حـــوار أبوظبـــي بيـن الـــدول الآسيويـــة المرسلـــة و المستقبلـــة للعمالـــة
Abu Dhabi Dialogue among the Asian Labor-Sending and Receiving Countries

Promoting safe, affordable and migrant-oriented remittance and banking services to temporary contractual workers, including domestic service workers, in ADD corridors.

Researcher: Professor Gibril Faal Director of GK Partners & LSE Visiting Professor in Practice

MIGA
Multilateral Investment Guarantee Agency
WORLD BANK

7th Abu Dhabi Dialogue Ministerial Consultation
10-11 February 2024
Dubai, United Arab Emirates

(First draft for discussion – to be finalized.)

Overview

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

Remittance flows tend to be more stable than capital flows, and they also tend to be countercyclical—increasing during economic downturns or after a natural disaster in the migrants' home countries, when private capital flows tend to decrease. Migrant workers usually increase the sums they send home in the aftermath of a natural disaster, say, so that stricken relatives can buy food or pay for shelter. In countries affected by political conflict, they often provide an economic lifeline to the poor.

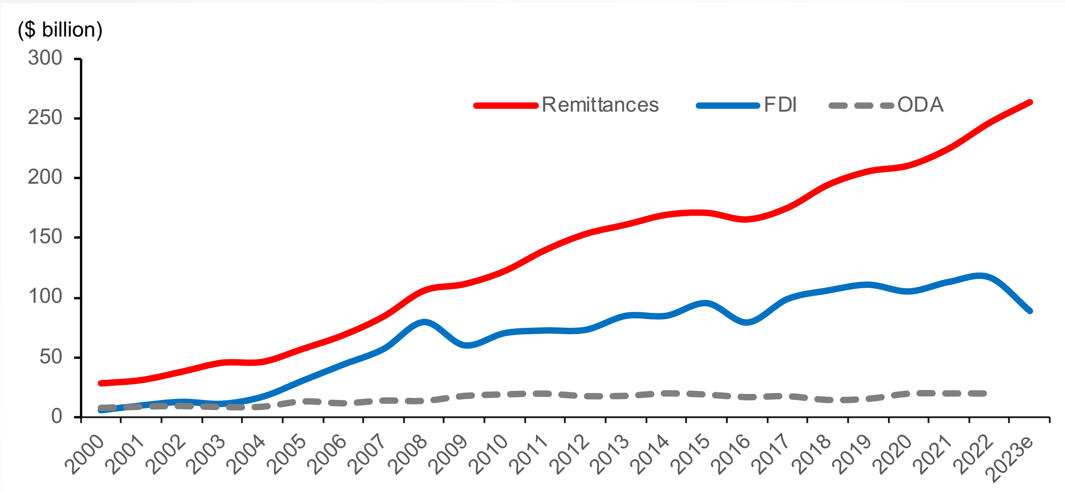
More recently remittances proved to be resilient even if the source country falls into crisis. During the early stages of COVID, in 2020, for instance, remittances fell by just 1.1 percent—in a year when global income shrank by 3 percent. The crises affected migrants' incomes in source countries, but migrants tried to absorb the income loss by cutting consumption and rental expenditures. Those affected by the crisis, say in the construction sector, moved to jobs in other sectors (such as restaurants or agriculture). The closure of money transfer operators during lockdowns disrupted remittance services, but people still sent money home through digital channels. Remittances recovered strongly and grew by almost 20 percent in 2021–22.

Remittances to low- and middle-income countries (LMICs) countries excluding China have grown rapidly over the past decade, averaging $472 billion annually. Remittances received by LMICs accounted for about one third of export earnings, and much larger than the sum of foreign direct investment (FDI) and official development assistance (ODA). In fact, remittances are worth more than that because many people send money through informal channels not captured by official statistics.

Among the Abu-Dhabi Dialogue (ADD) countries, some countries with a long history of migration, such as India and the Philippines, governments have adopted comprehensive strategies to harness remittances for development which are aimed at increasing the inflows of remittances channeled through the banking system and directing them towards financing development projects. These initiatives along with fiscal and institutional incentives have resulted in an increase of inflows remitted and channeled to finance development.

Ten ADD origin countries, namely India, the Philippines, Pakistan, and Bangladesh receive significant remittances inflows on a regular basis. In 2023, estimated total remittances received by these ten countries amounted to about $264 billion, or 3.5% of their combined GDP (figure 1). These are in addition to informal transfers outside the banking sector and transfers in the form of household items. The absence of banking services on a large scale in rural areas led to greater dependence on informal means of sending remittances, which limits the efficient use of those remittances and their impact on the economy and development. Importantly, remittances constitute a stable source of external capital inflows that account for a large part of foreign exchange in some countries.

Figure 1. Remittance flows to ten origin countries of the Abu Dhabi Dialogue, 2000-2023



India is the world's largest recipient. In 2022, it became the first country to receive more than $100 billion in annual remittances. Remittances are expected to increase to $125 billion in 2023, due mainly to boosted remittances from highly skilled Indians in the United States, United Kingdom, and Singapore. Remittance flows to India were also boosted by higher flows from the GCC, especially the United Arab Emirates, which is the second-largest source of them after the United States. Remittance flows to India benefited particularly from its February 2023 agreement with the United Arab Emirates for establishing a framework to promote the use of local currencies for cross-border transactions and cooperation for interlinking payment and messaging systems. The use of dirhams and rupees in cross-border transactions would be instrumental in channeling more remittances through formal channels.

Source: World Bank-KNOMAD, IMF's WEO and BOP statistics
Note: e= estimates; 10 origin countries include Afghanistan, Bangladesh, India, Indonesia, Nepal, Pakistan, the Philippines, Sri Lanka, Thailand, and Vietnam

Among other ADD origin countries, the Philippines, Pakistan, and Bangladesh are also large recipients in the U.S. dollar terms, and majority of remittances to these countries comes from seven ADD destination countries (figure 2). For smaller countries or those caught up in conflict, these transfers are especially vital. Money from migrants is worth more than one-quarter of gross domestic product (GDP) in Nepal, and more than 7 percent in the Philippines, Pakistan, and Sri Lanka.

The utilization of remittances inflows to enhance development in many of the ADD origin countries, confronts three major persistent challenges: (i) the absence of national strategies and policies to channel remittances to development, (ii) the relatively weak financial and institutional infrastructure supporting remittances, and (iii) the lack of sufficient data/timely information on workers' remittances.

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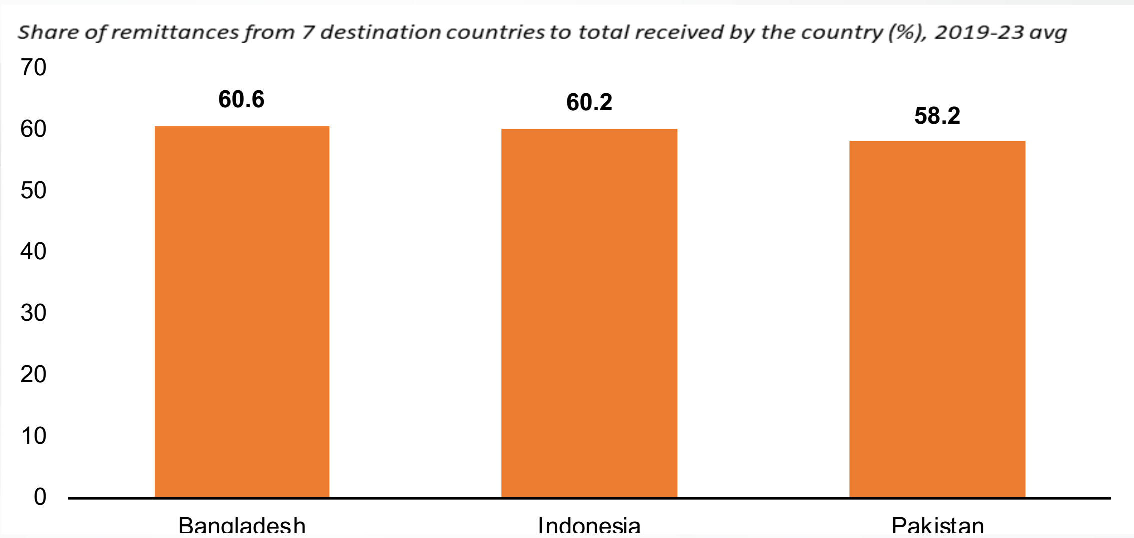

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Source: World Bank-KNOMAD and respected central banks

Note: 7 destination countries include Bahrain, Kuwait, Malaysia, Oman, Qatar, Saudi Arabia, and the United Arab Emirates

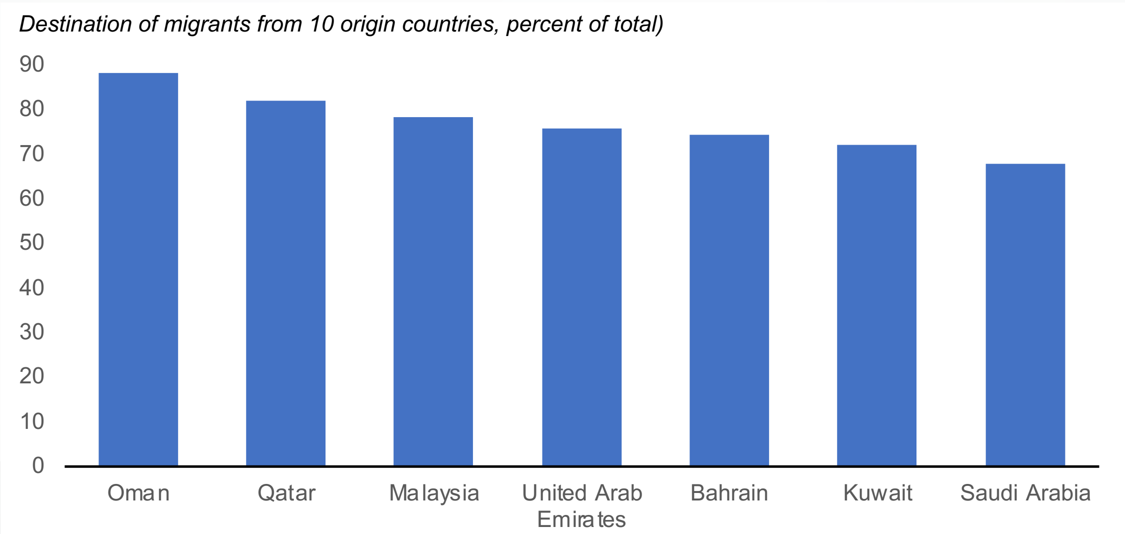
Some of these countries don not have a well-defined policy oriented towards using remittances as an external source for financing development. The absence of such a policy is a missed opportunity to leverage remittances to development and the reduction of cross-country disparities. Furthermore, remittances transferred through informal channels are larger than remittance sent through the banking channels since transfer fees through the banking system are relatively high.

In addition, there is weak penetration of the banking system in rural and remote areas. The inadequate infrastructure has two main consequences: it diminishes the amounts of remittances that expatriates send and reduces the development impact of what is sent. Finally, the lack of consistent and timely data on the value of workers' remittances in many of these countries handicap to policy makers. In particular, no data is available on the remitters' characteristics, the channels used to transfer money, the use of the transferred money by recipients (consumption, investment, etc), and the impact of the remittances on aggregate economic variables (gross national product, employment, imports, inflation, etc). This informational deficiency prevents policy makers from designing and implementing policies targeting better use of remittances for development purposes.

The Gulf Cooperation Council countries are largest source of remittances for the ADD origin countries, and they are even larger when remittances are measured as a share of their GDP. The proportion of foreign workers in the Gulf often exceeds 70 percent of the population. Saudi Arabia and the United Arab Emirates are large sources of remittances for India, Bangladesh, Indonesia, and Pakistan. Yet growth in remittances from this region could shift. Governments in the Gulf are starting to recruit fewer foreign workers as part of a push to employ more locals and are diversifying recruitment of foreign workers, targeting those from Africa and Central Asia.

The seven ADD destination countries, including Bahrain, Kuwait, Malaysia, Oman, Qatar, Saudi Arabia, and the United Arab Emirates, are a key global remittance supplier due to its outsized migration population (figure 3) and data indicate that outward remittances have slowed in recent years. However, the context of a strong increased during the COVID pandemic caused by one-off occurrence. Now, even as the number of migrant workers grows, remittance out flows appear to be falling. The downward trend is driven by Pakistan, while flows to some other countries are rising. The country faced FX restrictions which created gaps between parallel and official exchange rates, which may have disincentivized the use of official channels, such as those registered in statistics, to send money back home.

Figure 3. Majority of immigrants to seven ADD destination countries in 2021
Destination of migrants from 10 origin countries, percent of total)



Recruitment Costs

Gains from migration are reduced by the high recruitment fees that migrant workers pay to obtain jobs abroad. In pursuit of their work on Sustainable Development Goal indicator 10.7.1, the World Bank (through the Global Knowledge Partnership on Migration and Development) and the International Labour Organization have collected data on recruitment costs borne by workers in more than 30 bilateral migration corridors. The Pakistan–Saudi Arabia migration corridor is one of the costliest, with payments in excess of $5,000, or the equivalent of 12 months of a worker's foreign earnings. Bangladeshi workers heading to Kuwait pay anywhere from $1,675 to $5,154, while Filipino workers to the Gulf countries incur some of the lowest fees, averaging less than 1.5 times their monthly overseas income. The survey data reveal that costs are highly variable even for workers earning the same amount, indicating nontransparent recruitment practices (figure 2.9). Also, recruitment costs can be regressive—that is, migrants earning lower incomes may pay relatively higher fees. In some cases, lower-income workers must work for more than two years to pay off recruitment costs of as much as $9,000. Also, migrants who pay high fees tend to receive less income than what was contractually promised, are more likely to be paid irregularly, and are less likely to be compensated

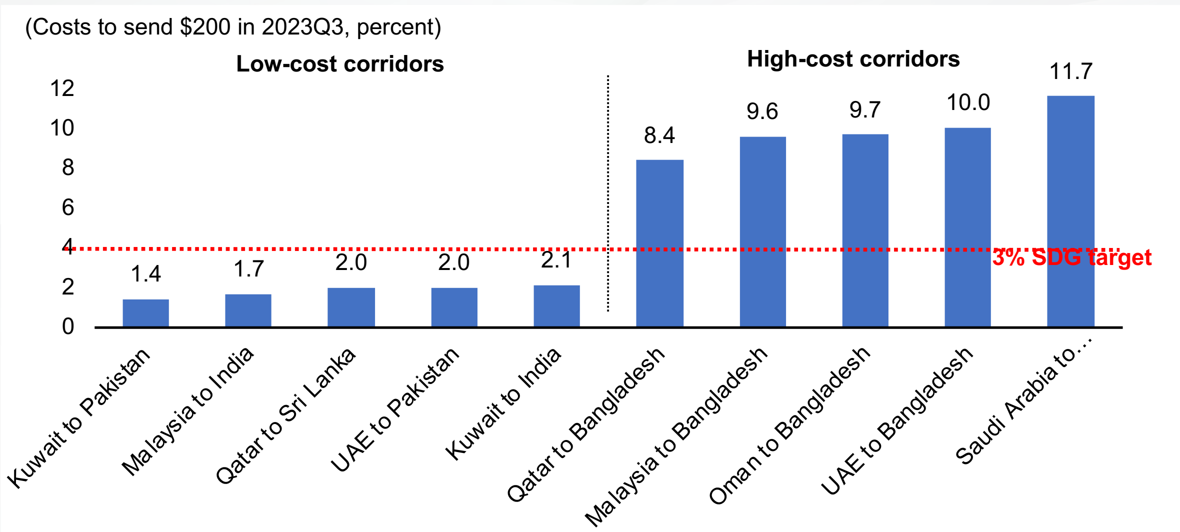
Source: World Bank-KNOMAD
Note: 10 origin countries include Afghanistan, Bangladesh, India, Indonesia, Nepal, Pakistan, the Philippines, Sri *Lanka,* Thailand, and Vietnam

when injured on the job. Thus, vulnerable migrants experience both higher costs and worse working conditions. Why are recruitment costs so high? The driving forces behind them are lack of opportunity at home and the relatively small number of work visas available overseas, owing to restrictive immigration policies. The difficulties of navigating complex migration processes have created a market for brokers and recruitment agencies. Moreover, the illegal practice of "visa trading" and excess demand for foreign jobs combine to create an exploitative setting. High recruitment fees are prevalent in corridors where legal channels for migration exist, but where work visas are in short supply relative to demand. And fees paid to smugglers for irregular border crossings can be even higher in corridors where legal migration channels are not available. According to the United Nations Office on Drugs and Crime, irregular migrants from Nepal and India paid between $27,000 and $47,000 to enter the United States and between $15,000 and $30,000 to enter Europe (UNODC 2018). Irregular Vietnamese migrants paid between $7,000 and $15,000 to be smuggled into Western Europe, while Pakistani migrants paid $12,000 to $18,000. To cross the U.S.–Mexico border, smuggling costs (or coyote fees) have now surpassed $12,000 in response to more stringent border patrolling.

Remittance Costs

The cost of sending remittances to developing regions remained high in 2023, at 6.2 percent in the third quarter—more than twice the Sustainable Development Goal target of 3 percent by 2030. Fees for sending money from the ADD destinations to origin countries also remain exorbitant, especially to Bangladesh. The lowest-cost corridor is Kuwait to Pakistan (1.4 percent) while the highest-cost corridor is Saudi Arabia to Bangladesh (11.7 percent) (figure 4).

Figure 4. Costs of sending money to Bangladesh was especially high in 2023Q3



Source: Remittance Prices Worldwide Database and World Bank-KNOMAD staffs

Figure 3. Majority of immigrants to seven ADD destination countries in 2021

The costs of a remittance transaction include a fee charged by the sending agent, typically paid by the sender, and a currency-conversion fee for delivery of local currency to the beneficiary in another country. Some smaller money transfer operators require the beneficiary to pay a fee to collect remittances, presumably to account for unexpected exchange-rate movements. In addition, remittance agents (especially banks) may earn an indirect fee in the form of interest (or “float”) by investing funds before delivering them to the beneficiary. Transaction costs are not usually an aid), issue for large remittances (those made for the purpose of trade, investment, or because, as a percentage of the principal amount, they tend to be small, and major international banks are eager to offer competitive services for large-value remittances. But for smaller remittances—under $200, say, which is often typical for poor migrants.

Policy Recommendations

With better regulation and lower costs, remittances have the potential to improve financial inclusionfurther. Diaspora finances can be mobilized for development and strengthening a country’s debt position. Diaspora bonds can be structured to directly tap diaspora savings held in foreign destinations. Diaspora bonds are generally in small denominations and typically at a lower interest rate than issuances to international investors. While in some countries the amount of funds raised through diaspora bonds has been disappointing, these bonds have been quite successfu in others. Problems have involved political opposition by diaspora members, issuance of local currency bonds with exchange rate risk, failure to register bonds in countries where the majority of overseas emigrants live, and inappropriate financial structures.

Many countries provide for nonresident deposits to attract foreign-currency-denominated diaspora savings. Such deposits can be large. For example, India has had a nonresident deposit program for the past few decades, with total deposits equaling $143 billion in September 2023. However, unlike diaspora bonds, such savings tend to be short term and volatile, and are therefore not appropriate tools for financing long-term development projects.

Future inflows of remittances can be used as collateral to lower the costs of international borrowing for national banks in developing countries.
Remittances also can play an important role in improving a country’s ability to repay debt, due to their large size relative to other sources of foreign exchange, countercyclical nature, and indirect contribution to public finances (e.g., by increasing revenues from consumption taxes, as well as seigniorage revenues as remittances are deposited in the banking system). The contribution of remittances to debt sustainability in low-income countries was recognized in the 2017 revision to the International Monetary Fund/World Bank debt sustainability analysis framework.

This change was associated with a significant improvement in the evaluation of debt sustainability in some countries with large remittance inflows. Similarly, econometric results show that the inclusion of remittances in the denominator of the debt-to-export ratio in middle-income countries with large remittance receipts would improve the sovereign rating by one notch.

Improving knowledge on the domestic work sector. To better design future policies more data and information on the domestic work market is necessary.

Providing greater options for permanent immigration, creating greater flexibility and mobility for migrant workers, and regularizing the status of undocumented workers

Reducing recruitment costs. The Convention on Domestic Workers underscores the need for Member States to ensure that migrant domestic workers are not subject to abuses or fraudulent practices by private employment agencies, and that States "shall develop and implement measures for labor inspection, enforcement and penalties with due regard for the special characteristic of domestic work" and establish "effective and accessible complaint mechanisms."