

THE REMITTANCE EFFECT

A LIFELINE FOR DEVELOPING ECONOMIES
THROUGH THE PANDEMIC AND INTO
RECOVERY

JANUARY 2021

WESTERN UNION FORWARD

A message from Hikmet Ersek, President and CEO of Western Union

At Western Union, we have long admired and drawn inspiration from the millions of global citizens who cross borders to work, live, study, and advance prosperity for themselves and their families.

We help them to support their loved ones globally by sending their money worldwide through what is likely the world's widest-reaching financial network.

In earning the privilege to serve our customers, we know first-hand of the dual role they perform in advancing their own economic prosperity while supporting their families thousands of miles away. We know they contribute the human capital that helps the functioning of a robust economy. They serve on the front lines in their host communities, as medics, scientists, grocers, bus drivers, construction workers, and teachers.

We also know that they close the distance gap with their families by sending love and support in the form of money. We have seen that when this money moves fluidly, good things happen: A child goes to college, a business expands, emergency aid arrives the moment it is needed, and whole nations thrive.

This report illustrates what we already know: the crucial role global remittances play in developing economies often impacting families and economies much more rapidly than governments and private direct investment can do. These individuals quickly and efficiently put money directly into the hands of their loved ones; back in their home countries, those loved ones then use the money to fund a broad range of economic activity.

This report emphasizes their actions—especially during an unprecedented global pandemic—and shines an even bigger spotlight on the importance of remittances and those who send them. They are a resilient and inclusive global economic force.

At Western Union, we call these individuals heroes for the essential lifeline they represent to their home communities. However, this report justifies bestowing a new title upon our customers, these global citizens, and local heroes: the world's "Economic First Responders." The love and money

they send across the world's borders has helped smooth the pandemic's economic shocks and foster resilience and recovery in their home nations throughout 2020 and into 2021 and will continue to beyond.

When times get hard in developing economies, remittance-senders become front-line providers of economic security. Simple arithmetic shows us that remittances' magnitude, reliability, and cascading effect make them a crucial building block in developing economies' efforts to return to normalcy. When these streams are well organized, good things naturally happen. Struggling developing economies are boosted, an emerging generation is educated, and an overall improved standard of living, especially during and post pandemic.

Policymakers, development experts, and economists must give cross-border remittances the consideration and priority they deserve as a significant global economic engine. I advocate for policymakers across the spectrum to prioritize legal, smart, safe, and equitable cross-border migration systems, which will uplift developing nations' economies. Equally important is the need to create capacity and capability for the funds they send home to be turned into productive investments and help pave the path for economic prosperity for all.

In the monumental, post-pandemic economic rebuilding of developing nations that lies ahead, millions of these economic first responders will continue to step up. There has simply never been a greater need for innovation and technology that provides the on-the-ground financial support flowing instantly across borders.

Connecting people, businesses, and societies to enhance greater prosperity is the purpose that drives us. For 170 years, Western Union has connected individuals to their families and loved ones globally, virtually anywhere, anytime. Once, we linked our customers through the wires of a worldwide telegraph network; today, we connect them through one of the world's largest global financial networks, moving 130 currencies digitally to almost any point on earth in minutes. In an age when speed, security, convenience, and trust mean everything, we pledge to continue to bring our customers and clients greater ease, access, and confidence with every transfer they make.

TABLE OF CONTENTS

Executive summary	1
1. Introduction.....	8
2. Background	9
2.1 Historic trends in remittance flows	9
2.2 The impact of immigration on host economies	12
3. Impact of COVID-19 on the economy and remittance flows	14
3.1 Impact of COVID-19 on the economy	14
3.2 Impact of COVID-19 on remittance flows	18
4. Socio-economic and development impact of remittances	26
4.1 Tracking the remittance effect.....	26
4.2 Use of remittances in recipient countries	27
5. Measuring the impact of remittances	29
5.1 Literature review evidence	29
5.2 Quantifying the economic effect of remittances	30
6. Conclusion.....	33
Annex I: Measuring remittance flows	34
Annex II: Migration policies in the wake of COVID-19	36
Bibliography.....	38

EXECUTIVE SUMMARY

Remittances are an indispensable but underappreciated source of financing for developing countries to attain SDGs and to support economies and households, especially during the pandemic.



Remittances generate crucial positive economic and social effects that support developing economies in many ways. Although these flows slowed during the pandemic, they remained more resilient than other private capital flows, making them even more important as a source of foreign inflows for receiving countries.

Although the World Bank estimates that remittance flows to developing countries (low-and-middle income economies) contracted by 7.0% in 2020, this decline is likely to have been far less severe than the downturn in private investor capital. For example, UNCTAD estimates that foreign direct investment (FDI) to developing economies experienced a decline in the range of 35-45% in 2020.

Looking forward, the World Bank predicts that remittance flows to developing countries will contract by a further 7.5% in 2021. But the outlook remains subject to a high degree of uncertainty with both upside and downside risks. A wider set of dynamics – including central bank data outturns for 2020, economic outlooks for the world economy in 2021, survey data and remittance consumer market fundamentals – suggest that while there are downside risks, there is also potential that 2020 and 2021 will not turn out as weak as predicted by the World Bank and for a period of strong remittance growth in the medium-term as sender economies recover and demand from developing economies remains high.

The remittance effect contributes to global inter-dependence

Remittances are the hidden engine of global connectivity, linking individuals and contributing to interdependence at the worldwide level – social, economic, and political. There is no government intervention involved in remittances; individuals are single-handedly responsible for the massive movement of capital across the world's borders. Historically, remittance flows have remained relatively stable through the business cycle, thereby providing support to households in the face of economic adversity. These flows are targeted to meet the specific needs of the recipients in developing economies, compared to, in cases, the more delayed impacts from the fiscal response of governments and overseas development aid (ODA).

Remittances act as a form of 'social insurance' for households

At a micro level, remittances benefit recipient households in developing countries by providing an additional source of income that helps fund expenditures and lowers incidences of extreme poverty. These flows, in effect, act as a form of 'social insurance', supporting households' capabilities to resist economic shocks. Transfers can also help recipients increase spending on essential goods and services, invest in healthcare and education, and allow them to build their assets.

At a macro level, remittances fund additional spending in the economy, stimulating demand for goods and services. Money spent in one area is received as income elsewhere, leading to further rounds of spending that ripple

While migrant remittances contribute to the development of their home country, migrant labour also contributes positively to the host country economy.



through the economy. In addition to these direct, short-run effects on national output, remittances also fund investments in human and physical capital, whose full transformative benefits are only realised in the long-term.

According to the World Bank, international remittances totalled \$717bn in 2019, with more than three-quarters of these flows (\$548bn) bound for developing countries. These flows now exceed ODA by a factor of three and have also now overtaken FDI to become the largest inflow of foreign capital (excluding exports) to developing markets. Despite the indispensable role played by remittances, their position in the world economy is somewhat underappreciated.

Impact of the pandemic on remittances in 2020 and outlook for 2021

The economic impact of the pandemic and the resulting fall in employment and income in migrant-hosting economies, and in some countries a decline in the migrant workforce with return migration, is inevitably having an impact on the global remittance market in 2020. Latest World Bank estimates indicate that remittance flows to low and middle-income countries fell by 7.0% in 2020 (vs. a 20% decline predicted in April 2020), with a further decline of 7.5% predicted in 2021.

The cumulative 14% fall over these two years would be unprecedented in the recent history of remittance flows, which have tended to trend upwards year-over-year. While remittances fell by 5% in 2009 during the Global Financial Crisis, they rebounded in 2010 as the world economy started to grow again. That said, the current economic crisis is also unprecedented in terms of its depth and is a different type of crisis to the Global Financial Crisis.

The level of uncertainty around the economic outlook and fundamentals impacting the remittance market is currently much higher than usual, with some indicators suggesting that remittance flows could prove more resilient than expected. This includes positive data for 2020 on remittance inflows from several central banks in receiving countries¹, positive earnings data from leading money transfer companies², as well as survey evidence indicating the resiliency of senders, who have been highly motivated to support families and loved ones back home³.

Oxford Economics' expectation for a sharp rebound of GDP growth in sender economies this year also suggests the potential for a more positive outlook for remittances in 2021 (albeit this may be counterbalanced by migrant workers having already or being forced to return home or revisit their plans taken before the pandemic). Demand for remittance inflows from developing economies is also likely to remain high, as the vaccine rollout in these countries may be slower, and governments have less fiscal capacity to support economies.

Remittances are the hidden engine of globalization and contribute to global interdependence at all levels - social, economic and political.



¹ Central bank data for Jan-Oct 2020 show positive year-on-year growth in remittance inflows for Bangladesh, Dominican Republic, Guatemala, Mexico, Pakistan, Thailand, El Salvador and Kenya.

² For example, Western Union reported a 6% increase in transactions in its third financial quarter compared to the same period last year, while MoneyGram reported 10% growth in international transactions between July and September.

³ Western Union COVID-19 Consumer Pulse Survey

Given this uncertainty, the remittance outturn for 2021 could fall anywhere within a wide range between a decline and a return to the pre-pandemic trend of positive growth.

The remittance multiplier

The remittance 'multiplier' effect refers to the proportional amount of increase in output of the recipient country that results from a transfer of these funds into the receiving economy.

Estimates of the magnitude of remittance effects in recipient economies vary significantly and so we have used an average of the studies reviewed. Reasons for variation can include differences in sub-national and national-level effects, differences in the time period over which the impact is being measured, and differences in country characteristics such as final use of funds and import propensity etc. The average across studies suggests a multiplier value of 0.4, indicating that every \$1 of remittances translates to a \$0.40 increase in final domestic GDP. Applied to the World Bank developing-country remittance estimate of \$548bn in 2019, this translates to a direct GDP impact on these economies of \$219bn (the domestic recipient economy GDP impact is \$219bn in total – not \$548bn plus \$219bn – because part of the remittance short-term impact is used for imports or savings).

The fact that the remittance multiplier is lower than one is reflective of 'leakages' – some of the funds are saved or used to pay off debt (not spent) and a high share of spending in developing economies is likely to be on imported goods (e.g. medicines). A lack of investment opportunities in developing economies may also explain why remittance flows often fail to generate self-reinforcing development. But as noted by the World Bank (2006), multiplier effects may well be larger at the regional level.

In general, the magnitude of the average remittance multiplier is comparable to or higher than multiplier estimates for FDI and ODA, which have also shown some mixed results. For example, Rajan and Subramanian (2005) estimate that a 1% increase in the ratio of aid to GDP should at most raise economic growth by 0.16%, assuming all aid is invested, or close to 0.1% if some aid is wasted or consumed. Studies of FDI suggest diverse effects at the country level depending on absorptive capacity and institutional quality.

The average remittance multiplier estimates of 0.4 also reflects only the short-run impact of spending rather than the longer-run impacts on the economy's supply capacity due to the transformative effects of increased spending on education, health and other investments. In Oxford Economics' view, the available literature therefore has shortcomings in terms of fully measuring the economic impact of remittances and multiplier effects. A more complete measure of remittance economic impacts including short and long-term effects would likely result in a larger multiplier than 0.4.

The economic impact of remittances

As discussed in Section 5 of this report, a large body of research confirms that remittance flows contribute to poverty alleviation in developing economies – and enable households to invest in human and other capital as well as enterprises. Collectively, in receiving countries, remittances support economic and financial stability, improve creditworthiness, and promote economic growth. Migration also contributes positively to host country economies by providing both lower cost and skilled labour, including in sectors that otherwise would face shortages, broadening tax bases and creating demographic support for aging worker populations.

Many host/sender economies experienced record falls in GDP in 2020, despite varying levels of government stimulus support. Further, there has been a disproportionately high impact on the migrant workforce in these economies in terms of loss of jobs and earnings, given the sectoral profile of migrant workers and how the pandemic has impacted certain sectors more than others. For some developing countries, where governments have been less able to support their economies, the pandemic's economic shock has been further exacerbated by a decline in remittance flows.

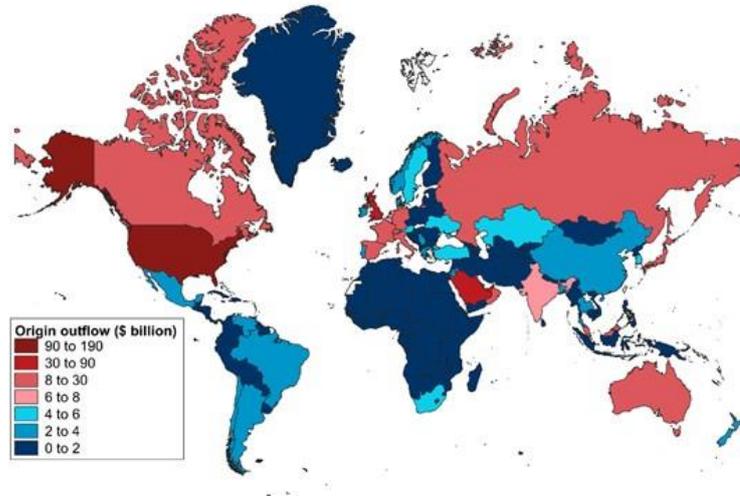
Oxford Economics' analysis suggests that the impact on GDP - from shocks to inbound remittances in 2020 - should be relatively modest for larger recipient economies, such as India, where remittances represent a relatively small share of GDP. However, the impact on GDP may be much more significant for smaller countries, such as Tonga and Nepal, whose economies and households are much more dependent on remittances.

Nevertheless, the continued flow of remittances, even at reduced levels, is a crucial lifeline for these economies. And for some countries, such as Mexico and Pakistan, remittances may even have increased throughout 2020 compared to 2019, helping to offset the severity of their downturns.

Looking ahead, the ongoing resiliency of remittance flows will represent a crucial lifeline for many developing economies, contributing to economic recoveries where governments remain fiscally constrained, ODA may be slow to respond and inward FDI is likely to take time to recover to pre-pandemic levels (a trend seen following the Global Financial Crisis). And while migrant remittances contribute to the development of their home country, studies show that the net contribution of migrants to their host economy is also nearly always positive⁴. Migration should therefore be accepted as mutually beneficial for both origin and destination countries.

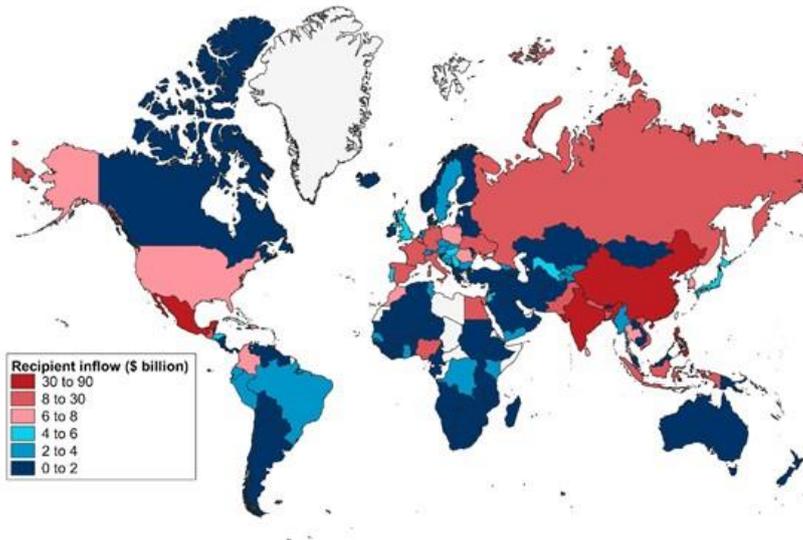
⁴ For example, see OECD (2014)

Fig. 1. Outflows of remittances by sender country, US\$bn (2019)



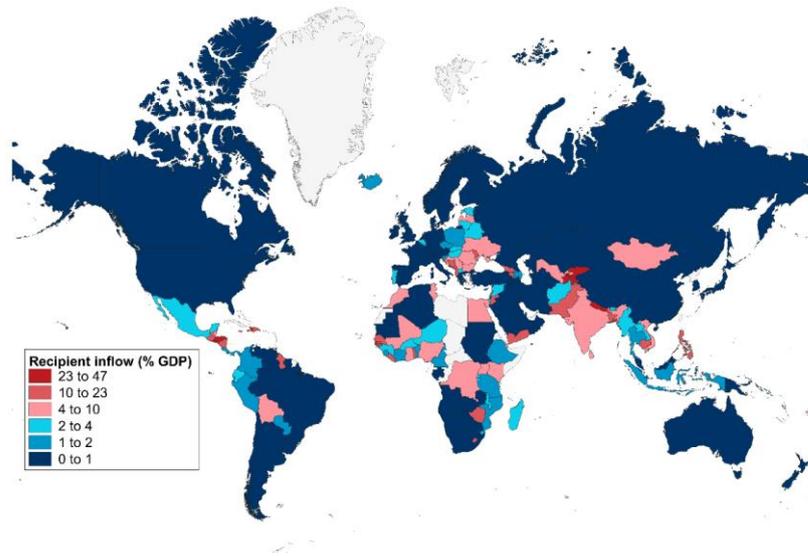
Source: World Bank

Fig. 2. Inflows of remittances by recipient country, US\$bn (2019)



Source: World Bank

Fig. 3. Inflows of remittances by recipient country, % GDP (2019)



Source: World Bank

1. INTRODUCTION

The rising value of remittance flows into developing countries in recent years is often not widely appreciated. At a macro level, these flows support growth and are less volatile than other private capital flows, tending to be relatively stable through the business cycle. Understanding the role and importance of remittances is particularly important at the current juncture, with the global economy experiencing a uniquely sharp and synchronized shock as a result of COVID-19.

In this context, this report examines the available evidence on remittance flows and their potential economic effects. We do not aim to present new, original empirical estimates of effects, but rather this study presents a review of the available evidence on remittances and their effects gathered from various data sources and academic studies.

The report begins with a review of developments and trends in remittance flows, including a focus on 2020 and the outlook for 2021. Evidence is then presented on the use of remittances by recipients and their potential economic impact. We explore and show how remittance flows remain a crucial lifeline in supporting developing economies through the current pandemic crisis and into the recovery.

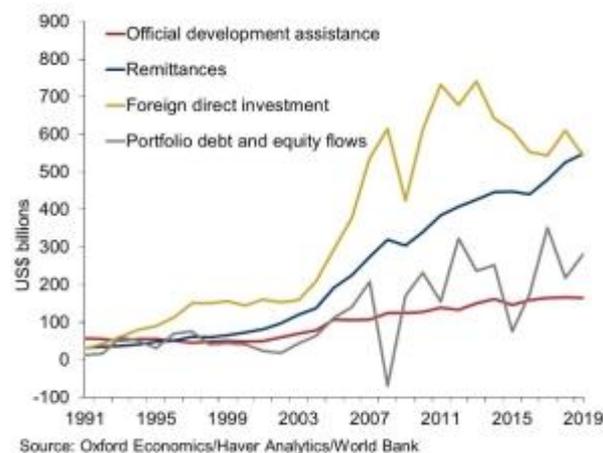
2. BACKGROUND

2.1 HISTORIC TRENDS IN REMITTANCE FLOWS

Remittances refer to the transfer of money to households across national boundaries by migrant⁵ workers located abroad. It is difficult to estimate the exact value of remittance flows because many transfers take place through unofficial channels⁶. But data on officially recorded remittances indicate that these flows have been growing rapidly over past decades and now represent the largest source of foreign income (excluding exports) for many developing countries.

According to the World Bank, international remittances totalled \$717bn in 2019, with more than three-quarters of these flows (\$548bn) destined for developing countries. Remittance flows to these countries have seen an impressive eight-fold increase over the past two decades, outpacing growth of all other sources of foreign capital. Over the same period, portfolio flows increased by a factor of six, whilst foreign direct investment (FDI) and official development aid (ODA) increased by a factor of three⁷. In fact, 2019 represented a landmark for remittances to developing countries, overtaking FDI to become the largest inflow of foreign capital to developing markets (excluding exports).

Fig. 4. Foreign capital flows to developing countries



The three largest **recipients** of remittances in 2019 were the populous countries of India, China, and Mexico. When measured as a share of GDP, however, small countries, such as Tonga, Haiti, and Lebanon, have the highest ratios, with inward remittances accounting for more than 30% of GDP. The largest **sources** of remittance flows are developed countries with large migrant populations, such as the United States and the Gulf states of Saudi Arabia and the UAE.

⁵ In this report, the term 'migrant' is assumed to include all overseas workers, including immigrants and expatriates.

⁶ Issues around the accuracy and consistency of remittance data are discussed in Annex I.

⁷ It should be noted, however, that remittances are private funds and cannot replace Official Development Assistance and other public spending.

Fig. 5. Top 10 recipients of remittances globally in 2019

Rank	Country	US\$bn	Country	% of GDP
1	India	83	Nepal	46%
2	China	68	Haiti	42%
3	Mexico	39	Tonga	39%
4	Philippines	35	Kyrgyz Republic	36%
5	France	27	Tajikistan	30%
6	Egypt	27	Honduras	29%
7	Nigeria	24	Bermuda	29%
8	Pakistan	22	El Salvador	26%
9	Bangladesh	18	West Bank & Gaza	23%
10	Vietnam	17	Moldova	22%

Source: Oxford Economics/World Bank

Fig. 6. Top 10 senders of remittances globally in 2019

Rank	Country	Billions (US\$)	Country	% of GDP
1	United States	179	Gambia, The	26%
2	Saudi Arabia	47	Niger	19%
3	UAE	42	Belize	18%
4	United Kingdom	32	Togo	16%
5	Germany	30	Oman	12%
6	Australia	23	West Bank & Gaza	12%
7	Russia	23	Benin	12%
8	Canada	23	UAE	11%
9	France	22	Bahrain	11%
10	Italy	20	Bhutan	11%

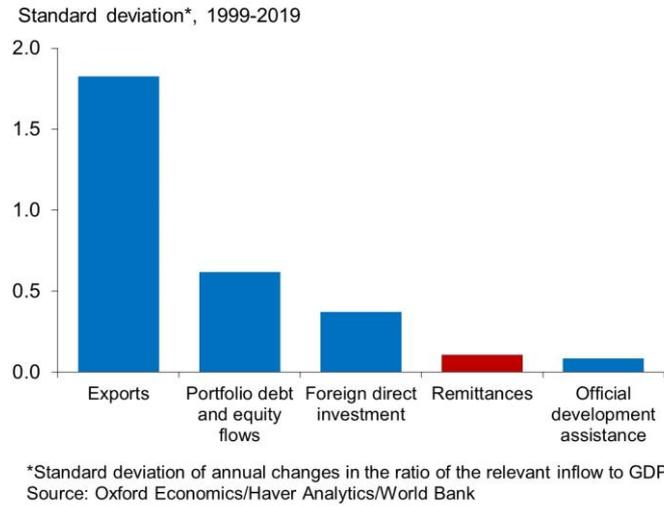
Source: Oxford Economics/World Bank

Historically, remittances have tended to be relatively stable and do not closely follow business cycles -- in contrast to debt flows and FDI, which are pro-cyclical⁸. Therefore, remittances can be viewed as a form of insurance against income shocks in developing economies, helping support and smooth household consumption. Indeed, data show that remittances are a relatively stable source of foreign inflows as compared to exports, FDI or portfolio flows (which are more cyclical and volatile), with a standard deviation⁹ that is closer to ODA.

⁸Evidence on the behaviour of remittances over the business cycle is presented in De et. al. (2016)

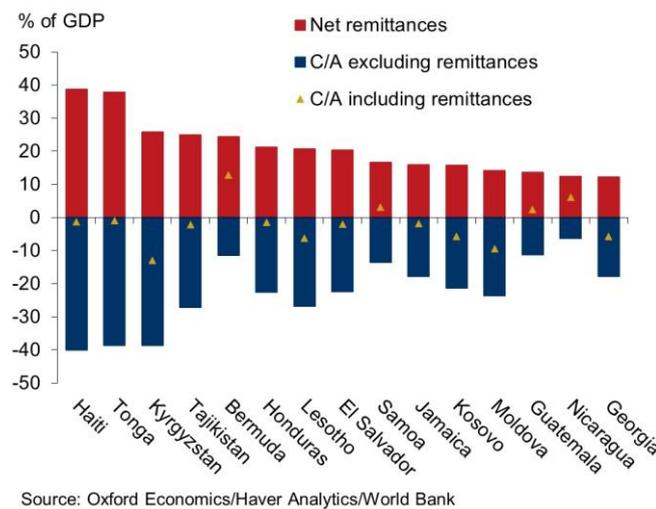
⁹ Standard deviation is a measure of the amount of variation or dispersion of a set of values around the mean.

Fig. 7. Volatility of foreign flows to developing countries



As a source of foreign income, remittances also contribute significantly to the balance-of-payment current accounts of many developing countries. A high and steady net inflow of remittances can improve the sustainability of the current account and help finance existing trade deficits. In turn, this reduces the likelihood of balance-of-payment crises as countries are more able to meet their external obligations¹⁰. Increased currency stability benefits the receiving countries by promoting increased investment and trade whilst also avoiding sharp depreciations that would otherwise lead to higher domestic inflation, increased cost of living and higher business and investment costs.

Fig. 8. Contribution of remittances to balance of payments current accounts, select recipient economies in 2019



¹⁰ For example, see Hassan and Holmes (2015)

Notwithstanding the historic stability of remittance flows, the economic shock from the pandemic represents an unprecedented event that has affected all countries. Indeed, seven of the 20 countries with the highest number of COVID-19 cases – the USA, India, Russia, France, the United Kingdom, Italy, and Germany – were among the 20 countries from which the highest amounts of remittances were sent in 2019. Remittances sent from these seven countries alone made up 44 per cent of all global remittances received in 2019. This creates an uncertain environment for global remittance flows, as migrant workers tend to be more vulnerable to a loss of employment and income during an economic crisis in the host country. This is especially true during the pandemic, with migrant-intensive sectors such as hospitality being severely impacted.

2.2 THE IMPACT OF IMMIGRATION ON HOST ECONOMIES

Times of economic crisis often provoke public antagonism towards migration. However, it is important to look at the overall contributions of migrants to their host economies -- and not just the short-term impact during difficult times.

In the short run, the impact of immigration on wages and employment in the host economy depends on the extent to which migrants have skills that substitute or complement those of existing workers. When migrant workers are substitutes for existing workers, immigration can increase competition for jobs and put downward pressure on wages. In turn, this can displace existing workers and increase unemployment, especially if they are not willing to accept lower wages.

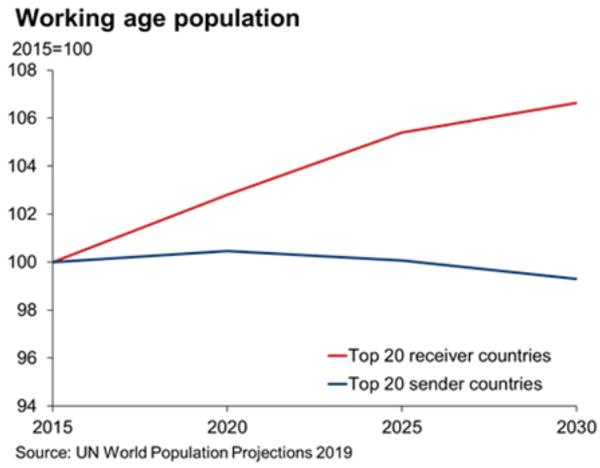
In contrast, the expansion of production in sectors that use migrant labour can increase demand for labour and drive wages back up. In addition, migrants expand consumer demand for goods and services, which eventually leads to the creation of more jobs. In fact, most empirical research shows little long-term negative impact of immigration on overall employment rates. Immigration has also been shown to have a relatively small effect on the average wage, although effects are more negative for low-paid workers and positive for high-paid workers¹¹.

Additionally, research shows that the net contribution of migrants is nearly always positive, as they contribute more in taxes and social benefits than they receive from the host country¹². Importantly, immigration increases the number of potential taxpayers, which means they can fulfil an increasingly important role for most advanced economies in coming years as population growth slows and life expectancy rises. The United Nations projects that by 2050 the total population will be shrinking in almost half of all advanced economies, making migration crucial in alleviating the challenges of ageing populations. Advanced economies must either accept lower levels of economic activity as workers age out of the workforce or find a suitable replacement, such as migrants, for those ageing workers, or uplift their productivity performance (Figure 9).

¹¹ A review of empirical literature on the employment and wage impacts of immigration is provided by the National Academy of Sciences (2017)

¹² For example, see OECD (2014)

Fig. 9. Diverging trends in working-age populations between top remittance sender and receiver countries



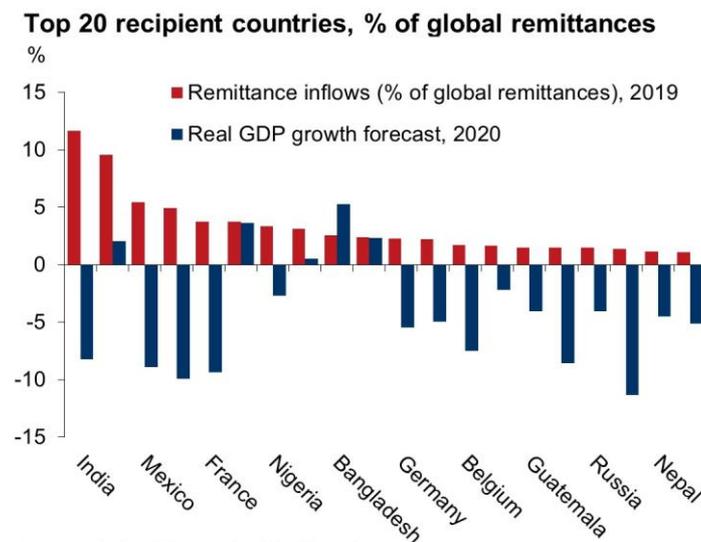
3. IMPACT OF COVID-19 ON THE ECONOMY AND REMITTANCE FLOWS

3.1 IMPACT OF COVID-19 ON THE ECONOMY

In contrast to the Global Financial Crisis of 2008-09, when developing economies were less affected and continued to grow, developing countries are expected to experience a contraction of GDP in 2020 (Figure 10). Developed economies will sustain deeper falls in output in 2020, partly linked to the severity of their lockdowns and the size of their service sectors (Figure 11).

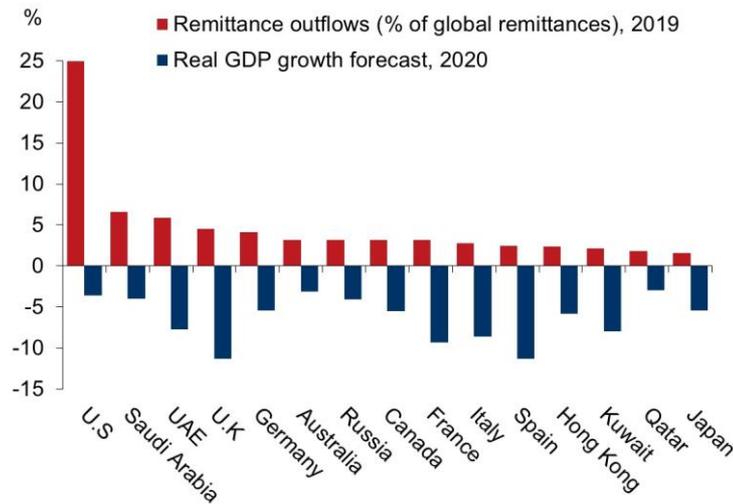
Still, some advanced economies could vaccinate a significant portion of their most vulnerable citizens in early 2021, which will allow them to begin lifting some restrictions in March or April. This will likely include more migrant-intensive service sectors, triggering a mid-year rebound in growth and helping them to recover faster than developing economies this year.

Fig. 10. Economic impact of COVID-19 on remittance receiver countries



The roll out of vaccines will allow governments to reverse some of the emergency and stimulus policy measures put in place during 2020. These include scaling back and stopping job-support schemes that could affect migrant employment levels and allow the growth baton to pass from the public to the private sector (Figure 12). While this is a necessary part of the recovery process, it will be a difficult transition and there will likely be bumps in the process with medium-term economic scarring from the pandemic inevitable.

Fig. 11. Economic impact of COVID-19 on remittance sender countries

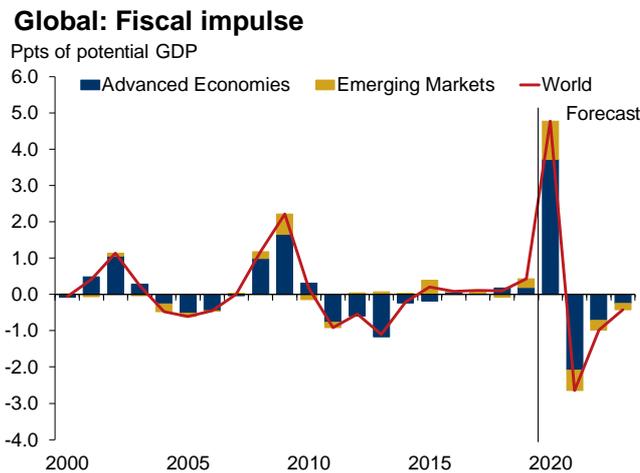


Source : Oxford Economics/World Bank

While vaccine developments mean that the balance of risks around Oxford Economics' baseline forecasts are now more evenly distributed, potential negative impacts of downside scenarios are still larger than the potential positive impact. A key risk to both advanced and developing economies is that policymakers over-estimate the underlying strength of their recoveries and remove support too much and too early in an attempt to rein in deficits or pre-empt inflationary forces, stunting recoveries in their crucial early phase.

This is consistent with the view of Oxford Economics' survey of clients, which shows the majority of governments are judged to be more likely to tighten too much than too little (Figure 13). In this scenario, economies of the 20 largest sender countries would be almost 8% smaller than in our current baseline by the end of 2025 (Figure 14).

Fig. 12. Fiscal policy to become less supportive in 2021

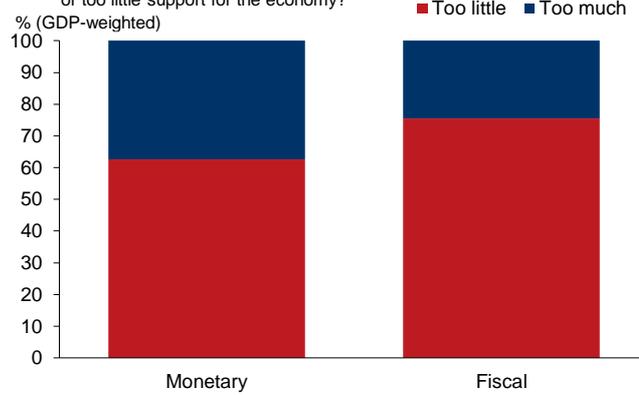


Source : Oxford Economics/Haver Analytics

Fig. 13. Governments likely to tighten too much in 2021

Policy mistakes: Too much or too little?

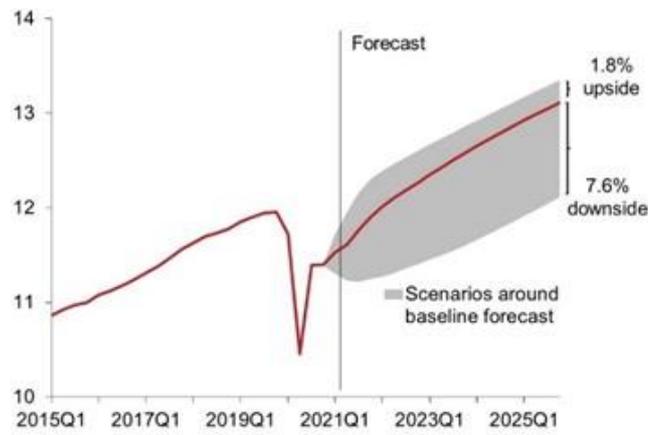
As the economic situation evolves, do you think it is more likely that the government/central bank will respond to uncertainty by providing too much or too little support for the economy?



Source : Oxford Economics

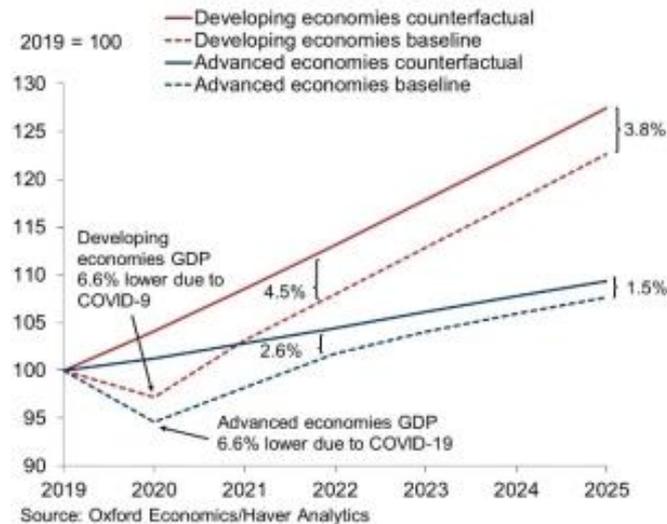
Fig. 14. The economic outlook remains uncertain

2015 constant prices and exchange rate, US\$, trillions



Source: Oxford Economics/Haver Analytics

Fig. 15. GDP baseline vs. pre-COVID counterfactual



Source: Oxford Economics/Haver Analytics

Although many developing countries will rapidly regain their 2019 GDP levels due to their structurally higher growth, this is not a good measure of the impact of the crisis on their economies. A better comparison is against Oxford Economics' pre-COVID forecasts. Against the counterfactual, Oxford Economics expect both developing and advanced GDP to be 6.6% lower in 2020, with non-China developing countries 8.3% lower (Figure 15).

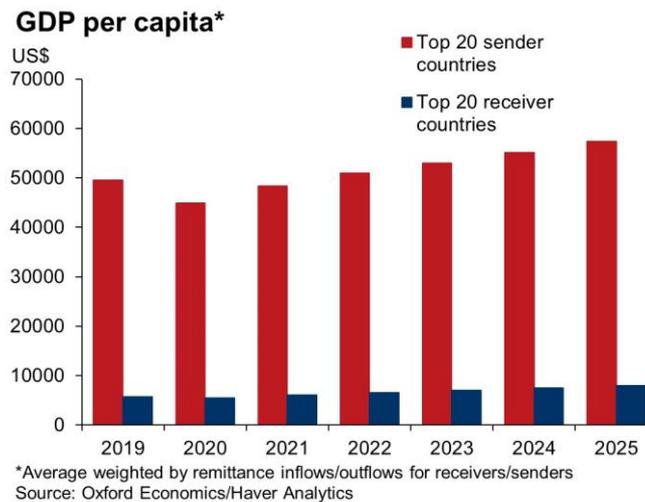
Fig. 16. Discretionary fiscal response to COVID-19 (% GDP) has been higher in advanced economies



Source: IMF Fiscal Monitor, October 2020

According to Oxford Economics' forecasts, advanced economies will recover most of their lost ground by 2022, with GDP just 2.6% below the pre-COVID counterfactual level. Overall convergence towards the counterfactual is weaker for developing countries in comparison to advanced nations: GDP will recover to just 4.5% below the counterfactual in 2022 and 3.8% lower in 2025. In part, this reflects delays in receiving and administering the vaccine, with reports suggesting that up to 90% of the population in developing countries will miss out on being vaccinated against coronavirus in 2021. It also reflects developing economy governments' lower capacity to support the economy during the pandemic (Figure 16).

Fig. 17. Widening differentials in GDP per capita between top remittance sender and receiver countries



It is also worth highlighting that despite aggregate GDP growth being relatively strong in many remittance-receiving countries, the simultaneous growth in their populations means that GDP per capita trends are more subdued. In fact, the gap in average GDP per capita between receiver and sender economies is forecast to widen over the next few years (Figure 17). This implies ongoing motivation for out migration to receiving countries and high demand for remittances from citizens in recipient countries.

3.2 IMPACT OF COVID-19 ON REMITTANCE FLOWS

For many developing countries, the substantial economic shock from the pandemic could be further magnified by a decline in remittance flows. Many host/sender economies experienced record falls in GDP in 2020. This has meant a disproportionately high impact on the migrant workforce in terms of loss of jobs and earnings. This reflects their generally less stable employment conditions and over-representation in informal sectors and lower-skilled jobs. Migrants are also more likely to work in those sectors most affected by the pandemic. For example, a quarter of workers in the EU hospitality sector are born abroad, twice their share in total employment.

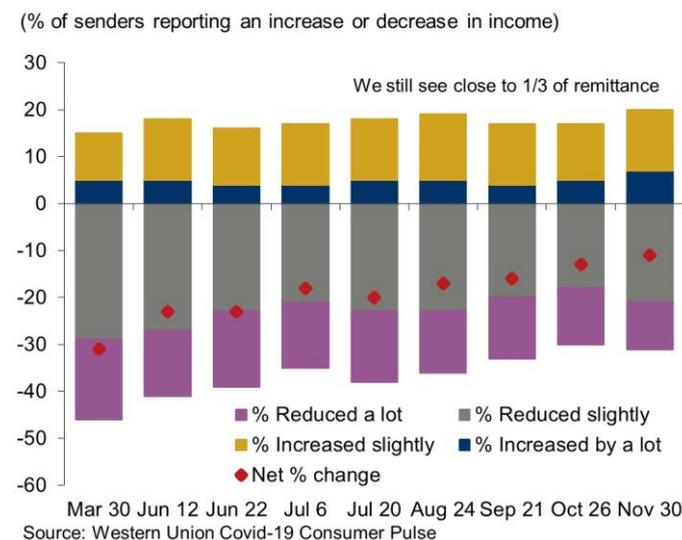
These developments are confirmed by recent survey evidence from Western Union, which shows that approximately a third of remittance senders are reporting a negative impact on their incomes from the pandemic.

And even those who manage to continue working—such as those employed in healthcare—may struggle to send money amid shutdowns and mobility restrictions. This underscores the need for public authorities to treat remittance service providers as essential services (i.e., they should not be forced to close during lockdowns) and mitigate any operational impacts to their functioning (e.g., regulatory and infrastructure barriers), as noted by the World Bank¹³.

¹³ <https://blogs.worldbank.org/psd/remittances-times-coronavirus-keep-them-flowing>

New inward migration also slowed in 2020 while return migration to home countries increased. Reflecting these trends, the World Bank expects the stock of international migrants will decline in 2020 for the first time in recent history, with this development a key driver of the World Bank's global remittance projections. Moreover, faced with sharp rises in unemployment rates, some host economies are tightening visa restrictions and adopting other policies affecting migrant employment, which will put further pressure on migrant flows (as discussed in Annex II).

Fig. 18. Impact of the pandemic on sender incomes relative to pre-pandemic



Lower levels of remittances are threatening to increase economic, fiscal, and social pressures in recipient countries at a time when they may also be experiencing simultaneous outflows of private investor capital. This could also negatively affect current account balances and could undermine the ability of recipient countries to finance their external debt and prevent their currencies depreciating sharply.

3.2.1 Developments in 2020

Following the onset of the crisis, the World Bank predicted in April last year that remittances to developing countries would decline by 20% in 2020 - the sharpest fall in recent history¹⁴. But more recent evidence indicates that the decline in remittances is proving less abrupt than initially feared, with a partial rebound in remittance levels having occurred in mid-2020 as many countries came out of strict lockdowns.

This has led the World Bank to revise its estimates to a more modest fall of 7% for 2020¹⁵ (albeit this would still be a steeper decline than the 5% fall experienced in 2009). This implies that remittances are proving far more

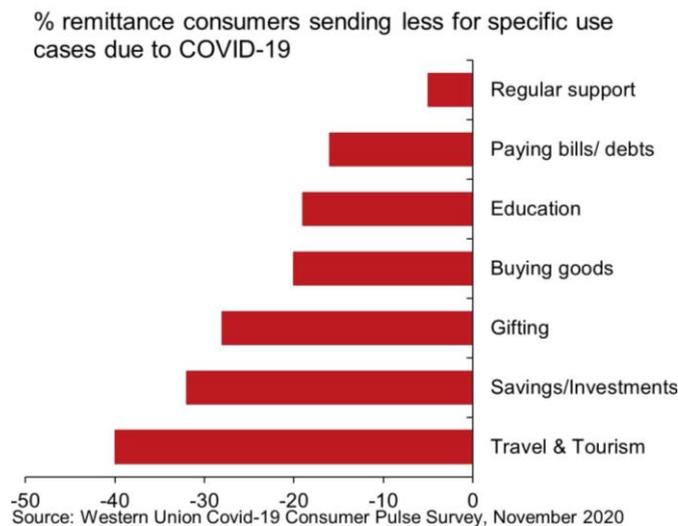
¹⁴ <https://www.worldbank.org/en/news/press-release/2020/04/22/world-bank-predicts-sharpest-decline-of-remittances-in-recent-history>

¹⁵ <https://www.worldbank.org/en/news/press-release/2020/10/29/COVID-19-remittance-flows-to-shrink-14-by-2021>

resilient than FDI to developing countries, which UNCTAD¹⁶ expect will see a decrease in the range of 35-35% in 2020.

The relative stability of remittances in the face of this negative impact on incomes is explained by several factors. In some host countries, for example, unemployed migrants were able to access government cash transfers offered by national governments, helping to stabilize their incomes (although this was not the case in Middle East countries); migrant jobs were protected by government support schemes; and others have drawn down savings to send money home.

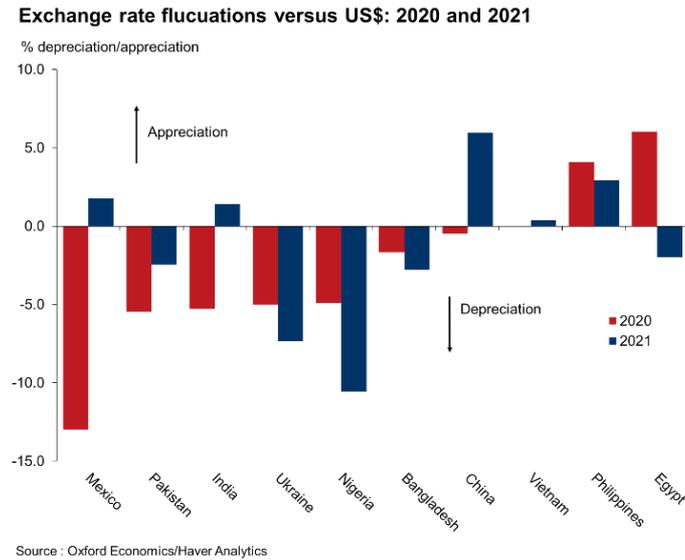
Fig. 19. Change in remittances due to COVID-19 by end use



Limitations on travel are also likely to have reduced informal money transfers, encouraging a shift towards formal (recorded) remittance channels. Not surprisingly, Western Union's survey shows migrants have cut back most significantly on transfers for discretionary spending and investment, whilst regular support payments have been less seriously affected (Figure 19). This is also supported through panels and survey analysis from Western Union showing that senders have a strong desire to continue sending money and have been highly motivated to support families and loved ones back home. Indeed, Western Union's November 2020 COVID-19 Pulse survey showed that 64% of remittance senders give equal or more priority to the financial needs of their receivers.

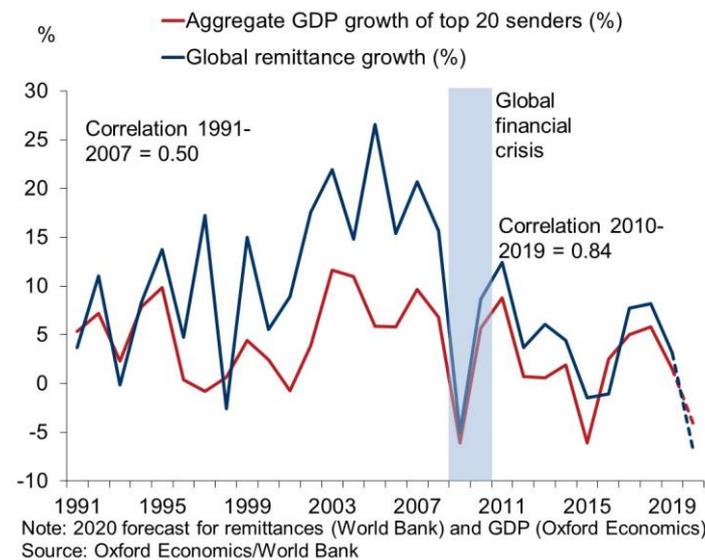
¹⁶ UNCTAD (2020)

Fig. 20. Recipient country currency depreciation in 2020 created arbitrage opportunities and supported remittance inflows



Looking at the historic behaviour of remittances, there has been a very close correlation with nominal GDP growth of the top 20 sender countries. This was especially evident during the Global Financial Crisis and over the past decade. Currently, Oxford Economics' estimates indicate that GDP of these economies will shrink by 2.2% in 2020 in nominal US-dollar terms (the weakness of the greenback in 2020 having softened the GDP declines of many sender economies when converted into US dollars). If the historically close correlation is maintained, this would imply a contraction in remittances of a roughly similar magnitude.

Fig. 21. Global remittances and GDP of sender countries



Several other developments also support the view that remittances remained relatively resilient in 2020 and more resilient than predicted by the World Bank. For example:

o **Central bank data:** A sample of inbound remittances reported monthly by a group of central banks, comprising 15%+ of the global market, indicates year-to-date to October annual growth of +12% in principal inbound flows measured at market exchange rates, even with sharp declines in growth recorded in Q2 as lockdowns hit economic activity hard¹⁷.

o **Money transfer companies:** Aspects of financial reporting of some of the largest money transfer companies have also shown strong resilience. For example, higher transaction volumes compared to 2019 and stronger-than-expected revenue outturns. This has led to some of these companies reinstating a financial outlook for full-year 2020, having previously suspended earnings guidance earlier in the year at the peak of the crisis.

o **Improving consumer money transfer fundamentals:** These fundamentals include: strong digital revenue growth; the return of retail money transfer as lockdown restrictions eased; a shift from informal to formal transfers as international travel collapsed and borders were closed; favourable forex arbitrage opportunities as recipient country currencies depreciated, resiliency of customers in sender economies with a strong desire to continue sending (a feature also of the Global Financial Crisis); and formal senders returning and new senders entering the market. Together, these have contributed to offset the macro impact of the pandemic, leading to a much stronger performance in Q3 versus Q2 2020.

On the other hand, the increase in COVID-19 cases toward the end of 2020 (and into the start of 2021) and re-imposition of lockdown restrictions have affected economic activity (albeit not as hard as Q2). This is likely to have weakened remittance momentum in Q4 2020 (and into Q1 2021) following the rebound in Q3 2020.

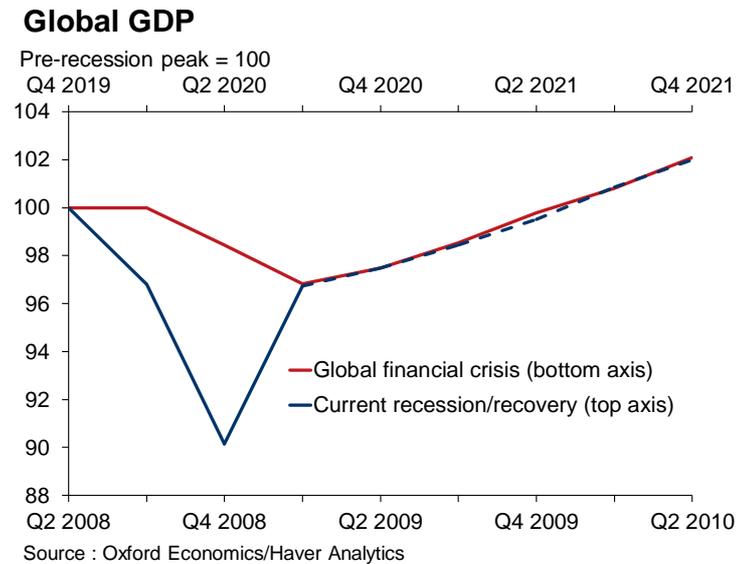
3.2.2 Outlook for 2021

The World Bank is currently forecasting a further decline of 7.5% in remittance flows to developing countries in 2021. But the level of uncertainty around the economic outlook and fundamentals impacting the remittance market is currently much higher than usual, with risks in both directions but some indicators suggesting that remittance flows could prove more resilient than expected.

In particular, Oxford Economics anticipates that nominal GDP of the top 20 sender economies will rebound strongly this year, with positive growth of 10.4% in 2021. In this context, another sharp contraction of remittance flows in 2021 would imply an unusually sharp divergence from economic trends. Moreover, developing economies are likely to see slower vaccine rollout, which in addition to smaller fiscal stimulus packages, suggests that the near-term economic lift for these economies will be smaller in 2021 and therefore demand for remittances will be very high. The strong economic rebound in advanced economies may be supportive of remittance flows, allowing them to play an important smoothing role in developing economies again in 2021.

¹⁷ High frequency and timely central bank data on remittances is available for Bangladesh, Colombia Dominican Republic, Guatemala, Mexico, Pakistan, Thailand, El Salvador and Kenya.

Fig. 22. Post-COVID global GDP recovery similar to the post-GFC rebound



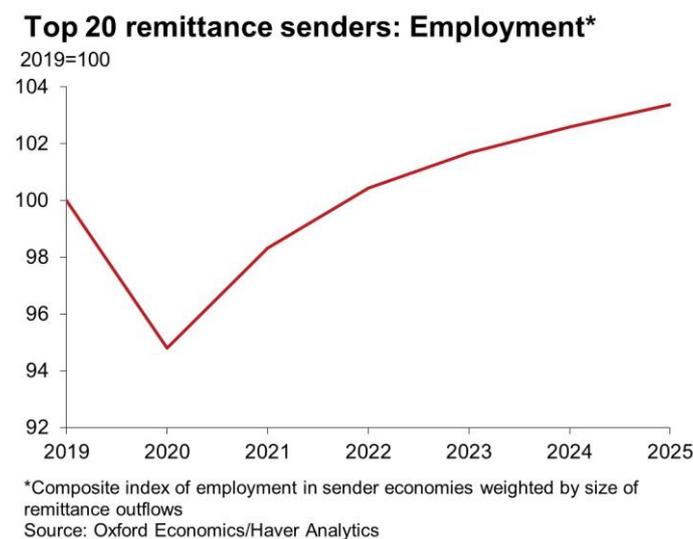
That said, it is also important to consider the following potential headwinds to remittances in 2021 and recognise key uncertainties, in addition to economic risks arising the latest imposition of lockdowns and new high transmission COVID variants. For example:

- **Correction in consumer money transfer fundamentals:** New sources of remittance flows seen in 2020 may not remain in the market in 2021. The informal to formal shift could partly reverse as borders re-open and travel increases, especially in adjacent corridors such as Europe, US-Mexico etc. Although the informal to formal shift was already underway before the pandemic and is unlikely to return fully to previous shares, and global leisure travel is only expected to recover slowly, with international leisure travel not expected to return to pre-pandemic levels until 2023/24 based on Oxford Economics' forecasts. Forex opportunities may be more limited as currencies adjust to global changes (Oxford Economics predicts stronger exchange rates for many recipient economies in 2021), resulting in incremental 2020 volume coming out of the market.
- **"Scarring" and policy impact on migrant employment:** While overall GDP is forecast to rebound strongly, the outlook is not uniform across all sectors. Migrants comprise ~20% of service workers in key send regions (US, EU), with sectors like travel and tourism being slower to fully reopen and recover. Longer-term migration will remain important to replace workers in sender economies ageing out of the workforce and migrants are key to health and social care sectors that will continue to grow. The roll-out of vaccines will allow governments to reverse some of the exceptional policy support measures put in place throughout 2020 - including potentially job support schemes - and allow the growth baton to pass from the public to the private sector. While this is a necessary part of the recovery process, it will be a difficult transition, and there are likely to be bumps in the road and medium-term economic scarring from the pandemic is inevitable. The decline in the stock of migrant workers and increase in return migration seen in 2020 could potentially continue into 2021, even as economies rebound. This could be

driven by the withdrawal of government support to the economy and direct policies of some countries aimed at reducing migrant employment (see Annex II for more detail).

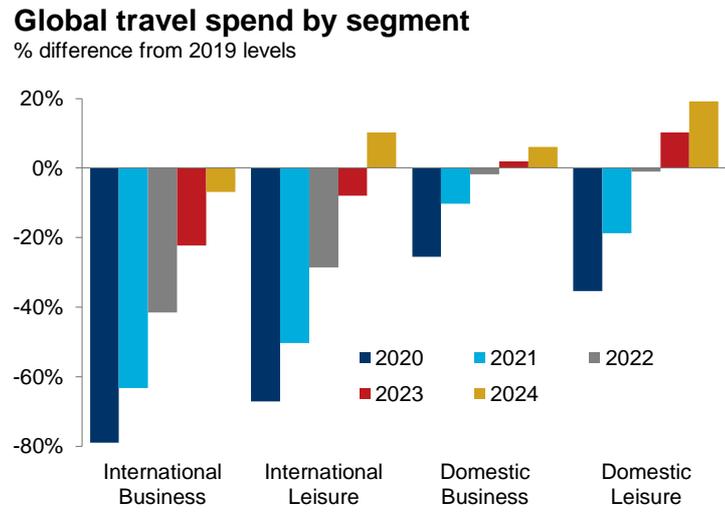
- **Delayed increase in return migration:** Travel restrictions may have delayed the return of some migrants to their home countries. Migrants who lost jobs in 2020 (but had savings to remit that year) may not go back to their home countries until 2021 (so their remittances will disappear this year). In other words, it could be that the full effect of return migration in 2020 on remittance flows may not be fully seen until 2021.

Fig. 23. Employment in sender economies forecast to pick up in 2021, but significant uncertainty and subsequent growth is more sluggish



The level of uncertainty around the economic outlook and fundamentals impacting the remittance market is much higher than usual, affecting the certainty around remittance flows in 2021. This means that the outturn for 2021 could fall anywhere within a wide range between a decline and a return to the pre-pandemic trend positive growth.

Fig. 24. A recovery in cross-border travel will take some time



Source: Tourism Economics

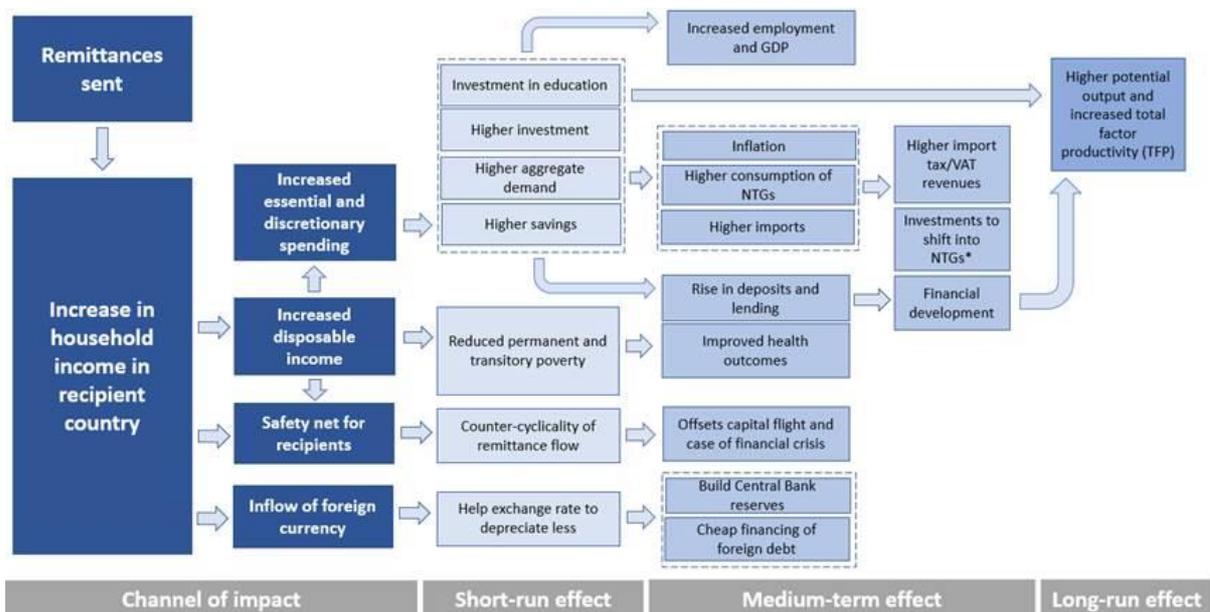
4. SOCIO-ECONOMIC AND DEVELOPMENT IMPACT OF REMITTANCES

4.1 TRACKING THE REMITTANCE EFFECT

As illustrated in the diagram below, remittances have direct positive impacts on individuals and households (referred to as "micro-level" impacts), as well as feeding through to macro impacts at the whole-economy level.

At a micro level, remittances benefit recipient households in developing countries by providing an additional source of income that helps to fund expenditure and lower incidences of extreme poverty. These flows can also act as a form of 'social insurance', supporting households' capabilities to resist economic shocks. Transfers can help recipient households to increase spending on essential goods and services, invest in healthcare and education, as well as allowing them to build their assets, both liquid (cash) and fixed (property), enhancing access to financial services and investment opportunities.

Fig. 25. Remittance ripple effect through the economy



*NTGs are **non-tradable goods** and include items such as electricity, water supply, all public services, hotel accommodation, real estate, construction, local transportation
 Note: The remittance 'multiplier' captures the sum of these short-to-medium term influences on GDP.

■ Channel of impact □ Short-run □ Medium-term □ Long-run

At a macro level, remittances fund additional spending, stimulating demand for goods and services throughout the economy. The initial increase in spending has a direct effect on GDP, but it also sets off a chain of additional spending throughout the economy. Money spent in one area is received as income elsewhere, leading to further rounds of spending. While this flow diminishes

with successive rounds, the impact of the initial increase in spending is magnified. The "multiplier effect" describes this dynamic.

The multiplier effect refers to the proportional amount of increase (or decrease) in final output that results from an injection (or withdrawal) of spending. The size of the multiplier depends upon the share of transferred funds spent by recipient households (which evidence suggests is large in the case of remittances) and how these funds are spent. Clearly, spending on entrepreneurial investment or consumption can have an immediate, direct impact on output and employment, but it can also have important indirect effects as it feeds through the economy.

The size of the multiplier is also determined by what proportion of the marginal increase in income goes into taxes, saving (or paying off debt), and imports. These three factors are known as "leakages," because they determine how much demand "leaks out" in each round of the multiplier effect. If the leakages are relatively small, then each successive round of the multiplier effect will result in incremental higher demand, and the multiplier effect will be higher.

Remittances can also have longer-term influences on the economy and increase the future supply-side capacity and potential growth rate of the economy, in addition to having a short-term demand stimulus. For example, educational investments are usually motivated more by the well-documented effects that education has on well-being and economic growth in the long-run¹⁸.

According to economic growth theory, investment in human capital can directly raise the economy's potential output. For example, empirical estimates suggest that a one-year increase in average years of education raises the level of output per capita by between 3 and 6 percent¹⁹. Similarly, spending on entrepreneurial investment can act as a potential mechanism for longer-term economic development, increasing the economy's capital stock and potential rate of output growth.

4.2 USE OF REMITTANCES IN RECIPIENT COUNTRIES

How remittances are used by their recipients ultimately determines their impact on social and economic outcomes in the recipient country -- and the size of the multiplier effect. Survey evidence from Western Union provides some important insights into the use of remittances as identified by senders. The survey confirms that a relatively high share of remittances to developing countries are being sent to meet the essential needs of families, including basic consumption and healthcare. These categories are particularly high in some of the largest recipient countries, such as India, Mexico, the Philippines and Nigeria.

Education is another significant expenditure item, which includes spending on school and college fees, as well as books and other necessary educational materials. According to UNESCO (2019), international remittances have increased education spending by 35%, on average, across Asia and sub-Saharan Africa, with the effect being even larger in Latin America (53%).

¹⁸ For example, Manuelli and Seshardri (2014)

¹⁹ IFS (2005) provide a review of the literature on the returns to education.

Remittances can therefore be viewed as an important funding source for education in developing countries.

A number of empirical studies have indicated that remittances may be treated differently by recipient households than other sources of income. The findings show that the households receiving remittances spend more at the margin on investment goods, especially housing and education, and spend less, at the margin, on food items. Given the difficulty of borrowing in countries with underdeveloped financial systems, remittances can also help to ease liquidity constraints, helping recipients to invest in business ventures and take entrepreneurial risks.

The Western Union survey findings on the use of remittances are broadly in line with other survey evidence of end-users of remittances. For example, Ayuk et. al. (2015) find that households in Nigeria spend the majority of funds (58%) on basic consumption and healthcare, with 16% spent on education; a study by the Reserve Bank of India (2010) found that about 61% of remittances in India are used for 'family maintenance', whilst 27% are used for savings and investment; and a study by the Inter-American Development Bank (2003), found that 78% of remittances in Mexico are used for 'regular' expenditures (which could include paying bills/debts), whilst 7% was spent on education and around 10% saved or invested.

Fig. 26. Use of remittances by recipient households

Reason for sending	Advanced economy average	Developing economy average	India	Mexico	Philippines	Nigeria
Essential expenses	29%	48%	49%	55%	54%	57%
Living expenses	27%	46%	47%	50%	51%	53%
Medical bills	4%	7%	8%	13%	7%	17%
Education	14%	17%	14%	9%	19%	12%
Other bills/debts	10%	10%	10%	18%	9%	17%
Discretionary consumption	53%	37%	32%	47%	25%	27%
Gifting	24%	19%	13%	28%	16%	14%
Purchase of goods	23%	15%	18%	18%	11%	13%
Tourism & Travel	19%	11%	10%	14%	4%	3%
Investments	22%	20%	27%	28%	17%	17%
Savings	11%	9%	13%	14%	8%	3%
Real estate	11%	10%	13%	17%	7%	9%
Other investment	9%	8%	12%	6%	7%	6%
Other/unknown	7%	8%	10%	3%	9%	7%

Note: Totals do not sum to 100% as funds may be used for multiple purposes

Source: Western Union Global Usage and Attitude Survey (2018)

5. MEASURING THE IMPACT OF REMITTANCES

5.1 LITERATURE REVIEW EVIDENCE

Given the scale and importance of remittances for people in developing economies living on just a few dollars per day, the welfare impacts on developing countries are largely undisputed. Indeed, numerous empirical studies have documented the impact of remittances on poverty reduction.

For example, Adams and Page (2005) analysed the results of household surveys across 71 developing countries and found that a 10% increase in per capita international remittances leads, on average, to a 3.5% decline in the share of the population living in poverty. Similar conclusions are reached by Banga and Sahu (2014) in a study of 77 developing countries, showing that a 10% average increase in remittances reduces the poverty headcount ratio by 3.1%.

On the other hand, the effect of remittances on economic growth is a question of considerable debate amongst researchers, with empirical studies showing mixed results. In part, this likely reflects the inherent difficulties in modelling the complicated linkages between remittances and economic growth and disentangling the effects of other factors.

For example, one important consideration is that remittances may both influence and themselves be influenced by output growth in recipient economies. When growth is relatively weak, remittances may increase both because emigration increases and because existing migrants increase financial help to families at home. Moreover, these studies tend to focus on the direct short-term impact of remittances on the recipient economy, whereas indirect impacts from investments in human and physical capital may only be realised in the long-term.

Some studies emphasize the role of remittances in financing essential consumption, suggesting that the resulting impact on the economy is modest at best (Spatafora, 2005). Conversely, Giuliano and Ruiz-Arranz (2005) find a positive relationship between remittances and economic growth, but only for countries with less developed financial systems, as they help to alleviate liquidity constraints.

Indeed, most recent studies emphasize how impacts differ across countries, although there is some disagreement on the role of the financial system. For example, Bettin and Zazzaro (2012) find that an efficient domestic banking system helps to channel remittances toward productive uses, increasing the impact on output. The complementarity of remittances and financial development is also emphasised by Nyamongo et. al. (2012).

Fig. 27. Summary of recent studies into the impact of remittances on GDP

Country sample	Period	Main findings	Study
100 countries	1975-2002	An increase by 1% point in the remittances/GDP ratio leads to a 0.2% increase in GDP per capita	Giuliano and Ruiz-Arranz (2005)
115 low and middle-income countries	1980-2008	A \$1 increase in remittances leads to a \$0.82 long-run increase in national income	Karpestam (2011)
15 MENA countries	1980-2009	A 1% point increase in remittances/GDP leads to a 0.2% increase in GDP per capita	Mim and Ali (2012)
36 African countries	1980-2009	A 1% point increase in remittances/GDP leads to a 0.4% increase in GDP per capita	Nyamongo et. al. (2012)
66 developing countries	1970-2005	A 1% point increase in remittances/GDP leads to a 0.2% increase in GDP	Bettin and Zazzaro (2012)
6 Eastern European countries	1999-2013	A 1% point increase in remittances/GDP leads to a 0.3% increase in GDP per capita	Meyer and Shera (2017)

In general, the magnitude of the estimated impacts of remittances on economic growth from the studies reviewed is comparable to estimates for FDI and ODA, which have also shown some mixed results. For example, Rajan and Subramanian (2005) argue that a 1 percentage point increase in the ratio of aid to GDP should at most raise economic growth by 0.16%, assuming all aid is invested, or close to 0.1% if some aid is wasted or consumed. Meanwhile, studies of FDI suggest diverse effects at the country level depending on absorptive capacity and institutional quality.

5.2 QUANTIFYING THE ECONOMIC EFFECT OF REMITTANCES

The empirical literature on remittances does not provide any definitive answers on the scale of their economic impacts, with results generally contingent on particular circumstances or country-specific characteristics. It is generally agreed that the use of remittances for consumption or investment spending is important (albeit a lack of consistent cross-country evidence means this has not so far been considered explicitly within the literature), with institutional quality also playing a role in facilitating the productive use of remittances.

Still, the available evidence does suggest that a reduction in remittance flows to developing countries has the potential to magnify the current pandemic-induced economic downturn. A simple exercise can help to illustrate the potential impact of the decline in remittances on GDP of developing economies (the major recipient countries). Using central bank data on remittance trends for Jan-Oct 2020 together with the World Bank's forecasts of regional trends (for countries without monthly central bank data)²⁰, we apply a multiplier of 0.4 (an

²⁰ Specifically, central bank data was used for Bangladesh, Dominican Republic, Guatemala, Mexico, Pakistan. World Bank regional estimates were applied for South Asia (India, Indonesia, Nepal, Philippines, Sri Lanka, Vietnam), East Asia & Pacific (Tonga), Europe & Central Asia (Ukraine), MENA (Egypt) and Sub-Saharan Africa (Nigeria).

average of the estimated multipliers across the studies we reviewed) to illustrate the likely implications for GDP.

The remittance multiplier

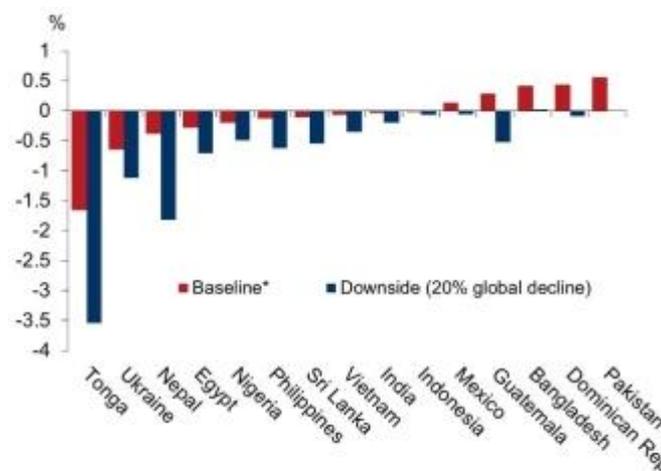
The remittance ‘multiplier’ effect refers to the proportional amount of increase (or decrease) in final output that results from a transfer of these funds into the receiving economy. Estimates of the magnitude of these effects vary significantly and so we have used an average of the studies reviewed. This suggests a multiplier value of 0.4, indicating that every \$1 of remittances translates to a \$0.40 increase in final GDP. Applied to the World Bank developing-country remittance estimate of \$548bn in 2019, this translates to a direct GDP impact on these economies of \$219bn (the domestic recipient economy GDP impact is \$219bn in total – not \$548bn plus \$219bn – because part of the remittance short-term impact is used for imports or savings).

The fact that the remittance multiplier is lower than one is reflective of ‘leakages’ – some of the funds are saved or used to pay off debt (not spent) and a high share of spending in developing economies is likely to be on imported goods (e.g. medicines). A lack of investment opportunities in developing economies may also explain why remittance flows often fail to generate self-reinforcing development. But as noted by the World Bank (2006), multiplier effects may well be larger at the regional level.

The average remittance multiplier estimates of 0.4 also reflects only the short-run impact of spending rather than the longer-run impacts on the economy’s supply capacity due to the transformative effects of increased spending on education, health, and other investments. In Oxford Economics’ view, the available literature therefore has shortcomings in terms of fully measuring the economic impact of remittances and multiplier effects. A more complete measure of remittance economic impacts including short and long-term effects would likely result in a larger multiplier than 0.4.

The results of this analytical exercise show that the economic crisis in 2020 is likely to have been magnified for many developing countries receiving a large amount of remittances. While the negative impact should be relatively modest for larger economies such as India (where remittances represent a relatively small share of GDP), the hit to GDP may be much more significant for smaller countries such as Tonga and Nepal (which are yet to publish full year 2020 GDP data). In contrast, remittance flows potentially expanded in a few countries (based on central bank data) in 2020, notably Mexico, Pakistan, and Bangladesh, meaning remittances would have helped to offset the severity of the downturn there.

5.2.1 Potential GDP impacts on receiver countries from a decline in remittances in 2020



*Baseline assumes remittance flows develop in line with central bank data, or the relevant World Bank regional estimates where data is not available
Source : Oxford Economics

The chart also shows a 'downside' scenario based on the 20% decline in flows originally projected by the World Bank. This illustrates how a larger decline in remittances would have had a much more substantial negative impact on these developing economies in 2020 and lead to even weaker growth than predicted by Oxford Economics. It also underscores how the stability of remittance flows is again proving to be a crucial lifeline for these economies at a time of economic crisis.

Clearly these estimates are subject to a high degree of uncertainty. Nevertheless, they illustrate a potentially important transmission mechanism for the crisis to affect developing economies that is often overlooked.

6. CONCLUSION

Remittances are an underappreciated but valuable source of financing for developing countries to attain sustainable development goals and support households and economies (micro and macro impacts). While migrant remittances contribute to the development of their home country, migrants also contribute to the host country by filling the gap between labour demand and supply and making a positive net fiscal contribution.

There is no government intervention involved in remittances - individuals are single-handedly responsible for the movement of capital across the world's borders. Remittance flows tend to remain relatively stable through the business cycle, thereby having the potential to support households in the face of economic adversity. These flows are targeted to meet the specific needs of the recipients who do not necessarily have any form of social protection.

Cross-border remittances represent migrants' ongoing involvement with their family, home nation, and community. By transferring home significant amounts of money, but also information, ideas and practices, migrants can help to catalyse wider changes in their countries of origin. In this way, remittances represent globalization with a human face, contributing to the spread of global interdependence at all levels – social, economic and political.

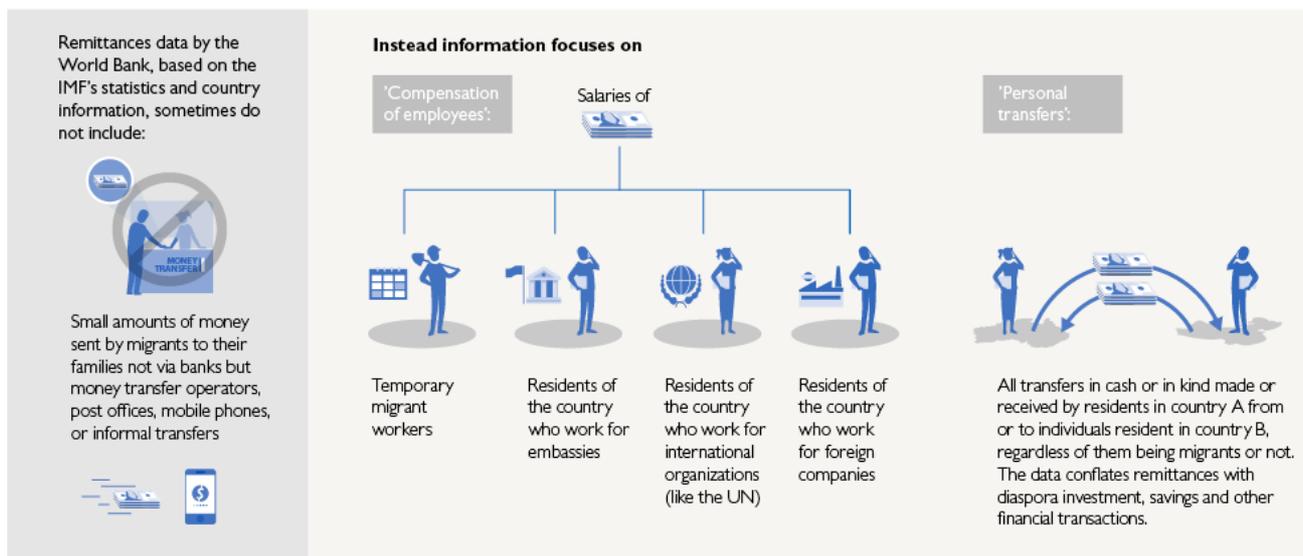
Migration should be accepted as mutually beneficial for both origin and destination countries. Public authorities should also treat remittance service providers as essential services (i.e. they should not be forced to close during lockdowns) and mitigate any operational impacts to their functioning (e.g. regulatory and infrastructure barriers).

ANNEX I: MEASURING REMITTANCE FLOWS

A key challenge for policymakers, researchers and investors interested in remittance flows concerns the accuracy and consistency of available data. The varied nature of remittance transactions makes the compilation process complex, resulting in a systemic problem of under-reporting of flows and data asymmetries between host and recipient countries.

The main source of data on remittances is the World Bank, which combines national balance of payments data compiled by the International Monetary Fund (IMF) with country information. Global estimates of financial transfers by migrants include transactions beyond what are commonly assumed to be remittances, as the statistical definition used for the collection of data on remittances is broader. Moreover, data inconsistencies between different jurisdictions arise because concepts and methodologies are not applied uniformly across countries, with different interpretations of definitions, classifications and data sources, as well as the use of different compilation methods. Constraints on resources and institutional capacity also limit the ability of many countries to collect the necessary data.

Although household survey data has been used to estimate remittances, there are well-known issues with respondents under-reporting income. Indeed, the implied estimates of national remittances from these surveys are well below the values recorded in the balance of payments.



The balance of payments data only covers formal remittance channels such as money transfer services offered by banks, post office banks, non-bank financial institutions, and forex bureaus and money transfer operators such as Western Union. But a large share of remittances is believed to flow through informal channels, which are often more convenient and cheaper than formal ones. Informal channels include cash transfers based on personal relationships

through business people, or carried out by courier companies, friends, relatives or oneself. In addition, Hawala (an international network of money brokers) and Hundi (a form of credit instrument) systems operate in parallel to formal remittance channels. Freund and Spatafora (2005) estimate that informal remittances are equivalent to around 35–75% of officially-recorded remittances to developing countries.

ANNEX II: MIGRATION POLICIES IN THE WAKE OF COVID-19

In the wake of the COVID-19 pandemic, countries across the world have temporarily closed borders and halted travel and migration to protect populations from the spread of the virus. Although these restrictions will eventually be eased, the enduring impact of the economic crisis on host economy labour markets could fuel a shift toward a more permanent tightening of immigration policies.

For example, in the world's largest source of remittance outflows, the **United States**, the Trump administration had blocked foreign workers on H-1B visas and other temporary visas from entering the country up to the end of March 2021. Also, in early 2021, the random selection process for H-1B visa allocations was replaced with a wage-based selection process. While the incoming Biden administration has a more pro-immigration stance, a last-minute policy push from the Trump government to tighten measures could slow down efforts to undo these actions.

In the GCC region, some countries have pushed to significantly lower immigration. In particular, **Oman** is adopting a policy of expat substitution in public and private sector jobs, while **Kuwait** is pursuing a targeted reduction in the expat population to 30% from the current 65%. In **Saudi Arabia**, the number of migrant worker permits granted dropped from around 550,000 in H1 2019, to a mere 55,000 in H1 2020.

On the other hand, several countries in the region are choosing to 'embrace the role of foreigners'. The **UAE** is embracing foreign investment and talent to drive the recovery through recent reforms that allow 100% foreign ownership of onshore companies and visa reforms. **Qatar** is also encouraging foreign participation with reforms to their property ownership law to incentivize expats to secure residency.

In **Europe**, which has been grappling with an anti-immigration and anti-refugee sentiment from some nations and sections of the population in recent years, the pandemic has exacerbated the vulnerability of migrant workers. Owing to Brexit, **the UK** was already moving to a stricter points-based immigration system to be implemented in a post-Brexit world. Researchers at Oxford University indicate that under the new proposed U.K. Immigration Bill, 53 percent of EU-born and 42 percent of non-EU-born workers in key occupations will not meet the requirements for a post-Brexit visa. There is a concern that this policy would result in worker shortages and a decline in productivity.

While the trend has been towards tightening immigration policies in the developed world, some advanced countries are making an active policy choice to encourage immigration. Owing to sharp labour shortages and an aging population, **Japan** recently authorised a sharp increase in the number of foreign workers; a new bill approved more than a quarter-million visas of five-year duration to unskilled guest labourers.

Overall, the COVID-19 pandemic has ended a decade of growth in international migration, according to the OECD 2020 International Migration Outlook. Job losses for existing migrants, combined with the sharp decline in new flows, could be a cause of serious concern for economies that are heavily dependent on overseas workers sending money back to their families.

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