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Remittance Trends 2007

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Recorded remittances to developing countries are estimated to reach $240 billion in 2007. The true size of remittances including unrecorded flows is even larger. A near stagnation in remittance flows to Mexico and a deceleration in other Latin American countries contributed to a slowdown in the rate of growth of remittances. Nevertheless, the growth of remittances to developing countries remains robust because of strong growth in Europe and Asia. The remittance industry is experiencing some positive structural changes with the advent of cell phone and internet-based remittance instruments. The diffusion of these changes, however, is slowed by a lack of clarity on key regulations (including those relating to money laundering and other financial crimes). Remittance costs have fallen, but not far enough, especially in the South-South corridors.

Table 1. Remittance flows to developing countries to reach $240 billion in 2007 ($ billion)

INFLOWS	2002	2003	2004	2005	2006	2007e	*Change 2006-07*	*Change 2002-07*
Developing countries	**116**	**144**	**161**	**191**	**221**	**240**	***8%***	***107%***
East Asia and the Pacific	29	35	39	47	53	58	*10%*	*97%*
Europe and Central Asia	14	17	21	29	35	39	*10%*	*175%*
Latin America and the Caribbean	28	35	41	49	57	60	*6%*	*115%*
Middle-East and North Africa	15	20	23	24	27	28	*7%*	*86%*
South Asia	24	30	29	33	40	44	*10%*	*81%*
Sub-Saharan Africa	5	6	8	9	10	11	*5%*	*116%*
Low-income countries	32	39	40	46	56	60	*9%*	*88%*
Middle-income countries (MICs)	84	105	121	145	166	179	*8%*	*114%*
Lower MICs	55	68	76	90	102	112	*10%*	*103%*
Upper MICs	29	37	45	55	63	67	*6%*	*136%*
High income OECD countries	53	60	67	68	72	74	*3%*	*40%*
High income non-OECD countries	1	2	3	4	4	4	*1%*	*298%*
World	**170**	**206**	**231**	**263**	**297**	**318**	***7%***	***87%***
OUTFLOWS	2002	2003	2004	2005	2006		*Change 2005-06*	*Change 2002-06*
Developing countries	20	24	31	36	44		*23%*	*226%*
High income OECD	88	100	113	124	136		*10%*	*64%*
High income non-OECD	23	23	22	24	27		*15%*	*20%*
World	131	147	166	183	207		*13%*	*74%*

Sources: Data through 2006 are authors' calculation based on data from *IMF Balance of Payments Statistics Yearbook* 2007. Data for 2007 are estimates based on this source and data releases from central banks, national statistical agencies, and World Bank country desks. 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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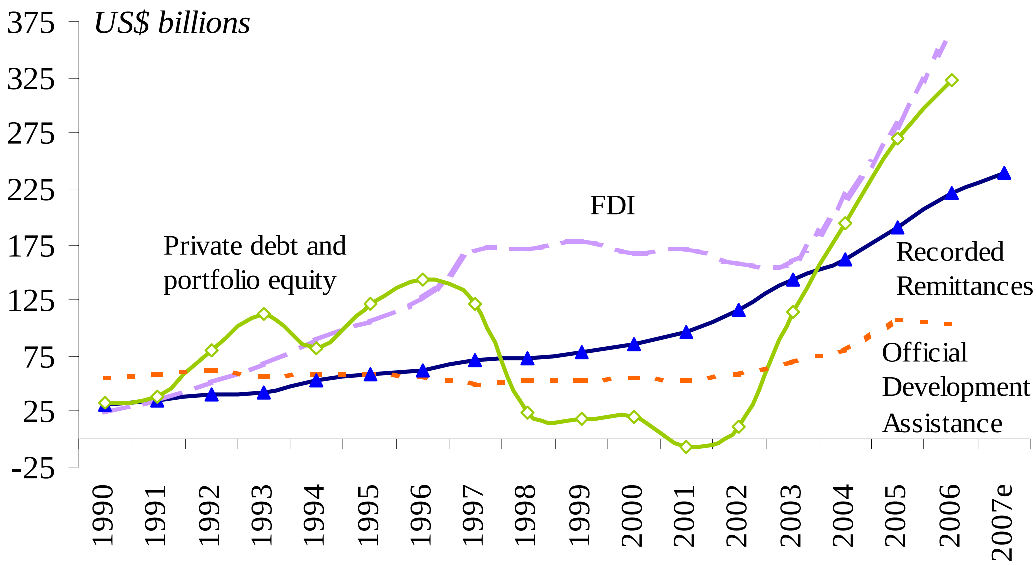
Remittance flows to developing countries to reach $240 billion in 2007

Worldwide flows of remittances are expected to reach $318 billion in 2007 (table 1). Of this amount, remittances sent home by migrants from developing countries are expected to exceed $240 billion in 2007, up from $221 billion in 2006 and more than double the level reached in 2002. This amount reflects only officially recorded transfers—the actual amount including unrecorded flows through formal and informal channels is believed to be significantly larger.[2] Recorded remittances are more than twice as large as official aid and nearly two-third of foreign direct investment flows to developing countries. Remittances are the largest source of external financing in many poor countries. Also remittances have been less volatile than other sources of foreign exchange earnings in developing countries (figure 1).

Figure 1. Remittances and capital flows to developing countries



Sources: *Global Economic Prospects 2006*: *Economic Implications of Remittances and Migration* (World Bank), *World Development Indicators 2007*, and *Global Development Finance 2007*.

This note describes broad regional and country specific trends in remittance flows worldwide, and highlights some structural changes that will affect remittance flows in future. The main messages are:

- Remittance flows to Latin America and the Caribbean slowed on the back of a weakening U.S. economy and tighter enforcement of immigration laws. Nevertheless, the growth of remittances to developing countries remains robust because of strong growth in Europe and Asia.

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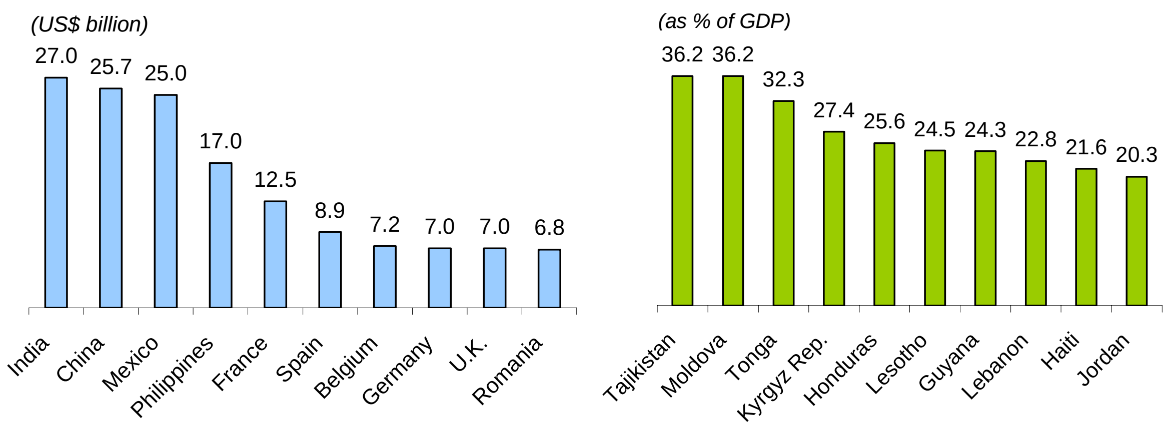
[2] A recent IFAD report (Sending Money Home, October 2007 - not to be confused with DFID's sendmoneyhome.org initiative) suggests that remittance flows to developing countries were about $300 billion in 2006. This figure is broadly consistent with the World Bank's earlier estimate of $208 billion (the current estimate is $221 billion) of recorded flows in 2006, plus an additional amount in the form of unrecorded remittances. Below the headline total, however, there are differences between the two datasets. The IFAD report appears to include retail payments for trade and investment purposes in some cases. The IFAD report generally estimates remittances by multiplying migrant stocks obtained from a bilateral migration database constructed for general equilibrium modeling with average remittances obtained from small-scale surveys, which may not have been nationally representative. These differences once again highlight the great need for improving the data on remittances.

- The remittance industry is experiencing some positive structural changes with the advent of cell phone and internet-based remittance instruments. These changes may have profound effects on remittance flows to previously underserved areas.
- The diffusion of these structural changes, however, is slowed by a lack of clarity on key regulations (including those relating to money laundering and other financial crimes).
- Remittance costs have fallen, but not far enough, especially in the South-South corridors.

Latin America and the Caribbean (LAC) region remains the largest recipient of (recorded) remittances. However, the growth of remittances to the region has slowed in recent months (see below). Remittance flows to Europe and Central Asia have registered the highest growth rate among six developing regions, mostly due to upward revision of data in some countries. As a share of GDP, remittances are the highest in the Middle East and North Africa region. Remittance flows to Sub-Saharan Africa are grossly underestimated, with wide gaps in data reporting in many countries.

In 2007, India, Mexico and China are likely to be the top 3 recipients of remittances, accounting for nearly one-third of remittances received by the developing countries. The top 10 recipients list also includes several high-income countries such as France, Spain and UK—these countries receive remittances mostly from the other high-income European countries. As a share of GDP, however, remittances to these countries were about 0.5 percent or less in 2007. In contrast, the top recipients in terms of the share of remittances in GDP included many smaller economies such as Tajikistan, Moldova, Tonga, Kyrgyz Republic and Honduras, where remittances exceeded a quarter of the GDP (figure 2).

Figure 2: Top remittance-recipient countries



Sources: Same as in table 1.

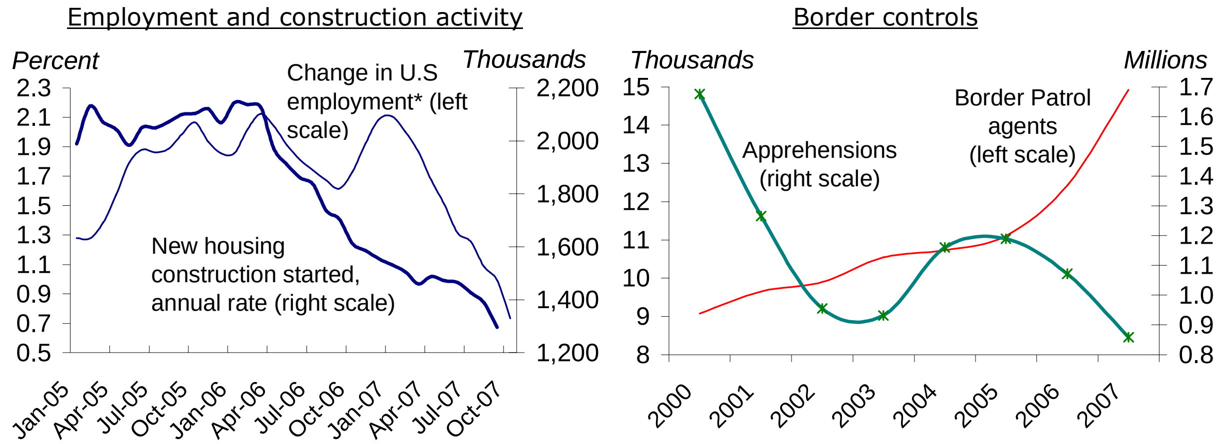
Several countries, notably Indonesia, Romania, Tajikistan and Azerbaijan, have revised upward their remittance data for recent years. Some countries (e.g., Lebanon) that had missing data before have started reporting remittance data on a regular basis. Data on remittance inflows and outflows, however, are still missing in many countries, including some developed countries such as Canada.[3]

[3] Compilation of accurate data on remittances remains a major challenge. Following a request from the G7 nations in June 2004, the World Bank, the IMF and the UN led an international working group to improve remittance statistics. This working group, now functioning as the "Luxembourg Group", has recommended that three new items – personal remittances, total remittances, and total remittances and transfers to nonprofit institutions serving households – be added to the Balance of Payments Manual, 6th Edition (BPM6). In addition to collecting information from remittance service providers, nationally representative surveys of recipients and senders may have to be conducted for estimating the flow of remittances.

A slowdown in remittance flows in the US-Latin America corridors

Although remittances to the Latin America and the Caribbean region continued to increase in 2007, including in Mexico, their rate of growth has slowed markedly, raising concern over the long-term sustainability of remittance flows. Remittances received by Mexico grew by only 1.4 percent year-on-year during the first nine months of 2007, compared to over 20 percent annual growth during 2002-2006. The slowdown in Mexico is partly due to the weak job market in the United States, especially in the construction sector (figure 3).[4] Perhaps more importantly the slowdown may be attributable to tighter border controls and increased anti-immigration sentiment in the United States. Apprehensions along the US-Mexico border have declined by nearly 50 percent from the level in 2000, indicating a decline in the number of migrants trying to enter the United States without proper documentation (figure 3). The stock of migrants may not have changed much, but the recent enforcement efforts appear to have reduced the number of seasonal migrants and their ability to send remittances, especially through formal channels.

Figure 3: Slowing job opportunities and stepped-up enforcement in the U.S



* Year-on-year growth of 3-month moving average of U.S employment.
Sources: Bureau of Labor Statistics, Current Population Survey; U.S Census Bureau; U.S Department of Homeland Security, TRAC (Syracuse University)

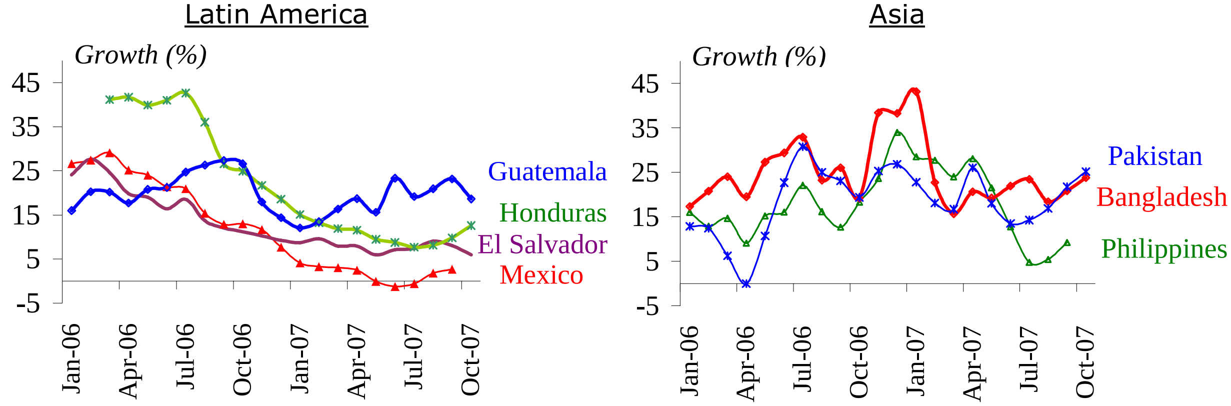
The deceleration in the growth of remittances is less marked in the Latin America and the Caribbean region outside Mexico. In El Salvador, remittance flows rose by 7.7 percent year-on-year in the first ten months of 2007; in Honduras, they rose by 11 percent; and in Guatemala by 14.4 percent (figure 4). The better performance of El Salvador may be linked to the Temporary Protected Status (TPS) of more than 200,000 Salvadoran migrants in the U.S, who may feel less vulnerable to immigration enforcement. Honduras and Nicaragua also benefit to a smaller extent from TPS. While the U.S remains the major destination for Latin American migrants, there appears to have been a shift towards Spain and other European countries in recent years. According to recent estimates, the EU accounts for some $4.3 billion of Latin America's remittance inflows, with $3 billion of that from Spain.[5]

[4] Foreign-born Hispanics accounted for 30 percent of the increase in employment (and 60 percent of the increase in construction employment) in 2006, despite being less than 8 percent of the 145 million U.S work force (Pew Hispanic Center *Fact Sheet*, March 2007).

[5] Migrant workers in the EU27 sent about 20 billion euros to third countries in 2006, according to a Eurostat news release on November 13, 2007. Outward remittances from Europe have increased in recent years in part because of the appreciation of the euro relative to the dollar.

Figure 4. Remittances in selected Latin American and Asian countries

(Year-on-year growth of 3-month moving average of remittances)



Sources: Central banks of respective countries

Countries in South Asia and East Asia are experiencing robust growth in remittances (figure 4). In the Philippines, remittances rose by 15 percent year-on-year during the first nine months of 2007. Both Bangladesh and Pakistan reported over 20 percent growth in remittances during the first nine months of 2007. High oil prices and strong economies in the oil-exporting Middle Eastern countries are contributing to strong demand for migrant labor. In India, the largest remittance-recipient developing country, private current transfers grew by 30 percent in the first half of 2007.

New remittance technologies have improved access and increased competition--

As money transfers are being subjected to more intense scrutiny by regulators, the remittance industry has experienced a shift in remittances from informal to formal channels. But the same regulations have also increased the documentation requirements for opening bank accounts. Large money transfer operators (MTOs) have therefore benefited from the shifting flows. More recently, the remittance industry has also seen the introduction of cell phone-based remittances and several pilots involving remittance-linked financial products. These changes may imply a shift from cash-based remittances to account-based remittances in future.[6]

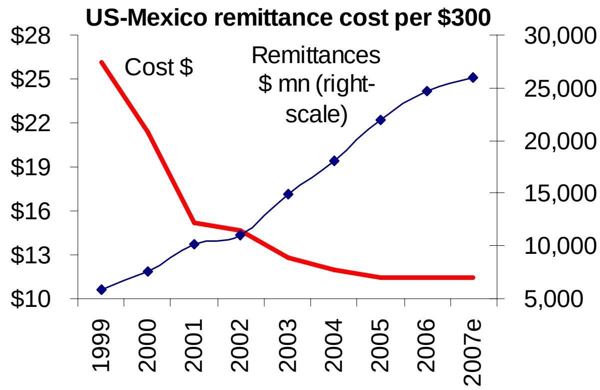
Mobile banking and partnerships with cell phone companies can potentially extend remittance services to millions of people in remote, rural areas. In the Philippines, G-Cash and SMART provide deposit, credit and money transfers through mobile phones. In Kenya, Vodafone through its subsidiary Safaricom, has launched a mobile banking service M-PESA ("mobile money" in Swahili). Vodafone has also launched a pilot with Citigroup to explore international remittances from the UK to Kenya by mobile phone. In India, Visa has tied up with some of the major commercial banks to extend its domestic card-to-card transfer service to mobile phones. Western Union and the GSM Association have also announced a pilot project for mobile phone remittances.

[6] Account-to-account remittances can encourage more saving and better matching of available saving with investment opportunities, resulting in the benefits of financial deepening. Remittance services are often provided for free or for a low fee (as a "loss leader") by banks as they gain the migrants as clients for their deposit, credit and other financial products. Banks in Mexico, El Salvador, India, and the Philippines offer transnational consumer loans and mortgage loans. The World Council of Credit Unions provides remittance customers access to additional financial services.

---but remittance costs remain high, especially in South-South corridors

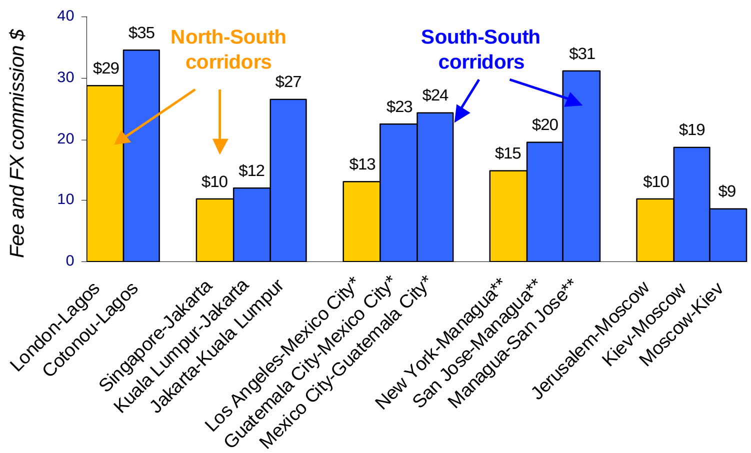
Average remittance costs in the US-Mexico corridor, one of the largest remittance corridors, fell dramatically by nearly 55 percent between 1999 and 2004, but appear to have leveled off in recent years (figure 5). North-South remittance costs may have fallen, but the cost for sending money from developing countries, which account for almost half of migrants from developing countries, continues to remain high (figure 6).

Figure 5: Average remittance costs in US-Mexico corridor have leveled off



Source: Profeco 1999-2005; Condusef 2006-07

Figure 6: South-South remittance costs continue to remain high
(Remittance cost per $200)



Source: "South-South Migration and Remittances." Dilip Ratha and William Shaw (2007)

Regulations relating to anti-money laundering and countering the financing of terrorism appear to have become a constraint to reducing remittance costs, especially for smaller remittance service providers dependent on correspondent banks. These regulations are also affecting banks and cell phone companies interested in providing international remittances and mobile banking services. It is time now for policy makers to find ways for harmonizing telecom and financial services regulations.

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