Outlook for Remittance Flows 2010-11

Remittance flows to developing countries remained resilient in 2009, expected to recover during 2010-11

By Dilip Ratha, Sanket Mohapatra, and Ani Silwal

- Officially recorded remittance flows to developing countries reached $316 billion in 2009, down 6 percent from $336 billion in 2008. With improved prospects for the global economy, remittance flows to developing countries are expected to increase by 6.2 percent in 2010 and 7.1 percent in 2011, a faster pace of recovery in 2010 than our earlier forecasts.

- The decline in remittance flows to Latin America that began with the onset of financial crisis in the United States appears to have bottomed out since the last quarter of 2009. Remittance flows to South Asia (and to a smaller extent East Asia) continued to grow in 2009 although at markedly slower pace than in the pre-crisis years. Flows to Europe & Central Asia and Middle-East and North Africa fell more than expected in 2009.

- These regional trends reveal that: (a) the more diverse the migration destinations, the more resilient are remittances; (b) the lower the barriers to labor mobility, the stronger the link between remittances and economic cycles in that corridor; and (c) exchange rate movements produce valuation effects, but they also influence the consumption-investment motive for remittances.

- The resilience of remittances during the financial crisis has highlighted their importance in countries facing external financing gaps. Remittances are now being factored into sovereign ratings in middle-income countries and debt sustainability analysis in low-income countries. Countries are also becoming increasingly aware of the income and wealth of overseas diaspora as potential sources of capital. Some countries are showing interest in financial instruments such as diaspora bonds and securitization of future remittances to raise international capital.

Trends in 2009

The latest annual, quarterly and monthly data reported by central banks show that officially recorded remittance flows to developing countries reached $316 billion in 2009, down 6 percent from a revised $336 billion in 2008 (table 1). Unlike private capital flows which declined sharply during the crisis, remittance flows have remained resilient and have become even more important as a source of external financing in many developing countries (figure 1).

Remittance flows to Latin America and the Caribbean region are estimated to have fallen by 12 percent in 2009, to Eastern Europe and Central Asia by 21 percent, and to the Middle East and North Africa region by 8 percent (table 1). In South Asia, there was a moderation in the growth of remittance flows in 2009, to 5 percent, marking a sharp deceleration from the rapid growth rates of earlier years. Flows to

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1 Migration and Remittances Team, Development Prospects Group, World Bank. We would like to thank Uranbileg Batjargal for assistance with updating remittances data, and Sonia Plaza, Neil Ruiz, and Elina Scheja for comments.
East Asia and the Pacific region have remained flat. Remittance flows to Sub-Saharan Africa have also remained essentially flat in 2009, falling by a modest 3 percent.2

Final data on inward and outward remittance flows is now available for most countries for 2008. These data show that officially recorded remittance flows to developing countries reached $336 billion in 2008, about $2 billion lower than our earlier estimate of $338 billion. The difference for 2008 is mainly due to a smaller reported figure for migrant remittance flows to India of $49.9 billion compared to $51.6 billion estimated earlier, and small revisions to data for a few other countries (see box 1 for top recipients).

Box 1: Top 20 remittance recipients

After the latest revisions to data for 2009, India, China, Mexico and Philippines retain their position as the top recipients of migrant remittances in US$ terms. Other large recipients among developing countries include Bangladesh, Nigeria, Poland, Pakistan, Egypt and Lebanon (box figure 1). The top 20 recipients list also includes some high-income countries such as France (5th place), Spain (7th place), Germany (8th place), Belgium (10th place), and UK (13th place), although remittances are a relatively miniscule share of GDP in these countries.

The top recipients in terms of the share of remittances in GDP in 2008 include many smaller economies such as Tajikistan, Tonga, Moldova, Kyrgyz Republic, Lesotho, Samoa and Lebanon; in these countries remittances exceeded a quarter of the GDP, providing a lifeline to the poor. Note that remittances as a percent of GDP are expressed in 2008 terms since the latest available final GDP data is for that year.

Box figure 1: Top 20 recipients of migrant remittances

(US$ billion, 2009e)

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<thead>
<tr>
<th>Country</th>
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<td>India</td>
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<td>China</td>
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<td>Philippines</td>
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<td>Vietnam</td>
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<td>Indonesia</td>
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<td>Morocco</td>
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(US$ billion, 2009e)

<table>
<thead>
<tr>
<th>Country</th>
<th>% of GDP, 2008</th>
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<tr>
<td>Tajikistan</td>
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<td>Tonga</td>
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<td>Moldova</td>
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<td>Kyrgyz Republic</td>
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<td>Lesotho</td>
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<td>Bangladesh</td>
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<td>Philippines</td>
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Source: Same as table 1.

2 There are also downside risks for several relatively large remittance-recipient countries that don’t have reliable estimates of remittance flows in 2009, including Algeria, Slovak Republic, Tunisia, and Nigeria. If flows to these countries decline sharply in 2009 compared to the previous year, this could reduce remittance flows to developing countries by up to $2 billion.
Figure 1: Remittances fell modestly during the crisis, but remained more resilient than private capital flows (see box 2)

Box 2: Resilience of remittance flows relative to other types of flows during the current crisis

Despite a modest decline in remittance inflows, these flows have remained more resilient compared to many other types of resource flows such as private debt and equity flows and foreign direct investment, which declined, or, in the case of portfolio flows, became negative in 2009 as foreign investors pulled out of emerging markets. There are several reasons for the resilience of remittances in the face of economic downturns in host countries:

(a) Remittances are sent by the cumulated flows of migrants over the years, not only by the new migrants of the last year or two. This makes remittances persistent over time. If new migration stops, then over a period of a decade or so, remittances may stop growing. But they will continue to increase as long as migration flows continue.

(b) Remittances are a small part of migrants’ incomes, and migrants continue to send remittances when hit by income shocks.

(c) Because of a rise in anti-immigration sentiments and tighter border controls, especially in the U.S and also in Europe, the duration of migration appears to have increased. Those staying back are likely to continue to send remittances.

(d) If migrants do indeed return, they are likely to take back accumulated savings. This may have been the case in India during the Gulf war of 1990-91 which forced a large number of Indian workers in the Gulf to return home (Ratha 2003, p 163). Also the “safe haven” factor or “home-bias” can cause remittances for investment purposes to return home during an economic down turn in the host country.

(e) Several high-income OECD remittance source countries have undertaken large fiscal stimulus packages in response to the financial crisis. This increase in public expenditure increased demand for both native and migrant workers. Taylor (2000) found that public income transfer schemes in the United States resulted in increased remittances to Mexico – other things being equal, immigrant households that received Social Security or unemployment insurance were more likely to remit than other immigrant households.

Source: Migration and Development Briefs 9 and 11.
Regional trends

In Latin America and the Caribbean, the large decline in remittance flows that coincided with the start of the crisis in the U.S in September 2008 appears to have bottomed out since the last quarter of 2009, and flows are expected to recover in tandem with the recovery in the United States (figure 2). Flows to Jamaica have been positive since November 2009, while those to El Salvador, Honduras and Guatemala became positive in March 2010. (Note that the three-month moving average in the chart reflects the latest changes only with a lag). Remittance to Mexico declined sharply during 2009. Many migrants from Mexico are in the construction sector in the US, where new housing construction has declined to well below the historical average (see next section). In Haiti, which experienced a devastating earthquake in January 2010, there are anecdotal reports that remittances have increased after the earthquake (see box 3).

Figure 2: The steep decline in remittance flows to Latin America and Caribbean has bottomed out, with signs of recovery

Note: Mexico saw an unusual increase in remittances in October 2008 because of a sudden depreciation of the peso; this resulted in a historically large 36 percent decline in October 2009 (first chart above). The dotted line in the chart corrects for this anomaly by smoothening remittance flow in October 2008.

Source: Central banks of the respective countries.

In contrast, remittances flows to South Asia (and to a lesser extent, East Asia) continued to grow in 2009, although at markedly slower pace than in the pre-crisis years. Private transfers to India comprising mostly remittances from its emigrants remained almost flat between 2008 and 2009 – a relatively sharp decline in the first quarter of 2009 was compensated by growth in the remaining quarters (figure 3).

Remittance flows to Bangladesh and Pakistan grew robustly during 2009, but these flows have been decelerating since the last quarter of 2009, with the overall trend dominated by slower growth in flows from the Gulf Cooperation Council (GCC) countries (figure 4). Overall, new migration flows from Bangladesh have been falling since mid-2009, but the pace of decline has stabilized. In the Philippines, the growth of remittance flows slowed during the crisis, but has remained positive (figure5).

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3 Remittance flows from GCC were 65% and 56% of all remittances send to Bangladesh and Pakistan, respectively, in 2009. The Pakistan remittance initiative (PRI) was launched to facilitate remittance transfers by migrants through formal remittance channels. It reimburses a part of the expenses of banks providing remittance services, significantly reducing the cost of transfers for migrants (See http://www.pri.gov.pk)
Box 3: Remittances in Haiti

According to official statistics about one million Haitians live overseas, about half of them in the United States. Unofficial estimates tend to be significantly larger, with, newspapers reporting one million Haitians alone in the neighboring Dominican Republic. Officially recorded remittance flows to Haiti were $1.4 in 2008, but the true size is likely to be in the range of $2 billion or higher – more than quarter of its national income. In a laudable measure that will benefit Haitians more than any other aid and assistance, announced just three days after the devastating earthquake in Haiti, the United States granted temporary protected status (TPS) for 18 months to Haitians already in the US. The TPS allows over 200,000 Haitians currently residing in the US without proper documents to live and work in the US legally, without a fear of deportation. It also allows them to send money home quickly and efficiently through formal remittance channels.

If the TPS resulted in a 20 percent increase in the average remittance per migrant, we would expect an additional $360 million remittance flows to Haiti in 2010. If the TPS were to be extended once beyond the currently stipulated 18 months, additional fund flows to Haiti would exceed a billion dollars over three years. Financial help in the form of remittances from family members abroad is always the first to arrive in times of distress. Remittances to Haiti this year are reported to be increasing, as they have done whenever and wherever there has been a crisis or natural disaster.

Long lines seen in front of money transfer companies in the immediate aftermath of the crisis have now become shorter, but the challenge of accessing remittances from overseas, especially from migrant relatives who lack proper immigration papers, remains. Under normal circumstances, the fees for sending $200 to Haiti through money transfer companies averaged $14 in the US, and almost double, $25, in the Dominican Republic. Some money transfer companies temporarily waived fees, but obtaining local currency at the right exchange rate remains costly. In the medium-term, there is a need to leverage remittance inflows for local and national development, without directly interfering with them. The challenge for the government and the donor community would be to tame the temptation to treat remittances as a substitute for aid or public spending on rebuilding efforts, especially in communities where migrants’ relatives reside.


Figure 3: Private transfers to India are recovering after a sharp decline in first quarter of 2009

Note: Private transfers comprise mostly remittances from Indian migrants, but also include other transfers.
Source: Reserve Bank of India
Figure 4: Remittances flows from GCC countries have been decelerating

Source: Central banks of Bangladesh and Pakistan

Figure 5: The growth of remittances to the Philippines slowed during the crisis, but pace of growth has picked up in recent months

Source: Central bank of the Philippines

Remittance flows to Europe and Central Asia and to Middle-East and North Africa fell more than expected in 2009, in part because of a depreciation of the ruble relative to the US dollar and also because of larger-than-expected declines in flows to Poland and Romania (see next section). Data on remittance flows to Sub-Saharan Africa are sparse, but these flows appear to have declined only modestly in 2009.

An analysis of regional trends and outlook reveals the following:

- The more diverse the migration destinations, the more resilient are remittances;
- The lower the barriers to labor mobility, the stronger the link between remittances and economic cycles in that corridor; and
- Exchange rate movements produce valuation effects, but they also influence the consumption-investment motive for remittances.

(a) The more diverse the migration destinations, the more resilient are remittances

Remittance flows to Latin America and the Caribbean are highly correlated with the business cycle of the US. Since economic cycles in the Gulf region are different from that of the US, remittance flows to countries that send migrants to both the US and the Gulf (for example, India and the Philippines) tend to be more resilient. The migration destinations of India are diversified, which is one of the reasons why flows to India fell only modestly in 2009. Recent estimates of migrant stocks show that about two-fifth
of Indian migrants are in the Gulf, and a fifth are in North America, with the remainder in Europe, Australia, Bangladesh, Nepal, and other regions. Filipino migrants are also well-diversified in terms of destinations, with land-based workers in the US, Gulf, Europe and other continents, and a significant number of sea-based workers.

The composition of migration has been shifting during the crisis, with migrants switching across sectors and countries. For example, in the Gulf, now that the massive construction projects such as Burj Dubai are completed and with the debt crisis in Dubai, there is a slowdown in new construction projects, and therefore in demand for new migrants. Many migrants are moving on to Abu Dhabi and other oil-rich Emirates and neighboring countries where huge infrastructure investments are going on. In recent months, remittances flows to Bangladesh and Pakistan appear to be shifting to countries other than UAE. The share of remittances from UAE in overall remittance flows from the GCC countries to Bangladesh has fallen, but that of Saudi Arabia has risen (figure 6). Saudi Arabia has also become an increasingly important destination of migrants from the Philippines. Between 2005 and 2008, the share of Saudi Arabia in Filipino migrant deployments went up from 20 percent to 30 percent. Together with the higher level of earnings and sectoral diversification in health, domestic work, and other sectors, this has cushioned the fluctuation of overall remittances to the Philippines.

Figure 6: Saudi Arabia’s share in remittance flows to Bangladesh from the GCC countries has increased in recent months

(b) The lower the barriers to labor mobility, the stronger the link between remittances and economic cycles in that corridor

The impact of the crisis has been more severe in corridors with fewer restrictions on labor mobility. Russia’s relatively porous border with neighboring countries allows migrants to move in and out of the country in response to changing economic prospects, with the result that remittances are more correlated with the business cycle in the source country. Remittance outflows from Russia to CIS countries fell sharply by 33 percent during the first three quarters of 2009. With increasing oil prices, however, outward remittance flows from Russia are starting to recover (figure 7).

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4 A recent survey by India’s central bank, however, suggests that about two-fifth of remittances came from North America and a quarter from the Gulf, reflecting the higher incomes of Indian migrants. ("Remittances from Overseas Indians: Modes of Transfer, Transaction Cost and Time Taken", Reserve Bank of India, April 13, 2010)
5 UAE accounts for nearly four-fifths of all GCC projects that are on hold, but the majority of projects in other GCC countries are underway as planned. The value of all projects planned or under way in GCC rose five-fold between 2005 and 2009, but has slowed sharply during the crisis. 50 percent of projects in UAE are on hold, while only 11 percent of projects in other GCC countries are on hold as of April 2010 (Middle East Economic Digest http://www.meed.com)
On the other hand, remittances outflows from Saudi Arabia have been less correlated with oil prices. This is in part because of Saudi Arabia’s ambitious development plans and counter-cyclical fiscal policy, but also because it has quotas on immigration that it has enforced strictly.\(^7\)

**Figure 7:** Remittance outflows from Russia declined sharply during the crisis, but are starting to increase with recovery in oil prices and growth

Source: IMF balance of payments and DECPG commodities team

As the labor markets are relatively integrated within the EU, migration is more responsive to economic cycles of the destination and source countries.\(^8\) Remittance flows to Poland and Romania fell between 2008 and 2009 (figure 8). This sharp decline is partly due to weak labor markets in Spain and Italy, but also because of ability of workers within the EU to easily move in and out of countries in response to changes in labor demand.

**Figure 8:** Remittance inflows to Poland and Romania fell sharply in 2009 as some migrants moved back to their home countries

Source: IMF balance of payments and World Bank Migration & Remittances team

In countries where it is more difficult to re-enter after leaving, migrants have chosen to remain in their host countries. For example, many migrants from South Asia have stayed on in Dubai during the crisis,

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\(^8\) Spain is a major migrant destination for Eastern Europe, South America and North Africa, while Italy is a destination of migrants from Eastern Europe and North Africa. The largest immigrant groups from developing countries among Spain’s 5 million immigrants include migrants from Romania, Morocco, Ecuador, Colombia, Bulgaria, Argentina, Peru and Brazil, according to Spain’s National Statistical Institute (http://www.ine.es)
even at the cost of losing legal status in many cases. Many are coping with the crisis by cutting consumption and sharing accommodation. Many have sent their families back home, so the funds spent in Dubai are now remitted home. Many migrant workers, from Bangladesh in particular, appear to be stuck in Dubai because they cannot afford to return. Interviews with migrants suggest that it costs about 12,000 dirhams (about $3,300) to pay recruitment agencies and travel costs. At a monthly income below 900 dirhams (about $245), with little overtime, it can easily take a construction worker three years to save enough to repay the recruitment costs. Even with the crisis, migrants often cannot risk returning home. So many entered into creative arrangements (e.g., taking unpaid leave) with employers to simply wait it out in Dubai. Rising living costs in Dubai have also reduced remittances. The price of rice, a staple for many migrants, more than doubled in the last two years. Earlier, a construction worker spent roughly 150 dirhams (about $40) a month on food; now, he is spending between 350 and 400 dirhams ($95-$110). Also, this has increased the time it takes a migrant to pay back the recruitment fees.

(c) Exchange rate movements produce valuation effects, but they also influence the consumption-investment motive for remittances

Exchange rate movements affect the U.S. dollar valuation of remittances. Remittance flows to the Kyrgyz Republic, Armenia, and Tajikistan declined in U.S. dollar terms during 2009, partly because of a depreciation of the Russian ruble by over 25 percent against the U.S. dollar during this period (figure 9). If measured in ruble terms, remittances to Tajikistan fell by a much smaller amount. Similarly, a part of the decline in remittance flows to Poland can be explained by the weakening of the British pound against the U.S. dollar.

Exchange rate movements also affect remittances through their impacts on consumption and investment motives. As highlighted in Migration and Development brief 11, the depreciation of the Indian rupee and the Philippine peso produced a “sale effect” on housing, bank deposits, stocks, and other assets back home. Indeed, as the Indian rupee has depreciated more than 25 percent against the U.S. dollar, there has been a surge in remittances for investment in cheaper assets in India. As the rupee has been appreciating since early 2009, this incentive may reverse.

Figure 9: Depreciation of the Ruble caused valuation effects, while that of the Indian rupee likely increased remittances sent for investment motives

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Local currency/US$

Source: Global Economic Prospects 2010 database
Leveraging remittances for external financing

Historically, remittances have been noted to be stable or even countercyclical, and have tended to rise in times of financial crises and natural disasters because migrants living abroad send more money to help their families back home. Unlike past emerging market crises or natural disaster, the current global financial crisis started in the high income countries and spread to the developing countries. This affected employment and income opportunities for migrants not only in the industrialized countries, but also in other destinations. For the first time since the 1980s, remittances to developing countries declined modestly in 2009. However, unlike private capital flows such as private debt and portfolio equity flows and foreign direct investment, which declined sharply during the crisis, remittance flows have remained resilient and have become even more important as a source of external financing in many developing countries.

The global financial crisis has highlighted the importance of remittances for meeting external financing gaps. Remittances have helped to build up international reserves, and have contributed to reducing current account deficits in many developing countries. This has provided a cushion against external shocks during the global economic crisis. In low-income countries, the current account deficit as percent of GDP would have more than doubled in the absence of remittances in recent years (figure 10). For some large remittance recipients such as the Philippines, Bangladesh and Nepal, remittance flows have offset large trade deficits and enabled these countries to maintain a current account surplus (figure 11).

Figure 10: Remittances have contributed to reducing current account deficits of low-income countries

<table>
<thead>
<tr>
<th>Current account balance as percent of GDP</th>
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<td>Including remittances</td>
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Remittances are now factored into sovereign ratings in middle-income countries and debt sustainability analysis in low-income countries. In large remittance-recipient countries, country creditworthiness analysis by the major rating agencies such as Standard & Poor’s, Moody’s and Fitch Ratings often cite remittances as a factor in their rating decisions. The stability of remittances to the Philippines was an important factor in its ability to issue a $750 million bond despite the global financial crisis. Bangladesh was rated for the first time in April 2010, receiving a BB- rating from Standard & Poor’s Investor Service and Ba3 from Moody’s Investor Service, similar to many emerging markets. Again, the high share of remittance flows in GDP and their high growth rate was cited by the rating agency as one of the important factors for their rating decision.

9 For example, remittance inflows increased to Mexico following its financial crisis in 1995, to the Philippines and Thailand after the Asian crash in 1997, and to Central America after Hurricane Mitch in 1998. More recently, remittances to the Philippines surged after typhoons Ondoy and Pepeng in September 2009.


Figure 11: Remittances have largely offset trade deficits in many middle- and low-income countries


The joint World Bank-IMF low-income country Debt Sustainability Framework now allows for more explicit consideration of remittances in evaluating the ability of the countries to repay external obligations and their ability to undertake non-concessional borrowing from private creditors. The debt-to-exports ratio, a key factor in sovereign ratings, would be lower if foreign exchange revenues from remittances were factored in the calculations (figure 12). Many IMF Article IV assessments of countries’ economic performance now include remittances as a variable alongside foreign direct investment and portfolio flows.

Figure 12: Remittances contribute to sovereign creditworthiness

As countries have become aware of remittances as a stable source of foreign currency earnings, many countries have started looking at the diaspora abroad as potential sources of capital that could be tapped with diaspora bonds. Many countries – for example, El Salvador, Ethiopia, Nepal, the Philippines, Rwanda, and Sri Lanka – have issued or are considering the issuance of diaspora bonds (see box 4).

Box 4: Diaspora bonds as a source of financing during difficult times

In the current environment of a severe crisis of confidence in debt markets, some developing (and even developed) countries are encountering a great deal of difficulty in obtaining private financing using traditional financial instruments. This scarcity of capital threatens to jeopardize long-term growth and employment generation in developing countries, many of which have limited access to capital even in the best of times. Official aid alone will not be adequate to bridge near- or long-term financing gaps. Ultimately, it will be necessary to adopt innovative financing approaches to target previously untapped investors. Diaspora bonds are one such mechanism whereby developing countries turn to borrowing from their expatriate (diaspora) communities. A diaspora bond is a debt instrument issued by a country—or potentially, by a sub-sovereign public or private entity—to raise financing from its overseas diaspora. In the past, diaspora bonds have been used by Israel and India to raise over $35 billion of development financing. The proceeds from these bonds were used to support balance of payments needs and finance infrastructure, housing, health, and education projects. Several countries—for example, El Salvador, Ethiopia, Nepal, the Philippines, Rwanda, and Sri Lanka—are considering (or have issued) diaspora bonds recently to bridge financing gaps.

For example, in the case of Haiti, if 200,000 Haitians in the US, Canada and France were to invest $1,000 each in diaspora bonds, it would add up to $200 million. If these bonds were opened to friends of Haiti, including private charitable organizations, much larger sums could be raised. If the bond rating were enhanced to investment grade rating via guarantees from the multilateral and bilateral donors, then such bonds would even attract institutional investors.

For the countries, diaspora bonds represent a stable and cheap source of external finance, especially in times of financial stress. For the diaspora investors, these bonds offer the opportunity to help their country of origin while at the same time offering an investment opportunity. Besides patriotism, diaspora members are usually more interested than foreign investors in investing in the home country. However, in countries that have weak governance and high sovereign risk, diaspora bonds may require support for institutional capacity building and/or credit enhancement from multilateral or bilateral agencies. Compliance with securities and exchange regulations overseas can also be cumbersome in some migrant-destination countries.


### Structural and policy changes in the remittance markets

The global financial crisis has intensified efforts to reduce remittance costs and leverage remittances for improving financial access. Many banks and operators are cutting remittance fees. This is partly because of the global financial crisis, which has caused the market to shrink in several corridors (especially from US to Latin America), and more intense competition. For example, remittance fees from the UAE to South Asia, a high volume-corridor, are often under $1 per transaction.

Africa is now at the forefront of mobile money transfer technologies. Kenya’s M-Pesa now has more than 9 million subscribers. While M-Pesa is mostly focused on domestic money transfers in Kenya with a small pilot scheme for UK-Kenya remittances, a Kuwaiti mobile operator Zain has expanded to 15 African
countries and has 42 million subscribers.\textsuperscript{13} It offers Zain Zap, a mobile remittance service, which in addition to money transfers, also offers other services such as payment for bills and groceries.

New remittance technologies are also being adopted in South Asia. In Bangladesh, Banglalink, the second largest mobile operator in Bangladesh after GrameenPhone with 13 million subscribers, is launching a mobile remittance service in partnership with several Bangladesh banks. These banks will offer “mobile wallet” accounts through Banglalink and Banglalink distribution outlets will be used as remittance disbursement cash points. The services will reduce transfer time from 4-5 days to 1 day.\textsuperscript{14} A remittance card introduced in Bangladesh for existing and prospective migrants allows nominees of the migrant worker to withdraw the remittance through the point-of-sale (POS) terminals of bank branches and automatic teller machines (ATMs). In Pakistan, Telenor, one of the largest mobile operators in Pakistan, has extended its domestic EasyPaisa service from money transfers and bill payments to offering savings accounts for the unbanked.\textsuperscript{15}

The Philippines central bank is introducing a lower-cost real time gross settlement (RTGS) system. The Philippine Payments and Settlement (PhilPaSS) system, planned for implementation in the second quarter of 2010, would ensure same-day settlements of transactions and reduce fees to a maximum of 100 Philippines Pesos (about $2.25) per transaction.

\textbf{Market competition} can often pressure businesses to provide customized remittances and other financial services for the poor at market prices, although businesses usually vying to serve wealthier customers.\textsuperscript{16} Competition has pushed many remittance service providers to send remittance agents to the migrant camps to provide remittance services to poor migrant workers from Bangladesh and the Philippines and other countries. But in addition to providing a standard remittance service, they also provide deposit and loan services customized to the needs of migrants. When small numbers add up to create large profit opportunities, such services are likely to be more sustainable over time than those relying on public or private subsidies. The remittance market in Abu Dhabi and Dubai is large.\textsuperscript{17} As information about the size of the market has become more credible, competition among remittance service providers has become intense.

There were some negative developments in the remittance market in the US in 2009. Oklahoma has introduced a \textit{tax on wire transfers} of $5 per transaction up to $500, and one percent for transactions of more than $500. The proceeds will go into a fund aimed at combating money laundering and drug trafficking. A similar tax is being considered by some other US states such as Kansas. Such a tax would significantly raise the costs of transfers for migrant workers, many of whom do not have bank accounts and rely on money transfer operators to send money home. Such actions also risk driving flows underground. Mexico’s provincial governors have requested their government to intervene with US authorities and have passed resolution criticizing this policy.\textsuperscript{18}

\begin{itemize}
\item \textsuperscript{13} “Low-cost bundle” Economist, February 18, 2010 (http://www.economist.com/business-finance/displaystory.cfm?story_id=15546456)
\item \textsuperscript{14} “Probashi Agrani Remittance Card launched”, Financial Express Bangladesh, April 17, 2010. (http://www.thefinancialexpress-bd.com/more.php?news_id=97760&date=2010-04-17)
\item \textsuperscript{15} See http://www.easypaisa.com.pk/
\item \textsuperscript{17} Annual outward remittances from the UAE exceed $10 billion and some estimates suggest they may be closer to $15 billion. (UAE does not report this estimate to the IMF Balance of Payments).
\item \textsuperscript{18} “Mexican Congress Denounces Oklahoma.” \textit{Tulsa Today}. April 12, 2010.
\end{itemize}
Remittances and microfinance: A tenuous link?

There are several pilot programs to link remittances to financial inclusion for households, but the scale of such programs to date remains limited.\(^{19}\) With the recent increased popularity of microfinance, a number of microfinance institutions are looking into provision of remittance services. Some microfinance institutions are beginning to use the history of remittances as a way to evaluate creditworthiness of their poor customers who often cannot provide proof of income. Also several microfinance agencies are trying to earn remittance fee income. Some early evidence (from 2004-2005) from the World Council of Credit Unions showed that when people enter a credit union branch to send or receive remittances, remittance senders and receivers both end up opening an account and leave some money behind for use later.\(^{20}\)

Universal Postal Union is also working with a remittance software platform to provide remittance services through member post offices, earn remittance fees and at the same time cross-sell postal saving products. World Saving Bank Institute is trying to promote a link with remittances and savings with member saving banks. An early scheme to link remittances to micro-saving was by Cemex, the cement company from Mexico which was trying to encourage microsaving from migrants for building houses in installments. Later a Bancomer affiliate piloted a scheme in New York suburbs to provide housing finance to migrants who send remittances through its branches. There are pilot products linked to remittances to provide car loans to migrants in the US for purchasing cars in Mexico, in the Gulf for cars in the Philippines, and life insurance to remitters to guarantee continuation of remittance flows for 12 months or more in the event of remitter’s death.

While the goal of expanding remittance services to underserved poor customers is laudable, the idea of using remittance fees to cross-subsidize microfinance products is less appealing as this involves one set of poor people subsidizing another set of poor people. Microfinance customers are also not always remittance recipients, and vice versa, except in communities that have a large concentration of migrants or remittance-recipients.

Outlook for migration and remittances in 2010-11

In line with the World Bank’s and IMF’s projections of a robust economic recovery in 2010, remittance flows to developing countries are projected to grow by 6.2 percent in 2010 and 7.1 percent in 2011 (table 1). However, because of the decline in 2009 and uncertain prospects for employment, they are not expected to grow as rapidly in the post-crisis period compared to the pre-crisis period.

The projections of remittance flows based on the World Bank’s latest forecasts of global economic growth and the latest estimates of bilateral migration stocks for 2010 show that remittance flows to developing countries would reach $335 billion in 2010, almost the same level reached in 2008 (see box 5 for a description of the forecast methodology).

Remittance flows to developing countries are forecast to increase at more sustainable rates than in the pre-crisis period. These flows grew much faster than GDP growth prior to 2009 because of a number of reasons, including increase in employment and incomes of migrants drawn by booming economies in the OECD and non-OECD high income countries, a shift from informal to formal channels, and better recording of flows.

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20 Kenya’s M-Pesa also creates deposits to the extent there is a lag between a deposit by a remitter and withdrawal by the beneficiary. These deposits do not earn any interest rates, presumably because MPesa (and parent Safaricom) wants to avoid coming under Banking regulations (so the interest earnings are put in a trust fund).
In the post-crisis period, the growth of remittances will be moderated by uncertain employment prospects in high income OECD countries. Even with projections of economic recovery, unemployment rates in the advanced economies are projected to remain high during 2010 and 2011 (figure 13). The difficult employment situation in Europe and anti-immigration sentiment in some countries will affect migration flows from Sub-Saharan Africa, Middle-East and North-Africa, and South Asia.

Figure 13: Unemployment rates are expected to remain high in high-income OECD countries in 2010-11

![Unemployment rate estimates and forecasts for advanced economies (%)](image)

*Source: IMF World Economic Outlook April 2010, Chapter 3 (p. 27)*

In the US, the largest destination of migrants, one in ten workers is unemployed. High unemployment rates in the US, combined with robust economic recovery in some source countries such as China and India (which are forecasted to grow by 10 percent and 8.8 percent, respectively, in 2010) implies that there may be now less of an incentive for high-skilled workers to attempt to migrate to the US (figure 14).

The decline in new housing construction in the US, a large employer of Mexican migrants, has leveled off, but construction activity is well below the historical average (figure 15). The growth of remittance flows to Mexico, which tends to be correlated with housing construction, is likely to be positive but remain sluggish in 2010.

Migration flows from all developing regions slowed during the global financial crisis, but did not turn negative, during the crisis. However, if high unemployment rates persist in the receiving countries, this may give rise to pressure to impose additional restrictions on new immigration. Immigration has also remained a contentious topic in the upcoming elections in the UK, with both the Labor and the Conservative parties supporting policies to limit immigration. Australia is also seeing increasing rhetoric for limiting new immigration.

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23 “Immigration: the 'silent' election issue” The Times, April 12, 2010. http://www.timesonline.co.uk/tol/news/politics/article7094942.ece
Figure 14: Fall in demand for (and supply of) high-skilled foreign workers is reflected in fewer applications for temporary worker visas in the US

Number of days to reach H1-B visa quota in US

The chart shows applications for the upcoming fiscal year, which runs from October to September. Source: USCIS

Figure 15: Housing construction in the US has started to recover, but from a low base – which may keep remittances to Mexico subdued

Prospects for migrant employment appear to be relatively better in non-OECD countries such as GCC countries, Malaysia, South Korea, and Russia. Employment prospects in the Gulf region, Russia and other oil exporting countries are expected to improve on the back of rising oil prices, which might increase demand for migrant labor. Malaysia has already increased its quotas for Nepali workers.  

The forecasts for remittance flows for 2010 and beyond are based on stocks of migrants in different destination countries and estimates of how changes in income of migrants influence remittances sent by these migrants. Remittance flows are broadly affected by three factors: the migrant stocks in different destination countries, incomes of migrants in the different destination countries, and to some extent incomes in the source country (see Ratha and Shaw 2007 for a discussion of these and other factors). Remittances received by country $i$ from country $j$ can be expressed as

$$R_{ij} = f(M_{ij}, y_i, y_j)$$

where $M_{ij}$ is the stock of migrants from country $i$ in country $j$, $y_i$ is the nominal per capita income of the migrant-destination country, and $y_j$ is the per capita income of the remittance-receiving country. The bilateral remittance matrix of Ratha and Shaw (2007) is re-estimated using the bilateral migrant stocks data above to arrive at estimates of remittance intensities $l_i$ (the share of remittance outflows in nominal GDP $Y_j$ of each source country $j$ going to receiving country $i$).

$$l_{ij} = r_{ij}/l_j$$

where $r_{ij}$ is the share of country $j$'s remittances going to country $i$, and $l_j$ is the share of remittance outflows in nominal GDP of source country $j$.

During the pre-crisis period, remittances grew faster than GDP of remittance-source countries because of a number of factors, including improvements in remittance technologies, falling costs, and steady increase in migrant stocks. For the post-crisis period (2010 and beyond), the elasticity of remittances ($R_j$) with respect to migrant incomes ($MY_j$) is assumed to be half of the pre-crisis period, with an upper bound of 3 and lower bound of 1, with the view that remittances would grow at a lower, more “sustainable” rate, in the post-crisis period. These remittance elasticities are used to forecast remittance outflows from each remittance-source country in 2010 and beyond using the latest available forecasts of gross domestic product from the World Bank, using the following formula:

$$\hat{R}_j^t = R_j^{t-1} \left(1 + n_j l_j \right) \log \left( MY_j^t / MY_j^{t-1} \right)$$

The forecasts of outflows and estimated remittance intensities are used to arrive at the estimates of inflows for each remittance-receiving country $i$.

$$\hat{R}_i^t = \sum_j r_{ij} R_j^t$$

For this purpose, the bilateral migration matrix developed by Ratha and Shaw (2007) was updated with immigrant stock data from various sources to provide the most comprehensive estimates of bilateral immigrant stocks worldwide in 2010 (This dataset is described in the forthcoming Migration and Remittances Factbook 2010).
Table 1: Outlook for remittance flows to developing countries, 2010-11

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*e* = estimate; *f* = forecast

*Source:* Authors’ calculation based on data from IMF Balance of Payments Statistics Yearbook 2009 and data releases from central banks, national statistical agencies, and World Bank country desks. See Annex 1 for the methodology for the forecasts. Remittances are defined as the sum of workers’ remittances, compensation of employees, and migrant transfers – see www.worldbank.org/prospects/migrationandremittances for data definitions and the entire dataset.

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