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Trends in Global Remittance Flows and Cost of Sending Remittances in 2020: Suggested initiatives for India

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On May 12, 2021, The World Bank released a 40-page report entitled "RESILIENCE COVID-19 CRISIS THROUGH A MIGRATION LENS", Migration and Development Brief 34[1].

The Brief 34 surveys the trends on gross remittance inflows and gross outflows from countries across the globe. It also surveys cost of remitting USD 200/ or its equivalent across the globe, regions, and remittance corridors. This column discusses the main findings of the Brief, and suggests initiatives Indian policymakers could consider to position India well in an increasing challenging environment for the remittances. Unless otherwise noted, the data in this column are from the above source.

Broad Findings on Aggregate Remittances

In analysing aggregate remittances, both gross inflows into the country, and gross outflows need to be analysed. The resulting net remittances are more useful for policy and analytical purposes. It is also essential to recognize that the flows can be through formal recorded channels and through unrecorded informal channels. The latter are not easy to measure. The World Bank, and others such as IOM (International Organization for Migration), a United Nations organization based in Geneva, report remittances through formal channels. Thus, our understanding of migrant remittances remains incomplete. As a result, there is a need for a nuanced conclusions and policy implications. The need for devoting more resources to relevant data collection and analysis, including on outward remittances from countries, and remittances through informal channels.

The Brief reports that the worldwide number of international migrants (including refugees) was estimated at 281 million in 2020. The top host countries for migrants are the United States (51 million), Germany (16 million), Saudi Arabia (13 million), Russia (12 million), the United Kingdom (9 million), the United Arab Emirates (9 million), France (9 million), Canada (8 million), Australia (8 million), and Spain (7 million). These countries account for about half of the total international migration stock.

There was widespread expectation that due to the severity of the Covid-19 Pandemic, especially since march 2020, and subsequent mass lockdowns in many parts of the World, global remittances in 2020 will be significantly adversely affected. The Brief notes that in April 2021, the IMF (international Monetary Fund) had projected a negative real GDP growth of 4.8 percent in 2020 for the largest host countries of cross-border workers, but the corresponding growth in 2021 was expected to be positive 4.8 percent.

But as the title of the Brief 34 suggests, aggregate remittances, at least those through officially reported channels, proved quite resilient in 2020. The total global remittances in 2020 were USD 702 billion, a decline of 2.4 percent.

For the Low- and Middle-income Countries, the Brief 34 reports that:

"*In 2020, officially recorded remittance flows to low- and middle-income countries reached USD 540 billion, only 1.6 percent below the USD 548 billion seen in 2019. Remittances exceeded foreign direct investment flows by a wider margin in 2020. Excluding China, remittance flows surpassed the sum of foreign direct investment and official development assistance. Remittances have therefore become an important consumption smoothing mechanism for the recipient households and, as such, they form an increasingly important (private) element of global social protection systems*." (p. X)

Thus, Low- and Middle-income Countries, the main focus of this column, accounted for little over three-fourths of global remittances in 2020. In this group, South Asia contributed USD 147 billion (27.2%); East Asia and the Pacific contributed USD 136 billion (25.2%); the Latin America and the Caribbean region USD 103 billion (19.1%); ECA (Europe and Central Asia) and Middle East and North Africa (MENA) sub-regions USD 56 billion each (10.3% each); and Sub-Saharan Africa USD 34.6 billion (6.4%). The sub-regions totals provided in the brief add up to 98.5% of USD 540 total for the Low-and Middle-Income Countries.

The Brief 34 argues that the resilience in the formal recorded remittance flows may be attributed to several factors. First, the desire by the cross-border workers to help their families by reducing their own consumption, drawing on their accumulated savings, or in some cases repatriating their wealth as host countries, such as Saudi Arabia and the United Arab Emirates reduce the number of migrants.

Second, counter-cyclical fiscal policies have sustained incomes and livelihoods, especially in the United States, and Europe. These two regions are among the largest originators of the remittances. Thus, in 2020, remittance outflows from the United States, Switzerland, and Germany were USD 68 billion, USD 28 billion, and USD 22 billion respectively, accounting for 22% of the global remittances. Saudi Arabia (USD 43 billion) and United Arab Emirates (USD 34 billion) were also major remittance countries undertaking stimulative measures.

Third, there has been a broad shift from informal channels to formal channels in sending remittances, aided by much lower personal travel, and by greater use of digital remittance channels. Whether the shift to more formal channels sustains in 2021 and beyond is unclear. The 2020 official remittance data should therefore be viewed cautiously.

The Brief 34 projects that in 2020 and 2021, gross remittance inflows are likely to increase by only 2.6 percent and 2.2 percent respectively, with a downward bias due to the possible adverse Covid-19 pandemic developments. This indeed appears to be the case as of May 2021, as the second and even the third wave of the pandemic has affected some countries.

The policy implication for those economies with significant reliance on the remittances is to urgently devise measures and initiatives to better utilize the remittance flows available, particularly by improving local and regional economies of the recipient countries to better utilize skills and knowledge of their cross-border workers; and to channel remittances in more productive areas, while integrating private social protection channel provided by the remittance inflows into their publicly organized social protection systems.

Trends in Remittances by Region

The Brief 34 reports that the remittance trends in 2020 exhibited wide divergence among the regions, and within each region, among the member countries. This the highest growth in inward remittances in 2020 was in the Latin America and the Caribbean Region (6.5%), followed by South Asia (5.2%), Middle East and North Africa (2.3%), East Asia and the Pacific (negative 7.9%), ECA (negative 9.7%), and Sab-Saharan Africa (negative 12.5%). The overall decline in inward remittances of only 1.8% globally therefore illustrates when simple averages could be deceptive, and variance around the mean and disaggregation are essential in analysing the broad averages.

The Brief 34 reports that in 2020, in current US dollar terms, the top five remittance recipient countries were India, China, Mexico, the Philippines, and Egypt. India has been the largest recipient of remittances since 2008. As a share of gross domestic product, by contrast, the top five recipients in 2020 were smaller economies: Tonga, Lebanon, Kyrgyz Republic, Tajikistan and El Salvador.

Within each region, there was wide variation in the remittance inflows. In South Asia, in India, the region's largest recipient country, remittances fell by just 0.2% in 2020 to USD 83 billion. Much of decline was due to a 17% drop in remittances from the United Arab Emirates, which somewhat offset resilient flows from United States and other host countries. In Pakistan, remittances rose by over 17 percent to a record high of USD 26.1 billion; remittances from Saudi Arabia increased by over 46%, from European Union countries by 25%, and from the United Arab Emirates by 19%. In Bangladesh, remittances also showed a brisk growth in 2020

(18.4%), and Sri Lanka witnessed remittance growth of 5.8%. In contrast, remittances to Nepal fell by about 2 percent. The volume of remittances to Bangladesh, Pakistan, and Sri Lanka in the first quarter of 2021 indicates that this increase has been sustained.

The Brief 34 notes that In East Asia and the Pacific, defying earlier predictions of shrinking flows due to the pandemic, remittances to the Philippines fell by only 0.7% in 2020. A key factor for this resilience was the growth (by 5.5%) of inflows from United States, by far the largest source of remittances for the Philippines (almost 40% in 2020). Positive growth in remittances from the United States and Asia helped to mostly offset declines from the Middle East and Europe, which fell by 10.6% and 10.8% respectively in 2020. The decline from the Middle East reflects the absence of formal safety nets available to migrant workers in the face of the pandemic and the large repatriation of overseas Filipino workers (OFWs). By contrast, Indonesia’s remittances fell by 17.3% in 2020 due to the country’s dependency on inflows from Saudi Arabia and Malaysia, which dropped by 21.3% and 16.8% respectively.

In Latin America and the Caribbean, remittance flows to Mexico, the largest recipient in the region, USD 42.9 billion in 2020, held up and kept growing in part because migrants were employed in essential sectors during the US lockdown of April and May 2020. The subsequent improvement in the employment situation in the United States, although not to pre-COVID-19 levels, supported the increase in remittance flows.

For Mexico, El Salvador, Guatemala, Honduras, and Jamaica, the vast majority of remittances (95%) come from migrants working in the United States. The poor economic situation in Spain as a result of the pandemic negatively affected remittance flows to Bolivia (-16%), Paraguay (-11.6%), and Peru (-13%) in 2020. Spain hosts one-tenth of all migrants from the LAC region. Similarly, intraregional remittances from Ecuador to Colombia, Mexico, and Peru declined by 20% due to containment measures in 2020. The majority of migrant workers from Colombia, Peru, Mexico, Cuba, Bolivia, Nicaragua, Haiti, and Venezuela work in sectors heavily affected by the confinement such as services, hotels, and restaurants

The Brief 34 notes that the ECA region was the second most affected by the COVID-19 pandemic among low- and middle-income regions, with nearly all of the countries in the region experiencing declines of remittances in 2020, though to varying degrees. The depreciation of the Russian rouble significantly lowered the (US dollar value of) remittance flows to the region. As Russia hosts around 14 million migrants, significant depreciation of the host country’s currency is a risk in real value generated from the remittances. The outflow of money from Russia to some Central Asian countries that rely on the economy of Russia declined sharply in 2020 amid the COVID-19 travel restrictions. Money being sent to Tajikistan and the Kyrgyz Republic, for example, dropped by 37% and 17% respectively in 2020. The fall in income of Central Asian workers in Russia appear directly linked to the lockdown measures to curb the spread of COVID-19. The decline was expected due to a wave of returning Central Asian migrant laborers from Russia, but it was also a reminder of the additional problems faced by countries whose economies are highly dependent on remittances. Ukraine, the region’s largest recipient of remittances, received USD 15 billion in 2020, 4.6% less than the previous year, with a sharp drop in remittances from the Czech Republic, Russian Federation, and Poland offsetting an increase in those from the United Kingdom, the United States, and Germany.

In the MENA region, the projected decline in remittances did not materialize due mostly to unexpectedly strong flows to Egypt (an increase of 11%), the world's fifth-largest remittance-receiving country at USD 30 billion and Morocco. In parallel, outward remittances from the United Arab Emirates fell by 3.9% to $43 billion in 2020, while outflows from Saudi Arabia increased by 11% to $35 billion, reflecting pandemic-related one-off effects that were reflected in large recipient countries like Egypt and Pakistan.

In Sub-Saharan Africa, if the 28% decline in remittances of USD 17.2 billion to Nigeria are not taken into account, the remittances would have grown by 2.3%. The Brief 34 partly attributes the decrease in flows to Nigeria to a high (27%) premium on the naira/US$ exchange rate in informal markets, and an unexpected policy directive requiring the agent banks of money transfer operators to pay out in US dollars (or hard currency) rather than naira. Strong remittance growth was reported in Zambia (37%), Mozambique (16%), Kenya (9%), and Ghana (5%). Data from the Central Bank of Somalia and Zimbabwe reported an increase of 16% and 31% respectively. In Cape Verde, The Gambia, and Senegal, remittances inflows fared better than projected.

Trends in Cost of Sending Remittances

Among the important SDG (Social Development Goals) target by 2030 is to reduce the cost of sending remittances to 3.0% or less of the amount sent. The World Bank regularly tracks not just the overall average remittance costs, but also costs by remittance corridors. The Brief estimates that global average of sending USD 200, its standard measure, in the fourth quarter of 2020 was 6.9%, more than double the SDG's 2030 target. It is expected that with the further development of financial technology and its more innovative and widespread application, progress towards meeting the 2030 goal of 3% would be more rapid.

The Brief reports that there are wide variations in remittance costs of sending USD 200, across regions, and among the remittance corridors. There are several general as well as corridor-specific reasons for high costs as is evident from the discussion below. As growth of inward remittances moderates, reducing these variations to improve migrant family's welfare is an issue that the concerned corridors and the World Bank need to address much more energetically.

The Brief notes that South Asia had the lowest average remittance costs of any world region at 4.88% in the fourth quarter2020, down slightly from 4.9% a year before. Some of the lowest-cost corridors, originating in the GCC (Gulf Cooperation Council) countries and Singapore, and the India¬–Nepal corridor had costs below the SDG target of 3% owing to high volumes, competitive markets, and the deployment of technology. But costs are well over 10% in the highest-cost corridors such as Thailand to India, Pakistan to Bangladesh, and Pakistan to Afghanistan, due to low volumes, little competition, and regulatory concerns. Banking regulations (related to AML, Anti-Money Laundering, and CFT, Combatting Financial Terrorism, raise the risk profile of remittance service providers and thereby increase costs in some corridors.

The average cost of sending remittances to the East Asia and Pacific region decreased slightly to 6.86% in the fourth quarter of 2020, compared with 7.05% in the third quarter of 2020. In the fourth quarter of 2020, the five lowest-cost corridors in the region averaged three percent for transfers primarily to the Philippines, while the five highest-cost corridors, excluding South

Africa to China, which is an outlier, averaged 13%. Money transfer costs from Thailand to neighbouring countries in Southeast Asia remained among the highest, averaging 13.5% in the fourth quarter of 2020.

In Latin America and the Caribbean, the cost of remittance transfers was 5.56% in the fourth quarter of 2020. In many smaller remittance corridors, however, costs continue to be exorbitant. For example, the cost of sending money to the Cuba corridor exceeds 9%. Sending money from Japan to Brazil and Peru is also expensive.

The average cost of sending remittances to the ECA region fell modestly to 6.42% in the fourth quarter of 2020 from 6.55% a year earlier. Russia remained the lowest-cost sender of remittances globally, with the total cost of remitting from the country falling from 2.11% to 1.0%, mostly reflecting declines in the Russia–Georgia and Russia– Kyrgyz Republic corridor costs. The differences in costs across corridors in the region are substantial; the highest costs for sending remittances were from Turkey to Bulgaria, while the lowest costs for sending remittances were from Russia to Georgia.

The cost of sending remittances to the MENA region declined only slightly in the fourth quarter of 2020, to 6.6% despite the pandemic, compared with 6.9% in the same quarter of the previous year. Costs vary greatly across corridors: the cost of sending money from high-income OECD countries to Lebanon remained very high, mostly in the double digits. On the other hand, sending money from GCC countries to Egypt and Jordan costs around 3% in some corridors. Notably, the cost of sending money to Syria (from Jordan and Saudi Arabia) experienced a dramatic fall as the civil war in Syria receded.

In 2020, Sub-Saharan Africa remained the highest remittance cost region, the average cost of remittance transfers reached 8.17% in the fourth quarter of 2020. The costs of sending money from South Africa to Zimbabwe (14%), Botswana (19.6%) and Malawi (16%) are the most expensive in the region

Suggested Initiatives for India

While India has sustained its first rank in gross inward remittances since 2008, it needs to undertake several policy and tactical initiatives to retain this rank in the future. It should be noted that while India's gross inward remittances in India were USD 83 billion in 2020, it also experienced officially recorded remittance outflow of USD 7 billion, reducing its net inward remittances to USD 76 billion.

Arising from the Brief 34, there are five initiatives which India as a country, with cooperation among the Union government and the states, needs to undertake to sustain India's first rank among remittance receiving countries in an increasingly challenging environment. An important implication of the Brief 34 is that India has a major stake in the continued prosperity and stability of the United States, Europe, Japan, and their allies.

First, keeping growth robust, and pursuing macro-economic and financial stability, while ensuring that global perceptions about India addressing its development challenges are essential. This also recognizes using India's soft power more purposefully and strategically.

The second initiative which India's Union and concerned State governments need to undertake is to expand the stock and flow of India's cross-border workers, while taking explicit measures to re-skill its cross-border workers towards higher value-added economic activities. Sharp reductions in Indian remittances in 2020 received from the United Arab Emirates and Saudi Arabia lend urgency to this initiative. Kerala as a sending state is in a good position to focus on this shift; while Uttar Pradesh, Odisha, Assam, and Bihar could consider creating special programs to increase their number of cross-border migrant workers. The program to provide certification under the Skill India initiative has merit as such certification could increase market value and acceptance of construction, and other workers from India[2].

Third, India needs to incorporate in its economic and strategic diplomacy objectives to expand the number of its diaspora in countries with very small presence currently, such as Japan, Brazil, South Africa, South Korea, Taiwan, Russia, and its neighbours such as Myanmar.

Fourth, India could considers shifting its attention almost solely from remittances receipts to utilizing knowledge, skills, and entrepreneurship of migrant workers, especially those returning, to generate more local growth nodes.

Fifth, there are several remittance corridors where costs for sending money to India are high. These include India-Thailand, India-Japan, and India-South Africa as was indicated in the previous section. India should use its FIN-Tech expertise to help reduce costs in these corridors to help improve incomes and welfare of its remittance sending workers.

1. https://www.knomad.org/sites/default/files/2021-05/Migration%20and%20Development%20Brief%2034_0.pdf- (https://www.knomad.org/sites/default/files/2021-05/Migration%20and%20Development%20Brief%2034_0.pdf-) Accessed on 14 May 2021
2. https://skillingindia.in/ (https://skillingindia.in/)-Accessed on 13 May 2021

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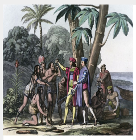(https://www.myind.net/Home/viewArticle/-from-privilege-to-pillage-white-lies-unlimited)

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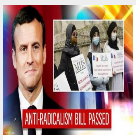

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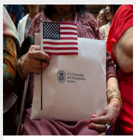(https://www.myind.net/Home/viewArticle/legal-immigration-of-indians-to-the-us-it-is-the-taxes-stupid)

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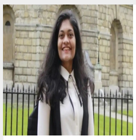(https://www.myind.net/Home/viewArticle/being-hindu-doesnt-make-me-intolerant-rashmi-samant-who-quit-as-president-elect-of-oxford-student-union-after-hinduphobic-slurs-from-faculty)

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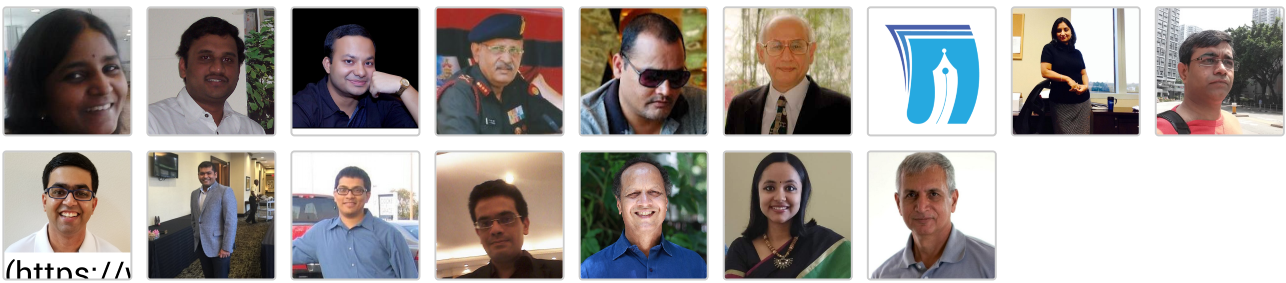

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