

MIGRATION AND REMITTANCES

Recent Developments and Outlook

Special Topic: Global Compact on Migration



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Migration and Development Brief reports an update on migration and remittance flows as well as salient policy developments in the area of international migration and development.

The Global Knowledge Partnership on Migration and Development (KNOMAD) is a global hub of knowledge and policy expertise on migration and development. It aims to create and synthesize multidisciplinary knowledge and evidence; generate a menu of policy options for migration policy makers; and provide technical assistance and capacity building for pilot projects, evaluation of policies, and data collection.

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MIGRATION AND DEVELOPMENT BRIEF 27

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April 2017

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Summary

This Migration and Development Brief provides an update on worldwide remittance flows and the global migration crisis. It focuses on two Sustainable Development Goal (SDG) indicators: reducing remittance costs, and reducing recruitment costs for low-skilled migrants. In September 2016, the United Nations General Assembly Summit on “Large Movements of Refugees and Migrants” committed to develop two global compacts: a Global Compact on Refugees, and a Global Compact for Safe, Orderly, and Regular Migration. Negotiations on both compacts are expected to continue through 2017, with final adoption expected at a United Nations international conference in 2018. The Brief reports on progress in the preparation of the global compacts, with an expanded discussion of the Global Compact on Migration.

Remittance trends. For the first time in recent history, remittance flows to developing countries registered a decline for two successive years. Remittances declined by an estimated 2.4 percent, to \$429 billion, in 2016, after a decline of 1 percent in 2015. India, the largest remittance-receiving country worldwide, led the fall with a decrease of 8.9 percent in remittance inflows. Cyclical factors affecting remittance flows, especially to South Asia and Central Asia, include low oil prices and weak economic growth in the Gulf Cooperation Council (GCC) countries and the Russian Federation. Weak growth in Europe also affected flows to North Africa and Sub-Saharan Africa. The decline in remittances is further accentuated when expressed in U.S. dollars because of the weakening of the euro, the British pound and the ruble against the U.S. dollar. Remittance flows to the Europe and Central Asia region registered a significant decline for the third consecutive year; these flows have fallen by 30 percent since 2013. Latin America and the Caribbean was the only region to register an increase (6.9 percent) in remittance flows, supported by strengthening employment levels in the United States.

Against the backdrop of weak exports and falling levels of international reserves, several remittance recipient countries imposed exchange controls, which gave rise to black market exchange premiums and an apparent shift in remittance flows to informal

channels. In addition, structural constraints, such as de-risking behavior by international correspondent banks, continued to increase the regulatory burdens on money transfer operators, especially smaller and newer players. Finally, labor market “nationalization” policies in the GCC countries and anti-immigration sentiments in many high-income nations discouraged the hiring of foreign workers and dampened remittance flows, especially through formal channels.

Recently, several high-income countries that are host to many migrants are considering taxation of outward remittances, in part to raise revenue, and in part to discourage undocumented migrants. The list of countries where such taxes are being considered includes Bahrain, Kuwait, Oman, Saudi Arabia, the United States, and the United Arab Emirates. However, taxes on remittances are difficult to administer and likely to drive the flows underground.

In line with the improved global economic outlook, remittances to developing countries are expected to grow at about 3.3 percent in 2017, to \$444 billion.

Remittance costs. The global average cost of sending remittances has remained nearly flat at 7.45 percent in 2017 Q1, significantly higher than the SDG target of 3 percent (World Bank 2017). A major barrier to reducing remittance costs is de-risking — when international

correspondent banks close the bank accounts of money transfer operators to avoid the risks of money laundering and financial crime. De-risking has not only increased regulatory burdens, but also acted as an entry barrier for smaller and newer remittance service providers with smart technologies.

Recruitment costs. Surveys carried out by KNOMAD and ILO show that recruitment costs paid by low-skilled workers to unscrupulous labor agents can be high, often more than a year's worth of income to be earned in the destination country. High recruitment costs are driven by lack of opportunities at home and the restrictiveness of worker visa policies, which have created a market for brokers and recruitment agencies. Efforts to reduce recruitment costs would require better regulation and monitoring of recruitment agencies, cooperation with large overseas employers, and bilateral coordination between labor sending and destination countries.

Migration crisis. Between 2015 and 2016, the number of refugees in the 28 European Union countries increased by 273,000 to 1.6 million. During the same period, the number of refugees worldwide increased by 1.4 million, to 16.5 million. However, the European migration crisis appears to be abating. The number of people making the dangerous crossing to Europe has fallen from the record high in 2015. Yet, the fundamental drivers of distress migration persist.

Faced with violence, drought, and famine, refugees from South Sudan are fleeing into Sudan, Ethiopia, Kenya, the Democratic Republic of Congo, the Central African Republic, and Uganda. The number of South Sudanese refugees has reached 1.7 million since the conflict erupted. Somalia has been affected by the worst drought in 20 years. About 256,700 Somalians have been internally displaced in the past four months, while increasing the number of refugees to 1.1 million.

Global Compact on Migration. In the absence of a formal definition of the Global Compact on Migration, our proposed working definition could be "an internationally negotiated framework for governments and international organizations to harness the benefits of migration while navigating its challenges." With this definition, the thematic elements for the Global Compact on Migration are wider than the migration-related SDGs. Ahead of the United Nations international conference in 2018, the global community needs to map systematically the current institutional frameworks, clarifying the missions of key organizations and how their work programs and budget allocations are aligned with those missions. There is also a need to take stock of existing global conventions, and regional and bilateral agreements that address migration, to develop a normative framework or guidelines for governments and international organizations.

This Brief was prepared by Dilip Ratha, Supriyo De, Sonia Plaza, Kirsten Schuettler, Ganesh Seshan, Hanspeter Wyss, and Nadege Desiree Yameogo of the Migration and Remittances Unit of the Global Indicators Group, and Eung Ju Kim of the Development Prospects Group of the World Bank. Useful comments and contributions were received from the World Bank regional chief economists, Global Practices, and country teams, in particular from Enrique Blanco Armas, Guillermo Raul Beylis, Emmanuel Lartey, Manjula Luthria, Marco Nicoli, and Frederico Gil Sanders. Thanks to Rita Ramalho and David Rosenblatt for helpful comments and suggestions.

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Trends in Global Remittance Flows

1.1. Remittances in 2016

Remittance flows to developing countries are estimated to have declined by 2.4 percent, to \$429 billion in 2016, after a decline of 1 percent in 2015 (figure 1.1 and table 1.1). This is the first time in recent history that remittance flows have declined for two successive years. India, the largest remittance-receiving country worldwide, led the fall with a decrease of 8.9 percent. Historically, remittance flows have been resilient to economic downturns. During the global financial crisis in 2009, remittance flows to developing countries fell by about 5 percent, and bounced back within a year.

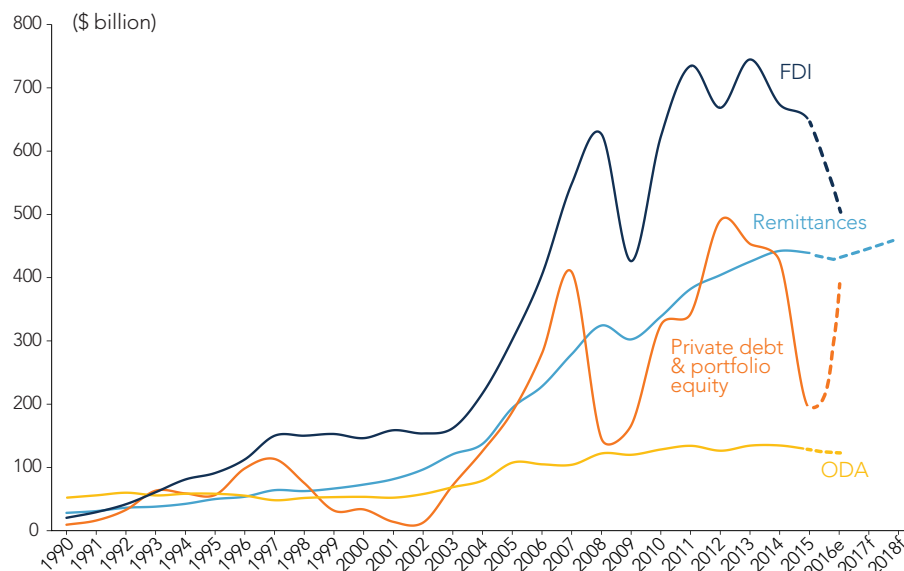
Remittance flows were impacted by weak economic growth in Europe, the Russian Federation, and the Gulf Cooperation Council (GCC) countries (cyclical factors), and exchange controls, burdensome regulations, and anti-migrant policies in many countries (structural factors). Remittance flows, especially to South Asia and Central Asia, were affected by low oil prices and weak economic growth in Russia and the GCC countries. Weak growth in Europe also affected flows to North Africa and Sub-Saharan Africa. The weakening of the euro, the British pound and the ruble against the U.S. dollar further accentuated the decline in remittances in U.S. dollar terms. Remittance flows to the Europe and Central Asia (ECA) region registered a significant decline for the third consecutive year; these flows have fallen by 30 percent since 2013. Latin America and the Caribbean (LAC) was the only region to register an increase (6.9 percent) in remittance flows, supported by strengthening employment levels in the United States.

Against a backdrop of weak exports and falling levels of international reserves, several large remittance recipient countries imposed exchange controls. In Nigeria and the República Bolivariana de Venezuela, exchange restrictions have given rise to large black market exchange premiums.¹ When the parallel market exchange rates are attractive, remittances are likely to be driven to unofficial channels (World Bank 2006). Further, the risk caused by exchange restrictions implemented as a response to cyclical downturn in export and tourism earnings may last beyond the economic cycle.

In addition, structural constraints, such as de-risking — when international correspondent banks close the bank accounts of money transfer operators, to avoid the risks of money laundering and financial crime — continues to raise regulatory burdens on money transfer operators, especially smaller and newer players. Finally, labor market “nationalization” policies in the GCC countries and anti-immigration sentiments in many high-income nations discourage the hiring of foreign workers, and seem to have dampened remittance flows, especially through formal channels.

Although the overall remittance trend for developing countries was negative in 2016, the regional picture was more varied (table 1.1). The East Asia and Pacific (EAP) region registered a 1.2 percent estimated decline in remittances in 2016, compared with 3.8 percent growth in 2015. Although flows to the Philippines remained buoyant, Indonesia saw a decline induced by new emigration restrictions. The South Asia region (SAR) witnessed an estimated decline of 6.4 percent in 2016. India, the largest remittance-receiving country

FIGURE 1.1. Remittance Flows to Developing Countries Are Larger Than Official Development Assistance and More Stable Than Private Capital Flows



Sources: World Bank staff estimates; World Development Indicators. See annex A for data and forecast methods. Note: FDI=foreign direct investment; ODA=official development assistance.

TABLE 1.1. Estimates and Projections for Remittance Flows to Developing Country Regions

Region	2010	2013	2014	2015	2016e	2017f	2018f
	(\$ billions)						
Developing countries	340.3	426.4	444.3	439.8	429.3	443.6	459.1
East Asia and Pacific	94.9	114.3	122.7	127.3	125.8	129.0	132.7
Europe and Central Asia	37.8	54.6	51.7	40.3	38.4	41.0	43.6
Latin America and Caribbean	56.5	61.5	64.5	68.3	73.1	75.5	78.2
Middle-East and North Africa	39.0	50.5	54.4	51.1	48.8	51.8	53.5
South Asia	82.0	110.8	115.8	117.6	110.1	112.3	115.3
Sub-Saharan Africa	30.1	34.7	35.3	35.1	33.0	34.1	35.7
World	466.7	574.8	598.3	582.4	575.2	593.8	615.9
Low and middle income countries ^a	334.2	419.0	435.9	432.3	422.5	436.3	451.1
	(Growth rate, percent)						
Developing countries	11.2	5.2	4.2	-1.0	-2.4	3.3	3.5
East Asia and Pacific	19.5	6.7	7.4	3.8	-1.2	2.5	2.9
Europe and Central Asia	4.8	17.1	-5.3	-22.1	-4.6	6.6	6.4
Latin America and Caribbean	2.6	2.1	4.8	6.0	6.9	3.3	3.6
Middle-East and North Africa	18.2	3.4	7.8	-6.1	-4.4	6.1	3.3
South Asia	9.4	2.6	4.5	1.6	-6.4	2.0	2.7
Sub-Saharan Africa	9.6	1.0	1.7	-0.4	-6.1	3.3	4.9
World	8.3	5.3	4.1	-2.7	-1.2	3.2	3.7

Source: World Bank.

a. *Previous income classification:* This group excludes Equatorial Guinea, the Russian Federation, the República Bolivariana de Venezuela, and Argentina, which were classified as high-income countries last year. These countries are included in the group of developing countries in the table. See annex A for data and forecast methods.

worldwide, had an 8.9 percent decline, receiving around \$62.7 billion. Remittances to LAC fared well with the largest estimated increase among developing country regions of 6.9 percent. Mexico had robust remittance growth of 8.8 percent. In the Middle East and North Africa (MENA) region, remittance flows decreased by an estimated 4.4 percent in 2016 after falling by 6.1 percent in 2015. The decrease reflects the GCC slowdown and declining flows to the Arab Republic of Egypt due to exchange rate misalignments prior to the currency float. Exposed to the problems of the euro area and Russia, ECA experienced a 4.6 percent decline in remittance inflows in 2016, but this was a significant improvement over the 22.1 percent drop in 2015. In 2016, remittance flows to Sub-Saharan Africa (SSA) fell by an estimated 6.1 percent, mostly due to weak growth performance and policy-related issues in Nigeria. Annex B provides a discussion of regional trends in remittance flows for the six regions.

It is estimated that in 2016, the top five remittance recipients worldwide were India, China, the Philippines, Mexico, and Pakistan, with Nigeria in the sixth place (figure 1.2). As a share of gross domestic product (GDP), however, the top five recipients were Kyrgyz Republic, Nepal, Liberia, Haiti, and Tonga. Tajikistan, the top recipient in 2015, registered a significant

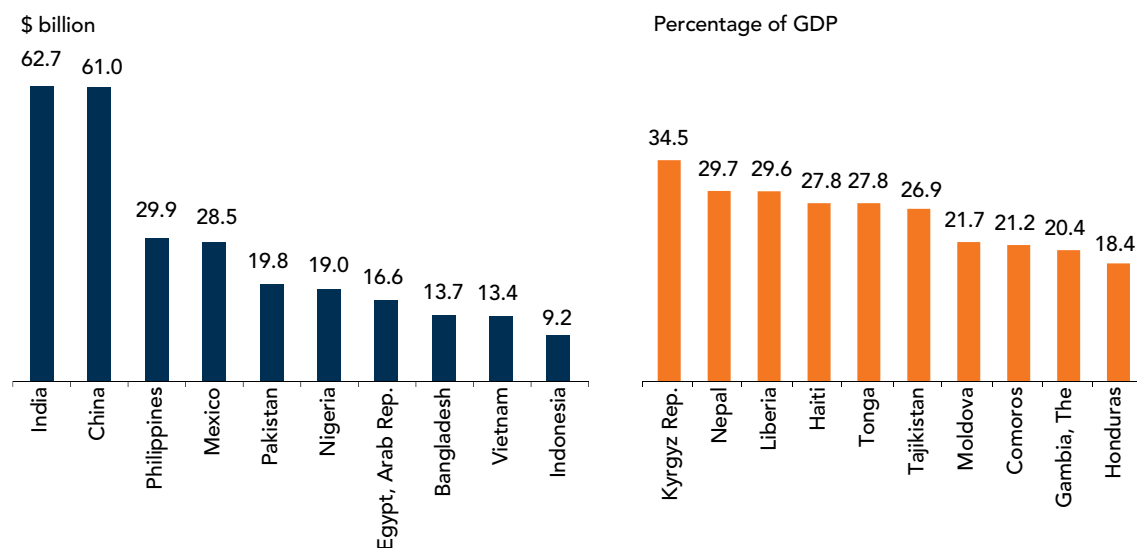
decline in remittances (as discussed in annex B) and slipped to sixth position.

1.2 Outlook and Risks

In line with the global economic outlook, remittances to developing countries are expected to grow at about 3.3 percent in 2017, to \$444 billion (table 1.1). Recent indicators suggest that economic activity in high-income and developing economies has firmed up, supporting a positive outlook for 2017. Global financing conditions have also improved notably, after a sharp tightening at the end of 2016.

In view of improved growth prospects for Russia, remittance flows to ECA are expected to bounce back in 2017–18. The region's remittance flows are projected to grow 6.6 percent in 2017, given the low-base effect. Remittances in other developing-country regions are forecast to pick up modestly in the next two years due to growth accelerating in most remittance-sending countries. For 2017, remittances to EAP are forecast to grow 2.5 percent; LAC 3.3 percent; MENA 6.1 percent; SAR 2.0 percent; and SSA 3.3 percent. (The methodology for forecasting remittance flows is outlined in annex A.)

FIGURE 1.2. Top Remittance Receivers in 2016



Sources: International Monetary Fund; World Bank World Development Indicators; staff estimates.

Nevertheless, downside risks remain, including the continuation of de-risking by correspondent banks, the possibility of increased protectionism, heightened policy uncertainty, and rising geopolitical tensions. Structural headwinds to remittance flows may arise due to anti-immigrant sentiments. These sentiments are expressed in proposals to impose taxes on remittances, although such taxes are not easy to administer, especially as remitters may divert flows to informal channels (box 1.1). De-risking due to regulatory stringencies arising from anti-money laundering norms could also retard remittances (section 1.3).

1.3 Trends in the Cost of Remittances

The cost of sending money continues to be exorbitantly high and regressive, well above the Sustainable Development Goal (SDG) target of 3 percent. According to the Remittance Prices Worldwide database, the global average cost of sending remittances of \$200 (inclusive of all fees and charges) remained at 7.45 percent in 2017 Q1 (figure 1.3). Among the regions, SAR had the lowest costs, at 5.4 percent, while

BOX 1.1: Why Taxing Remittances Is a Bad Idea

Recently, several high-income countries that are host to many migrants have been considering taxation of outward remittances, in part to raise revenue, and in part to discourage undocumented migrants. The list of countries where such taxes are being considered includes Bahrain, Kuwait, Oman, Saudi Arabia, the United States, and the United Arab Emirates (Malit and Naufal 2016). (In the United States, Oklahoma currently taxes remittances at the rate of \$5 for the first \$500 and 1 percent thereafter. Two other states, Georgia and Iowa, are considering taxes that may have a wider scope by taxing not just remittances, but also other transfers. See Cuevas-Mohr (2016).)

The following is an outline of nine reasons why taxing outward remittance flows is a bad idea:

1. In principle, the income of migrants has already been taxed in the host country. Therefore, taxing remittances amounts to double taxation for tax-paying migrants. Since remittances are usually sent to poor families of migrants, the tax would be borne ultimately by poor families and is likely to be highly regressive.
2. A tax on remittances will raise the cost of remittances, in direct contravention of the G20 commitments and the Sustainable Development Goal of reducing remittance costs and increasing financial inclusion.
3. Poor migrant workers tend to be highly sensitive to the cost of remittances. A tax on remittances will drive these flows to unregulated, informal channels. This diversion will likely reduce tax revenues, increase the cost of tax administration, and encourage informal channels of money flows, raising security risks.
4. To the extent that remittance channels are used for small-value transfers for the purposes of trade, tourism, investment, and philanthropy, these variables will also be impacted by a tax on remittances.
5. A tax on remittances, especially if it is applied selectively to the nationals of a country, can redirect flows through third countries. (Anecdotally, a U.S. ban on remittances to the Islamic Republic of Iran has forced Iranians in the United States to send money through Europe or the United Arab Emirates.) This situation means that migrants will have to pay remittance fees twice.
6. Estimates suggest that the revenue raised from a tax on remittances will be small relative to the revenue base of the country. For example, the International Monetary Fund estimates that a remittance tax of 5 percent would result in revenue of around \$4 billion, or 0.3 percent of gross domestic product of the Gulf Cooperation Council countries (IMF 2016). U.S. Government Accountability Office (2016) simulations suggest that a potential fine of 7 percent on remitters without legal status in the United States would raise less than \$1 billion in revenue, and chances are that the revenue would be less than the cost of tax administration to administer and enforce the tax.

7. A tax on remittances would affect the volume of business of remittance service providers, thereby reducing their tax payments.
8. A tax on remittances may contribute to driving expatriate employees and entrepreneurs to other countries with lower taxes.
9. In the past, such taxes have not worked. In Gabon (in 2008) and Palau (in 2013), tax collections were found to be insignificant (IMF 2016).

Many developing countries have been tempted to tax inward flows of remittances, but in the end, very few countries have done so. The drawbacks of taxing inward remittances are similar to those of taxing outward flows. Taxes can drive remittances to informal channels, making tax collection difficult and costly (Mohapatra, Moreno-Dodson, and Ratha 2012). And taxes on inward flows of remittances impact poor families disproportionately.

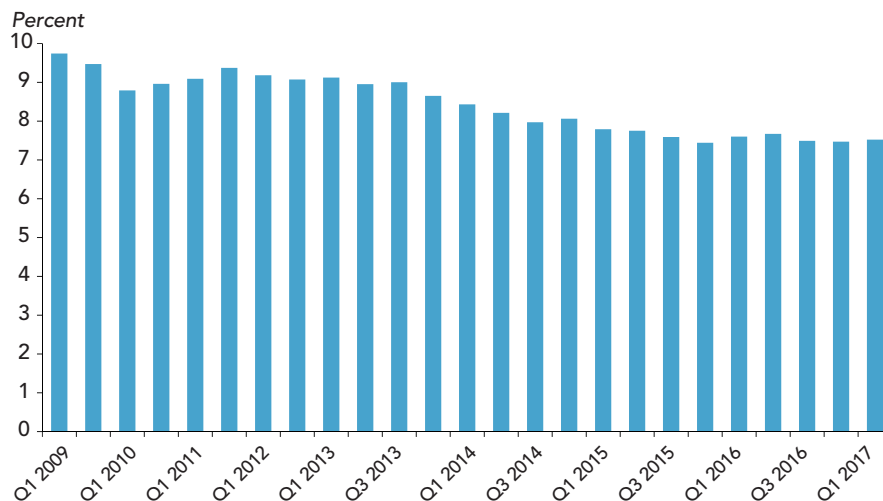
A few countries that had such taxes on inward remittances ended up removing them. Vietnam removed its 5 percent tax on inward remittances in 1997 and found that remittances through formal channels increased. The removal of Tajikistan's state tax on cross-border bank transactions in 2003 may have helped raise formal remittances from \$78 million in 2002 to \$256 million in 2003. In the Philippines, remittances were subject to a document stamp tax. Since 1995, the document stamp tax has been exempt for transfers by overseas Filipino workers on presentation of appropriate documentation.^a India imposes a small service tax on the fees charged by money transfer agents, but not on the remittance amount.^b

There is a need for a systematic study of the feasibility and implications of taxation of (outward and inward) remittance flows. Such a study would involve country case studies, including interviews with remittance service providers, migrants, their households back home, and tax authorities as well as analytical modeling.

a. "OFW Remittances and the Exemption from Documentary Stamp Tax," *Business Mirror*, September 6, 2015.

b. "Sending Money Back Home to India Gets Costlier for NRIs," *Business Today*, December 2014.

FIGURE 1.3. The Cost of Sending \$200 Has Remained Nearly Flat



Source: Remittance Prices Worldwide, World Bank.

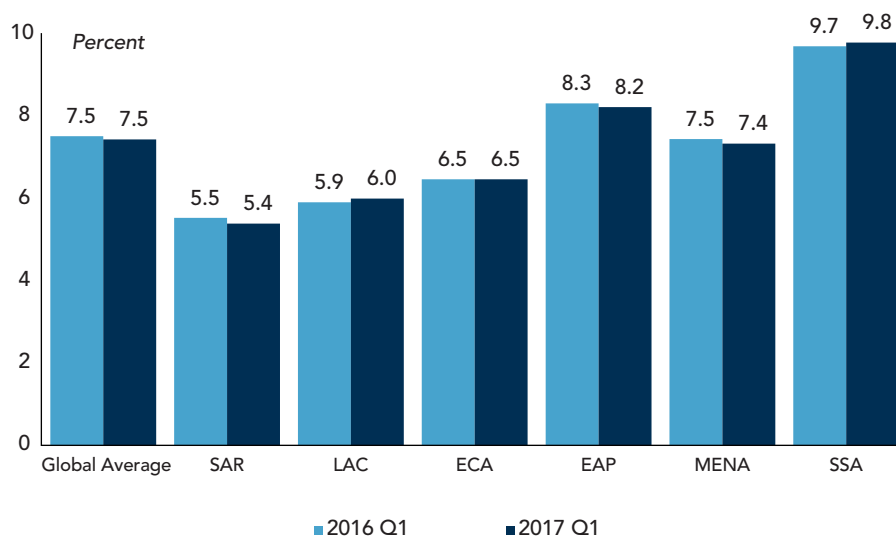
SSA continued to have the highest average cost, at 9.8 percent, in 2017 Q1 (figure 1.4; see World Bank 2017 for details). Remittance costs across many African corridors and small islands remain above 10 percent, because of the low volumes of formal flows, inadequate penetration of new technologies, and lack of a competitive market environment.

De-risking has the potential to reverse the progress made in reducing remittance costs and adversely impacts broader development objectives.² Moreover, the disappearance of regulated and legal remittance providers could divert flows toward informal channels, which in turn could increase anti-money laundering/countering financing of terrorism (AML/CFT) risks.³ In August 2016, the U.S. Treasury and federal banking agencies (including the Federal Reserve Board, Federal Deposit Insurance Corporation, National Credit Union Administration, and Office of the Comptroller of the Currency) released a fact-sheet aimed at clarifying the AML/CFT regulations and sanctions related to correspondent banking.⁴ According to the factsheet, the agencies “do not utilize a zero tolerance philosophy.”

Despite the clarification from the U.S. Treasury and federal banking agencies, global banks have begun to exit or reduce their exposure to the retail remittance business. The banks include JPMorgan Chase, Bank of America, and Banamex USA in the United States; National Australia Bank, Westpac Group, and ANZ in Australia; Barclays and HSBC in the United Kingdom; and BBVA in Spain.⁵

High regulatory hurdles, difficulties in finding a correspondent bank, and the pressure of falling margins have laid the groundwork for market consolidation through mergers and acquisitions. The global remittance industry is dominated by a few players, notably Western Union, MoneyGram, and Ria.⁶ The rest of the market is fragmented, with smaller players facing increasing regulatory costs and compliance requirements. In January this year, MoneyGram agreed to merge with Ant Financial, an affiliate of China’s Alibaba Group. But in March that bid was outdone by Euronet Worldwide (which owns Ria), which offered a 15 percent premium over Ant Financial’s offer. The initial deal seemed similar to PayPal’s 2015 acquisition of Xoom (table 1.2), which signaled that established global players in related financial services were entering the

FIGURE 1.4. Sub-Saharan Africa Continues to Have the Highest Cost of Sending \$200



Source: Remittance Prices Worldwide, World Bank..

Note: EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SAR = South Asia region; SSA = Sub-Saharan Africa.

lucrative consumer remittance space. However, the new bid signaled further consolidation of the existing market players. The high level of merger and acquisition activities is expected to spur more investment in the sector, as global money transfer companies compete for larger market share. This trend might be more pronounced for companies with traditional agent-based distribution models, as they try to build up their own digital capabilities for transferring money and seek to diversify into new revenue streams.

With the success of Xoom's initial public offering in 2013, several digital-first remittance startups have received financing (table 1.2).⁷ Over the past few years, new entrants have successfully leveraged these digital platforms to compete with established, traditional remittance providers in scale and fees. Although

established providers still dominate the global remittance market with large customer bases, extensive agent networks, and a high degree of brand recognition, digital startups have been growing at a tremendous rate.⁸

Mobile money-based global remittances are growing at a fast pace, especially in East Africa and South Asia, with the proliferation of smartphones, which make online transfers more convenient and cheaper. In addition, mobile money services have partnered with traditional remittance providers and digital-first startups, providing an alternative to traditional cash-to-cash models and offering instant online money transfers to mobile accounts. The application of blockchain technology for remittances has great potential, but it is still in its infancy.⁹

TABLE 1.2. Major Mergers and Financial Deals in the Global Money Transfer Industry, 2013–17

Date	Transaction overview	Amount (\$ million)	Company	Investor/acquirer(s)
Jan. 2013	Xoom closes its initial public offering	101	Xoom	Undisclosed investors
Mar. 2014	Euronet acquires HiFX	242	HiFX Plc	Euronet Worldwide
Mar. 2014	Azimo secures new financing	10	Azimo	Led by Greycroft Partners
Mar. 2014	WorldRemit secure new financing	40	WorldRemit	Accel Partners
June 2014	TransferWise secures new financing	25	TransferWise	Led by Valtar Ventures
Jan. 2015	TransferWise secures new financing	58	TransferWise	Led by IA Ventures
Mar. 2015	Remitly secures new financing	13	Remitly	Led by DN Capital
June 2015	Ria (owned by Euronet) acquires International Money Express (IME)	—	IME	Ria Financial
July 2015	PayPal acquires Xoom	890	Xoom Corporation	PayPal
July 2015	Euronet acquires XE Money Transfer	—	XE	Euronet Worldwide
July 2015	Remitly acquires Talio	—	Talio	Remitly
Nov. 2015	Eurazeo acquires Fintrax	356	Fintrax	Eurazeo
Feb. 2016	WorldRemit secure new financing	45	WorldRemit	Led by TriplePoint Ventures
May 2016	TransferWise secures new financing	26	TransferWise	Baillie Gifford
Oct. 2016	Euronet acquires YourCash	—	YourCash	Euronet Worldwide
Jan. 2017	MoneyGram plans merger with Ant Financial	—	MoneyGram	Ant Financial
Mar. 2017	Euronet offers higher price to MoneyGram	—	MoneyGram	Euronet Worldwide

Sources: Financial Technology Partners; Bloomberg; World Bank staff

Note: — = not available.

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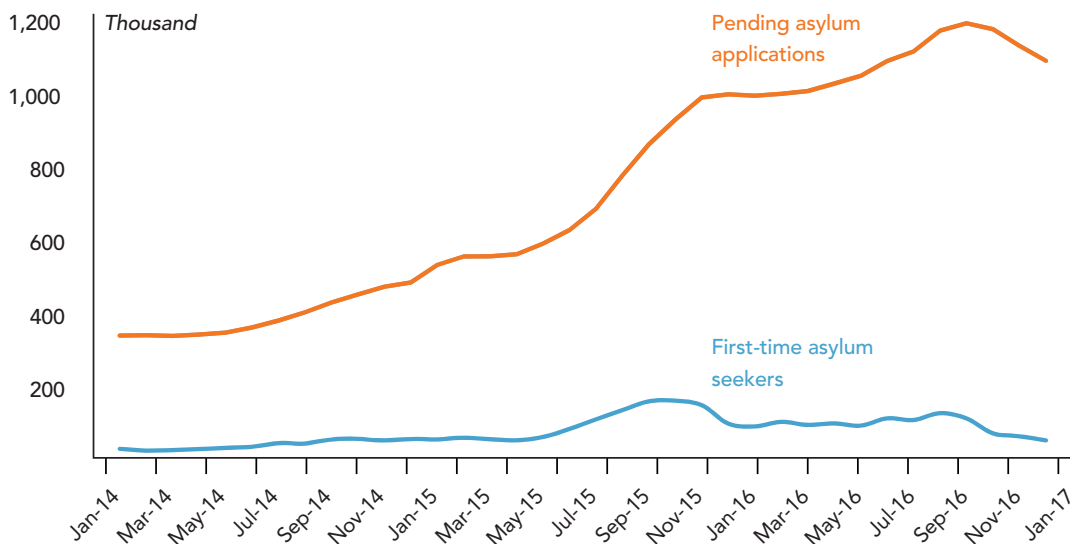
Migration Issues

2.1 Large Movements of Refugees and Migrants

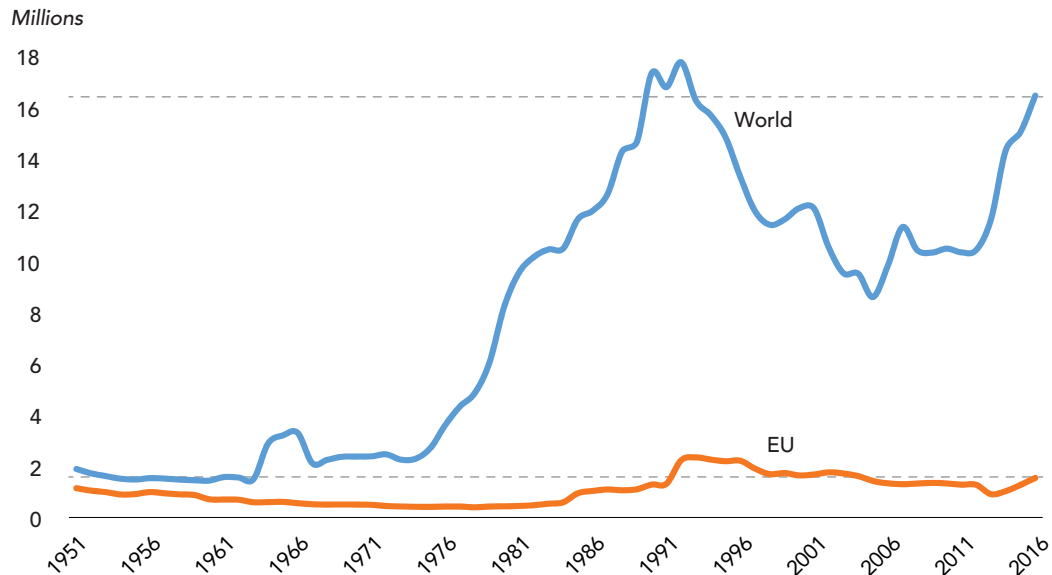
The European migration crisis seems to be abating. The number of first-time asylum seekers to the 28 European Union countries (EU-28) has fallen to nearly a third, from the peak of 167,190 in October 2015 to 58,880 in December 2016 (figure 2.1). The number of persons awaiting decision of their asylum cases peaked at about 1.2 million in September 2016. Between mid-2015 and mid-2016, the number of refugees in the EU-28 increased by 273,000, to 1.6 million (figure 2.2). During the same period, worldwide refugee stock rose by 1.4 million, to 16.5 million.

In March 2016, the European Union and Turkey reached an agreement to stem irregular migrant crossings.¹⁰ The European Union also put in place a new “Migration Partnership Framework,” in June 2016, to integrate migration into its foreign policy. The European Union strives for well-managed migration through coordination between its Member States, institutions, and third countries, to reduce the number of people making dangerous journeys to Europe (European Commission 2017). The implementing framework focuses on priority countries of origin and transit, namely, Mali, Nigeria, Niger, Senegal, and Ethiopia.¹¹ The plan would make available nearly €8 billion over 2016–20.¹²

FIGURE 2.1. First-Time and Pending Asylum Applications in the EU-28



Source: Eurostat.

FIGURE 2.2. Refugee Stock in EU-28 and Worldwide

Source: United Nations High Commissioner for Refugees.

However, the fundamental drivers of the migration crisis—fragility and conflict—remain unabated. In 2016, the number of refugees worldwide reached around 16.5 million, close to the post-War high of 17.8 million seen in 1992. Recent United Nations High Commissioner for Refugees (UNHCR) projections indicate that Africa is expected to have more than 11.4 million internally displaced persons (IDPs), 4.7 million refugees, and 1.4 million asylum seekers in 2017. The Syrian Arab Republic, with more than half of its population displaced, continues to be the source of the highest number of refugees worldwide. Faced with violence, drought, and famine, refugees from South Sudan are fleeing into Sudan, Ethiopia, Kenya, the Democratic Republic of Congo, the Central African Republic, and Uganda. The number of South Sudanese refugees has reached 1.7 million since the conflict erupted. Somalia has been affected by the worst drought in 20 years. About 256,700 Somalians have been internally displaced in the past four months, while increasing the number of refugees to 1.1 million. (More details are provided in annex B.)

Developing countries host 89 percent of the world's refugees (World Bank 2016b).¹³ The World Bank Group has instituted facilities to address the financing needs

associated with the influx of refugees: the MENA Concessional Facility to assist Jordan and Lebanon, and the Global Concessional Financing Facility (GCCF) to help middle-income countries. And the International Development Association (IDA) has created a window on refugees.

2.2 Spotlight on Worker-Paid Recruitment Costs

Policies need to be oriented to reap the benefits of migration while mitigating the costs. In 2015, the SDGs included two migration-related targets: to facilitate orderly, safe, regular and responsible migration (Goal 10.7), and to reduce remittance costs to less than 3 percent by 2030 and eliminate corridors higher than 5 percent (Goal 10.c). This section discusses the challenges associated with reducing the financial costs of recruitment that are incurred by low-skilled migrant workers seeking work overseas. By putting a spotlight on recruitment costs, the development community will be in a stronger position to lower costs systematically for the benefit of migrant households and host communities.

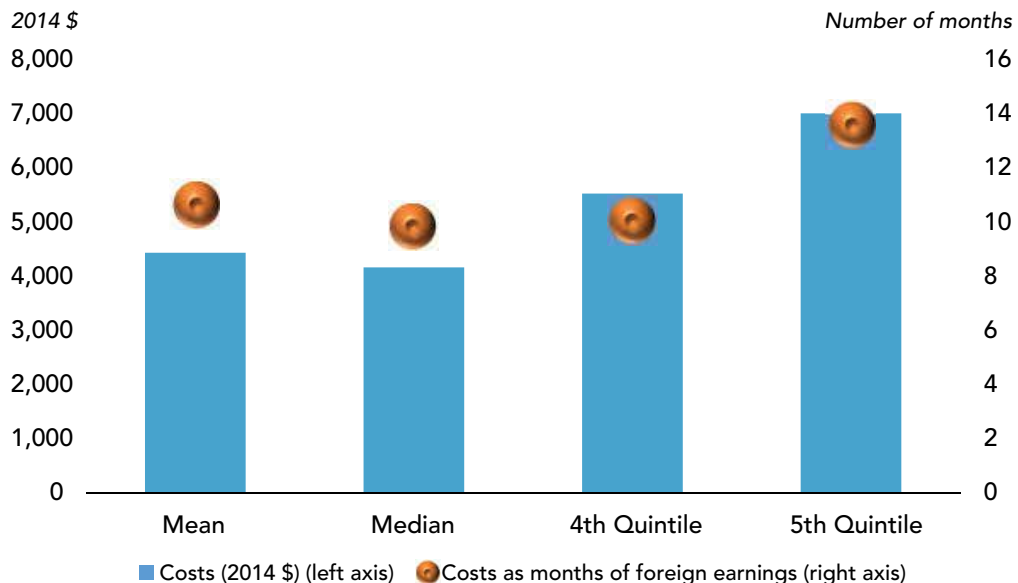
The recruitment costs paid by migrant workers to secure jobs abroad, on top of the fees paid by the employers, are a major drain on migrants’ ability to advance their financial goals. If recruitment costs averaged \$5,000 and they were reduced to \$1,000 per migrant worker, the cost savings would be \$4 billion per one million workers. If five million workers benefited from these cost reductions, the savings would total \$20 billion per year (World Bank 2015).

The Global Knowledge Partnership on Migration and Development (KNOMAD) and the International Labour Organization (ILO) are developing a methodology to measure recruitment costs. A primary aim of the initiative is to work with other United Nations agencies and national statistical agencies to develop the Recruitment Cost Indicator (RCI), as part of SDG indicator 10.7.1 (of which the World Bank and ILO are joint custodians). For this purpose, recruitment costs include recruitment service fees paid to recruitment agents, document costs (for example, passport, visa, medical certificate, security clearance, and language test), and transportation cost.

One measure of the RCI for each origin-destination country corridor is the average worker-incurred recruitment cost expressed as a multiple of monthly foreign earnings. In addition to looking at mean or median values, it is also instructive to observe costs in the upper tail of the distribution. Figure 2.3 depicts summary statistics, derived from a KNOMAD/ILO survey in 2015 of recruitment costs paid by Pakistani construction workers in Saudi Arabia. These workers pay more than \$4,000 on average upfront in recruitment fees (figure 2.3). Some pay as much as \$9,000. Workers in the upper 20 percent of the cost distribution (fifth quintile) pay as much as 14 times their foreign monthly earnings.

A KNOMAD/ILO survey in 2014 revealed that worker-paid recruitment costs averaged \$1,955 in Kuwait, with Bangladeshis paying the highest costs, ranging between \$1,675 and \$5,154. Fees paid to smugglers for crossing international borders, a reasonable proxy for black market recruitment fees, tend to be more exorbitant. For example, according to the European Union, smuggling fees to Europe ranged from \$5,000 in the case of Vietnamese workers, to more than \$15,000, for Bangladeshi workers in 2013.

FIGURE 2.3. Recruitment Costs: Pakistan to Saudi Arabia Construction Workers



Source: Global Knowledge Partnership on Migration and Development/International Labour Organization survey.

Why are recruitment costs so high? The driving forces are the lack of equivalent opportunities at home and the increasing restrictiveness of immigration policies. The difficulties of navigating complex migration processes have created a market for brokers and recruitment agencies. Well-intentioned policies to protect migrants often entail multiple requirements. The illegal practice of “visa trading” and excess demand for foreign jobs tend to coalesce into an exploitative setting.

Efforts to reduce recruitment costs would require better regulation and monitoring of recruitment

agencies, cooperation with large overseas employers, and bilateral coordination between labor-sending and destination countries. Additional measures to reduce recruitment costs include educating potential migrant workers about their rights, providing information on employment opportunities to facilitate job-matching, and streamlining the processing of documents such as passports and visas. Further, publishing corridor-specific data on recruitment costs by job category would create awareness and encourage government interventions to reduce these costs.

3

Special Topic: Envisioning the Global Compact on Migration

3.1 Defining the Global Compact on Migration

The global community has been presented with a unique opportunity to make significant and far-reaching improvements in the global governance of migration. Against the backdrop of heightened irregular migrant and refugee flows into Europe, the United Nations General Assembly's Summit on Large Movements of Refugees and Migrants, on September 19, 2016, in New York, proposed two global compacts: a Global Compact on Refugees, and a Global Compact for Safe, Orderly, and Regular Migration (Global Compact on Migration, or GCM, for brevity). Negotiations on both compacts are expected to continue through 2017, with final adoption planned in 2018. The Global Compact on Refugees has a clearer normative framework (the Geneva Convention) and a lead implementing agency (UNHCR) (see box 3.1). The Global Compact on Migration requires further elucidation and must be developed after consideration of existing frameworks and agreements.

As yet, there is no clarity on the definition or meaning of a global compact. Our working definition of the proposed GCM could be "an internationally negotiated framework for governments and international organizations to harness the benefits of migration while navigating its challenges." With this definition, the thematic elements of the compact are wider than the migration-related SDGs. Ahead of the United Nations international conference in 2018, the global community needs to: (a) identify the thematic priorities; (b) suggest an institutional architecture to support the GCM, by

mapping the current institutional arrangements and clarifying the missions of the key organizations and how their work programs and budget allocations are aligned with those missions;¹⁴ and (c) develop a normative framework or guidelines for governments and international organizations building on existing global conventions and regional and bilateral agreements that address migration.

3.2 Identifying Thematic Priorities

The formulation and negotiation of the GCM should be grounded on facts and evidence, keeping in mind the benefits and challenges associated with migration. One of every seven persons in the world is a migrant, and there are 250 million international migrants and more than 750 million internal migrants. Of the international migrants, refugees number 21.3 million; the rest are "voluntary" migrants, although it is not easy to apply the word voluntary in the case of people fleeing abject poverty or natural disasters. South-South migration is larger than South-North migration (World Bank 2016c). Therefore, migration management is a vital issue not only for high-income economies, but also developing countries, as destinations and origins of migratory movements. Migration will almost certainly increase in the future due to large income gaps, demographic divergences, and climate change (World Bank 2016c).¹⁵

Migration generates significant benefits for the migrants, origin countries, and destination countries. Migrants from poor countries moving to a high-income country on average experience a 15-fold increase in

BOX 3.1: Developments on the Global Compact on Refugees

Equitable burden-sharing and responsibility for hosting and supporting refugees is a guiding principle for the Global Compact on Refugees. The United Nations High Commissioner for Refugees (UNHCR) will propose a Global Compact on Refugees to the General Assembly in 2018 (UNHCR 2017). The compact will be comprised of a comprehensive refugee response framework, as well as a program of action for Member States and other stakeholders. The proposed framework has four objectives: (a) ease pressures on host countries, (b) enhance refugee self-reliance, (c) expand access to third-country solutions, and (d) support conditions in countries of origin for return in safety and dignity. As a key preparatory activity, UNHCR is currently working with Member States and relevant stakeholders to implement the framework in several situations, to be able to assess and refine it. Informal thematic discussions and stocktaking on lessons learned in the past will also be conducted. A zero draft of the Global Compact on Refugees will be circulated in February 2018, followed by formal consultations.

income, a doubling of school enrollment rates, and a 16-fold reduction in child mortality (World Bank 2016c). For origin countries, migration reduces unemployment, contributes to rapid poverty alleviation, brings in remittances and diaspora investments, and may result in skills and technology transfer. In destination countries, immigration replenishes the labor supply and skills, spurs entrepreneurship and innovation, eases strains on pension systems, and helps care for the elderly.

But migration also poses challenges. Migrants may become victims of traffickers, or abusive recruiters or employers. Migrants may face the risk of death while undertaking the migration journey. Their skills may be underutilized, and they may face exclusion and discrimination in the destination country. Above all, the family left behind may suffer greatly from the absence of the migrant. Origin countries may suffer the loss of critical skills due to migration. In destination countries, native workers may face job competition from migrant workers. Further, large migration flows can cause anxiety in the receiving community about loss of cultural identity and national sovereignty.

These drivers and impacts of migration argue for a broad range of themes to be included in the GCM (Ratha 2017). Proposed themes for the GCM include the following, in order of priority:

1. Income and job creation in poor countries
2. National identity; integration of migrants in host communities

3. Job competition for native workers in host countries
4. Trafficking, abusive employers and recruiters, and skill recognition
5. Migrant rights; exclusion, discrimination, and xenophobic attacks on migrants
6. Mobilization of remittances and diaspora resources
7. Family left behind
8. Retaining critical skills in origin countries
9. Congestion and fiscal costs of social services

This list of themes is broader than the migration-related SDGs, and corresponds to the themes identified in the New York Declaration, the Modalities Resolution, and the Special Representative to the Secretary General's report (see annex C).¹⁶

It is also necessary to establish connections between the GCM and the Global Compact on Refugees (box 3.1). Especially on the issue of mixed flows of refugees and migrants, overlaps between the two compacts need to be addressed. These links could entail addressing the root causes and drivers of (forced) migration; integrated border management; the special needs of vulnerable groups, such as women and children during journeys at sea or overland; and reception and integration issues.

Annexes



Annex A: Data Notes and Forecast Methodology

An extended discussion of data on migration and remittances is provided in the Migration and Remittances Factbook 2016 (World Bank 2016a). The following is an extract from the Factbook relating to the data on remittances cited in this Brief.

Data on Remittances

The main source for data on remittance inflows and outflows is the IMF Balance of Payments (BoP) database, which provides information on annual and quarterly remittance flows. Many countries are starting to use a new notion of remittances introduced in the sixth edition of the IMF Balance of Payments and International Investment Position Manual (BPM6) (IMF 2009). According to the new definition, personal remittances are the sum of two main components: “compensation of employees” and “personal transfers.” Secondary sources of remittance data are the websites of countries’ central banks or statistical offices, which provide high-frequency (monthly and/or quarterly) data on one or both of the above two categories. Personal remittances also consist of a third item: “capital transfers between households,” but data on this item are difficult to obtain and hence reported as missing for almost all countries.

Compensation of employees, unchanged from the earlier BPM5, “represents remuneration in return for the labor input to the production process contributed by an individual in an employer-employee relationship with the enterprise.” The definition of “personal transfers,” however, is broader than the old “workers’ remittances”—it comprises “all current transfers in cash or in kind made or received by resident households to or from nonresident households.” Therefore, “personal transfers” includes current transfers from migrants not

only to family members, but also to any recipient in the home country. If migrants live in the host country for one year or longer, they are considered residents, regardless of their immigration status. If migrants have lived in the host country for less than one year, their entire income in the host country should be classified as compensation of employees.

Caveats

Although the above residency guideline in the manual is clear, this rule is often not followed for various reasons. Many countries compile data based on the citizenship of the migrant worker rather than on their residency status. Further, data are shown entirely as either compensation of employees or personal transfers, although they should be split between the two categories, if the guidelines were correctly followed. The distinction between these two categories appears to be entirely arbitrary, depending on country preference, convenience, and tax laws or data availability.

Some countries do not report data on remittances in the IMF Balance of Payments statistics. Several developing countries (for example, Cuba, Turkmenistan, Uzbekistan, and Zimbabwe) do not report remittance inflows data to the IMF, although it is known that emigration from those countries takes place. Some high-income countries (notably Singapore and the United Arab Emirates) do not report data on

remittance outflows, although the countries are important destinations for migrants. Some countries, such as China, have gaps in data following the transition from BPM5 to BPM6. Past data and some current trends are used to arrive at estimates in such cases.

A global survey of central banks reveals significant heterogeneity in the quality of remittance data compilation across countries (Irving, Mohapatra, and Ratha 2010). Some central banks use remittance data reported by commercial banks, but do not adequately capture flows through money transfer operators, post offices, and emerging channels such as mobile money transfers. Even when data are available and properly classified, in some cases, these data are out of date. The methodologies used by countries for remittance data compilation are not always publicly available. It is hoped that the increased awareness about the importance of remittances and the shortcomings in the data on remittances and migrant workers will result in efforts to improve data collection.

Perhaps the most difficult aspect of remittance data is estimating informal flows. One way to estimate the true size of remittances is to undertake surveys of remittance senders and recipients. Without new, adequately randomized and representative surveys of recipients and senders, evidence from existing household surveys will only be indicative rather than comprehensive.

Estimating Remittances for 2016

The 2016 estimates are based on IMF Balance of Payments data supplemented by data from central banks. Where current data are not yet available, estimates and forecasts are used. For 2016, if only partial data are available, estimates of remittance inflows are obtained by comparing two different projections. One projection of the remittances inflows for the current year is based on partial quarterly or monthly year-to-year growth rates (usually based on data from the central bank or national statistical office), and applying that growth rate to the previous year for which the data are available. Another projection is based on forecasts from the methodology described in the next subsection. By taking into account both of these projections,

and the current political and economic circumstances for each country, the Migration and Remittances team arrives at estimated remittances for the year.

Methodology for Forecasting Remittances

The forecast of remittance flows is based on stocks of migrants in different destination countries and estimates of how changes in the migrants' income influence remittances sent by these migrants.¹⁷ Remittances received by country i from country j can be expressed as:

$$R_{ij} = R_i \frac{r_{ij} M_{ij}}{\sum_{i=1}^K \sum_{j=1}^K r_{ij} M_{ij}}$$

where R_i is the total amount of remittances into country i (as reported in the balance of payments), M_{ij} is the stock of migrants from country i in country j , and r_{ij} are the assigned weights to all remittance corridors.¹⁸ The weights r_{ij} are to be understood as remittance intensities for each corridor ij , and these depend on the levels of gross national income (GNI) per capita in migrant-sending countries (y_i) and migrant-receiving countries (y_j):

$$r_{ij} = f(y_i, y_j)$$

The elasticities (ε_j) of total remittance outflows (R_j) are estimated to measure the reaction of remittances to the growth of migrant incomes, approximated by economic growth in migrant-receiving countries (Y_j). These remittance elasticities are used to forecast remittance outflows from each migrant-receiving country based on the most recent available forecasts of GDP using the following formula:

$$R_{j(t+1)} = R_{j(t)} \left(1 + \varepsilon_j \frac{Y_{j(t+1)} - Y_{j(t)}}{Y_{j(t)}} \right)$$

where $Y_j(t)$ is the nominal GDP of country j in period t . Forecasts of outflows from all countries and estimated remittance intensities are then used to arrive at the estimates of projected inflows for each remittance-receiving country i :

$$R_{i(t)} = \sum_{j=1}^J r_{ij} R_{j(t)}$$

Data on Remittance Prices, Refugees, GDP, and Other Variables

The main source of data for monitoring the cost of making remittances through formal channels is the Remittance Prices Worldwide database (World Bank 2017). Other than the data on migration and

remittances, the Brief uses forecasts of GDP growth prepared by World Bank (Development Prospects Group) and IMF World Economic Outlook, and estimates of the countries' GNI per capita from the World Development Indicators. Portfolio flows and foreign direct investment data are taken from the World Bank Data Group's International Debt Statistics. The 2016 estimates of those flows are based on the quarterly BoP data of 25 major economies (which account for about 85 percent of total volumes) to estimate an aggregate trend.

Flows of refugees and asylum seekers are taken from UNHCR and Eurostat.

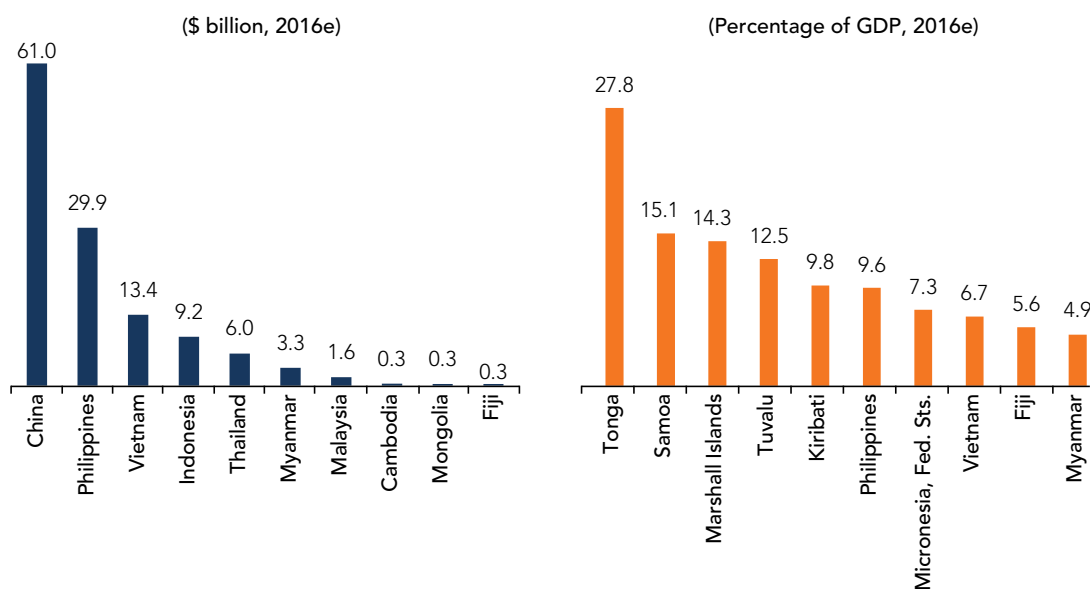
Annex B: Regional Trends in Migration and Remittance Flows

Remittances to East Asia and the Pacific (EAP) Face Global Headwinds

Remittance trends. Remittances to the East Asia and Pacific (EAP) region worsened due to weak global economic prospects triggering an estimated fall of 1.2 percent in 2016 compared with a positive growth rate of 3.8 percent in 2015. This slowdown indicates that, despite the diversification of migrant occupations and

destinations, the region is not shielded from global headwinds. Remittances to the Philippines, estimated at around \$30 billion (see figure A.1) remained resilient, growing by 4.9 percent in 2016 relative to 4.4 percent in 2015. In contrast, remittances to Indonesia in 2016 fell by 4.4 percent, reversing the positive annual growth trend since 2010. The fall may reflect a controversial ban on sending Indonesian workers to countries in the Middle East, as part of the government's policy to protect its citizens employed overseas, mainly women in the domestic sector. Growth of remittances is expected

FIGURE A.1. China Is the Top Recipient of Remittances in East Asia and the Pacific but Pacific Islands Are More Dependent on Remittances



Sources: International Monetary Fund; World Bank World Development Indicators; staff estimates.

Note: e = estimate.

to rebound modestly in 2017, by 2.5 percent as oil prices stabilize, although there is a downside risk from weaker growth in remittance source countries, such as the Republic of Korea.

Remittance costs. The cost to remit \$200 to EAP countries averaged 8.2 percent in 2017 Q1 (World Bank 2017), a long way from reaching the 3 percent global Sustainable Development Goal (SDG) target. After a steady downward trend, costs inched up in 2016 as de-risking took a toll on remittance markets. Remitters to Indonesia have continued to see positive effects from policy changes in 2015 that allow for more players in the money transfer business. For example, the cost of remittances was 4.3 percent from Saudi Arabia to Indonesia in 2017 Q1 compared with 5.2 percent in 2015 Q4. However, the cost of sending money to the Pacific Island countries has remained stubbornly high—for example, 14.4 percent from Australia to Samoa and 11.1 percent from Australia to Tonga in 2017 Q1.

Migration trends. In November 2016, legislators in Taiwan, China, in the face of opposition from staffing agencies, ended the requirement in the Employment Services Act that migrants had to “return home” periodically. The Act mandated that, after completing three-year contracts, foreign workers had to depart the country for at least a day if they sought to be rehired. Workers who left typically paid a high brokerage fee to the staffing agency in Taiwan, China, to process the re-entry, ranging between \$1,600 and \$3,800, depending on their country of origin.¹⁹

Remittances to Europe and Central Asia (ECA) Projected to Increase in 2017

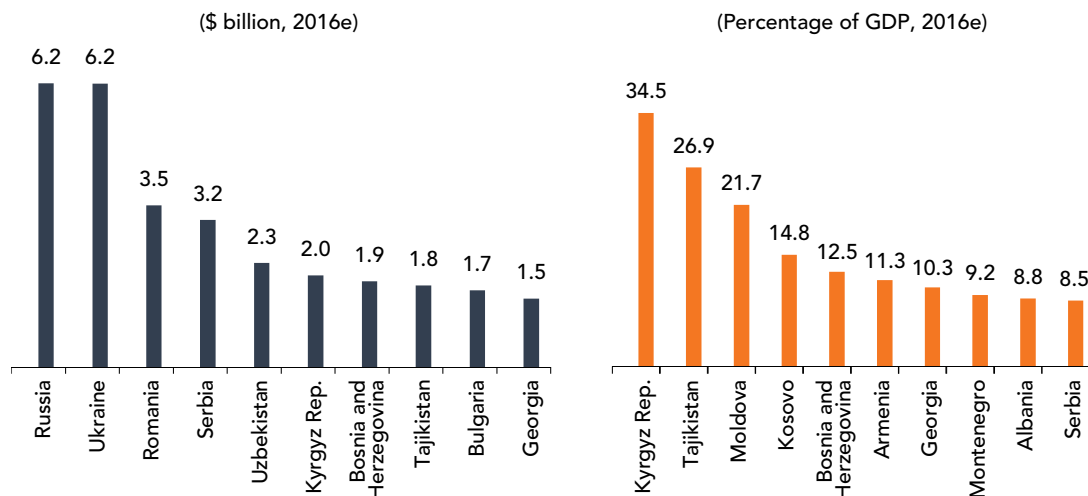
Remittance trends. Remittances to countries in Europe and Central Asia (ECA) were estimated to decrease by 4.6 percent in 2016.²⁰ The decrease was mainly due to the Russian Federation’s economic adjustment to low oil prices and international sanctions, and the slight depreciation of the euro against the dollar. For 2017, remittances to ECA are expected to increase by 6.6 percent, mainly due to stronger growth in Russia and several European countries.

As per estimates, Russia and Ukraine are the largest remittance recipients in the ECA region, followed by Romania and Serbia (figure A.2). In 2013, at \$6.7 billion, Uzbekistan was the second largest receiver of remittances. However, since then, Uzbekistan’s remittances are estimated to have shrunk to nearly a third. Other ECA countries that were estimated to be hit hard in 2016 are Azerbaijan, Turkmenistan, and Tajikistan. For Tajikistan, the decrease is particularly painful, since remittances are an important part of the overall economy (figure A.2).

Remittance costs. Remittance costs in ECA remained stable at 6.5 percent in 2017 Q1 (World Bank 2017). The differences in costs across corridors are substantial; while the average costs of sending money from Russia are among the lowest worldwide (about 2 percent), costs from some Western European countries are often higher than 10 percent.

Migration trends. The European Union is supporting Syrian refugees in Turkey with €3 billion for 2016 and 2017. The financed projects ensure that 500,000 Syrian children have access to formal education; 2,081 teachers have received training; and two million refugees will have access to primary health care services. The European Union’s support of €1 billion to Greece increased registration rates at refugee hotspots in the country from 8 percent in October 2015 to 100 percent in March 2017. The reception capacity in Greece increased from 2,000 to 74,389 persons in the same period, and the number of asylum-seeking arrivals decreased from 988,703 persons in 2015 to 27,711 in 2016.

The number of immigrants to the United Kingdom fell to 596,000 in the first three months after the Brexit vote compared with 619,000 in the same period a year earlier. Net migration in September 2016 stood at 273,000 persons, a decline of 49,000. A key component was a 23 percent drop in the number of international students coming to study in the United Kingdom, to 134,000. The number of Eastern Europeans (EU-8) heading home increased by 44 percent over the previous year to 39,000. This increase may be due not only to the anti-immigration mood in the United Kingdom, but also favorable economic conditions in their home countries. For example, Poland had a booming

FIGURE A.2. Several ECA Countries Depend Heavily on Remittances

Sources: International Monetary Fund; World Bank World Development Indicators; staff estimates.

Note: e = estimate.

economy in 2016, with its gross domestic product (GDP) per capita reaching two-thirds of Western European levels.²¹

Remittance Flows into Latin America and the Caribbean (LAC) Picked Up in 2016

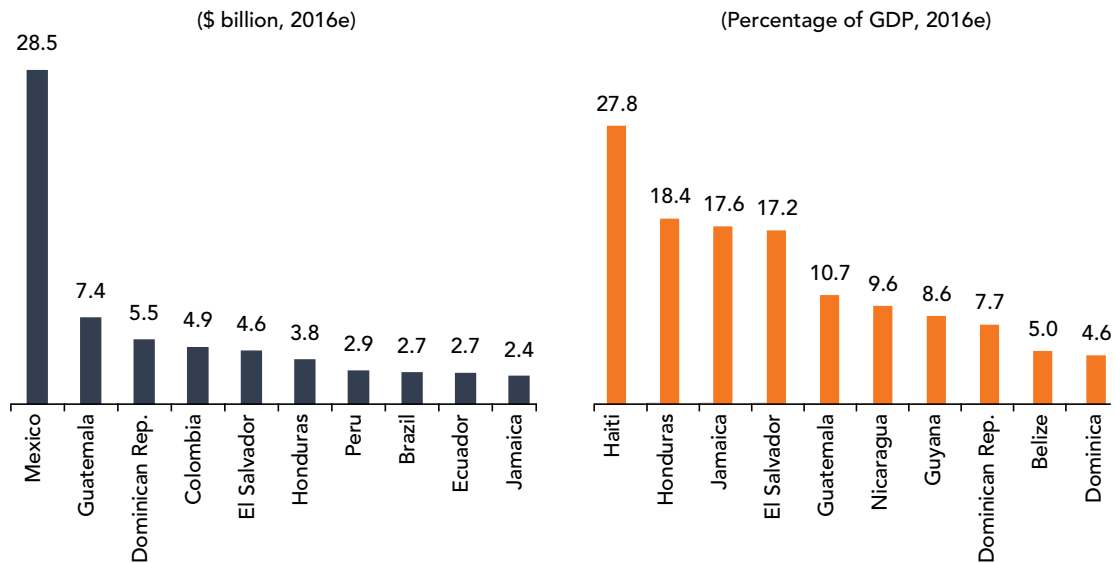
Remittance trends. Remittance flows into Latin America and the Caribbean (LAC) increased in 2016 by an estimated 6.9 percent, reaching \$73 billion. The region fared well as remittance senders took advantage of the strong U.S. labor market and beneficial exchange rates. Remittance growth is projected to moderate to around 3.3 and 3.6 percent in 2017 and 2018, respectively.

Mexico, the region's largest recipient, posted an estimated growth of 8.8 percent in 2016 (figure A.3). Remittances to Mexico were driven by continued improvement in the U.S. labor market and the sharp peso depreciation (down 19 percent against the dollar in 2016). Weakness in the peso seemed to underpin a sizable increase in remittances in the short term last

year, with remittances spiking in January, February, May, September, and November, all months when the peso saw sharp depreciations versus the U.S. dollar.

Remittances to El Salvador climbed to record highs, bolstered mainly by improvements in the U.S. labor market. Guatemala registered strong remittance inflows last year with an increase of 13 percent. Panama and Brazil recorded estimated declines of 7.3 and 5.4 percent, respectively. For some of the smaller economies in the region, remittances are particularly important, as they help cover the basic needs and expenses of low-income families.

The unemployment rate for the Hispanic population in the United States was 5.1 percent in March 2017, the lowest rate in the past 12 months. Since 2016, the unemployment rate for the Hispanic population has remained stable at around 5.6 percent although rising to 5.9 percent in December and January. The recovery since last summer in the construction sector, where many Latino migrants work, also contributed to an increase in remittances to Latin America. H1-B visa applications reached the cap of 85,000 visas during the first five business days of the application period for fiscal year of 2018, reflecting the recovery in the

FIGURE A.3. Remittance Inflows to Latin America Were Strong, Led by Mexico

Sources: International Monetary Fund; World Bank World Development Indicators; staff estimates.

Note: e = estimate.

labor markets in the United States.²² These facts bode well for the 2017 prospects for remittances to the LAC region in 2017. Downside risks of a more restrictive U.S. immigration policy or taxation of remittances would be particularly significant for Central American countries, because of their disproportionately high exposure to U.S. source remittances. Potential negative impacts could also prove to be a setback to long-standing efforts to foster the development impact of remittances and reduce the cost of transfers for the small Central American economies.

Remittance costs. The average cost of sending money to LAC was 6.0 percent in 2017 Q1, just slightly higher than the 5.9 percent recorded in 2016 Q1 (World Bank 2017). The average cost of sending money from the United States, where the majority of LAC migrants reside, was 5.8 percent in 2017 Q1, below the global average of 7.45 percent. Although the cost of sending money to LAC has gradually declined over the past few years, due to a combination of high volumes and competitive market structure, de-risking could lead to higher costs.

Migration trends. The number of undocumented migrants arrested on the U.S.-Mexico border declined for five consecutive months to 17,000 in March 2017, the lowest in 17 years. It is estimated that the number of undocumented Mexican migrants in the United States declined from 6.9 million in 2007 to 5.8 million in 2014.²³

Remittances to the Middle East and North Africa (MENA) Region Declined Further in 2016

Remittance trends. Remittances to the Middle East and North Africa (MENA) region continued to decline in 2016, by an estimated 4.4 percent. The decline for the region was driven by the decline in remittances to the Arab Republic of Egypt, the region's largest remittance recipient. Given the devaluation pressures on the Egyptian pound and the wide gap between the official and black market exchange rates during most of 2016, migrants either delayed sending remittances, as they expected further depreciation of the Egyptian pound,

or sent money through informal channels. The floating of the Egyptian pound in November 2016 led to an increase in official remittance inflows of 11 percent in 2016 Q4, according to the Central Bank of Egypt. However, this recovery could not make up for the strong decline in the first three quarters of the year.

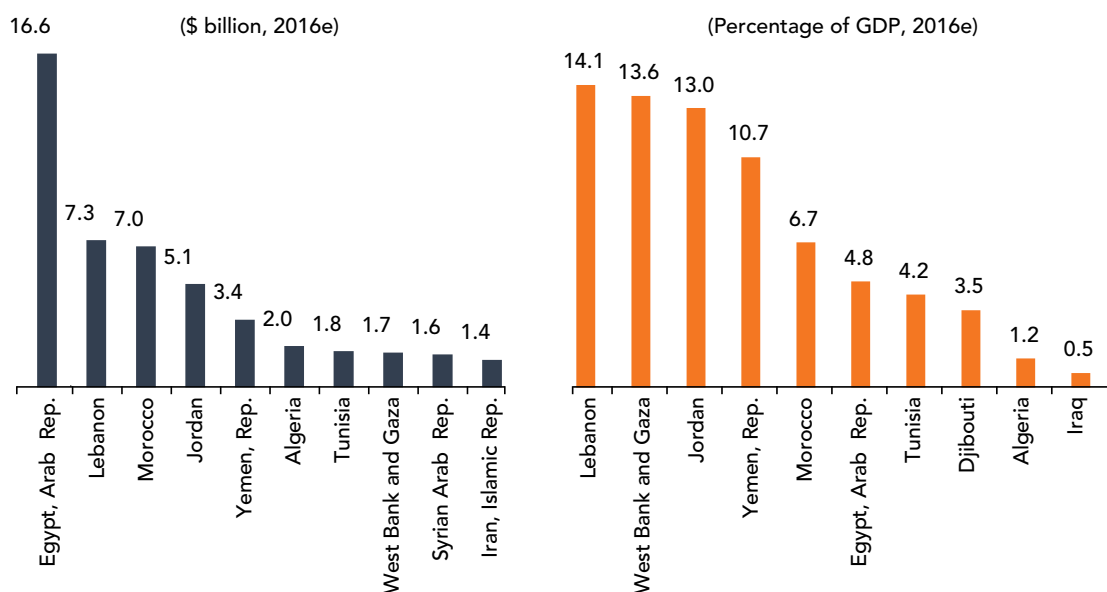
Because of the low price of oil and tightening of fiscal policy, economic activity slowed down in GCC countries in 2016. The slowdown led to job losses as well as delays and cuts in wages for migrant workers. Subsidy reforms increased the cost of living, and thus decreased the amount that migrants could remit. Egypt, Jordan, and the Republic of Yemen were impacted the most, as they receive the bulk of their remittances from GCC countries and are highly dependent on remittances (figure A.4).

Beyond 2016, fiscal consolidation (including the introduction of a GCC-wide value-added tax) will dampen the recovery of growth in GCC countries and remittances outflows from the region. Growth in the euro area, from where the Maghreb countries (Morocco, Algeria, and Tunisia) receive most of their remittances,

is expected to remain steady but modest. In Egypt, however, a recovery of remittances sent through formal channels is expected in 2017, caused by the floating of the Egyptian pound and an increase in interest rates. These developments would lead to robust growth of remittances to the MENA region in 2017. Risks to the outlook are mainly on the downside, including a further appreciation of the dollar, slowing of growth in GCC countries, and stronger nationalization policies in Saudi Arabia.

Remittance costs. The average cost of sending \$200 to countries in the MENA region decreased to 7.4 percent in 2017 Q1 compared with 7.5 percent in 2016 Q1 (World Bank 2017). This cost is slightly below the global average of 7.45 percent. The average costs of sending remittances to countries in the region vary greatly across corridors. The costs remain the lowest for sending money within the region. The costs remain high for sending money to Lebanon from the United Kingdom, Germany, Canada, and Australia. The costs for sending money from several countries to Egypt spiked in 2016 Q4, due to higher exchange rate margins that are likely linked to the strong depreciation of the pound.

FIGURE A.4. Impact of the Decline in Remittances from Gulf Cooperation Council Countries



Sources: International Monetary Fund; World Bank World Development Indicators; staff estimates.

Note: e = estimate.

Migration trends. The MENA region continues to be adversely affected by the biggest forced displacement crisis since World War II. As of March 2017, 4.9 million Syrian refugees were registered in the MENA region, and 885,000 asylum applications were made in Europe between April 2011 and October 2016. Conflicts in Iraq and the Republic of Yemen led to further internal displacements. In 2015, Iraq, the Republic of Yemen, and Syria were among the top five origin countries of internally displaced persons (IDPs), accounting for more than half of the internal displacements worldwide (according to the International Displacement Monitoring Centre).²⁴ Lebanon and Jordan hosted the highest number of refugees worldwide in relation to their population size in 2015 (according to the United Nations High Commissioner for Refugees (UNHCR)).

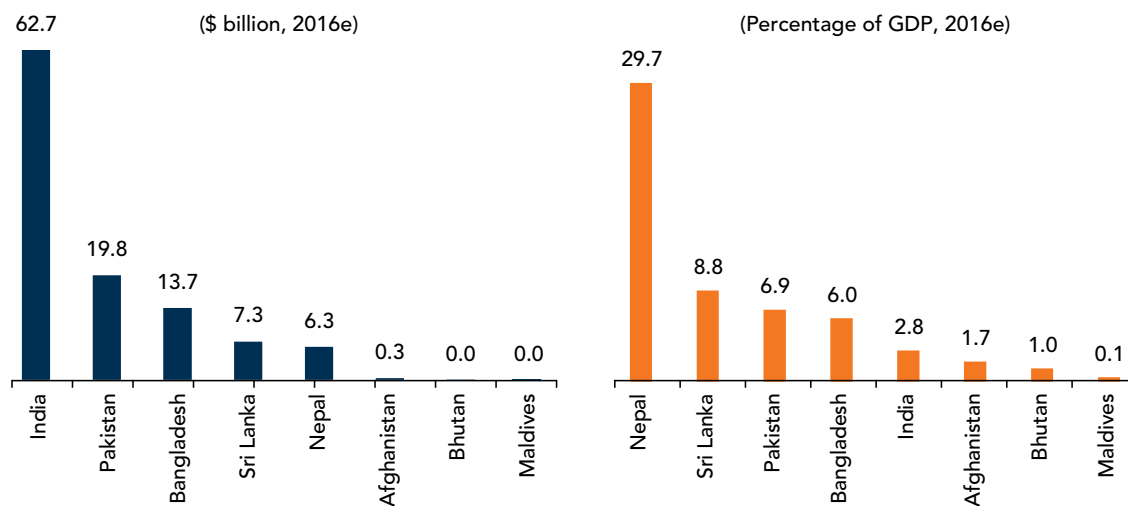
Remittances to the South Asia Region (SAR) Declined in 2016 Due to Low Oil Prices

Remittance trends. Remittances to the South Asia region (SAR) declined by 6.4 percent in 2016 in the

face of lower oil prices and fiscal tightening in the GCC countries. Anecdotally, “nationalization” policies aimed at lowering the unemployment rate of nationals have slowed employment of foreign workers, impacting remittance flows to South Asia. Remittances to India declined by 8.9 percent in 2016, to \$62.7 billion. In Bangladesh, remittances declined by an estimated 11.1 percent in 2016. In Pakistan, the 12 percent growth witnessed in 2015 moderated to an estimated 2.8 percent in 2016. Nepal experienced unusually high growth in remittances, at 14.3 percent in 2015, due to emigrants sending financial assistance after the earthquake. In 2016, remittance flows to Nepal declined by an estimated 6.7 percent from the previous year’s high level. In Sri Lanka, remittance growth was estimated at 3.9 percent in 2016.

Moving forward, remittance growth in the region is projected to remain muted, because of low growth and fiscal consolidation in GCC countries.²⁵ An increase of only 2.0 percent is expected in 2017. Bangladesh’s remittance growth in 2017 is forecast at 2.4 percent, India’s at 1.9 percent, Pakistan’s at 1.4 percent, and Sri Lanka’s at 1.3 percent.

FIGURE A.5. Remittances to Countries in the South Asia Region Are Large in Absolute Terms and Relative to Gross Domestic Product



Sources: International Monetary Fund; World Bank World Development Indicators; staff estimates.

Note: e = estimate.

The region remains significantly dependent on remittances. Remittances exceeded 5 percent of GDP in 2016 for Pakistan, Bangladesh, Sri Lanka, and Nepal (figure A.5). For India, remittances are not large as a proportion of GDP. However, there are subnational variations in the impacts of remittances. For the Indian state of Kerala, remittances are estimated at 36.3 percent of the net state domestic product and contribute significantly to household consumption.²⁶

Remittance costs. SAR had the lowest average regional remittance costs in 2017 Q1, at 5.4 percent. This was a slight decrease from the 5.5 percent recorded in 2016 Q1 (World Bank 2017). The five lowest-cost corridors all have costs below 3 percent. However, some of the highest-cost corridors have costs above 10 percent—for example, Japan to India at 13.6 percent in 2017 Q1. Lower economies of scale and a less competitive market environment probably contribute to the higher costs.

Migration trends. The economic slowdown in Saudi Arabia and Kuwait has adversely impacted Indian migrant workers in those countries.²⁷ In the case of Nepal, the number of permits issued to labor migrants dropped by 3.8 percent between fiscal years 2013/14 and 2014/15, because of lower demand from Malaysia and some GCC countries. In 2015/16 worker departures dipped 20.6 percent year-on-year in the first 11 months.²⁸ In contrast, labor migration from Bangladesh increased by 36.3 percent in 2016. This increase, despite the slowdown in the GCC countries, is explained by the lifting of restrictions on the recruitment of Bangladeshi workers in Saudi Arabia (147 percent growth in the number of migrants from Bangladesh) and Kuwait (124.3 percent growth).²⁹

Remittances to Sub-Saharan Africa (SSA) Decelerated in 2016

Remittance trends. Recorded remittance flows to Sub-Saharan Africa (SSA) have declined by an estimated 6.1 percent, and reached \$33 billion in 2016. The reasons for the decline were (a) slow economic growth in remittance-sending countries; (b) decline in commodity prices, especially oil prices, impacting

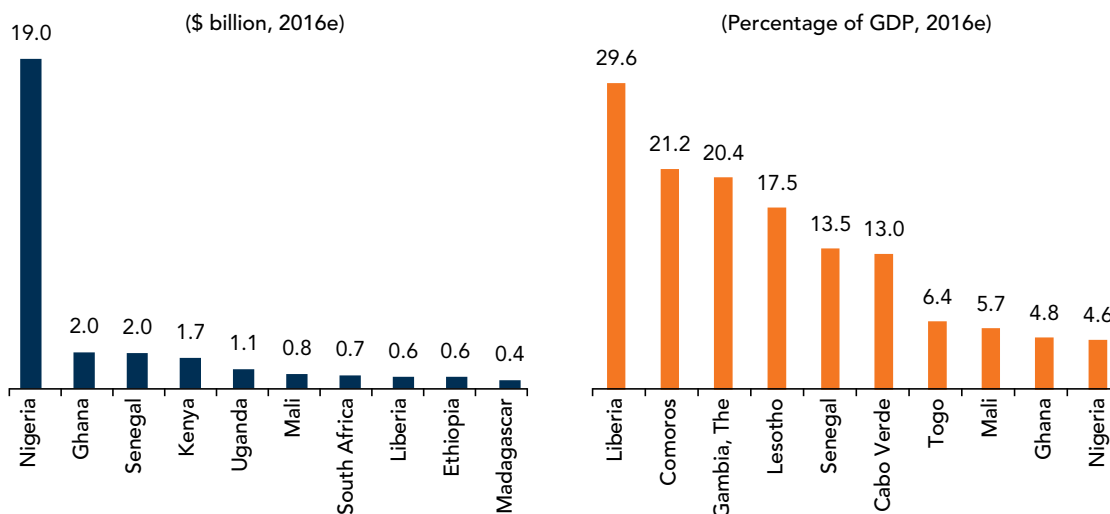
countries receiving remittances from regional commodity exporters; and (c) diversion of remittances to informal channels due to exchange rate regimes. For instance, remittances to Nigeria decreased from \$21 billion in 2015 to an estimated \$19 billion in 2016 (figure A.6). Nigeria witnessed a significant decline in foreign exchange revenue, caused by the fall in oil prices, which resulted in tighter capital controls and a “managed” exchange rate policy.³⁰ These changes resulted in large black market premiums in the foreign exchange markets.³¹ These factors diverted a large part of formal remittances to informal channels.

With the firming of oil prices and improvement in global economic activities projected for 2017, remittances to SSA are projected to increase by 3.3 percent. Remittances to Nigeria, the largest regional remittance recipient, are expected to increase by 1.9 percent. Ghana, the second largest recipient in the region, is expected to receive 3.1 percent more remittances. Remittance inflows to Senegal, the third largest recipient, are expected to grow by 2.6 percent.

Remittance costs. Average remittance costs in SSA increased, from 9.7 percent in 2016 Q1 to 9.8 percent in 2017 Q1 (World Bank 2017). The region has the highest remittance costs in the world. In 2017 Q1, some of the most expensive corridors were intraregional—for example, Angola to Namibia (27 percent), South Africa to Botswana (21 percent), and Nigeria to Mali (20 percent). These numbers show that a lot of effort will be required to bring transaction costs below 3 percent with no corridor above 5 percent, as envisaged in the SDGs.

Migration trends. With the tightening of immigration laws in many high-income countries, countries in SSA could expect more returnee flows and lower refugee and migrant admissions in host countries in the near future.³² Recent projections from UNHCR indicate that, in 2017, Africa is expected to have more than 11.4 million IDPs, 4.7 million refugees, and 1.4 million asylum seekers.³³ On February 20, 2017, famine was declared in South Sudan; according to the United Nations, some 100,000 people are starving. The number of food insecure people is expected to rise to 5.5 million by July if nothing is done to address the food crisis. South Sudan’s civil war escalated last year and destroyed

FIGURE A.6. Countries in Sub-Saharan Africa with High Remittance Inflows and Remittances as a Percentage of Gross Domestic Product



Sources: International Monetary Fund; World Bank World Development Indicators; staff estimates.

Note: e = estimate.

the country's food production. As a consequence, the number of IDPs in South Sudan reached 1.9 million and more than 1.6 million South Sudanese refugees fled to neighboring countries. Conflict-driven crises are expected to put tens of millions of lives at risk of starvation in other countries, such as Somalia, Nigeria, and the Republic of Yemen.

In mid-2016, the Government of South Africa initiated a process aiming to change the country's immigration

policy.³⁴ The following proposed changes that affect refugees and asylum-seekers consist of: (a) removal of the automatic right to work and study for asylum seekers; (b) establishment of processing centers at the border to accommodate asylum seekers while their claims are being adjudicated; (c) refusal of asylum to asylum seekers who have transited through one or more safe countries en route to South Africa.



Annex C: Comparative Summary of Thematic Elements for the Global Compact on Migration

Proposed thematic elements	Clusters in Modalities Resolution of the Global Compact	Recommendations of the Special Representative of the Secretary General	Issues from the New York Declaration
Income and job creation in poor countries			Need to address the drivers of migration
National identity; integration of migrants in host community		10. Foster inclusion by equipping migrants with proof of legal identity	Consideration of policies to regularize the status of migrants Responsibilities and obligations of migrants toward host countries Promotion of the inclusion of migrants in host societies; access to basic services for migrants; gender-responsive services
Job competition for native workers in host countries			
Trafficking, abusive employers and recruiters, skill recognition	Irregular migration and regular pathways, including decent work, labor mobility, recognition of skills and qualifications Smuggling of migrants, trafficking in persons and contemporary forms of slavery	1. Develop global guiding principles on migrants in vulnerable situations, including migrant children. 2. Expand access to consular protection and assistance in transit 3. Expand legal pathways for people fleeing countries in crisis 4. Reduce recruitment costs and abuses of migrant workers 5. Strengthen the architecture to govern labor mobility 8. Ensure access to, and portability of, earned social benefits	Facilitation of safe, orderly, regular, and responsible migration and mobility of people Combatting trafficking in persons, migrant smuggling, and contemporary forms of slavery Identify those who have been trafficked and considering providing assistance Reduction of incidence and impact of irregular migration Recognition of foreign qualifications, education, and skills; cooperation on access to, and portability of, earned benefits

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Proposed thematic elements	Clusters in Modalities Resolution of the Global Compact	Recommendations of the Special Representative of the Secretary General	Issues from the New York Declaration
Migrant rights; exclusion, discrimination, xenophobic attacks on migrants	Human rights of all migrants, social inclusion, cohesion, and all forms of discrimination, including racism, xenophobia and intolerance	6. Improve access to information and visa facilitation 7. Develop global principles on return, readmission and reintegration	Effective protection of the human rights and fundamental freedoms of migrants International cooperation for border control with full respect for the human rights of migrants Protection of labor rights and a safe environment for migrant workers and those in precarious employment; protection of women migrant workers in all sectors; promotion of labor mobility, including circular migration Combatting racism, xenophobia, discrimination, and intolerance towards all migrants
Mobilization of remittances and diaspora resources		9. Improve remittance markets and financial inclusion	Remittances as an important source of private capital and their contribution to development; faster, cheaper, and safer remittances through legal channels, including through a reduction of transaction costs Harnessing the contribution of diasporas; strengthening links with countries of origin
Family left behind			
Retaining critical skills in origin countries			Impacts of migration on human capital in countries of origin
Congestion and fiscal costs of social services			

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Endnotes

1. In early April 2017, the parallel market premium was of 33 percent for the Nigerian naira and 518 percent for the Venezuelan bolivar using Dicom/ Simadi rate (44,012 percent versus the Dipro rate).
2. The Financial Action Task Force (FATF) the international standard setter on anti-money laundering, defines de-risking as: "the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk (...). De-risking can be the result of various drivers, such as concerns about profitability, prudential requirements, anxiety after the global financial crisis, and reputational risk." <http://www.fatf-gafi.org/publications/fatfgeneral/documents/rba-and-de-risking.html>.
3. In 2015, the World Bank published results from two surveys on this subject with the support of the Committee on Payments and Market Infrastructure and the Financial Stability Board. Both surveys found that financial institutions were terminating their relationships with respondent banks and remittance companies. The drivers for this behavior were found to vary: bottom-line profitability decisions, perceived AML/CFT risks, or more traditional prudential issues. <http://www.worldbank.org/en/topic/financialmarketintegrity/brief/de-risking-in-the-financial-sector>.
4. "Joint Fact Sheet on Foreign Corresponding Banking", <https://www.treasury.gov/press-center/press-releases/Documents/Foreign%20Correspondent%20Banking%20Fact%20Sheet.pdf>
5. International Finance Corporation, "Migrating the Effects of De-risking in Emerging Markets to Preserve Remittance Flows," November 2016.
6. Including Sigue, Intermex, Viamericas, and DoEx.
7. Many of these have embraced new technological developments such as blockchain and peer-to-peer transfer system. Blockchain is best known as the underlying technology behind the virtual currency bitcoin. Peer-to-peer refers to person-to-person payments through a mobile phone or email address.
8. According to the market research by SaveOnSend.com, it is estimated that Western Union, Moneygram, and Ria together account for more than 25 percent of the global remittance volume (with Western Union is accounting for about 13 percent).
9. Blockchain is best known as the underlying technology behind the virtual currency bitcoin.
10. The main points agreed were the following: (a) All new irregular migrants crossing from Turkey to the Greek islands as of March 20, 2016 will be returned to Turkey. (b) For every Syrian being returned to Turkey from the Greek islands, another Syrian will be resettled to the European Union. (c) Turkey will take any necessary measures to prevent new sea or land routes for irregular migration opening from Turkey to the European Union. (d) Once irregular crossings between Turkey and the European Union have ended or have been substantially reduced, a Voluntary Humanitarian Admission Scheme will be activated. (e) The fulfilment of the visa liberalization roadmap will be accelerated with a view to lifting the visa requirements for Turkish citizens. (f) In close cooperation with Turkey, the European Union will further speed up the disbursement of the initially allocated €3 billion under the Facility for Refugees in Turkey. Once these resources are about to be used in full, the European Union will mobilize additional funding for the Facility up to an additional €3 billion to the end of 2018. (g) The European Union and Turkey will work on the upgrading of the Customs Union. (h) Turkey's European Union accession process will be re-energized. (i) The European Union and Turkey will work to improve humanitarian conditions inside Syria (Source: European Commission - Fact Sheet. March 19, 2016).
11. Short-term measures include: saving lives at sea and in the desert, fighting traffickers and smugglers, increasing returns of those denied right to stay, and increasing legal pathways to Europe. Long-term measures would address the root causes of irregular migration and forced displacement by supporting development in partner countries and improving opportunities in countries of origin.
12. According to the European Union, the measures are bearing fruit: €1 billion has been mobilized under the European Union Trust Fund for Africa, and 64 programs have been approved; in Niger, the number of desert crossings has fallen from more than 70,000 in May to 13,000 in December 2016 and to 6,500 in January 2017; negotiations on a readmission agreement with Nigeria have commenced and would continue in 2017. Overall sea arrivals across the Mediterranean dropped from 221,374 in October 2015 to 10,536 in February 2017, according to UNHCR.
13. By the end of 2015, 27 percent of global refugees were in Syria's neighbors, Turkey, Lebanon and Jordan; another 16 percent in Afghanistan's contiguous Pakistan and the Islamic Republic of Iran; and countries near Somalia and South Sudan, namely Ethiopia and Kenya hosted 16 percent.
14. Analysis of the World Bank Group's past activities and consultations with partners and stakeholders suggests that the World Bank Group and other international financial institutions could contribute to the global migration agenda in four areas: (a) financing migration programs, (b) addressing fundamental drivers of migration, (c) maximizing the benefits and managing the risks of migration in sending and receiving countries, and (d) providing knowledge for informed policy making and improving public perceptions. See World Bank (2016c).
15. The average income in high-income countries is 70 times greater than the average in low-income countries. At current growth rates, it will take more than 100 years to bridge the income gaps, if at all. The working age population (ages 15+ years) in developing countries is projected to increase by 2.1 billion by 2050. At the current employment rates, only 1.2 billion will find employment in their own country, leaving nearly 900 million looking for work at home or abroad. See World Bank (2016c).
16. Following the New York Declaration, the pathway to the Global Compact for Safe, Orderly, and Regular Migration is charted by two United Nations documents: (a) the procedural aspects in the "Modalities for the Intergovernmental Negotiations of the Global Compact for Safe, Orderly and Regular Migration"; and (b) the overarching view and suggestions of the "Report of the Special Representative of the Secretary-General on Migration."
17. For this purpose, the bilateral migration matrix, based mostly on the estimates prepared by the United Nations Population Division (with adjustments made for certain countries), is used to provide the most comprehensive estimates of bilateral immigrant stocks worldwide. See World Bank (2016a).
18. See Ratha and Shaw (2007) for a fuller explanation of the methodologies used to estimate the bilateral remittance matrixes.
19. In 2015, 93,562 migrant workers left the country to fulfill the requirement. As of August 2016, Taiwan, China, had 603,109 foreign workers employed in the construction, manufacturing, and domestic sectors.
20. This 2016 growth rate for low- and middle-income countries in ECA is computed including Russia. For Brief 26, Russia was considered a high-income country, based on the World Bank's FY2016 classification. The remittance growth rate for ECA without Russia would be -3.4 percent.
21. United Kingdom Home Office, Provisional Long-Term International Migration estimates; February 23, 2017.
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25. See Sommer et al. (2016) for fiscal consolidation in GCC due to the impact of oil prices.
26. Zachariah and Rajan (2015).
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30. "Nigeria Traders to Start Exchange Rate in Black Market Fight," Bloomberg, January 10, 2017.
31. In early April 2017, the parallel market premium was 33 percent for the Nigerian naira as per data available from the website: <https://abokifx.com/>.
32. With the tightening of the U.S. immigration and refugee laws, refugee flows from Africa to the United States declined by about 38 percent, from 4,136 on October 1, 2016, to 1,586 on February 28, 2017 (Migration Policy Institute 2017).
33. The Horn of Africa is projected to have the highest number of IDPs and refugees (6.26 million and 3.1 million, respectively). West Africa is projected to host 3.26 million IDPs, and the Great Lakes about 1.9 million IDPs and more than a million refugees.
34. A new green paper on international migration was published in June 2016 for public comments through the end of September 2016.



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