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Resilient Remittances

The money that migrant workers send home provides stable income to millions of people in developing economies

Dilip Ratha

REMITTANCES SENT HOME BY migrant workers provide vital income to millions of people in developing economies. A growing income gap between richer and poorer nations, demographic pressures, and changes to the planet itself will add to the number of people who migrate in search of economic opportunity. This will, in turn, fuel the flow of remittances for decades to come.

According to official statistics, global remittances reached a record \$647 billion in 2022—three times official development assistance. In fact, remittances are worth more than that because many people send money through informal channels not captured by official statistics. Egypt's remittance receipts are greater than revenue from the Suez Canal; Sri Lanka's exceed tea exports; Morocco's are larger than tourism earnings.

India is the world's largest recipient. In 2022, it became the first country to receive more than \$100 billion

in annual remittances. Mexico, China, and the Philippines are also large recipients. For smaller countries or those caught up in conflict, these transfers are especially vital. Money from migrants is worth more than one-fifth of GDP in Tajikistan, Lebanon, Nepal, Honduras, The Gambia, and a dozen other countries.

Stable flows

At times of crisis, remittances provide a financial lifeline. Migrant workers usually increase the sums they send home in the aftermath of a natural disaster, say, so that stricken relatives can buy food or pay for shelter. Remittances are often stable even if the source country falls into crisis. During the early stages of COVID, in 2020, for instance, remittances fell by just 1.1 percent—in a year when global income shrank by 3 percent. Migrant workers played a pivotal role in the economy during the pandemic, both as highly skilled doctors and nurses and

as frontline delivery workers. The closure of money transfer operators during lockdowns disrupted remittance services, but people still sent money home through digital channels. Remittances recovered strongly and grew by almost 20 percent in 2021–22.

The United States is the largest source country for remittances, especially for Latin America and the Caribbean. Stricter border controls have trapped increasing numbers of migrants in transit countries, including in Mexico and Guatemala. A surprise result is an increase in remittance flows to transit countries as stranded migrants receive money from relatives. There's a similar story on Europe's borders, with more remittances going to trapped migrants in Morocco, Tunisia, and Türkiye for example. These flows are having a positive impact on host economies.

The Gulf Cooperation Council countries are the second-largest source of remittances in US dollar terms but by far the largest when remittances are measured as a share of their GDP. The proportion of foreign workers in the Gulf often exceeds 70 percent of the population. Saudi Arabia and the United Arab Emirates are large sources of remittances for South Asia, North Africa, and Southeast Asia. Yet growth in remittances from this region could shift. Governments in the Gulf are starting to recruit fewer foreign workers as part of a push to employ more locals and are diversifying recruitment of foreign workers, targeting those from Africa and Central Asia.

Russia is another large source of remittances. After the invasion of Ukraine in 2022, remittances to Central Asia rose sharply. This confounded expectations, especially after sanctions imposed via the SWIFT payment system. The rise stemmed from a spike in the price of oil—Russia’s principal export and the main driver of the ruble’s exchange rate. It meant that the value of ruble remittances was larger when expressed in dollars.

Expensive Africa

Sending money is often expensive. On average, customers must pay \$12.50 in costs whenever they send \$200 to a low- or middle-income country, according to World Bank data. That represents 6.3 percent of the transaction and is more than double the target set under the United Nations Sustainable Development Goals.

Africa is the most expensive place for money transfers, with remittance costs reaching 8 percent. More than two-thirds of cross-border migration in Africa takes place within the continent itself, and the flow of remittances between African countries is sizable. But the cost of multiple currency conversions, exchange controls, and a lack of interoperable payment systems all add to the expense of sending money.

Another factor that affects almost all countries is the partnership contracts between money transfer operators and national banks and post offices. It can, for instance, cost more than \$70 to send \$200 from Tanzania to Uganda—an eye-popping 35 percent of the transaction. Making it just 5 percentage points cheaper to send remittances would cut costs globally by nearly \$30 billion a year. Most of the savings would benefit poor migrants and their families in developing economies.

Digital wallets accessed via smartphones are the cheapest way to send money. Digital remittances have grown rapidly since the onset of COVID-19, but most remittance transfers still involve cash at one or both ends. The remittance market is notoriously oligopolistic—a cartel-like structure with a small number of providers exercising control through their own exclusive networks.

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Cumbersome regulations intended to combat money laundering and terrorism financing stifle competition. Every remittance transaction is treated with suspicion by the current rules-based approach to regulation. Many banks refuse to provide correspondent banking services to money transmitters, especially fintech start-ups, because they fear falling foul of the regulations. These “de-risking” practices have led banks to close the accounts of many money transmitters, especially those serving fragile economies, such as Somalia.

Remittance potential

When people cannot find regular channels to send money, they resort to irregular channels. This makes it more difficult to fight financial crime. A risk-based approach that reduces regulatory requirements for small sums (under \$200, say) could unlock the potential of cross-border digital remittances. Where regulations have freed fintech companies to take advantage of modern technology, the cost of sending remittances has fallen sharply.

With better regulation and lower costs, remittances have the potential to improve financial inclusion further. Remittances can be leveraged to broaden people’s access to bank accounts, as well as to saving, loan, and insurance products. Remittances can also give countries greater access to

international bond markets by improving debt sustainability and sovereign credit ratings. Future remittance revenue can be used as borrowing collateral. Commercial banks in Brazil, for instance, raised over \$1 billion at low interest rates in 2002 through bonds backed by future remittances from Japan. Remittance channels can mobilize diaspora savings, too. Nigeria raised \$300 million via diaspora bonds in 2017. India has tapped its large diaspora for almost \$10 billion this way.

Governments have, from time to time, tried to tax remittances. The revenue could, they say, be used for productive purposes. But taxes of this sort would be hard to enforce. People might simply shun formal remittance channels. Governments would do better to improve the business environment in their countries so that people choose to invest the money they receive from relatives overseas.

In many countries facing scarcity of foreign exchange, prevalence of parallel market premiums have encouraged remittance flows through informal channels. A combination of currency devaluation, higher interest rates on foreign currency deposits (and making such deposits repatriable), and elimination of surrender requirements can increase flows through formal channels.

Remittances will continue to grow. More than a billion people, most of them in Africa and South Asia, are expected to join the working-age population by 2050. By contrast, populations are aging in many advanced economies. This demographic imbalance will increase the supply of migrant workers and the demand for them. Climate change and extreme weather will add to migration pressures. As the number of migrants increases and cross-border payments become cheaper and simpler, remittances will continue to provide stable income to millions of people and play a vital part in the global economy. **F&D**

DILIP RATHA is a lead economist at the World Bank and an advisor to the Multilateral Investment Guarantee Agency.