Migrant Remittance Flows: Findings from a Global Survey of Central Banks*

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Abstract
Drawing on the findings from responses to a survey conducted in 2008–09 from 114 central banks worldwide (of which 33 are in Africa), this paper aims to better understand how central banks and other national institutions regulate and collect data and other information on cross-border remittance flows. Findings indicate that, although the vast majority of countries, in both sending and receiving countries, collect data on remittances, and 43 percent of receiving countries estimate informal remittances, there is a need for more frequent and better coordinated data collection, both across national institutions and among different divisions within the same national institution, as well as between countries. Survey results also indicate that many new market entrants’ transfer activities are unregulated. Countries must take into account new channels and technologies, such as mobile phone service providers, in monitoring remittance flows. It will be important for national regulatory authorities to work closely with mobile telecoms network operators to strike the right regulatory balance, to better understand these new channels’ associated risks and fully tap their potential for fostering inexpensive, efficient remittance transfer services. The high cost of transfers was cited in the survey as the top factor inhibiting migrants from using formal channels. Many countries, particularly in Africa, have made progress in rendering exclusivity contracts illegal, which can help increase competitiveness and reduce transfer costs. Further policy reforms and initiatives are needed to address the high costs of remittances.

CHAPTER 1

Introduction and Main Findings

Migrant remittances provide the most tangible and perhaps the least controversial link between migration and development, having the potential to contribute significantly to poverty reduction and achievement of other UN Millennium Development Goals. Recorded migrant remittances received by developing countries reached an estimated $338 billion in 2008, up nearly 17 percent from $289 billion in 2007. The true size of migrant remittances including unrecorded flows through formal and informal channels is even higher, making remittances the largest source of external finance for many developing countries, especially poor countries. Maximizing the development impact of remittances has been recognized at the highest international policy levels, with the final declaration of the July 2009 Group of Eight Summit stating an aim to make remittance services cheaper and more accessible to migrants and their families.

This paper presents findings from a worldwide survey of central banks on cross-border migrant remittance flows. The main aims of the survey were to gain a better understanding of the regulatory environment for cross-border remittance flows and how central banks collect data and other information on migrant remittances.

Survey questionnaires were e-mailed to central banks and other national institutions in 176 countries worldwide. Two main versions of the questionnaire were developed (see appendices 1 and 2). Version 1 of the survey focuses on remittance inflows and was sent to 126 countries considered net remittance-receiving countries;

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version 2 focuses on remittance outflows and was sent to 50 countries considered net remittance-sending countries (see appendix 3). A version 3 survey (containing additional questions on remittance outflows) was also sent along with version 1 of the survey to several countries that send as well as receive significant amounts of remittances.\textsuperscript{2} The survey questionnaires were an adaptation and significant extension of a World Bank survey conducted with central banks in 40 countries in 2004.\textsuperscript{3} The survey was distributed between March and May 2008, initially to central banks in 52 African countries. By December 2009, survey submissions had been received from 114 countries (33 of which are African countries), for a response rate of 65 percent overall and 63 percent for Africa. The 112 surveys submitted in sufficiently complete form are analyzed in this paper (of which 77 surveys are from remittance-receiving countries and 35 surveys are from remittance-source countries).

The main findings of the survey are as follows:

- There is an apparent lack of coordination on data collection and in other areas among various divisions within many individual central banks, among national institutions within a given country, and among counterpart national institutions, including for some major remittance corridors.
- As many as 43 percent of the remittance-receiving countries collect data or information on cross-border migrant remittance flows transferred through informal channels. But only 17 percent of central banks in remittance-receiving countries provided estimates of informal flows in their survey responses. Use of household and/or migrant surveys was the most cited method for estimating informal flows.
- High cost is perceived as the top single factor inhibiting migrants from using formal channels for remittance transfers. A large majority of survey respondents also cited factors that, taken together, indicate mistrust of or lack of information about financial systems, products, and channels.
- A majority of central banks cite better statistics and studies on migration and remittances as the most important areas in need of attention to improve the efficiency and security of remittance transfers. In Sub-Saharan Africa, nearly 80 percent of central banks cited better statistics and studies on migration and remittances as the most important areas needing attention.
- Anti-money laundering and combating the financing of terrorism (AML-CFT) appears to be a high priority for countries participating in the survey, many of which have recently or are currently putting in place institutional frameworks and regulations intended to better monitor suspicious cross-border transactions. Despite this, there seems to be a lack of clarity in the actual application and enforcement of AML-CFT regulations for remittance service providers (RSPs).

The survey also revealed that migrant remittance inflows have been monitored for a longer time, and in general are better monitored, than remittance outflows. In several countries, there are large discrepancies in data reporting by different agencies. Although central banks are beginning to pay attention to new technologies and alternative channels in recording remittance transactions, new entrants to the market,
such as mobile phone service providers, are not yet very active in cross-border remittance transfers. Only four remittance-receiving countries reported the use of mobile phones in cross-border remittance transfers at the time of the survey.

Remittance services provided by many of the newer market entrants tend to be unregulated. However, even remittance transfer activities of as many as 6 percent of the commercial banks providing these services in remittance-receiving countries and 11 percent of the commercial banks providing these services in remittance-sending countries are not subject to any supervisory authority.

The existence of a legal requirement that money transfer operators (MTOs) partner with banks is associated with high remittance costs in remittance-receiving countries. This relationship is more pronounced in Sub-Saharan Africa. Remittance costs also tend to be higher in countries where it is compulsory to convert remittance proceeds into local currency.

**Policy Implications**

The results of the survey suggest that central banks and other national institutions responsible for data collection need to improve coordination in this area, with more systematic data and information exchange, better communication, and more effective division of labor to avoid duplication of efforts. Better coordination in data collection needs to occur both across institutions and among different divisions within the same institution in a number of countries.

It will be important for central banks and other national authorities responsible for remittances data collection and monitoring to give more attention to these activities, including by monitoring cross-border remittance flows data at higher frequencies and disaggregating by source country, where possible. For many remittance-receiving countries, it will also be important to revise data compilation methods to better distinguish remittance inflows from other capital inflows and to disaggregate by remittance category. Such improvements to data collection practices could be critical to effectively monitoring these cross-border flows, in the face of heightened concerns that the global financial crisis is negatively affecting the amount of cross-border migrant remittance flows to many remittance-receiving countries.

As new RSP entrants to the market emerge (for example, mobile phone service providers), it will become increasingly important for countries to take into account new channels and technologies in collecting data on and monitoring remittances. Given that the remittance transfer activities of many of the newer market entrants are not yet regulated in a number of countries, national financial market regulatory authorities and mobile phone service network operators need to coordinate to strike the right balance in regulating these new technologies for money transfers.

For many remittance corridors worldwide, appropriate national policies and initiatives should be implemented to address the high cost of remittance transfers. Policies that promote competition in the remittances market can reduce transfer costs and improve service quality. Discouraging exclusivity contracts between RSPs and national post offices or banks will be important for increasing competition and reducing transfer costs. Another key step toward reducing the cost of remittance transfers will be financial literacy campaigns, which can increase public awareness of
remittance methods and the associated prices, putting pressure on providers to reduce costs. Promotional efforts that increase the public’s trust in banks and other RSPs, backed, of course, by national policies and regulatory frameworks that promote a healthy, well-functioning, and efficient banking and financial sector, could also promote competition in the remittances market and ultimately reduce costs.

1 For information on and analysis of the magnitude and characteristics of migrant remittance flows by region, see Ratha, Mohapatra, and Silwal (November 2009).
2 Three countries’ central banks completed the version 3 appendix questionnaire: central banks in Cyprus, The Czech Republic, and Lebanon.
3 See de Luna Martinez (2005).
4 Although mobile phone service providers, in particular, were reportedly providing cross-border remittance transfer services for only four remittance-receiving countries (Brazil, Indonesia, Mexico, and the Philippines) at the time of the survey, there is growing anecdotal evidence that mobile phone service providers are becoming increasingly active in transmitting remittances domestically in many developing countries.
5 See, for example, Ratha and Riedberg (2005).