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Migration and Remittances: Recent Developments and Outlook*

Special Topic: Financing for Development

- Using newly available census data, the stock of international migrants is estimated at 247 million in 2013, significantly larger than the previous estimate of 232 million, and is expected to surpass 250 million in 2015.
- Migrants' remittances to developing countries are estimated to have reached $436 billion in 2014, a 4.4 percent increase over the 2013 level. All developing regions recorded positive growth except Europe and Central Asia (ECA), where remittance flows contracted due to the deterioration of the Russian economy and the depreciation of the ruble.
- In 2015, however, the growth of remittance flows to developing countries is expected to moderate sharply to 0.9 percent to $440 billion, led by a 12.7 percent decline in ECA and slowdown in East Asia and the Pacific, Middle-East and North Africa, and Sub-Saharan Africa. The positive impact on flows of a robust recovery in the US will be partially offset by continued weakness in Europe, the impact of lower oil prices on the Russian economy, the strengthening of the US dollar, and tighter immigration controls in many source countries for remittances. Remittance flows are expected to recover in 2016 to reach $479 billion by 2017, in line with the more positive global economic outlook.
- The global average cost for sending money remained broadly at 8 percent in Q4 2014, with the highest average cost (about 12 percent) in Sub-Saharan Africa. Concerns over money laundering are keeping costs high by increasing compliance costs for commercial banks and money transfer operators, and delaying the entry of new players and the use of mobile technology.
- In the context of the global deliberations on financing the implementation of Post-2015 development goals, migration and remittances can be leveraged to raise development financing via reducing remittance costs, lowering recruitment costs for low-skilled migrant workers, and mobilizing diaspora savings and diaspora philanthropic contributions. Remittances can also be used as collateral, through future-flow securitization, to facilitate international borrowings with possibly lower costs and longer maturities. And they can facilitate access to international capital markets by improving sovereign ratings and debt sustainability of recipient countries.

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1 Recent Developments in Migration and Remittances

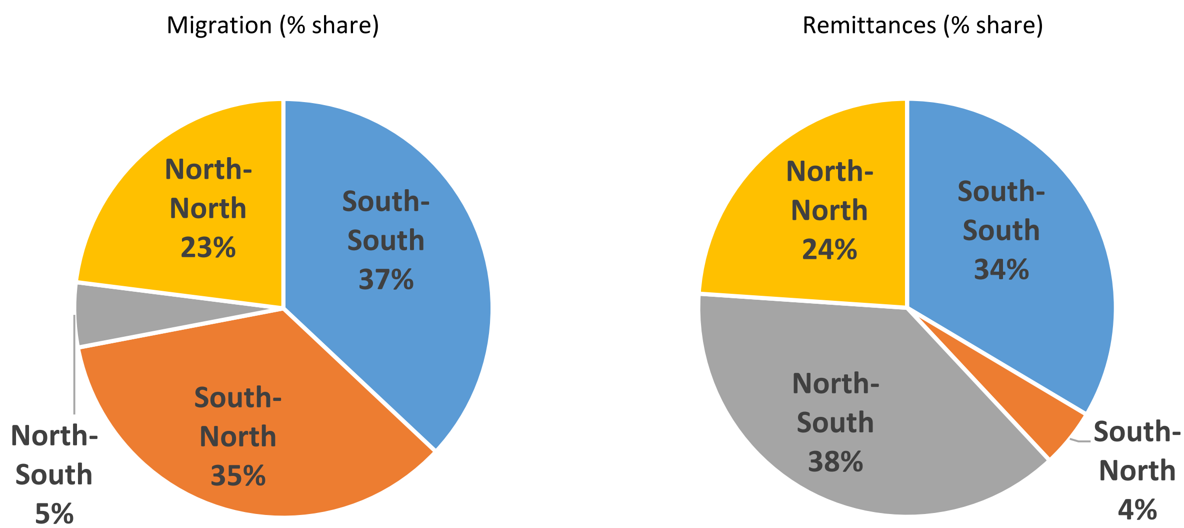
1.1 New estimates of international migrant stocks

Using newly available census data, the stock of international migrants is estimated at 247 million in 2013, significantly larger than the previous estimate of 232 million.[1] Assuming that the stock grows at an annual rate of 1.6 percent, the growth rate observed during 2010-2013, the stock of international migrants will surpass 250 million in 2015.

The top 5 migrant destination countries remain the United States, Saudi Arabia, Germany, the Russian Federation, and the United Arab Emirates. Mexico to the United States is the largest migration corridor in the world, accounting for 13 million migrants in 2013. Russia to Ukraine is the second largest, followed by Bangladesh to India, and Ukraine to Russia. The latter three are South-South corridors according to UN classification.

Indeed, South-South migration stood at 37 percent of the global migrant stock, larger than South-North migration at 35 percent (see Figure 1). South-South remittances accounted for 34 percent of global remittance flows.

Figure 1: South-South migration is larger than South-North migration



Sources: World Bank staff calculations based on Migration and Remittance Factbook 2015, UN Population Division, and national censuses. Definition of the "North" and the "South" in this chart follows UN classification. The data on migration are for 2013, the latest year for which data are available. The data on remittances are for 2014.

1.2 Global remittance trends and outlook

Officially recorded remittance flows to developing countries are estimated to have reached $436 billion in 2014, an increase of 4.4 percent over a year ago (Table 1 and Figure 2). Flows to developing countries are projected to slow down to 0.9 percent growth in 2015 (to $440 billion), owing to a weak economic outlook in remittance source countries in Europe and Russia. Flows are expected to accelerate in 2016, and reach $479 billion by 2017 in line with the more positive global economic outlook. Global remittance receipts, including by both developing and high-income countries, are estimated at $583 billion in 2014, and could rise to $586 billion in 2015 and $636 billion in 2017.

Remittances remain a key source of funds for developing countries, far exceeding official development assistance and even foreign direct investment (excluding China). They have proved to be more stable than private debt and portfolio equity flows (Figure 2). A recent analysis reported in the World Bank's Global Economic Prospects 2015 shows that remittances are also less volatile than official aid flows. Annual remittances are also larger than, or equal to, foreign exchange reserves in many small countries. Even in large emerging markets, such as India, remittances are equivalent to at least a quarter of total foreign exchange reserves.

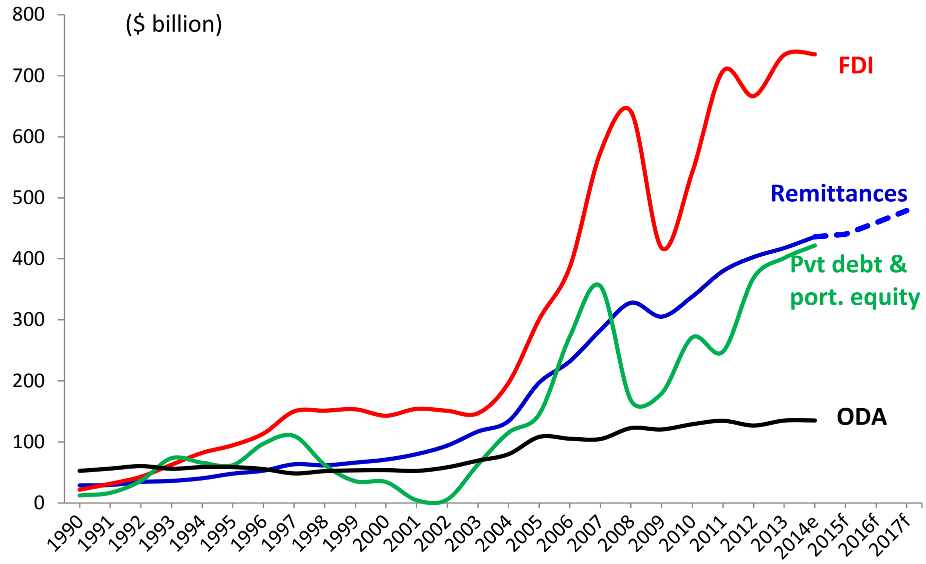
India, China, Philippines and Mexico retained their position as the top recipients of migrant remittances in 2014 (see Figure 3). Remittances as a share of GDP are larger in small economies, particularly in Central Asian countries and Pacific islands (see Figure 3) – e.g., about 49 percent of GDP in Tajikistan and a quarter of GDP in Tonga. This high dependency on remittances increases these countries' vulnerability to shocks from remittance-sending countries.

Table 1: Estimates and projections for remittance flows to developing countries

	2012	2013	2014f	2015f	2016f	2017f
	(Growth rate, percent)					
Developing countries	**6.1**	**3.7**	**4.4**	**0.9**	**4.3**	**4.4**
East Asia and Pacific	0.1	5.5	7.6	2.8	3.7	3.9
Europe and Central Asia	9.6	11.1	-6.3	-12.7	7.2	6.6
Latin America and Caribbean	1.1	1.2	5.8	2.3	3.9	3.9
Middle-East and North Africa	16.0	0.0	7.7	1.1	3.3	3.8
South Asia	11.2	2.5	4.5	3.7	4.7	4.7
Sub-Saharan Africa	1.6	0.9	2.2	0.9	3.4	3.8
World	**4.1**	**4.5**	**4.7**	**0.4**	**4.1**	**4.3**
Low-income countries	12.5	4.4	6.2	1.4	6.3	6.3
Middle-income	5.6	3.6	4.2	0.9	4.1	4.2
High income	-1.7	7.1	5.7	-1.0	3.4	4.0
	($ billions)					
Developing countries	**403**	**418**	**436**	**440**	**459**	**479**
East Asia and Pacific	107	113	122	125	130	135
Europe and Central Asia	46	52	48	42	45	48
Latin America and Caribbean	60	61	64	66	69	71
Middle-East and North Africa	49	49	53	53	55	57
South Asia	108	111	116	120	126	132
Sub-Saharan Africa	32	32	33	33	34	36
World	**533**	**557**	**583**	**586**	**610**	**636**
Low-income countries	31	33	35	35	38	40
Middle-income	372	385	401	405	421	439
High income	130.1	139.3	147.3	145.8	150.8	156.9

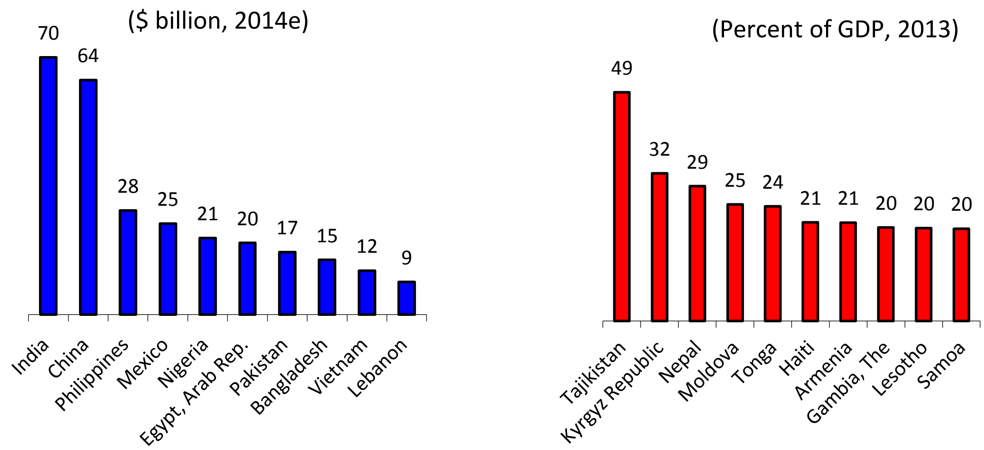
Sources: World Bank staff calculations based on data from IMF Balance of Payments Statistics and data releases from central banks, national statistical agencies, and World Bank country desks. See Annex in Brief 23 for more detail on the forecast methodology. Following IMF Balance of Payments Manual 6, remittances are defined as personal transfers and compensation of employees. The dataset is available at www.worldbank.org/migration.

Figure 2: Remittance flows are larger than ODA, and more stable than private capital flows



Sources: World Bank Staff calculations, World Development Indicators, OECD. Private debt includes portfolio investment bonds, and commercial banks and other lending.

Figure 3: Large countries receive more remittances, but small countries are often more dependent



Sources: IMF, World Bank World Development Indicators, and staff estimates.

1.3 Factors affecting migration and remittance flows in 2014

The following had a major impact on global migration and remittance flows in 2014: (a) the uneven recovery in developed countries; (b) lower oil prices and economic developments in Russia; (c) tighter immigration controls; and (d) conflicts that are driving forced migration and internal displacement.

Uneven economic recovery in developed countries

The robust recovery in the United States boosted remittances outflows in 2014. For example, remittances to Mexico, El Salvador, Guatemala, Honduras, and Nicaragua rose with the increase in US housing construction and in employment in the services sector, including hotels and restaurants. By contrast, the weak recovery in the Euro Area dampened remittance flows to developing countries. For instance, remittances to several Latin American countries have been affected by the slowdown and high unemployment rate in Spain, which hosts a large percentage of all Latin American migrants. And remittances to Maghreb countries, where Europe is the main source of remittances, slowed in 2014.

Lower oil prices and the Russian economy

The decline in oil prices and the impact of economic sanctions took a heavy toll on the Russian economy in 2014. Countries that are heavily dependent on remittances from Russia, for example Armenia, Georgia, the Kyrgyz Republic, and Tajikistan, experienced a sharp drop in remittances in the fourth quarter. Moreover, the depreciation of the ruble against the dollar and most CIS currencies has reduced the purchasing power of remittances from Russia, particularly affecting the livelihood of poor households in the Central Asian countries.[2]

On the other hand, the fall in oil prices does not appear to have reduced remittances from Gulf Cooperation Council (GCC) members, especially to India, Bangladesh, Nepal, Pakistan, and several countries in the Middle East and North Africa. The outlook, however, is uncertain. The substantial financial resources and long-term infrastructure development plans of the GCC countries imply that they will continue to demand migrant workers.[3] However, remittance flows could decline if the oil price were to remain low for a few years.

Exchange rate effects

The recent depreciation of the euro against the dollar is reducing the dollar value of remittances. For example, from November 2014 to January 2015, remittances to Morocco rose by 9.6 percent in euros but fell by 2.6 percent in dollars (Table 2). Other currency movements also had an important impact on the value of remittances. For example, the depreciation of the ruble compounded the decline in the US dollar value of remittances to Central Asia. To take one country as an example, the ruble value of remittances in Tajikistan increased by 7.6 percent over-a-year ago in the fourth quarter of 2014. However, the ruble depreciated against the dollar by 32 percent in that period, and the dollar value of remittances fell by 26.7 percent.

Table 2: Exchange rate valuation effects on remittance flows

		% change in remittances (y-o-y)		
Recipient	**Source**	**US$**	**Source Currency**	**Time Period**
Morocco	EU	-2.3	9.6*	Nov2014-Jan2015
Pakistan	EU	0.6	8.6	Fiscal year 2015 (July'14 - Feb'15)
Tajikistan	Russia	-26.7	7.6	Quarter 4, 2014

* In Euro since most of Moroccan remittance inflows are denominated in Euro
Source: World Bank staff calculations

Tighter immigration controls

Stricter migration rules in Russia have led to changes in the pattern of migration from Central Asia. The new rules, applicable to labor migrants from states that remain outside the Eurasian Economic Union (EEU), reduced migration inflows by 70 percent during the 12-month period ending in January 2015, mainly from non-EEU states, including Uzbekistan and Tajikistan, according to official data from Russia.

The United States has increased the number of Border Patrol agents along the Southwest Border and the number of aircraft and ground surveillance systems to contain the number of migrants crossing the border from Mexico, including unaccompanied children from Central America. As a result, according to the U.S. Customs and Border Protections, the overall apprehension rate at the border (considered an indicator for border crossings) has declined by 42 percent, to 12,509 during the 2015 fiscal year compared to the same period in 2014, and the number of children crossing has also decreased substantially. The decline in apprehensions could also be attributed to factors such as campaigns discouraging migration in Mexico and Central America and increased prevention of illegal immigration in Mexico

Other parts of the world also saw tougher migration rules. Singapore tightened its open immigration policy amid public outcry over the 31 percent increase in the migrant population between 2004 and 2014. The new rules require employers to consider Singaporeans prior to hiring foreigners and exposes firms to scrutiny if they are found to be employing a disproportionately low share of Singaporean workers. Also, Europe is designing a new migration policy to curb the crossing of migrants by sea (see Box 1).

Conflicts are driving forced migration and internal displacement[4]

Conflicts are driving important trends in forced migration and internally displaced populations, particularly in MENA and Sub-Saharan Africa. The MENA region now is the main region of origin of refugees worldwide, as the number of Syrian refugees has risen to 3.9 million. The civil war in Libya contributed to the increase in attempted sea crossing by migrants (see Box 1).

According to UNHCR, the number of people internally displaced by the conflict in Ukraine has reached 1.1 million, and 674,300 Ukrainians have sought asylum, residence permits, or other forms of legal stay in neighboring countries, including 542,800 in Russia and 80,700 in Belarus.

Box 1: Migrants are undertaking dangerous crossings of the Mediterranean

According to the EU's border control agency, Frontex, more than 276,000 people entered the EU illegally in 2014. Over 220,000 of them crossed the Mediterranean Sea, compared to 60,000 people in 2013. Syrians and Eritreans were the two largest groups. Conflict-torn Libya continues to be the main country of departure. According to UNHCR, over 3,400 people died or were missing while trying to cross the Mediterranean in 2014. In the first three months of 2015, over 15,000 people attempted to cross and 470 died.

Since Italy stopped its rescue operation "Mare Nostrum" in November 2014, Frontex officially launched the maritime operation "Triton" to face the mass attempt of migrants from Africa and Middle East to reach Europe by boat. EU's "Triton" patrols no further than 30 miles from Italy's coast. The European Commission expects Italy to continue fulfilling its international obligations and also to rescue people in danger at sea. The new EU policy on migration (the "European Agenda on Migration"), expected to be adopted by May 2015, would address irregular migration and human trafficking, among other issues.

Approximately 50,000 Afghan refugees have returned recently from Pakistan in response to security crackdowns. Further returns are expected, as Pakistan and Afghanistan governments are discussing possible financial incentives to help refugees to repatriate to Afghanistan.

Boko Haram's terrorist activities in Nigeria have displaced about 1.7 million persons from the northeast of the country, according to the UNHCR. Around 0.7 million persons are internally displaced, and a further million people have fled the attacks by Boko Haram to neighboring countries, particularly Cameroon, Chad, and Niger.

1.4 Outlook for remittances and risks

Remittances to developing countries are projected to rise by 0.9 percent in 2015, about one-fifth the average rate of growth in the previous three years (see Table 1). On the whole, the decline in the growth rate reflects the continuation of some key trends affecting remittances in 2014, in particular weakness in European economies and the impact of declining oil prices on the Russian economy. In addition, the ongoing appreciation of the dollar is expected to be sustained, which will lower the dollar value of remittances. For 2016-2017, the growth rate of remittances is expected to recover to 4.3 percent, as seen during 2013-2014, in line with the expectations of continued economic strength in the US, slow recovery in Western Europe and Russia, and rebound in the euro and the ruble. The level of remittance flows to developing countries is expected to reach $459 billion in 2016 and $479 billion in 2017.

Even this relatively limited rise in remittances faces significant downside risks, including: (a) a larger-than-expected impact of Russia's recession on European and Central Asian countries; (b) an unexpectedly large impact of lower oil prices on the demand for migrant workers by oil producing countries; (c) weaker than expected job markets in the destination countries (especially in Europe) which may lead to both fewer job opportunities for migrants and further tightening of immigration controls; and (d) a greater-than-expected depreciation of the currencies of remittance-sending countries against the US dollar because of the expected tightening in the US monetary policy.

1.5 Regional trends

The growth of remittances varied greatly among regions in 2014, and regional growth rates have been extremely volatile over the past three years (see Table 1). This section summarizes the regional trends in migration and remittance flows. More detailed discussion of trends is provided in the Regional Annex.

Remittances to East Asia and the Pacific (EAP) and MENA are estimated to have risen by more than 7.5 percent. Yet both of these regions recently experienced stagnation in remittance flows (EAP in 2012 and MENA in 2013). The strong recovery in the United States boosted remittance receipts in Latin America and the Caribbean (LAC) by an estimated 5.8 percent in 2014, after two years of little more than one percent growth. By contrast, remittances to Europe and Central Asia (ECA) are estimated to have declined by 6.3 percent in 2014, largely because the recession in Russia reduced remittance outflows (in US dollar terms) to Central Asia. Remittances to South Asia rose by an estimated 4.5 percent in 2014, driven by sharp increases in remittances to Bangladesh, Pakistan, and Sri Lanka. Finally, remittances to Sub-Saharan Africa are estimated to have increased by a modest 2.2 percent, about twice the average of the previous two years. Stagnation in remittances to Nigeria, which accounts for about two-thirds of regional remittance flows, was balanced by strong growth in Kenya, South Africa, and Uganda.

International developments had contrasting effects on remittances flows among regions. The sharp fall in the international oil price led to recession in Russia and declines in remittances to Central Asian countries, but had little impact on remittances to South Asia and MENA countries from the richer GCC members. Recovery in the United States bolstered remittance receipts in LAC, but continued slow growth in Europe reduced remittance receipts to the Maghreb countries and also limited remittances to some LAC countries.[5]

The growth rate of remittances in 2015 is expected to fall compared to the previous year in all six regions (see Table 1). Continued economic difficulties in Russia are projected to reduce remittances by 12.7 percent in 2015 in ECA. The growth rate of remittances is expected to decline sharply in MENA, to 1.1 percent after the estimated 7.7 percent rise in 2014, due to a high base effect, economic developments in the Euro Area, and the depreciation of the euro against the US dollar which will slow remittance growth to Maghreb countries. Remittances to EAP and to LAC are both projected to rise by 2.8 and 2.3 percent respectively in 2015, as LAC benefits from continued US recovery and EAP from the continued deployment of workers abroad. The 3.7 percent projected growth of remittances to South Asia is slightly below the 2014 rate, as the GCC countries are likely to continue to employ large numbers of migrants from the region. Finally, remittances to Sub-Saharan Africa are projected to rise by 0.9 percent, below the average of the past three years.

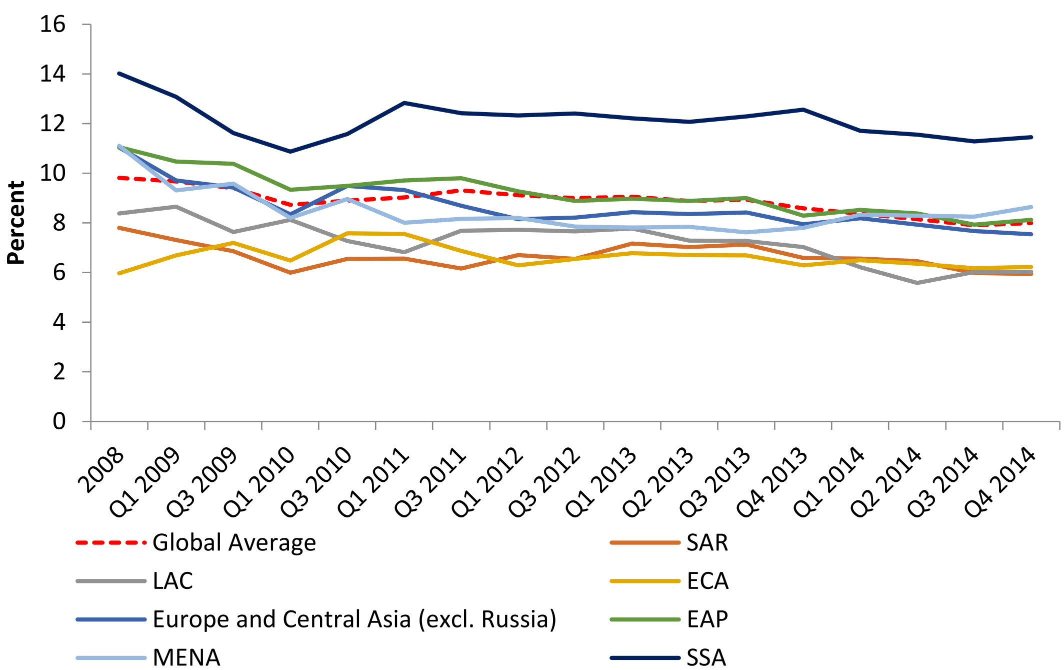
2 Remittance Costs

2.1 Global trends and outlook for remittance costs[6]

According to the Remittance Prices Worldwide database, the global average cost of sending $200 declined slightly to 7.7 percent of the amount transferred in the first quarter of 2015 from 8 percent in the fourth quarter of 2014 (Figure 4).[7] The average cost of sending money via money transfer operators fell to 8 percent, from 8.2 percent in the fourth quarter of 2014. The weighted average cost (weighted by the size of bilateral remittance flows) remained relatively flat at 6 percent of the amount transferred. That the weighted average cost has remained below the global average cost suggests that costs are lower in higher volume corridors.

As of the last quarter of 2014 for which disaggregated cost data are available, the cost of remittances declined in all regions (except MENA) from the fourth quarter of 2013 to the fourth quarter of 2014 (Figure 5). The United Arab Emirates and Singapore were among the cheapest remittance corridors. The average cost of sending remittances exceeds 8 percent in East Asia and the Pacific and in MENA, and despite a substantial reduction in 2014 remained the highest (11.5 percent) in Sub-Saharan Africa. The costs of sending money from South Africa to Zambia, Malawi, Botswana and Mozambique are the most expensive in the region.

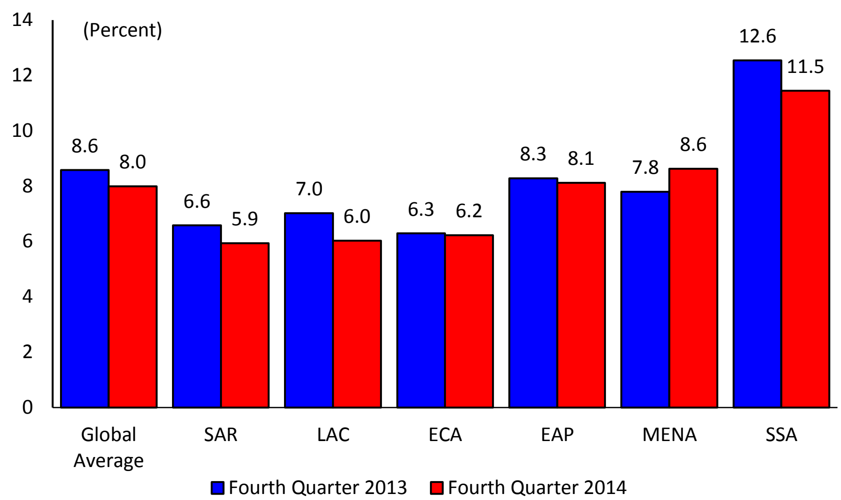
Figure 4: Total cost of sending $200 rose slightly in 4Q2014 (period averages)



* Total average cost of sending about $200 equivalent

Source: Remittance Prices Worldwide, the World Bank.

Figure 5: Sub-Saharan Africa is the costliest region to which to send $200 (average costs)*



* Total average cost of sending about $200 equivalent
Source: Remittance Prices Worldwide, World Bank.

Improvements in technology are helping lower costs. In particular, remittance costs in the SAR region are likely to fall further as money transfer companies and mobile money transfer operators are working together with banks in the region to provide instant money transfer services (e.g., in India and Pakistan). Similar businesses are emerging in Africa as well. For example, in Zimbabwe a credit card company is making remittance services available to account holders of a particular bank. However, it will be important to avoid exclusivity contracts between these institutions. Box 2 further elaborates on how new technologies are helping improve efficiency and lower remittance transfer costs.

Box 2. Technology is reducing remittances costs

The introduction of online and mobile money transfer systems in many developing countries offers new opportunities for more cost-effective means of sending money. Sub-Saharan Africa continues to lead other regions in the take up of mobile money services, accounting for 130 live mobile money services.

Mobile technology can lower the cost of remittances, as it removes the need for physical points of presence and ensures a timely and secure method of transaction. Mobile money transfer services such as MPesa have transformed the landscape for domestic remittances in several African countries (Ratha et al. 2011). The digitization of domestic remittances has reduced the costs of sending remittances to rural areas. For example, these costs have declined by 20 percent in Cameroon (World Bank 2014).

The use of mobile money technologies in cross-border transactions, however, remains limited. The value of international remittances through mobile phones accounted for less than 2 percent ($10 billion) of global remittance flows ($542 billion) in 2013.[8] International interoperability of mobile systems and anti-money-laundering and the countering of financing terror (AML/CFT) regulations still create barriers to the entering of new players. The regulatory framework should be designed to foster competition, simplify the AML/CFT regulations for low-risk and low-value transfers, and ensure that there are no exclusive partnerships between telecom companies and international money transfer operators.

Source: Plaza, Ratha and Yousefi (forthcoming).

The remittance markets are facing the emergence of alternatives to cash products. Several money transfer operators are offering senders different options, such as credit or debit card-based payments, wire transfers, or mobile transfers. Technological advances that have enabled digital payments and increased their efficiency have contributed to reducing remittance costs in recent years. On the other hand, compliance with AML/CFT requirements seem to have increased the overall costs of remittances (see below). Promoting policies that reduce entry barriers, such as mobile licensing and eliminating exclusivity conditions for incumbent providers, would increase competition. Thus, reductions in remittances costs can be supported by financial and regulatory frameworks that facilitate the introduction of new products, interoperability among MTOs, and the establishment of open infrastructure to collect digital payments.

Renewed focus on AML/CFT

AML/CFT regulations are necessary for security reasons. However, they should be designed to avoid, to the extent possible, making it more difficult for money service businesses to transact business with correspondent banks. The renewed focus on AML/CFT has led many banks to stop offering remittance services and to close the accounts of MTOs, especially affecting those serving Somalia (see Box 3). As a result, some small MTOs have closed since they could not operate without bank accounts.[9] This problem appears to be affecting remittance service providers in several countries.[10] These developments in the remittance markets have increased remittance costs and possibly encouraged the use of informal channels.

Box 3. Somalia: Is 'de-risking' by international banks getting more serious?

The Financial Action Task Force (FATF) defines de-risking as "the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk." Somalia has been affected by "de-risking"– the closing of bank accounts of money transfer operators by banks due to perceived legal, regulatory, sanctions, and AML/CFT risks. While the account closures have certainly caused changes in how the market works in both the United Kingdom and the United States, anecdotal evidence collected by the World Bank and data from Remittance Prices Worldwide indicate that costs to consumers have not changed significantly. However, costs could rise if competition in the remittances market in Somalia falls substantially.

The UK government, in conjunction with the World Bank, is developing the "Safer Corridor Initiative." The Safer Corridor Initiative aims to tackle key deficiencies in the UK-Somalia remittance corridor until a sounder financial system is in place in Somalia, and to accelerate and support the development of that financial system. Any measures to improve transparency and compliance will involve taking actions at the first mile (UK), second mile (UAE) and third mile (Somalia). Third mile measures will be the most difficult to implement, since the country's financial sector has not developed in a formal way, and the country remains extremely isolated from the global financial infrastructure.

In the past year the Federal Government of Somalia has taken measures to formalize their financial sector. For example, the Central Bank of Somalia has licensed and registered four money transfer businesses and has registered nice money transfer businesses under the Money Transfer Business Registration Regulations and Money Transfer Business Licensing Regulations passed by the Central Bank in 2014, developed with the support of the World Bank. Somalia does not yet have a system in place for know your client (KYC) or customer due diligence (CDD) requirements. Some money transmitters are considering the use of biometric identification for meeting KYC requirements.

FATF recommends the application of a risk-based approach (RBA) for addressing AML/CFT risks. This approach allows countries and financial institutions to apply simplified AML/CFT measures when risks are assessed to be low. However, major financial institutions are currently operating in a risk-averse environment, and given the complexities of this particular corridor, seem unwilling to try to mitigate the risks associated with servicing these money transfer operators (MTOs).

Source: Massimo Cirasino, Jean Pesme. World Bank.

3 Special Topic: Leveraging Migration for Financing Development

The final outcome document of the Open Working Group on Sustainable Development goals (SDGs) includes several targets related to migrants and migration (Box 4). As the discussion of the Post-2015 Development Agenda progresses, attention has now shifted to finding means of implementing the development goals, with a Financing for Development summit scheduled to take place in Addis Ababa on July 13-16, 2015.[11] This section outlines a few under-exploited market-based financing options that are directly connected to international migration. As much as $100 billion, or more, could be raised annually by developing countries via:

- Mobilizing diaspora savings
- Reducing remittance costs
- Reducing migrant recruitment costs
- Mobilizing philanthropic contributions from the diaspora

Remittances can be further leveraged for development financing via:

- Future-flow securitization of remittances
- Enhancing sovereign credit ratings
- Linking remittances to financial savings and insurance

Box 4. Migration in the Post-2105 Sustainable Development Goals

The final outcome document of the Open Working Group on Sustainable Development goals (SDGs) includes several targets related to migrants and migration in the proposed SDGs 3 (health), 4 (education), 5 (gender equality), 8 (decent work), 10 (reducing inequality), 16 (peaceful and inclusive societies) and 17 (means of implementation and global partnership). The GMG is also encouraged with the inclusion of refugees and displaced persons in the United Nations Secretary-General's Synthesis Report.

The Global Migration Group has proposed the following five indicators to monitor these targets: (1) the transfer costs of remittances, (2) the conviction rate of human traffickers, (3) recruitment costs, (4) durable solutions for refugees, and (5) a composite index on human mobility. Additional indicators under discussion focus on portability of social security rights, mutual recognition of skills and qualifications, and financial inclusion. The GMG has also proposed to disaggregate targets that are relevant for the well-being and integration of migrants, displaced persons, refugees, and stateless persons, including those on health, education, employment, legal identity.

Source: Global Migration Group (2014).

3.1 Mobilization of diaspora savings via diaspora bonds

Many international migrants save a significant part of their income in destination countries. New estimates suggest that the annual savings of diasporas (approximated using data on international migrants) from developing countries amounted to $497 billion in 2013 (Table 3).[12] A large part of these savings is held in bank deposits. A diaspora bond – a low denomination security with a face value of $1,000, say, carrying a 3-4% interest rate and 5-year maturity – issued by a country of origin could be attractive to migrant workers who currently earn near-zero interest on deposits held in host-country banks. Diaspora bonds could be used to mobilize a fraction – say, one-tenth – of the annual diaspora saving, that is, over $50 billion, for financing development projects.

Table 3: Estimated diaspora income and savings for developing regions, 2013

	Diaspora stock (millions)	Diaspora Income ($ billions)	Diaspora Savings ($ billions)
East Asia and Pacific	31	579	116
Europe and Central Asia	32	402	80
Latin America and Caribbean	34	645	129
Middle-East and North Africa	24	275	55
South Asia	38	402	80
Sub-Saharan Africa	23	181	36
All Developing Countries	182	2,484	497

Source: World Bank staff calculations using the latest bilateral migration matrix, data on skill level from the Database on Immigrants in OECD Countries (DIOC), and World Development Indicators database.

The governments of India and Israel have raised over $40 billion, often during liquidity crises, by tapping into the wealth of their diaspora communities to support balance of payments needs and (in the case of Israel) to finance infrastructure, housing, health, and education projects. Several other countries – including the Philippines, Sri Lanka, Kenya, Ghana, Nepal and Ethiopia – have issued diaspora bonds with varying degrees of success.

While a diaspora bond can be issued by a sovereign government, in theory it can also be issued by reputed private companies. For the borrower, a diaspora bond can provide lower-cost and longer-term financing than would otherwise be available, especially in times of financial stress. A diaspora bond would have a lower interest rate than a sovereign bond sold to foreign institutional investors; because, first, the interest rate benchmark for a diaspora investor would be the deposit rate (zero or low) instead of LIBOR; and second, the risk spread on a diaspora bond would be lower, since the diaspora investors' perception of country risk is lower (except in cases where the diaspora is fleeing the regime).[13] Unlike foreign currency deposits that can be withdrawn at any time, a diaspora bond provides a stable, longer-term financing instrument.

Countries with a large diaspora stock in richer destination countries have a greater potential for successful issuance of diaspora bonds. Conversely, a country with fragile governance may have a lower potential for success. Chances of success are increased when the issuing country has a strong economic program and a portfolio of attractive projects to be financed by the diaspora bond. Understandably, the diaspora's trust in the government is a key factor for successful launching of a diaspora bond.

Among middle income countries, Mexico has the largest estimated diaspora savings stock of $53 billion, followed by China ($46 billion) and India ($44 billion). Among the low income countries, Bangladesh has the largest diaspora savings ($9.5 billion) followed by Haiti and Afghanistan (around $4.5 billion each). Many countries in fragile situations have sizable diaspora savings as a share of their GDP, for example, Somalia (81 percent), Haiti (53 percent) and Liberia (29 percent); these countries could potentially use diaspora bonds for reconstruction and development, provided that they put in place proper oversight for the use of funds.

A major challenge to the issuance of diaspora bonds has been the perceived high cost of registration with the US Securities and Exchange Commission. Also retail sale of these bonds is likely to cost more than selling bonds to a handful of institutional or high net-worth investors. In many cases, however, the interest cost saving will likely outstrip such costs.

Diaspora bonds should be available to all investors, not just migrant savers, and be distributed widely, not kept on the books of a few investment banks. That way, by ensuring greater depth and liquidity in the market for diaspora bonds, large sums could be mobilized for development at low, stable interest rates, without diminishing migrant workers' incentive to save.[14]

3.2 Reducing remittance costs

Remittance costs have been declining over time but as of the last quarter of 2014, remained high at 8 percent of the amount transferred for all developing countries, and at 12 percent for Sub-Saharan Africa. Taking the cue from the G20 5X5 objective, the Open Working Group on Sustainable Development has proposed a target for reducing remittance costs to 3 percent by 2030. Reducing remittance costs from the current average of 8 percent to, say, 3 percent would translate into a saving of over $20 billion annually for the migrants and their relatives.

Judging market and technology trends, this target seems achievable, even modest. The development community could arguably set a goal of reducing remittance costs to below 1 percent by 2030. The Remittance Prices Worldwide database shows that in the second quarter of 2014, the average cost of sending $200 was less than 1 percent for 56 providers and below 3 percent for 374 providers. Many leading remittance service providers have now reduced the fee for account-to-account transfers to zero in high-volume corridors such as India.[15]

An important barrier to lowering remittance fees arises from the costs associated with implementing anti-money laundering and countering the financing of terror (AML/CFT) requirements. Further development at the national level of a risk-based approach to AML/CFT regulation could help reduce these costs, Facilitating the use of more efficient technologies and fostering competition in the remittance market, while still complying with AML/CFT requirements, could reduce overall compliance costs. Presently, however, 'de-risking' by international banks has become a major threat to remittance services to fragile countries such as Somalia (see Section 2).

3.3 Reducing recruitment costs

Recruitment costs paid by migrant workers to recruitment agents, on top of the fees paid by the employers, are a major drain on poor migrants' incomes and remittances. They divert the money sent by migrants from the family to illicit recruitment agents and money lenders. Almost 10 million people use regular channels to migrate in search of employment every year. A large number of them pay illegal recruitment fees to the recruitment agents. According to a KNOMAD survey last year, worker-paid recruitment costs averaged $1,955 in Kuwait with Bangladeshis paying the highest, ranging between $1,675 and $5,154 (Abella and Martin 2014). A 2009 Bangladesh Household Remittance Survey conducted by the IOM found that over a half of the migrants paid over $2,000 in recruitment fees. Fees paid to smugglers for crossing international borders, a reasonable proxy for the black market recruitment fees, tend to be even more exorbitant. For example, according to the European Union, smuggling fees to Europe ranged from $5,000 in the case of Vietnamese workers to over $15,000 for Bangladeshi workers in 2013.[16] On top of these direct fees paid to recruitment agents, migrant workers are often subjected to usurious interest rates of over 50 percent on loans taken to cover the costs of migrating (Abella and Martin 2014). In addition, recruitment agents are often reported to offer bribes to the employing company personnel, with amounts ranging between $300-1,000 per worker and these costs are recovered from the workers (Jureidini, 2014).

If the recruitment costs averaged $5,000 and they were reduced to $1,000 per migrant worker, the cost savings would be $4 billion for every 1 million workers. If half of the estimated 10 million benefitted from these cost reductions, the saving would total $20 billion per year. It is entirely plausible, therefore, that the savings generated by reducing recruitment costs for low-skilled migrant workers could match the amount saved by reducing remittance costs.[17]

The development community should endeavor to eliminate illegal recruitment fees (in excess of genuine costs related to airfare, visa, and training costs). This would require effective regulation and monitoring of recruitment agencies implemented in constructive collaboration between the sending and the receiving countries.[18] Improving migrants' access to information can help improve the effectiveness of migration–related policies and regulations.

3.4 Diaspora philanthropy

There is no doubt that philanthropy is widely practiced by diaspora members, although these activities are not always organized or systematically channeled. Two relatively organized forms of diaspora philanthropic engagement are through Home Town Associations (HTAs) and diaspora foundations. Of these, the HTAs have received some attention from the development community (McKenzie 2014, Chauvet et al. 2013, Van Hear, Pieke, and Vertovec 2004, Orozco 2007). Some governments have attempted to channel collective remittances through HTAs by offering matching funds. Among the best-known matching fund schemes is Mexico's 3-for-1 program under which the local, state, and federal governments all contribute $1 each for every $1 of remittances received through a HTA overseas.

The scale of collective remittances or philanthropic contributions channeled through HTAs has been small. Resources have gone primarily to rural areas, where they have increased the supply of essential services (health, education, roads, and electricity). It is difficult to assess whether these investments—and the matching grants—have gone to the highest-priority projects or have been diverted from other regions with a great need of assistance from fiscally constrained governments (World Bank 2005). Meanwhile, proponents argue that HTA involvement ensures that programs are focused on community needs, and that the associations promote increased accountability and transparency of local and national authorities (Page and Plaza 2006). Duquette-Rury (2014) evaluates Mexico's 3X1 program, taking into consideration selective participation. She estimates the impact of participating in 3x1 over the 2002-08 period on changes in public goods infrastructure between 2000 and 2010. She finds that 3x1 program expenditures significantly and positively affect household access to sanitation, water, and drainage in participating rural villages. However, she also finds that households receive less family remittances as collective remittances to their municipalities increase.

HTAs face several limitations in serving as conduits for broader development projects: (i) they may not have the best information on the needs of the local community, or they may have different priorities; (ii) the capacity of HTAs to scale up or form partnerships is limited by the fact that their members are volunteers and their fundraising ability is finite;[19] and (iii) they can become divided and weaken their own advocacy potential (World Bank 2006; Newland and Patrick 2004). Finally, a key to attracting contributions from the diasporas and the HTAs is good business environment, adequate port and customs facilities, low red tape, and trust in government at home (Plaza and Ratha, 2011).

Philanthropy at the individual or household level has not received as much attention from the development community. According to the literature on philanthropy, the determinants of giving behavior depend on demographic characteristics (age, education, gender), diaspora income and wealth, altruism and trust in the country, and the effectiveness of the institutions involved, in particular on the managerial capabilities of the HTAs and the project team back home (Havens and Schervish, 2006). For mobilizing charity from the individual diaspora donors, the challenge is one of being able to reach them, since relevant databases are not available in most countries. One possible mechanism to mobilize diaspora contributions is to approach the migrants when they use the remittance channel to send money. Indeed, modifying the remittance form to allow small donations for specific purposes (for example, fighting malaria in the community of the remittance-recipient) can be an effective way of mobilizing diaspora giving.[20]

There are no global estimates of charitable giving by diaspora members. Some estimates of how much people give in big cities in the United States, based on the IRS data, range from 1.9%-5.4% of income.[21] If the diasporas' propensity to give is even a half of 1 percent of diaspora incomes (as indicated in Table 3 above), it would exceed $12 billion annually. However, even in the case of mobilizing diaspora giving, AML/CFT concerns remain.

3.5 Remittances as collateral for international borrowing

The use of future remittances as collateral – future-flow securitization of remittances – can lower borrowing costs and lengthen debt maturity. An important element of a future-flow securitization structure is the creation of a special purpose vehicle offshore to issue the bond and shield it from sovereign interference. The dollar volume that could be raised via future-flow securitization can be very large. No recent data are available on the size of future-flow securitization of remittances, but as of 2008, over $20 billion had been raised by developing country banks using this technique, notably in Mexico, Brazil, and Turkey (Ketkar and Ratha 2009). In a noteworthy transaction, Banco do Brasil raised $250 million in 2002 through a bond securitized by future flows of remittances from Japan – the bond was rated BBB+, five notches higher than Brazil's sovereign rating of BB-; the interest rate on this bond was about 9 percentage points lower than the sovereign borrowing rate at the time.[22]

Besides remittances, a wide variety of future receivables have been securitized – including exports of oil, minerals, and metals; airline tickets, credit card vouchers, international telephone calls; oil and gas royalties; and tax revenue. Securitization of diversified payment rights (DPRs) – which include remittances, aid, investment, and trade-related payments through the international payments system – is a more recent innovation.

Table 4: Securitization Potential in Sub-Saharan Africa

	Receivable ($ billion)	Potential ($ billion)
Fuel exports	182	36
Agricultural raw materials exports	20	3
Ores and metals exports	63	11
Travel services	26	2
Remittances	31	4
Total	322	56

Source: World Bank staff calculations. The data on receivables are based on average values for 2011-13. The calculation of potential size follow the methodology used in Ketkar and Ratha (2002).

Preliminary calculations show an enormous potential for future-flow securitization in Sub-Saharan Africa (Table 4). However, absence of securitization laws, especially the confusion surrounding bankruptcy laws, remains a major challenge to the realization of the potential of future-flow securitization in developing countries. And, unfortunately, securitization became a maligned term during the global financial crisis of 2009; although the problem was excessive borrowing, not securitization itself.

3.6 Remittances, country creditworthiness, and financial inclusion

Because remittances are large and more stable than many other types of capital flows (see GEP 2015), they can greatly enhance the recipient country's sovereign credit rating, thus lowering borrowing costs and lengthening debt maturity. Recently the rating agencies have started accounting for remittances in country credit ratings, but given data difficulties, there is still room for further improvement.

The joint World Bank-IMF low-income country Debt Sustainability Framework now includes remittances in evaluating the ability of the countries to repay external obligations and their ability to undertake non-concessional borrowing from other private creditors. When remittances are included in the calculation of a key indicator of debt-sustainability, the ratio of debt to exports, it improves significantly for countries that receive large remittances, such as Armenia, Guatemala, Lebanon, Nepal, and Pakistan.

At the micro-level, remittance receipts can also be used to judge poor people's creditworthiness. And they can be used to promote micro-saving and micro-insurance, all to enhance financial inclusion for the poor.

Regional Annex

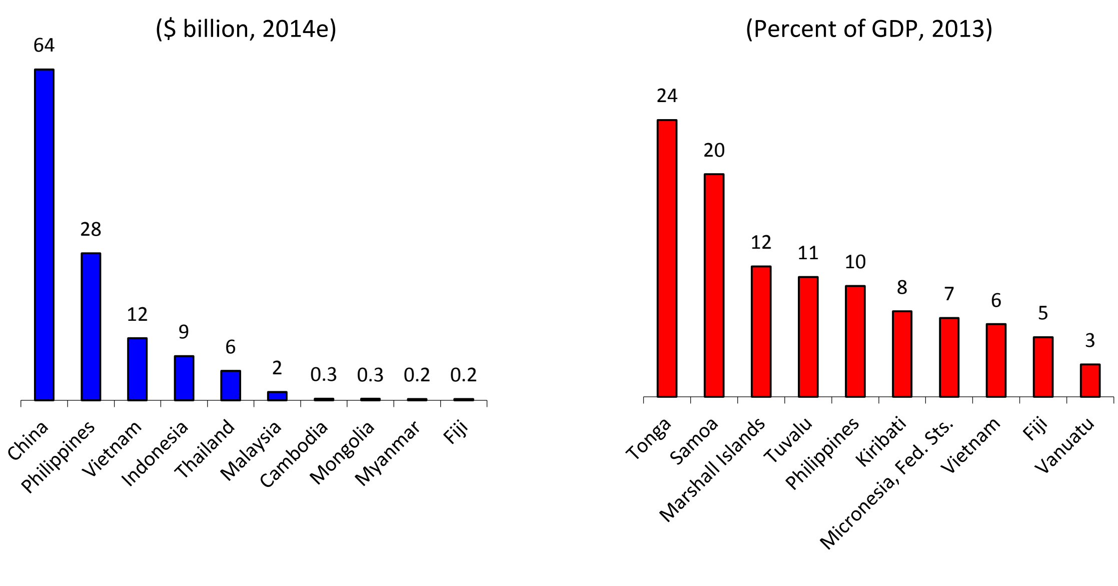
This annex provides additional details on recent trends and the outlook for remittances in each of the six World Bank regions. Regional trends in remittance costs are discussed in Section 2.

Remittances to East Asia and the Pacific are expected to grow slower in 2015

Remittances to the East Asia and Pacific Region (EAP) remain high in absolute terms, and continue to support domestic consumption and boost real estate markets. Remittances increased by an estimated 7.6 percent to $122 billion, faster than in any other region in 2014, except the MENA region. While China and the Philippines are the region's largest recipients, smaller Pacific island countries are the most dependent on remittance inflows, as indicated by a relatively large share of remittances in GDP (Figure A1).

Surprisingly, the Philippines recorded a sharp slowdown of remittances in January 2015. According to the Central Bank of Philippines, remittances expanded only by 0.5 percent in January (year-on-year), to $1.8 billion. An expansion of remittances from the US was offset by sharp dips from other key source countries including the Euro Area, Canada, and Singapore. This may be attributable to economic slowdowns in those source countries, depreciation of every major currency against the US dollar, and the disruption in money transfer services offered by those MTOs whose bank accounts have been closed by commercial banks in compliance with AML/CFT regulations. Lower oil prices may have driven a 1.4 percent (year-on-year in January) reduction in remittances flows from the GCC countries to the Philippines, although it is too early to judge.

Figure A1: Remittances are high as a share of GDP even among some larger recipients



Sources: IMF, World Bank World Development Indicators, and staff estimates.

Overall, the outlook for remittances to the EAP region remains moderately favorable, as indicated by a steady deployment of workers abroad, including from the Philippines. Remittance flows to the region are projected grow by a slower 2.8 percent in 2015, to $125 billion, weighed down by sluggish growth prospects in the Euro Area and weak values of the euro, the Japanese yen and other source-country currencies against the US dollar. Tighter immigration policies in Singapore and Malaysia are expected to dampen remittance outflows from these countries. The Pacific Islands, on the other hand, are likely to see a rebound, owing to improved economic conditions in the United States, increases in New Zealand's annual limit of seasonal workers from the Pacific Islands, and Australia's new actions to streamline bureaucratic procedures to hire guest workers from the Pacific countries.

Remittances to Europe and Central Asia (ECA) are expected to contract significantly[23]

Remittances to ECA developing countries are estimated to have fallen by 6.3 percent in 2014 after a strong growth of 11.1 percent in 2013. The Russian Central Bank (RCB) reports a 33 percent decline in outward remittances from Russia during the fourth quarter of 2014 (year-on-year): remittances in US dollar terms fell by 51 percent to Ukraine, 43 percent to Uzbekistan, 31 percent to Armenia, and 27 percent to Tajikistan. The decline is attributable to Russian's economic downturn and the depreciation of the ruble against the US dollar (Figure A2).

Russia's economic slowdown adversely affect remittances through three channels: (a) many migrant workers lost their jobs and it became more difficult to find new employment; (b) the depreciation of the ruble reduced the real incomes of migrant workers in Russia, making it more difficult to send money home; and (c) the depreciation of the ruble and other local currencies in the ECA region also reduced the value of remittances in US dollar terms. Central Asian countries felt the negative impact harder because of their heavy dependency of remittances from Russia. Remittances in several CIS countries are vital for families and for their economies (see Figure A3).

New Russian regulations, which took effect in January 2015, bar migrants who overstay their visa for a period of one year from re-entering the country for the next ten years. These regulations could encourage many migrants to return earlier than they had planned, which could constrain remittances to CIS countries.

Figure A2: Plummeting values of the Russian ruble vis-à-vis the US dollar

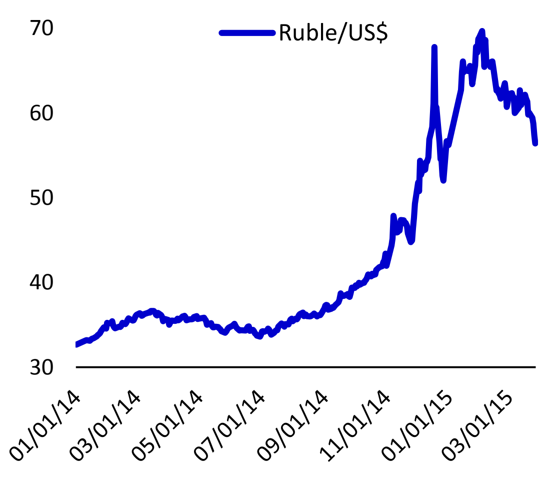
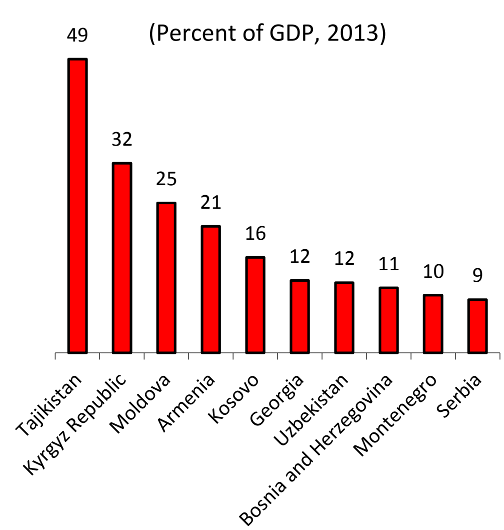


Figure A3: Remittances as share of GDP



Sources: Central Bank of Russia and World Bank staff estimates.

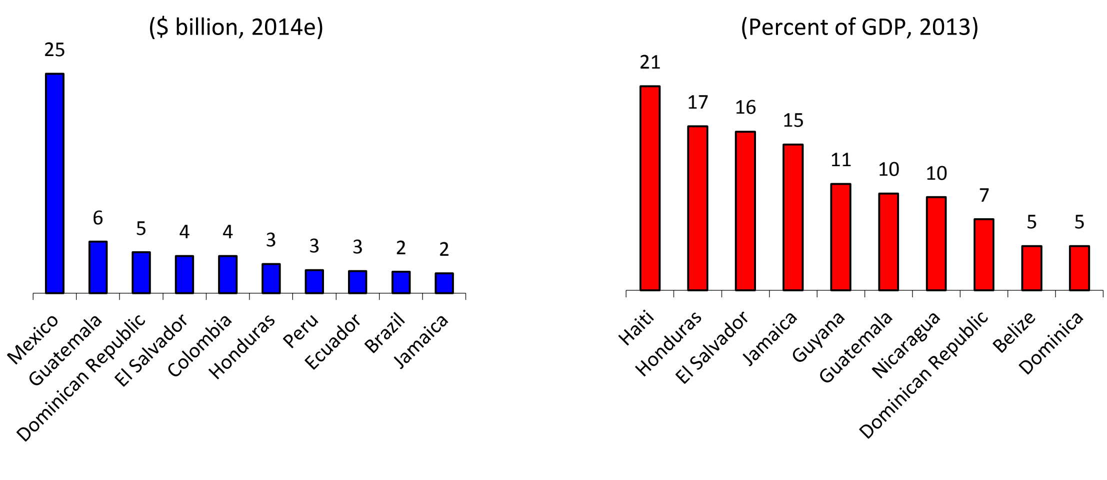
Given the continued economic difficulties in Russia, remittances to Europe and Central Asia developing countries are forecast to fall by 11.4 percent in 2015, before bouncing back in 2016. Overall, reduced remittances are likely to worsen standards of living in remittance-receiving countries, and the increasing number of returned migrants could put upward pressures on unemployment rates.

Remittances to Latin America and the Caribbean (LAC) are recovering at an uneven pace

After stagnating in 2013, remittances to the LAC region are estimated to have increased by 5.8 percent in 2014, reaching $64 billion. Remittance receipts were boosted by recovery in the United States, where GDP grew at its fastest pace in four years. Nonetheless, growth in remittance inflows were uneven across countries in the region: Mexico, El Salvador, Guatemala and Honduras saw a rise in remittances by more than 6 percent in 2014, while remittance growth in Argentina, Bolivia, and Paraguay has been sluggish, and remittances declined in Brazil and Peru, partly owing to weak economic activity in Spain which hosts one-tenth of all migrants from the LAC region. Remittances are particularly important to some of the smaller regional economies. For example, Haiti's remittances equal 21 percent of GDP, the largest ratio in the LAC region (Figure A4).

The recovery in the United States improved employment prospects for migrants, particularly as migrant employment in the United States is more responsive to economic activity than is native employment.[24] Migrant employment rose during the second half of 2014, but remained flat in February 2015.The sectoral composition of the US recovery has important implications for migrant employment, and therefore for remittances to the LAC region. The Bureau of Labor Statistics reports an increase in employment in the services sector, for example in food services, professional and business services, construction, healthcare, and transportation and warehousing, where many migrants work. Many Mexican migrants are employed in construction, which added about 321,000 new jobs over the past 12 months.

Figure A4: Remittances represent a large share of foreign income in Latin America



Sources: IMF, World Bank World Development Indicators, and staff estimates.

Controls on capital outflows in Argentina and Venezuela have dampened outward remittances to Bolivia, Colombia, Paraguay and Peru. For example, Venezuela banned outward remittances in February 2014, and as a result, Colombia experienced a fall of 90 percent in remittances from Venezuela. Similarly, remittance flows from Argentina to Peru decreased by 6 percent in 2014. However, the official data may overstate the decline in remittances, as controls may have increased the use of informal, and unrecorded, remittances channels.

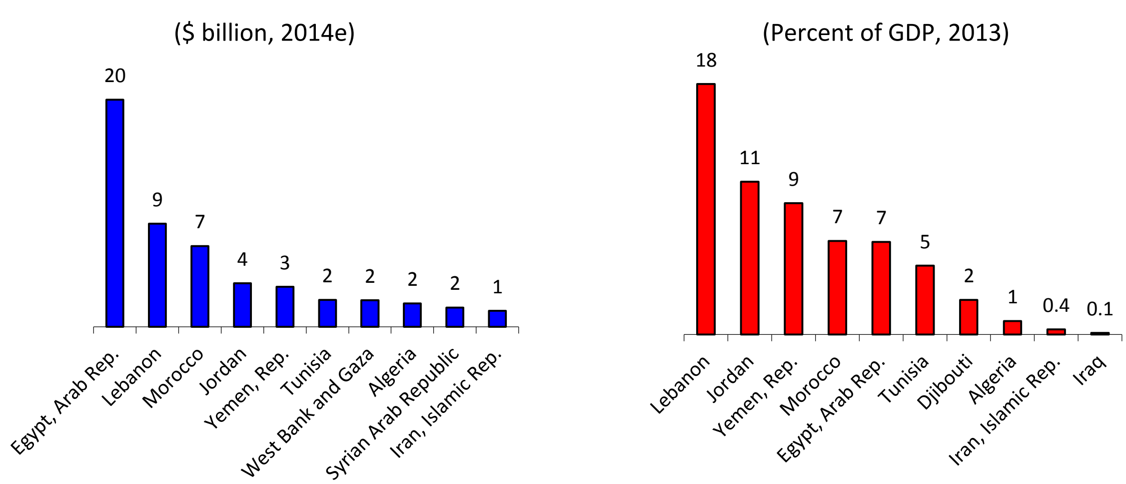
Remittances to Cuba are likely to be affected by the movement towards normalization of relations with the United States.[25] For instance, general donative remittances to Cuban nationals and donative remittances for humanitarian projects will no longer require a specific license. Cuba urged the United States to end the immigration privilege which grants virtually automatic legal residency to any Cuban who touches the US territory. Cuban population in the United States increased to 2 million in 2012, from 1.2 million in 2000, largely contributed by Cuban Americans born in the United States.

Remittance flows to the LAC region are forecast to grow by 3.4 percent in 2015 and 4.1 percent in 2016. While these growth rates are lower than that experienced in 2014, they are significantly higher than the anemic growth rate of the post-crisis period. Continued growth in GDP and employment in the United States is expected to boost remittances to Mexico and Central America. However, the high unemployment rate in Spain is anticipated to constrain remittance flows to Bolivia, Colombia, Paraguay, and Peru. The US administration's recent executive order, which would offer protection from deportation for an estimated 5 million migrants, could substantially increase remittance outflows through formal channels. However, implementation of the executive order has been stopped by a Texas judge, and prospects are unclear.

Remittances to the Middle East and North Africa (MENA) are estimated to have increased by 8 percent in 2014, but growth is expected to slow

Remittances to the two main recipients in MENA, Egypt and Lebanon, are estimated to have expanded strongly in 2014. Remittances to Egypt increased by an estimated 10 percent, recovering from the low 2013 level as political stability and investment opportunities improved. The estimated 13 percent rise in remittances to Lebanon might partly be due to remittances routed to Syrian refugees in Lebanon, as well as positive economic developments in destination countries like the United States. Inward remittances accounted for at least 5 percent of GDP in oil-importing MENA countries and Yemen in 2013 (Figure A5).

Figure A5: Remittances: total and as share of GDP



Sources: IMF, World Bank World Development Indicators, and staff estimates.

Looking ahead, continued low oil prices could reduce remittances from the GCC countries in the medium-to-long term. In the short term, however, significant foreign exchange reserves and strong fiscal positions could support current spending, thus delaying the negative impact of low oil revenues on migrant employment.

Nationalization policies ("Nitiqat" program) in Saudi Arabia seek to increase the number of Saudi nationals employed in the private sector, and have resulted in the departure of 1.4 million migrant workers from Saudi Arabia since 2013 (EIU, 2015). However, the impact of the program on future remittances and migration flows is uncertain. Remittances outflows from Saudi Arabia continued to rise in 2014, although this may have happened because the increased risk of repatriation has encouraged migrants to remit more. The Nitiqat program has not stopped the recruitment of new foreigners, as the government issued some 1.3 million new work visas in 2014. Although the government is planning to further increase the Saudi employment quotas for enterprises in 2015, we anticipate that Saudi Arabia will continue to issue a large number of work visas, at least in the short term, to address labor shortages.

Exchange rate movements will have different effects on remittances. As nearly all GCC currencies are pegged to the US dollar, GCC currency exchange rates do not affect the US dollar valuation of remittances from these countries. However, currency depreciation in home countries against the dollar could increase remittances that are sent with the intent to invest. In contrast, the depreciation of the euro against the US dollar will lower remittances sent from the Euro Area measured in dollars. The devaluation of the Egyptian pound since the beginning of 2015 will reduce the black market premium, which should encourage greater remittances through formal channels.

Overall, remittances to the MENA region are expected to continue to grow over the next three years, but at a slower pace. Economic developments in the Euro Area and the depreciation of the euro against the US dollar will slow remittance growth to Maghreb countries in the short term. The falling oil prices and nationalization policies in Saudi Arabia pose downside risks in the medium-to-long run to inward remittances to Mashreq countries (Yemen, Egypt and Jordan), who receive large remittances inflows from GCC countries.

Remittances to South Asia (SAR) bounced back in 2014, growth expected to remain flat in 2015

Remittances to SAR are estimated to have risen by 4.5 percent in 2014, compared to 2.5 percent in 2013, reflecting soaring remittances to Pakistan (16.6 percent increase), and to a lesser extent, Sri Lanka (9.6 percent) and Bangladesh (8 percent). Pakistan's healthy remittance growth helped insulate the economy from external vulnerabilities.

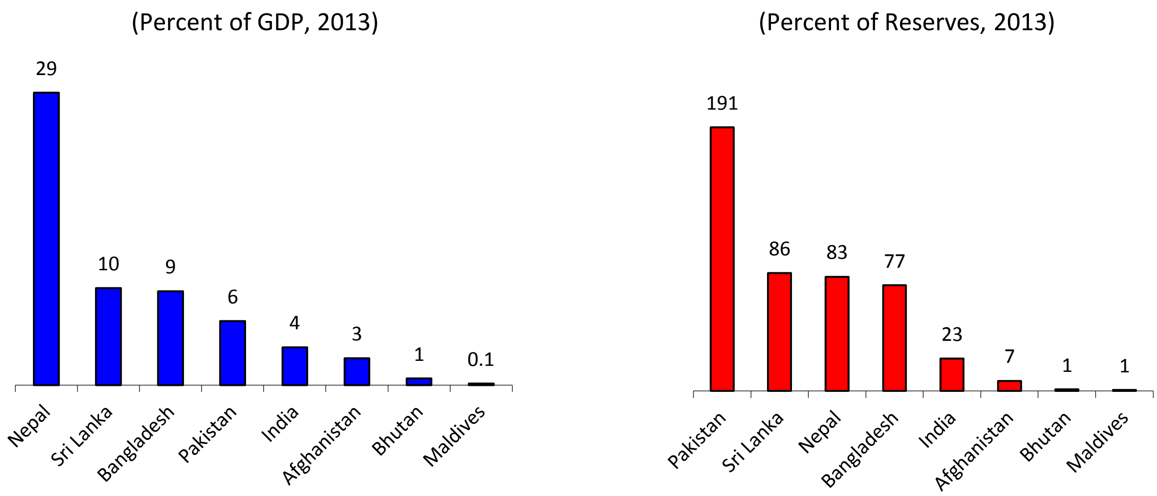
Remittance growth remained subdued in India (an estimated 0.6 percent in 2014 compared to 1.7 percent in 2013), perhaps in part because the appreciation of the Indian rupee discouraged investment-related inflows. Furthermore, the availability of a simplified portfolio investment regime for the diaspora (since late 2013) may be diverting investment-oriented remittances towards the higher returns offered by Indian stock markets. A slowdown of non-resident Indian (NRI) deposits may also reflect this trend. Remittances to Nepal slowed down to an estimated 5.8 percent growth in 2014, from 15.8 percent in 2013. The slowdown may reflect a decline in out-migration growth, after the massive increase in the stock of emigrants from about 1 million in 2010 to around 2 million in 2013.

Remittances are extremely important to several regional countries: remittances to Pakistan, Sri Lanka, Nepal and Bangladesh exceeded 6 percent of GDP and 75 percent of reserves in 2013 (Figure A6). With remittance flows of around $70.4 billion in 2014, India remains the world's largest remittance recipient country.

Remittances to SAR grew despite concerns that lower oil prices might dampen remittance flows from the GCC countries. For instance, Pakistan which receives some 60 percent of remittances from oil-exporting GCC countries, recorded a year-on-year 10 percent increase of remittances from the GCC in the last quarter of 2014. This may reflect the concentration of SAR migrant workers in the construction and services sectors, which are relatively less affected by falling oil prices. But if lower oil prices persist and reduce economic activity in the GCC countries, outward remittances from these countries may eventually decline.

Remittance growth in SAR is projected to remain flat at 3.7 percent in 2015, supported by large scale construction activities (including preparations for the 2022 FIFA World Cup in Qatar) and fiscal expansion in GCC countries, and improving economic prospects in the United States. The resumption of migration of Bangladeshi workers to Saudi Arabia also portends well for remittance growth in that country.

Figure A6: Remittances to SAR countries are large relative to GDP and international reserves



Sources: IMF, World Bank World Development Indicators, and staff estimates.

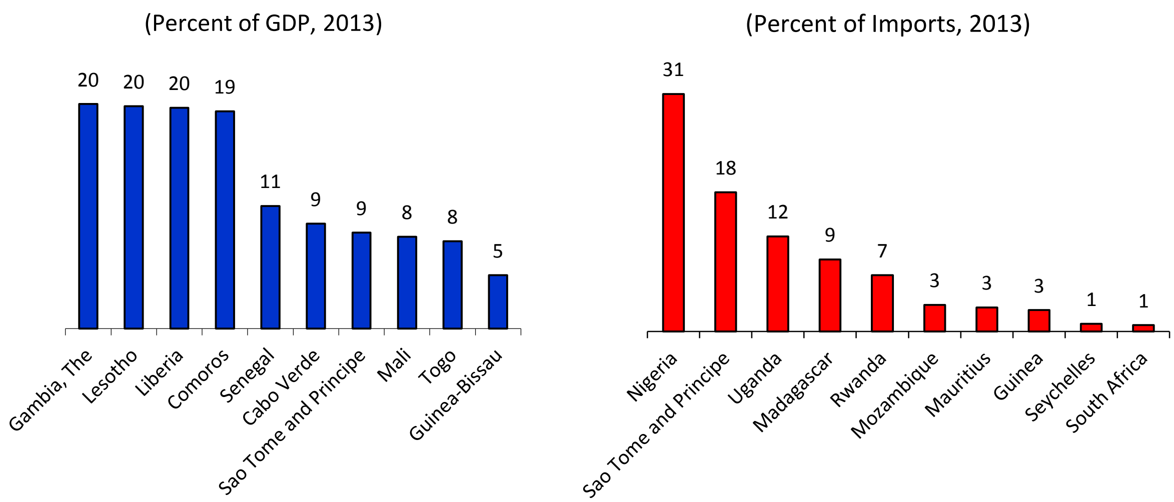
Remittances to Sub-Saharan Africa rose in 2014, expected to decelerate in 2015

Remittances to Sub-Saharan Africa (SSA) are estimated to have increased by 2.2 percent (to $32.9 billion) in 2014, after a sluggish 0.9 percent growth in 2013. Nigeria alone accounts for around two-thirds of total remittance inflows to the region, but its remittances are estimated to have remained flat, at roughly $21 billion in 2014. The regional growth in remittances in 2014 largely reflected strong growth in Kenya (10.7 percent), South Africa (7 percent) and Uganda (6.7 percent).

The level of remittance dependency varies across countries. Remittances in the Gambia, Lesotho, Liberia and Comoros equal about 20 percent of GDP (see Figure A7). Remittances also finance a substantial share of imports in some of the larger countries; for example, remittances financed one-third of imports in Nigeria in 2013.

The growth of remittance flows to the region is projected to slow to 0.9percent in 2015, and then recover to 3.4 and 3.8 percent in 2016 and 2017. Remittances will be critical in supporting domestic economic activity in Nigeria as its credit rating continues to decline. Nigeria also is likely to benefit from diaspora financing, in response to a recent increase of the proposed diaspora bond issuance from $100 million to $300 million.

Figure A7: Several African countries are highly dependent on remittances



Sources: IMF, World Bank World Development Indicators, and staff estimates.

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[1] The estimates are from the Migration and Remittances Factbook 2015 to be released by the World Bank in May 2015. These estimates update the data presented in the UN Population Division's Trend in International Migrant Stock: The 2013 Revision – Migrants by Destination and Origin. The revised dataset includes newly available data since the publication of UNPD report, notably from Sub-Saharan Africa, Latin America and the GCC countries. Also it includes new data on refugees since the crisis in Syria and Ukraine.

[2]Ratha, Wyss and Yousefi. Remittances from Russia to CIS countries likely to fall sharply http://blogs.worldbank.org/peoplemove/remittances-russia-cis-countries-likely-fall-sharply

[3] Ratha, Schuettler and Yousefi. Will falling oil prices lead to a decline in outward remittances from GCC countries? http://blogs.worldbank.org/peoplemove/will-falling-oil-prices-lead-decline-outward-remittances-gcc-countries.

[4] See Migration and Development Brief 23 for a more detailed discussion of forced migration trends.

[5] However, remittances from Italy and Spain to many South American countries continued to decline.

[6] Discussion based on the Remittance Prices Worldwide database and associated reports, in particular report #13. At the time of writing, data on remittance costs for the first quarter of 2015 were not yet available in the Remittance Prices Worldwide database. The analysis in this section, therefore, refers mostly to the remittance cost data for Q4 2014.

[7] Any inference on cost trends over time, however, has to account for the omission of banks (which tend to have higher remittance costs) from some important corridors such as France to Sub-Saharan Africa.

[8] Notes: 1/ Mobile Money Transfer & Remittances: Domestic & International Markets 2013-2018. Juniper Research.

[9] Plaza Sonia 2014. Closing of bank accounts of money transfer operators (MTOs) is raising remittance costs http://blogs.worldbank.org/peoplemove/closing-bank-accounts-money-transfer-operators-mtos-raising-remittance-costs

[10] To collect data and get a better understanding on the impact on the closure of bank accounts, the World Bank will conduct a survey of Central Banks, banks and money transfer operators in April 2015, with the goal of devise policy recommendations.

[11] The third high-level International Conference on Financing for Development will be held in Addis Ababa, Ethiopia, from 13 to 16 July 2015. The Conference will result in an intergovernmentally negotiated and agreed outcome for supporting the implementation of the post-2015 development agenda. See http://www.un.org/esa/ffd/index.html.

[12] The potential for mobilizing diaspora savings for financing education, healthcare and infrastructure in countries of origin remains significant (Okonjo-Iweala and Ratha, 2011). For estimation of diaspora savings and identification of candidate countries for diaspora bonds, see Ratha and Mohapatra (2011) and Ketkar and Ratha (2009).

[13] A diaspora member would be able to use local currency and hence would have a lower perception of devaluation risk. Also diaspora members are likely to have better knowledge of their country of origin than foreign institutional investors.

[14] Mohieldin and Ratha (2014).

[15] Some MTOs are toying with the idea of remittance fees being paid by merchants (where the remittances might be spent) rather than the migrants. The use of mobile phone technology and the internet has significantly increased the efficiency of remittance services. The remittance industry is now looking into using Bitcoin and other virtual currencies, which would improve efficiency even further.

[16] These data were collected through Operation PERKŪNAS during September-October 2013 – see http://www.statewatch.org/news/2014/mar/eu-council-operation-perkunas-16045-13.pdf.

[17] if recruitment fees are eliminated entirely, as per ILO standards, the savings could be 8 times this amount for the migrants" (ILO, 2015).

[18] Under the auspices of the Global Knowledge Partnership on Migration and Development (KNOMAD), the International Labor Organization (ILO) and the World Bank are presently undertaking empirical research to assess the extent of labor migration costs.

[19] Interviews with African diaspora organizations in the United States from Ethiopia, Liberia, Mali, Nigeria that their members volunteer their time and work for the diaspora association's activities after normal work hours. Membership fees are small, so they cannot fully cover the associations' activities (World Bank, 2011).

[20] At the time of writing, at least one major money transmitter has expressed willingness to facilitate diaspora giving. The firm is looking for a list of approved charities in the recipient countries.

[21] Some estimates of how much people give in big US cities, based on the IRS data, are available at https://philanthropy.com/article/How-Much-People-Give-in-the/152497#note. These estimates range from 1.9%-5.4% of income.

[22] See Ketkar and Ratha (2009). During 2002–04, when Brazil had difficulty accessing international capital markets, many Brazilian banks securitized future hard-currency diversified payment rights (or DPRs, including all hard currency receivables through the international payment system) to raise $4.9 billion.

[23] This section draws on contributions from Stepan Titov, Ana Prokhorova, and Juan Gutierrez, World Bank.

[24] In general, migrant workers tend to be more flexible than native workers in terms of working longer hours, changing jobs, or accepting lower wages. That migrant employment is more responsive to economic activity in the US and Europe during the global financial crisis has been noted in Migration and Development Brief 17, December 2011.

[25] Unofficial estimates of remittance flows to Cuba range from $1.4 billion to over $2.8 billion in 2013 (see Orozco, 2015, Havana Consulting Group 2014).