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| Remittances: Activity sheet 2 |

**What are remittances?**

The term remittance is used to refer to the international transfer of money and goods by individual migrants, typically to their country of origin. Transfers of goods are known as ‘in-kind’ remittances. They may be for a range of purposes – from supporting family members, to adding to personal savings or investments, to charitable donations to community initiatives.

International remittances are not easy to calculate. Some money is sent through informal channels which are not monitored (for example by asking a personal contact travelling to the country of origin to deliver the money, or through a business doing trade there, but not licensed to carry out money transfer). Even focusing on formal channels (for example, banks and licensed money transfer agencies), national financial recording systems still vary between countries. Unrecorded flows could still be significant.

The top 10 remittance-receiving countries, in terms of (a) official records of remittances and (b) remittances in relation to the size of their economy, are shown in Figure 1.

**Figure 1. Top 10 remittance-receiving countries**



Source: Ratha et al., 2023. GDP = Gross Domestic Product

**What is the significance of remittances?**

It is clear that remittances constitute important global financial flow. In 2022, global remittances were estimated at US$831 million, of which US$647 billion was destined for low- and middle-income countries. Figure 2 compares recorded remittances to these countries (excluding China) with other key financial flows.

**Figure 2. Remittances, Foreign Direct Investment, and Official Development Assistance Flows to Low and Middle-Income Countries, Excluding China, 2000–2024**



Source: Ratha et al., 2023

For some families, communities and countries, remittances are particularly significant. These funds may help recipients cover food, education and housing costs. Sometimes remittances are sent to migrants’ own bank accounts in the country of origin, to pay off debts, to make investments in property or business, or to accumulate savings to access conveniently when they visit or return to the country of origin. When remittances are spent, they have wider repercussions, which economists call ‘multiplier effects’. For example, if remittances are spent on building a home, this contributes to the demand for construction materials and local labour. At national level, remittances contribute to availability of foreign exchange and improve the country’s balance of payments.

It is often hoped that remittances may help countries of origin progress economically. However, much depends on the wider political and economic environment in migrants’ countries of origin. Meanwhile, remittances depend on migrants earning money to send in the first place – which often involves grappling with immigration restrictions and exploitative working conditions, while enduring separation from loved ones.

Governments have also tried to encourage and channel remittances. For example, in Mexico, the government introduced a ‘3 for 1’ programme, to encourage Mexicans living the United States to contribute to social and economic projects in their home communities. Every dollar contributed by migrants via their hometown association, was matched by a dollar each from federal, state and local government in Mexico. Non-governmental organisations also intervene. For example, the African Foundation for Development (AFFORD) has engaged government and other donors in projects that encourage diaspora investment in social enterprises and job creation.

There are various ways that people may choose to send money abroad: banks, money transfer agent, digital-only financial platforms, and through personal contacts and other businesses. Sending remittances is typically not free, and the cost varies depending on the fee the service provider charges and the exchange rate that they offer for different amounts and destinations. According to the World Bank’s Remittance Prices Worldwide Database, the average global cost of sending $200 to low and middle-income countries has come down, to around 6% in 2022, with remittance costs to South Asian countries the lowest (5%) and Sub-Saharan African countries the highest (8%). The United Nations’ Sustainable Development Goals aims to reduce the average cost of remittance transactions to 3% by 2030.

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**What remittances flow from the UK to other parts of the world?**

The nationally representative *Understanding Society 2010* survey suggested that some 21% of migrants in the UK sent money abroad, mostly to family and friends, but also pointed to substantial variations by region, with people identifying as Black African most likely to remit, compared with people with other ethnic identifications. Estimates of total UK outflows vary considerably: for 2021, World Bank estimates of outflows from the UK range from US$10 billion to US$34 billion. Important destinations for outflows from the UK are listed in Table 1. Meanwhile, estimates of remittances *to* the UK from other countries stood at US$3.5 billion.

**Estimated remittances from the UK to other countries, 2021, US$ million: top 10 recipients**

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| India | 4,458 |
| Pakistan | 2,942 |
| Nigeria | 2,765 |
| France | 2,465 |
| Germany | 1,672 |
| China | 1,238 |
| Poland | 1,217 |
| Kenya | 1,018 |
| Philippines | 958 |
| Spain | 937 |

Source: World Bank Bilateral Remittances Matrix 2021, <https://www.knomad.org/data/remittances>

**Further reading**

* African Foundation for Development website: <https://afford-uk.org>
* Datta, Kavita and Vincent Guermond (2020) ‘Remittances in Times of Crisis: Reflections on Labour, Social Reproduction, and Digitisation during Covid-19’ *Antipode Online*, <https://antipodeonline.org/2020/06/18/remittances-in-times-of-crisis/>
* Khan, Omar and Alita Nandi (2012) ‘Understanding remittances in *Understanding Society*: quantifying ties overseas and ties to Britain’ in Stephanie McFall (ed) *Understanding Society: Findings 2012.* Colchester: Institute for Social and Economic Research, University of Essex. <https://www.understandingsociety.ac.uk/sites/default/files/downloads/legacy/Understanding-Society-Findings-2012.pdf>
* Ratha, Dilip, Sonia Plaza, Eung Ju Kim, Vandana Chandra, Nyasha Kurasha, and Baran Pradhan. 2023. Migration and Development Brief 38: Remittances Remain Resilient But Are Slowing. KNOMAD–World Bank, Washington, DC.” License: Creative Commons Attribution CC BY 3.0 IGO. <https://www.knomad.org/sites/default/files/publication-doc/migration_development_brief_38_june_2023_0.pdf>
* Vargas-Silva, Carlos and Luka Klimaviciute (2020) Migrant Remittances to and from the UK. Migration Observatory Briefing. Oxford: University of Oxford. <https://migrationobservatory.ox.ac.uk/resources/briefings/migrant-remittances-to-and-from-the-uk/>
* World Bank Remittances data page <https://www.knomad.org/data/remittances>

**Questions**

1. Consider the information in ‘What are remittances’ in this Activity sheet, and look up the ‘Definition’ section in <https://www.migrationdataportal.org/themes/remittances#definition>, for further information. List some challenges of defining and measuring remittances.
2. Make a list of the possible pros and cons of sending money in informal channels.
3. What do you notice about the common characteristics of countries that (a) receive large volumes of remittances, and (b) the countries that receive large volumes of remittances in relation to their GDP.
4. How does overseas development assistance to low and middle income countries (excluding China) compare with remittances to those countries?
5. What kinds of impact can remittances have in countries of origin?
6. List 2 types of policy interventions that aim to maximise the impact of remittances in countries of origin.
7. Use the Remittance Prices Index (<https://remittanceprices.worldbank.org/>) to find out the most recent information on the *average* price of sending $120 from the UK to Jamaica. Aside from cost, which factors might you consider to be important in choosing how to send the money?
8. Why might UK residents identifying as Black African be more likely to send remittances than people with other ethnic identifications?
9. What do you notice about the 10 countries receiving the largest remittance outflows from the UK?

**Answer guide**

1. **Consider the information in ‘What are remittances’ in this Activity sheet, and look up the ‘Definition’ section in** [**https://www.migrationdataportal.org/themes/remittances#definition**](https://www.migrationdataportal.org/themes/remittances#definition)**, for further information. List some challenges of defining and measuring remittances.**
* *Some remittances back be transferred through informal channels.*
* *Systems recording remittances may not capture all flows through regulated channels, and vary between countries.*
* *It is hard to estimate in-kind remittances.*
* *Remittances are generally understood as transfers by migrants to personal contacts in communities of origin but, according to the Migration Data Portal, ‘the statistical definition of international remittances only partially reflects this common understanding’.*
* *The statistical definition, for instance, includes under ‘compensation of employees the income of temporary migrant workers and abroad people employed by embassies and international organisations (who may or may not actually transfer their income home). It also includes all transfers between resident and non-resident individuals, i.e. transfers made by non-migrants as week as migrants.*
* *Internal remittances by citizens moving between different parts of the same country are generally not discussed.*
* *There are also other transfers that are more social in nature between migrants’ countries of destination and origin that may be important to understand.*
1. **Make a list of the possible pros and cons of sending money in informal channels.**

*Examples of pros of informal channels:*

* *May involve social connections and therefore be more trusted.*
* *In corridors where transfer fees through formal channels are high, informal channels may be cheaper.*
* *May reach areas where formal institutions do not have adequate coverage or do not operate.*
* *Keeping financial affairs private – avoiding potential scrutiny by the state (for example, may be a concern for people who have insecure status or have earned the money informally)*

*Examples of cons of informal channels:*

* *If money does not arrive, or the service is slow, there is no formal consumer guarantee / legal protection to help address the problem.*
* *Informal channels do not connect senders or recipients to banking and other financial services that can be useful in managing finances in the country of origin.*
* *Using informal channels may get people in trouble with the law in some contexts.*
1. **What do you notice about the common characteristics of countries that (a) receive large volumes of remittances, and (b) the countries that receive large volumes of remittances in relation to their GDP.**
* *Countries receiving the largest volumes of remittances are generally populous countries with well-established migration patterns, that are large low and middle income economies*
* *Countries receiving the largest volumes of remittances in relation to GDP are typically smaller, including island economies like Tonga and Samoa; post-Soviet countries with movement agreements with Russia; long-standing countries of emigration first established during times of conflict like Lebanon, El Salvador and Nepal.*
1. **How does overseas development assistance to low- and middle-income countries (excluding China) compare with remittances to those countries?**
* *ODA assistance constitutes about a third of the value of remittances.*
1. **What kinds of impact can remittances have in countries of origin?**

*May have various kinds of impact depending on context:*

* *Supporting families’ essential needs and wider family wider livelihoods;*
* *Support educational trajectories enabling higher incomes in the longer-term;*
* *Economic multiplier effects in communities;*
* *Social impacts in communities;*
* *Macro-economic effects;*
* *Encourage or directly finance further migration.*
1. **List 2 types of policy interventions that aim to maximise the impact of remittances in countries of origin.**
* *Some interventions use government and donor money to encourage diaspora contributions to community initiatives or investment in businesses.*
* *The United Nations has set a target in the Sustainable Development Goals of reducing the cost of remittances. Price comparison websites are part of the effort to make the market more transparent for customers and encourage competition and innovation.*
1. **Use the Remittance Prices Index (**[**https://remittanceprices.worldbank.org/**](https://remittanceprices.worldbank.org/)**) to find out the most recent information on the *average* price of sending $120 from the UK to Jamaica. Aside from cost, which factors might you consider to be important in choosing how to send the money?**
* *Average price of sending money from the UK to Jamaica: 6.52%*
* *Information that might be considered when choosing to send money might include: sending method (cash, debit/credit card, bank transfer; whether online or over-the-counter option); speed of transfer; how recipient receives the money; and network coverage in Jamaica; trust and past experience.*
1. **Why might UK residents identifying as Black African be more likely to send remittances than people with other ethnic identifications?**

*Africa is the world region with the largest number of low-income countries. There are significant push factors for international migration (if people can afford it). Economic disparities between African countries and destination countries as well as cultural practices may create significant pressure on diaspora to support their families.*

1. **What do you notice about the 10 countries receiving the largest remittance outflows from the UK?**

*Possible answers include:*

* *They include major countries of origin of UK migrants (India, Pakistan, Nigeria, Poland, Germany – see Activity Sheet 1 Migration & Diasporas)*
* *Most are countries with strong and long-standing connections due to colonialism and European Union membership.*
* *The Philippines is a country with significant migration and remittances globally.*
* *China is a country with significant and growing economy.*