

# The Global Crisis, Remittance Transfers, and Livelihoods of the Poor

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**Abstract**—With the global financial crisis turning into what more and more appears to be a prolonged “Great Recession”, we are witnessing marked reductions in remittance transfers to developing countries with the likely possibility that overall flows will decline even further in the near future. With countless families reliant on remittance inflows as a source of income maintaining their economic livelihood, a reduction would put many at risk of falling below or deeper into poverty. Recognizing the importance of remittance inflows as a lifeline to the poor, policy should aim to (1) reduce the barriers to remit in both sending and receiving nations thus easing the decline in transfers; (2) leverage the development impacts of remittances; and (3) buffer vulnerable groups dependent on remittance transfers as a source of livelihood through sound counter-cyclical macroeconomic policies.

**Keywords**—crisis, migration, remittance, livelihood.

## I. INTRODUCTION

AS of late there has been an important discussion concerning the slumping global economy and its effect on migrant remittances sent back to low-income countries. Remittances are commonly argued as macro-economic stabilizers smoothing a crisis, however recent reports of decline has sparked concern. Heightened speculation began when the Central Bank of Mexico reported for the month of August 2008 a sharp drop in officially recorded remittance inflows, rousing fear of a substantial plummet by year end. Shortly thereafter the World Bank’s Migration and Remittance Team led by Dilip Ratha conversely estimated slowed yet positive growth of the overall remittance transfers over 2008, with an expectation for a slight decline in 2009 followed by a strong recovery in the following year [1]. Likewise, Manuel Orozco of the Inter-American Development Bank optimistically predicted that “remittances will fall, but not as much as people are making it out to be - and definitely not as much as Mexico is saying - or is not saying.” [2]. Whether the pessimistic data of particular countries including Mexico are exaggerated or the predictions of international organizations overly sanguine, in any case it is clear remittances have and will continue to be affected by the complexities of the global financial crisis turning into what some have coined the “Great Recession”. With that fact taken as much, policymakers should keep in mind the importance of remittances as a lifeline to the poor in many developing

countries and thus endorse specific strategies aimed to hedge against the risks of declining remittance inflows as well as the subsequent poverty impact to the most vulnerable.

In recent years, research has focused much attention on remittance transfers based principally on the noticeable large volume of such flows and its significant if not central role in contributing to livelihood strategies of the poor. While data varies, the International Fund for Agricultural Development (IFAD) announced in October of 2007 that global remittances had reached a level of over US\$ 340 billion, an outstanding amount relative to global Foreign Direct Investment (FDI) and Official Development Aid (ODA). For many smaller developing countries, remittance inflows remain the single largest source of foreign exchange surpassing export revenues, FDI and other private capital flows. More importantly remittances are considered relatively stable, not exhibiting the volatility commonly associated with private capital flows.

Based on numerous empirical studies and supporting the livelihood approach to migration, remittances are believed to be primarily used for household expenditure and everyday subsistence consumption maintaining countless families and communities economically afloat. While current predictions forecast only minor reductions for 2009, the real possibility of a more drastic plummet could be severe particularly for families and communities on the brink of poverty reliant on relatives abroad as a source of income. In the face of lower overall remittance flows, tangible state-led activities should attempt to counter the negative poverty-exacerbating consequences. In this regard, it is vital political authorities react and endorse policy with three objectives in mind: (1) reducing the barriers to remit income in both sending and receiving nations thus easing the decline in transfers; (2) leveraging the development impact of remittance transfers; and (3) buffering vulnerable groups dependent on remittance transfers as a source of livelihood with sound counter-cyclical macroeconomic policies absorbing some of the income shock in the short-term. With these policy goals focused upon, the hopefully short-term downturn will not place more of the worlds vulnerable at risk while at the same time contributing to a speedier and stabilized recovery of the global economy.

## II. THE GLOBAL CRISIS AND REMITTANCE TRANSFERS

The global financial crisis, spun from the U.S. housing bubble and unsustainable levels of debt, has now spread

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around the world reducing economic activity in both developed and developing countries. Each new day seems to bring with it a more pessimistic outlook of rising uncertainty in the world's leading financial markets and little confidence in an early recovery, creating a worrisome credit crunch and contraction in global trade and investment. Private capital flows to emerging economies, including both equity and lending by foreign banks, dropped sharply in the previous year with little expectation for improvement over 2009. In this regard, the Institute for International Finance recently forecasted that net private capital flows to emerging economies countries will drop from \$929 billion in 2007 to an estimated \$165 billion by the end of this year [3]. Remittances on the other hand are counted on as one of the more non-volatile sources of financing. History has shown migrants generally send more money during an economic downturn in their countries of origin, characterizing remittances as counter-cyclical in nature. On the other hand, an economic hardship in the migration destination country commonly results in migrants digging deeper into their personal income in order to maintain normal levels of remittances sent to family back home. For these very reasons, a reduction in remittance transfers received by low-income countries is projected by many international organizations to be minimal.

The same report described earlier by the World Bank's Migration and Remittances Team recently revealed 2008 estimates of global remittance transfers putting them at \$305 billion compared to \$281 billion in the previous year, a 9 percent annual growth rate [1]. Such growth is noticeable down from 23 percent in 2007, however the mere fact that remittances overall did not incur an outright decline is encouraging when compared to other losses in private and official capital flows. Particular regions fared better than others with South Asia alone experiencing increased growth over the year. In contrast, the Inter American Development Bank (IDB) estimated remittances in Latin American and the Caribbean grew by only 1.5 percent in 2008 recording the first year where the real contribution of remittances to households decreased when adjusted for inflation and exchange rate variations [4]. Imbedded in this data are the updated results from the Central Bank of Mexico, the third largest worldwide recipient of remittances, reporting a 3.6 percent decline based on rampant unemployment and a tightening labor market in the United States [5]. Similarly alarming, the IDB reported negative growth rates for smaller yet more dependent countries including El Salvador and Guatemala where remittances represent a considerable portion of overall GDP, 18 percent and 12 percent respectively.

Although the data for 2008 does not demonstrate a striking decline in remittance inflows, especially in comparison to other private capital flows, the uncertainties of the global recession still leave room for a severe reduction further into 2009 and 2010. Migration in all forms—internal, international, South-North, South-South—is bound to dwindle as job opportunities worldwide become more limited. In

China for instance, the Agricultural Ministry reported in February 2009 that around 20 million migrant laborers have lost their jobs and have had to return to rural areas in response to the current downturn. In the United States, the unemployment rate among Latino immigrants was documented to have risen from 5.1 percent in 2007 to 8.0 percent in 2008, a consequence of the fact that a disproportionate amount of Latino immigrants compared to the general population are located in the economic sectors hit hardest by the global crisis such as construction, manufacturing, and leisure and hospitality [6]. Moreover, while fewer migrants may be attracted to make the journey based on uncertain job prospects, it is also possible that national immigration policy will become tighter in the wake of higher domestic unemployment and civil pressure. Nationalistic fervor has already materialized in numerous free market countries, most visible in Great Britain where over the winter protests spread across the country complaining against the use of foreign labor.

With direct consequences for remittance transfers, it is important to stress that certain migrants are more vulnerable than others to the global crisis based on their employed economic sector and skill level. Two recent studies by Adams (2008) and Faini (2007) consider the difference in the skill level, educated vs. uneducated, of migrants for remittances [7]—[8]. By employing a variety of approaches, both studies find that unskilled migrants remit more to developing countries than skilled with the underlying logic that unskilled migrants are more likely to be temporary in nature and thus less likely to bring families along, resulting in more incentive to send money home. Such a finding is relevant to the current discussion in so far that the current downturn, similar to income shocks in general, disproportionately affects low-income, unskilled population groups. Thus in the midst of an economic crisis unskilled migrants, those with a higher propensity to remit than their counterparts, will also be more likely to lose employment contributing to the overall reduction in remittance transfers.

In this regard, polls have begun to document migrants beginning to repatriate fewer earnings in face of economic distress. The Pew Hispanic Centre recently reported that among Hispanic population within the U.S. who remitted money in the past two years, 71 percent reported a reduction in the amount sent for 2008 compared to the prior year [9]. More worrisome in relation to remittance levels, migrants presented with bleak job prospects may ultimately decide to return home in large numbers. The result of such an occurrence may be a brief swell in remittance data, or at least a less severe decline much like is seen in the 2008 numbers, as returning migrants repatriate all of their remaining savings followed by a sudden collapse that may take years to recover. While it is premature for factual data to document any mass return, anecdotal evidence is beginning to surface with the possibility of such an event proving dire for households accustomed to benefiting from remittance inflows.

Near-future forecasts of remittance transfers remain less optimistic for individual countries than overall expectations. Similarly to Mexico, the Philippines, the world's fourth largest recipient of remittances, is reported to suffer a 6.17 percent annual decline of remittance inflows over 2009 based on further job loss and pay cuts among Filipino migrants mainly employed in some of the worst hit industries: manufacturing, construction, trade and tourism [10]. On the contrary, the same report described earlier by the World Bank's Migration and Remittance Team offers an optimistic overall forecast proposing a minimal rate of decline, 0.9 percent, for 2009 followed by a speedy recovery in 2010 where the overall growth rate reaches 6.1 percent under the baseline scenario [1]. Yet such a prediction is based more on hope than on practical experience as little is known about the effect of a severe recession on remittances like the one in which we are currently engulfed. In this regard, Ratha who heads the World Bank team acknowledges "we are in unknown territory now because both the source countries and the destination countries are not doing very well" [2]. Accordingly, their official report cites four main reasons why future remittances remain uncertain:

- (1) the economic slowdown in the high-income OECD destination countries including the United States and Western Europe (which account for almost two-third of remittance flows to developing countries);
- (2) the impact of the financial crisis on developing countries (which account for half of migrants from developing countries);
- (3) the impact of a fall in oil prices on the economies of the GCC (Gulf Cooperation Council) countries, a major destination of migrants from developing countries in South Asia and the Middle East and North Africa; and
- (4) the uncertainty about exchange rates.

These disconcerting uncertainties as to how severe the global recession may continue to develop coupled with the possibility of a mass return may produce a more severe plummet in overall remittance transfers than presently assumed, as well as make any rapid improvement in the near future seemingly unlikely.

In this case, the impact of the global downturn on remittances and more importantly low-income families and communities dependent on them may be worse than is currently considered. Because the current recession is a macro-level income shock affecting both sending and receiving countries, the resilient and counter-cyclical nature of remittances previously witnessed may be weakened. For that reason it is vital to examine how remittance inflows impact the poor and more specifically contribute to livelihood solutions with the goal in mind to conceive of suitable policy minimizing the negative effect of the global recession on remittances and supporting those families dependent on them as a lifeline.

### III. MIGRATION AND REMITTANCE INFLOWS AS A LIVELIHOOD STRATEGY

There is today a sustained line of literature recognizing migration—both internal and international in scope—as a diverse and viable livelihood strategy for the poor. The livelihood approach has caught on in certain development circles, emphasizing the need for a multi-disciplinary and people-centered framework recognizing that livelihoods of the poor are not restricted to one economic sector [11]. In short, a livelihood strategy stresses the ability of low-income households to maintain a diversified source of income enhancing capabilities and reducing vulnerability. Thus, while income-generating activities are strongly associated with providing the poor with sustainable livelihood solutions, this approach also brings to the forefront other factors including "the resources that provide them with the capability to build a satisfactory living, the risk factors that they must consider in managing their resources, and the institutional and policy context that either helps or hinders them in their pursuit of a viable or improving living" [12, pp. 3].

Migration is central to a livelihood strategy because it essentially separates family members across geographic locations and economic sectors. The opportunity to migrate opens up wide-ranging employment activities that are commonly inaccessible to low-income households leading to a diversified source of family income. Accordingly, migration plays a complex role in enhancing capabilities and reducing the vulnerabilities of the poor providing households with a stronger ability to weather short-term income shocks. For families "living on the edge" of poverty, migration is a way to insure against these income risks resulting in sustainable income-generation and food consumption during dire circumstances.

A fundamental channel by which migration improves the livelihoods of the poor is attributed to the remittances sent home from the earnings obtained from migrating. Crucial in the understanding of remittances is the reality that these personal income flows are qualitatively different from other sources of development finance. As discussed prior, it has been revealed that remittances are less volatile compared to other sources of income. The flows are both relatively stable and counter-cyclical based on the fact that migrants are less likely to drastically reduce transfers during economic downturns in the migrant destination countries and more likely to increase remittances during periods of hardship back home be they economic, political, or natural. Thus, this stability and counter-cyclicity plays a critical role in reducing the vulnerability of individuals and insuring against micro-level income shocks, and in other words is the backbone of a sustainable livelihood solution based on migration.

It is generally agreed upon that remittance inflows provide a much needed livelihood option and play a vital role in providing substance for the poor. However it is also important to recognize remittances provide a path for accumulation of wealth for households in addition to

providing basic consumption needs. Moving out of poverty is a cumulative process based on asset creation utilized for productive investment and leading to higher incomes. Thus, remittance inflows are thought to set the stage for such a virtuous spiral of asset accumulation by raising economic, human, and social capital through increased savings, land, machinery, livestock, education of children, business contacts, and so on.

Numerous empirical studies have focused on the household impacts of remittance inflows and confirmed a positive effect for sustaining a living and moving up the income ladder. As an analysis by Delgado-Wise and Guarnizo (2007) indicates, remittances are the source of family subsistence for 1.6 million households in Mexico contributing to the reduction of poverty and social marginalization [13]. Of lively debate is the way in which households utilize remittance inflows and if they are generally development-enhancing or rather consumed in an unproductive manner. In this regard, the study by Adams (2008) examining households in Ghana found remittance-receiving families do not spend marginally more than non-receiving households on consumption or investment goods, showing in Ghana remittance inflows are not used for unproductive consumption more than any other source of income [7]. Moreover, a World Bank study (2006) presented evidence that remittances lead to increased household expenditure in areas essential for human capital development such as nutrition, education, health, housing and overall family welfare resulting in better prospects for future generations [14]. Similarly, studies such as Yang (2004) and Cox-Edwards and Ureta (2003), using data from the Philippines and El Salvador respectively, highlighted the positive association between remittances and higher spending on education as well as retention of children in schools, resulting in essential human capital improvement in those countries [15]-[16]. What's more, there is encouraging evidence of remittance inflows being channeled into productive investment, with Samal (2007) highlighting prevalent farm and non-farm investment in semi-arid areas where institutional and market dynamics are investment-enhancing [17].

Complementary to household improvement, rising family expenditure due to higher disposable income from remittance inflows is reported to enhance local community-level development. Increased family expenditure may have a multiplier effect as large as 1:3 due to greater demand for labor intensive goods and services resulting in higher community level output and overall income [18]. Additionally, remittance inflows can play a pivotal role in easing credit constraints commonly found in low-income communities suffering from un-developed financial markets. By leveraging remittances with such tools like micro-finance, an enhanced local financial market can take hold leading to increased overall investment and a virtuous cycle of community-level development. Moreover, organized and engaged diasporic groups have been seen to collectively invest in community-wide projects where it is in their interest.

However like any type of investment decision, such community-wide ventures will not be undertaken unless there is a local dynamic and entrepreneurial environment where opportunities exist for business creation and returns coinciding with reasonable levels of risk.

In summing up, it is clear migration is an integral component of a livelihood strategy for poor households potentially leading to community-wide development. Overall, diversified income-generating activities presented by migration contribute to enhancing capabilities and reducing the vulnerabilities from micro-level income shocks commonly putting day-to-day livelihoods at risk. Thus, through remittance inflows families are able to meet daily subsistence needs and possibly initiate a virtuous cycle of savings, investment, and higher income placing them on a sustainable path out of poverty. Moreover, positive household effects are frequently extended to the community-level as local demand rises followed by higher investment, output, and overall income. However the potential for such a virtuous cycle of first household and then community-wide development depends heavily on an effective economic climate offering attractive investment opportunities as well as a policy which eases burdensome constraints and leverages beneficial dynamics to the development process.

#### IV. POLICY OPTIONS

Because of the uncertainties involved with the current global recession, political authorities in both developed and developing countries should be aware of the highly possible likelihood that remittances will sharply decline in short-term without fully recovering in medium-term. By understanding this realistic concern and how remittances impact the livelihoods of the poor, official policy should attempt to minimize any decline while at the same time support those that are most vulnerable. Specifically, policy should address three concrete objectives: (1) reducing the barriers to remit income in both sending and receiving nations thus easing the decline in transfers; (2) leveraging the development impact of remittance transfers; and (3) buffering vulnerable groups dependent on remittance transfers as a source of livelihood with sound counter-cyclical macroeconomic policies absorbing some of the income shock in the short-term.

Reducing the existing barriers to transfer money across borders will boost overall transactions in good times and ease their decline during bad. Primarily the cost of sending remittances is still too high restricting many migrants from formal financial institutions [19]. In this regard, partnerships and alliances from both the private and public sector should be sought in order to coordinate policy that will reduce fees of service providers. The obvious way to reduce provider fees is through promotion of competition in the marketplace along with setting proper regulation. Overcoming low competition will also make available more innovative products as service providers contend for customers. Moreover, the reduction of costs and development of new financial products including

novel payment systems for remote, rural geographic areas should attract those migrants currently relying on costly and unsafe informal channels to remit their income with formal institutions. In essence, “banking the unbanked” will lead to local financial development having a positive effect on overall economic growth and development while at the same time supporting a more effective utilization of remittances [20]. Such policy should also be met with a reduction in government-related regulatory impediments including taxation or overregulation for cross-border activities. In this case, the government should allow room for non-discriminatory access to payment systems for the private sector consistent with international supervisory standards [21].

While reducing barriers in order to stimulate formal transactions is beneficial in its own right, policy should also aim to leverage the positive development impacts of remittances. Where there exists a weak financial system, remittances can be linked with micro-finance organizations to scale up their use for productive investment. Remittance-backed loans, for instance, is one way in which the individuals are able to receive credit and more widely invest in household or community-wide projects. Such linkages with micro-finance organizations could greatly benefit the rural poor who are commonly isolated from any formal financial institution because of their remoteness and lack of collateral. Moreover, policy can promote collective investment by the diaspora for community-wide development projects. In this regard, government is able to support diaspora groups including hometown associations (HTAs) in their institutional development as well as provide technical assistance. A praiseworthy example is the 3-for-1 matching program by the Mexican government and HTAs in Zacatecas. The World Bank estimated that by 2002 this program established projects totaling \$443.5 million, largely benefiting labor-intensive agricultural economies in four high emigration states in Mexico [22]. Lastly, policy can promote direct diaspora involvement in home-country development strategies. Through dual-country citizenship or by linking diaspora groups with development organizations, the diaspora can be more active and included in development-oriented activities in their communities or country as a whole. All things considered, it is important that the dynamics of migration including the volume and impact of remittance transfers should be taken into consideration when formulating national development strategies.

Finally, in the face of the global downturn and reduced remittance inflows low-income countries should set in place sound counter-cyclical macroeconomic policies easing the negative effect on vulnerable population groups. Many developing nations are reluctant to ease monetary policy over fear of inflationary pressures and currency depreciation. However global coordination of monetary and fiscal stimuli should complement the efforts to rescue the financial sector from wide-spread systematic failure and have an overall positive multiplier effect reducing individual burden. A practical method to improve the institutional framework for

macroeconomic policymaking is by setting fiscal targets that are independent of short-term fluctuations. Moreover, the macroeconomic income shock faced by business and vulnerable groups can be absorbed through “the establishment of commodity and fiscal stabilization funds which could help to smooth out fiscal revenues, such as those based on primary export production” [23]. Chile for example, has left itself ample room for a fiscal stimulus as previous political leaders developed rigorous and sound fiscal rules requiring much of revenue gained from copper price rises to be saved in a sovereign wealth fund. Likewise, a complementary instrument to automatic stabilizer funds is progressive taxation, where taxing the source of the spending boom can act as a low-cost stimuli while at the same time reducing the burden on the poor [24]. Such policy is most effective when coupled with well-designed social safety nets. Ultimately, the point to a well-managed counter-cyclical macroeconomic policy framework is to manage business cycles by putting aside funding during an economic boom to be used during a deep recession. In this way, public expenditure including support for the most vulnerable groups like those relying on remittance inflows as a source of income will not have to be drastically cut.

## V. CONCLUSION

As hopefully made clear, there is a real likelihood that the global financial crisis will lead to a pronounced decline of remittance transfers worldwide in the near and medium-term. The reduction of remittance inflows based on job loss, vast return migration and further uncertainties associated with the global recession could put countless families reliant on remittances as a source of income at risk of falling below or deeper into poverty. When viewed from the livelihood perspective, a reduction increases the vulnerability of at-risk families while at the same time reduces their capabilities to maintain a living and initiate a virtuous path out of poverty. While the impact of the financial crisis will be felt differently in each region, there still exist general policy objectives to hedge against drastic remittance reductions and thus alleviate some of the burden on the poor. With this thought in mind, well-designed policy goals should aim to (1) reduce the barriers to remit in both sending and receiving nations thus easing the decline in transfers; (2) leverage the development impacts of remittances; and (3) buffer vulnerable groups dependent on remittance transfers as a source of livelihood through sound counter-cyclical macroeconomic policies. At the end of the day, the goal is to evade placing more of the world's poor at risk while at the same time leading to speedier and stabilized recovery of the global economy.

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