices have been detrimental to many LDCs

Outlook

- Given the fragility of the global economy, the outlook for LDCs is highly uncertain
- Fiscal and monetary policy have less scope to provide a stimulus to the economy today than in 2008-2009
- LDCs have to prepare for a possibility of a lengthy period of stagnation and deflation, and to deal with a crisis that originates elsewhere
- Of particular concern are external shocks from reversals of commodity prices and drying up of financing options



Harnessing Remittances and Diaspora Knowledge to Build Productive Capacities

Remittances

Remittances

- The Istanbul Programme of Action for LDCs stressed that "Remittances are significant private financial resources for households in countries of origin of migration. There is a need for further efforts to lower the transaction costs of remittances and create opportunities for development-oriented investment…"

- Remittances constitute a significant source of external financing for LDCs, and should be mobilized for expansion and diversification of productive capacities

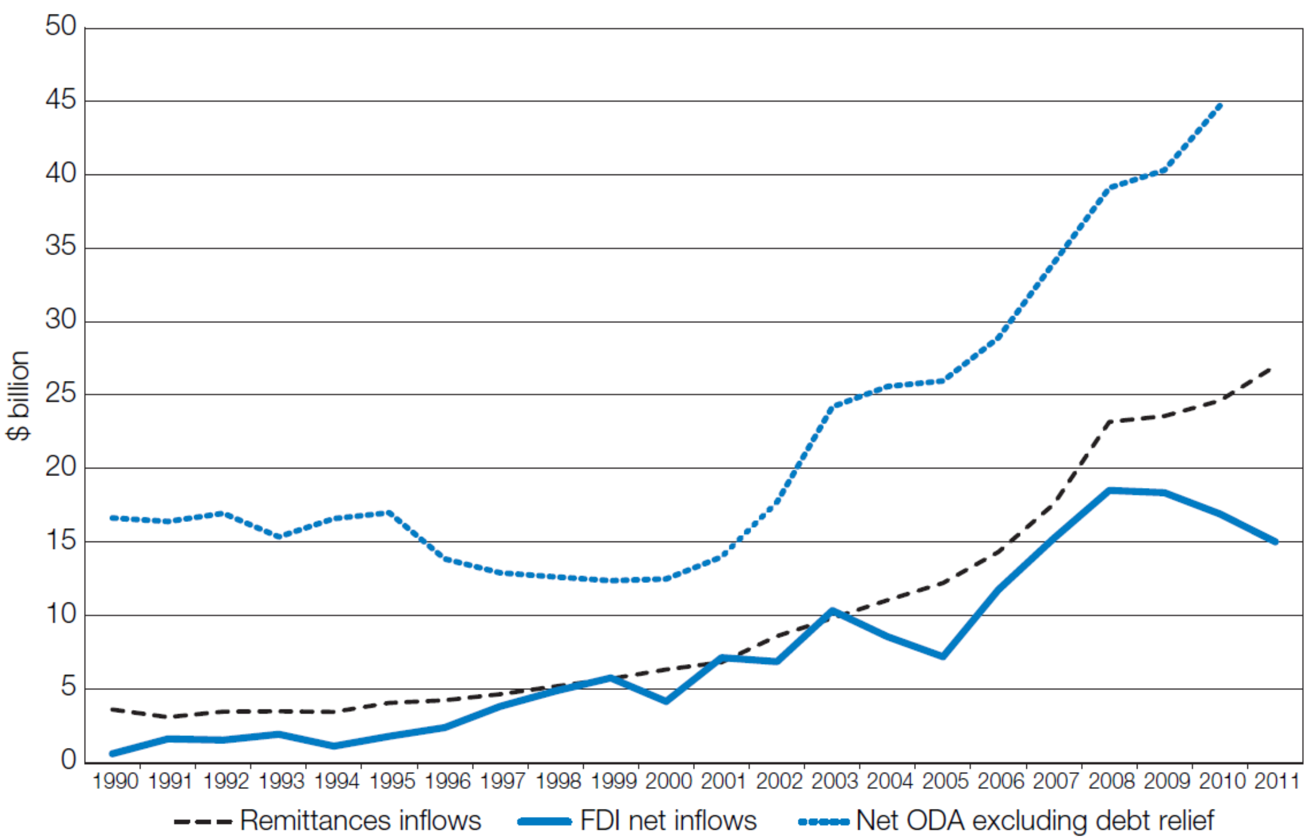
- However, remittances cannot be considered as a substitute for FDI, ODA, debt relief, domestic resource mobilization, or other sources of finance for development

Remittances: Magnitude

- Remittances to LDCs grew from $3.5 billion in 1990 to $27 billion in 2011
- Amount to 4.4% of GDP and 15% of exports, compared with 1.6% and 4.5% for other developing countries
- Why are remittance flows to the LDCs growing?
  → The number of people who emigrated from LDCs increased from 19 million in 2000 to 27 million in 2010
- 80% of LDC emigrants migrate within the South, mostly to South Asia, the Middle East and Africa

Remittances: Magnitude

Chart 14. Remittances, FDI and ODA inflows to LDCs
(Billions of dollars)

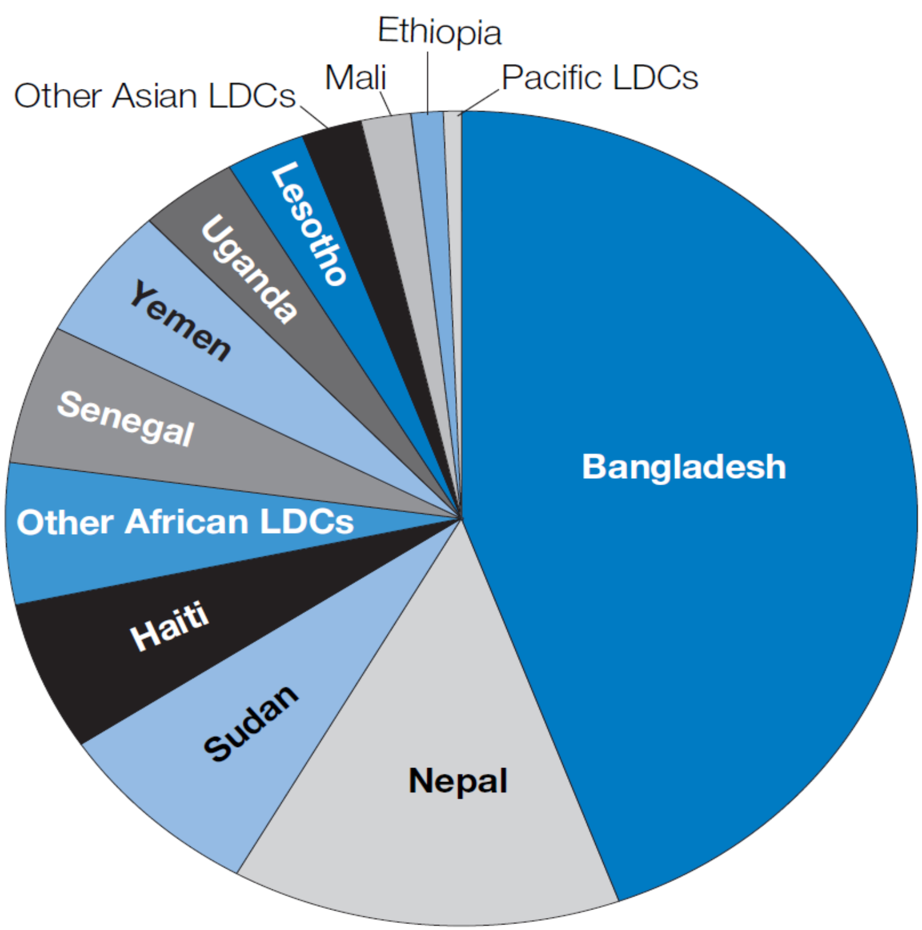


- In 2011, remittances to LDCs were almost double the value of FDI inflows ($15 billion)
- Were only exceeded by official development assistance (ODA) as a source of foreign financing ($42 billion)

Remittances: Magnitude

Distribution of remittances inflows across LDCs

2009–2011



Remittances are highly concentrated: top three LDC recipients (Bangladesh, Nepal and Sudan) receive 66% of total remittance inflows

Remittances: Costs

- Migrants use formal and informal channels of remitting
- From a policy perspective, formal channels are preferable
  - the best use of foreign exchange
  - may increase country's creditworthiness
  - stimulate financial deepening, etc.
- However, the average cost of formal remitting is close to 12% in LDCs, one third higher than the global average
- The cost of formal remitting ranges from 4% to 25%
- Had countries in Sub-Saharan Africa paid world average remittance fees, their receipts would have been $6 billion higher in 2010
- South-South remitting costs higher than the North-South, and within Africa is especially costly

Remittances: Positive impacts

- Macroeconomic effects:
  - Support growth through investment and financial deepening
  - Less volatile than other sources of foreign exchange

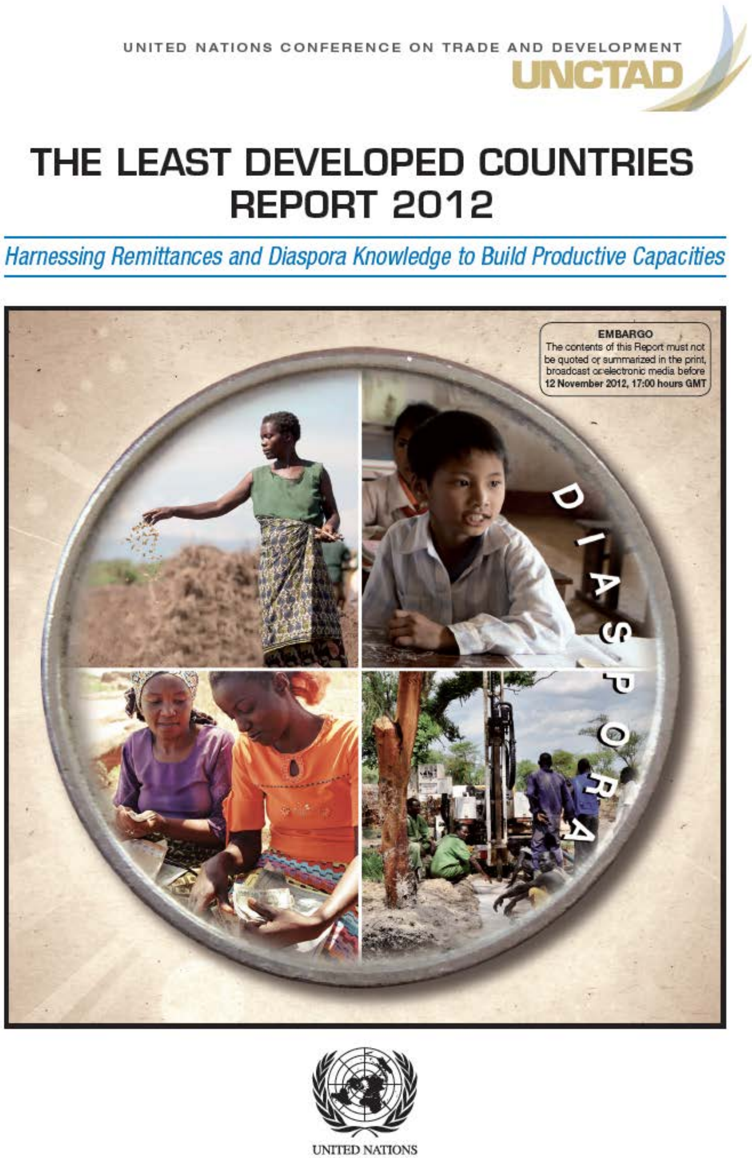
- Microeconomic effects:
  - Contribute to household income smoothing and diversification
  - Reduce poverty, but have ambiguous effect on inequality
  - Improve human capital accumulation through better health and education

Remittances: Adverse impacts

- Macroeconomic effects:
  - May put pressure on the non-tradable sector (appreciation of the exchange rate; real estate bubbles)
  - May reduce labour supply and create a culture of dependency

- Microeconomic effects:
  - Mostly used for household consumption

→ **Challenge: How to channel these vast private money flows into improving productive capacities?**



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Diaspora knowledge

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Brain drain: Magnitude

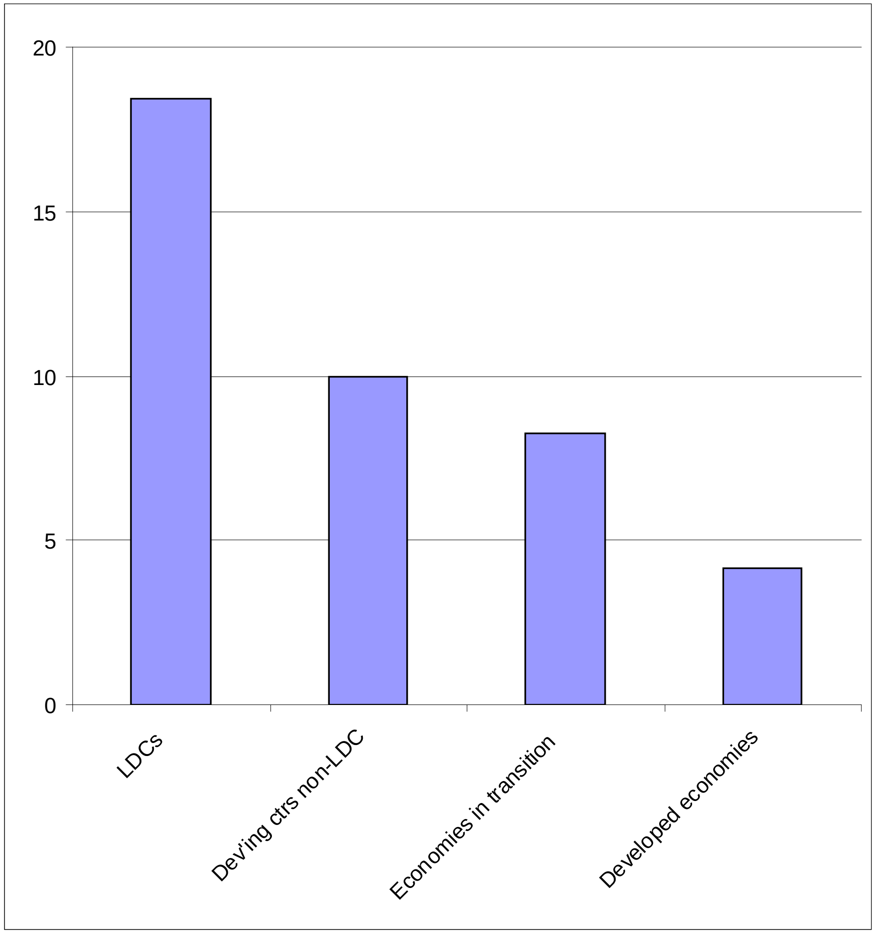
- Brain drain (emigration of university-educated people) from LDCs
  - Some 2 million highly educated nationals live abroad
  - Rapid growth: Number now 54% higher than in 2000
- Destination countries
  - 2/3 in developed countries
  - 1/3 in oil exporters and neighbouring countries

Brain drain: Effects

- **Adverse**
  - less human capital
  - reduced activity in health, education, innovation
  - comparative advantage shifts away from skill-intensive activities
  - weaker institution-building

- **Benefits**
  - favours education (emigration incentive / remittances pay for schools)
  - diaspora knowledge networks
  - higher trade and international investment
  - returnees bring accumulated savings, knowledge and networks

Brain drain: Net effects



- Balance of effects of brain drain depends partly on brain drain *rate* *(share of university-educated who emigrated)*
  - Above 20% adverse impact likely to overwhelm positive effects

- BUT: LDCs: higher rates than other country groups (>20% in 30 LDCs)

→ **Policy action required for benefits to materialize**

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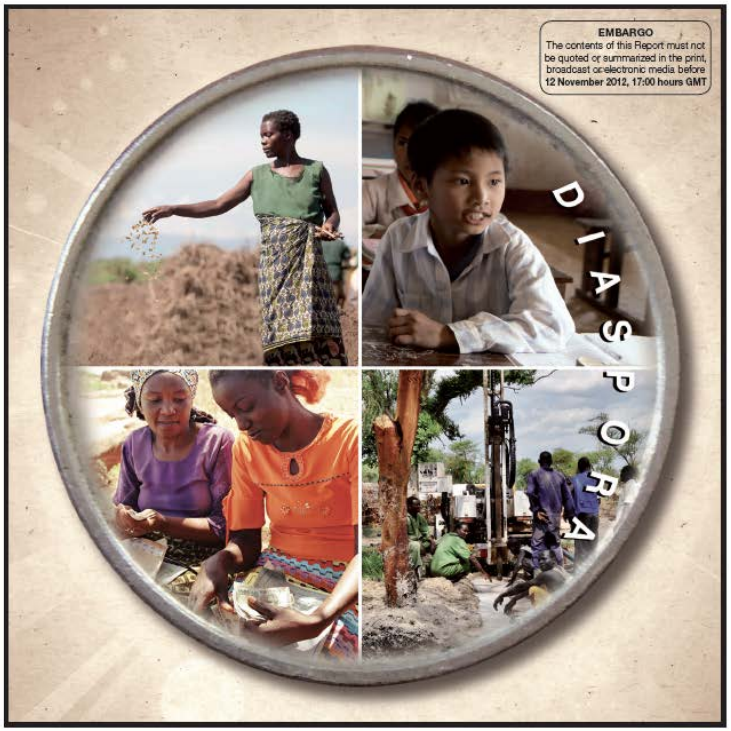

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Policies

Policies on remittances

Reduce cost of remitting

- increase competition between remittance service providers
- promote partnerships between banks and microfinance institutions
- strengthen involvement of post offices
  - improve their infrastructure and connectivity
- enable secure and stable financial sector
- boost use of m-payment

Policies on diaspora knowledge

Mobilize diaspora knowledge networks

- Objectives:
  - better integration in global production networks
  - help domestic firms learning to learn

- Measures:
  - Diaspora organizes itself
  - Home country government actively supports networks
  - Home country incorporates networks in national development strategies and domestic industrial policy

Policy on diaspora knowledge and investment

UNCTAD proposes creation of new scheme for LDCs: Investing in Diaspora Knowledge Transfer

- Objectives:
  - transfer knowledge to home country
  - diversify economic activity
  - develop productive capacities; upgrade technology

- Measures:
  - Migrants contribute knowledge, experience, networks and own funds accumulated abroad
  - Diaspora invests in middle-to high-tech sectors and skill-intensive activities
  - Preferential financing from international financing institution
  - Home country government favours domestic technology diffusion

Policy framework

- **International: Create synergy and coherence between stakeholders:**
  - home country governments, diaspora associations, host country governments, international organizations

- **Domestic**
  - Macro:
    - ✓ crowd in private investment
    - ✓ stimulate use of remittances for productive purposes (away from consumption)
    - ✓ prudential financial and regulatory reform
  - Meso:
    - ✓ promote innovation in productive sectors

Key messages of Report

- Remittances are growing and more important for LDCs than for other countries
- Intensity of brain drain much higher in LDCs than in other countries
- Boosting contribution of remittances and diasporas to LDC development requires pro-active policy action:
  - Development and diversification of financial sector
  - Lower remittance cost
  - Diaspora engagement programmes
    - ✓ Diaspora knowledge networks
    - ✓ Investing in Diaspora Knowledge Transfer scheme
  - Macro policy to crowd in private investment
- Effective policies require coordination and collaboration between stakeholders

Thank you

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