The Cost of Remittances and the G20

Sushil Kumar*

As one of the largest development finance flows, remittance offers immense potential to contribute to the achievement of Agenda 2030 and financial inclusion. On the other side, the high cost of remittances stops them from reaching their full potential. Since 2009, there has been a global drive to reduce the cost of remittances. The average cost of sending money home was 6.23 per cent around the world in 2021. It is more than the G20 goal of 5 per cent and more than twice as much as the Sustainable Development Goal, (SDG), of 3 per cent by 2030. A one per cent reduction in the cost of remitting USD 200 would result in an additional USD 6.05 billion being sent to low and middle-income countries. There is a substantial variance in the cost of remittances, with high costs in low-income countries and low costs in high-income countries.

Introduction

The G20 recognises that cross-border remittance flows constitute a key driver for economic growth and prosperity in developing countries, as well as a significant source of income for millions of migrant families[1]. The G20 countries account for around 50 per cent of the remittance flow. It is important to mention that at the global level, the flow of remittances increased from USD 515 billion in 2011 to USD 773 billion in 2021. More specifically, it increased from USD 223 billion to USD 379 billion in low and lower-middle income countries[2]. It is now exceeding the sum of foreign direct investment and official development assistance (ODA) to these countries (World Bank, 2021). It is worth noting that the cost of sending USD 200[3] across international borders remained high in 2021, averaging 6.23 per cent of the amount transferred[4]. The high cost of remittances has received significant attention from G20 leaders and G8 leaders. The first roadmap of international efforts to drive remittance costs down was adopted in 2004 and specific efforts to reduce the cost of remittances began in 2009 when the G8 summit was held in L'Aquila, Italy. At that time, leaders of the G8 committed to reducing the global average cost of remittances to five per cent (at that time, the average cost of remittance was

* Assistant Professor, RIS. Views are Personal

around 10 per cent) over the following five years, a target that has come to be known as the 5×5 target[5].

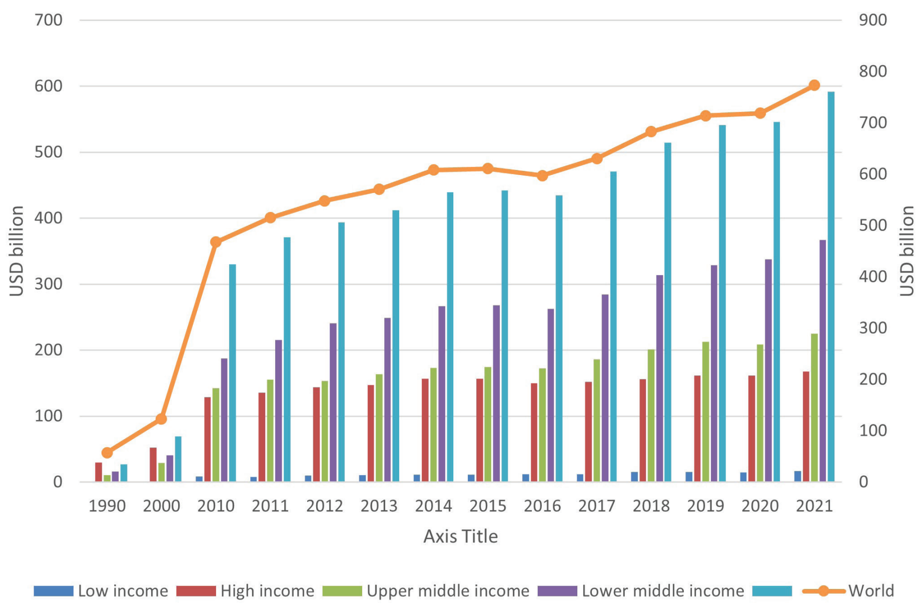
It was during the G20 Summit in Cannes in 2011 that the commitment to lowering remittance prices was reaffirmed, and it was decided that the worldwide average cost of remittance transfers would be lowered from ten per cent to five per cent by the year 2014,[6] (see Table A2 in appendix). In 2014, the G20 countries vowed: "*We commit to take strong practical measures to reduce the global average cost of transferring remittances to five per cent[7] …*" In 2015 (Under Turkey's G20 presidency), G20 countries announced their national Remittances Plans "*Our G20 National Remittance Plans developed this year include concrete actions towards our commitment to reduce the global average cost of transferring remittances to five per cent with a view to align with the SDGs and Addis Ababa Action Agenda[8]*". During Saudi Arabia's G20 Presidency in 2020, remittances were identified as a critical action area important to boosting digital financial inclusion; this led to the adoption of the 2020 G20 Financial Inclusion Action Plan (FIAP)[9].

According to the Remittance Prices Worldwide (RPW)[10] database, the global average cost of remittances was 6.2 per cent at the end of 2021. Given the World Bank's (2022) estimate that the global volume of remittances reached USD 773.19 billion in 2021, this would indicate that more than USD 48 billion in remittances did not reach those who needed them. The situation is worse for poorer nations. According to the RPW database, the average cost of sending remittances to SSA nations reached 8.22 per cent by the end of 2021. Moreover, for many African nations, the cost is even higher (for example sending USD 200 from Tanzania to Kenya costs 29.2 per cent of the transaction amount).

Global and G20 Member Countries' s Flow of Remittance

This section analyses the major trends of remittance flows to low-income countries (LIC), lower middle-income and upper middle-income countries. Figure 1 shows the volume of remittance flows by countries' income level and some crucial evidence emerges. First, remittances to low-income countries account for a tiny share of the total remittance flow worldwide. Remittances to low-income countries have increased from 0.6 billion USD in 1990 to 12.8 billion USD in 2021. Between 1990 and 2021, it grew by approximately 10 per cent annually, and its share (LIC) in the world's total remittance slightly increased from 1.04 per cent in 1990 to 1.65 per cent in 2021. Second, lower-middle and upper middle-income countries accounted for roughly 76 percent of total remittance flows in 2021 which were USD 26.8 billion in 1990. Over the time period from 1990 to 2021, it increased by approximately 10.50 per cent annually. It is also important to note that the flow of remittances to high incomes countries also increased from USD 30 billion in 1990 to USD 168 billion in 2021. In absolute numbers, the entire value of worldwide remittances was USD 773.2 billion in 2021, compared to a figure of USD 57.4 billion back in 1990. It has expanded more than thirteen-fold since 1990 (see Figure 1).

Figure 1: Global Flow of Remittance (USD billion)



Source: Author's calculation of data of remittance from World Development Indicators (World Bank). Classifications of countries are according to the World Bank's classification. Note data of North Macedonia Venezuela, RB included in total.

Flow of Remittances from G20 Member Countries

It is equally important to analyse the outflow of remittances from G20 member countries. The total amount of remittances from G20 countries increased from USD 290.4 billion in 2011 to USD 376.7 billion in 2021, an increase of 2.63 per cent between 2011 and 2021 (Table 1). It is important to note that in 2021, the EU, the United States, Saudi Arabia, Germany and China accounted for 58 per cent of the outflow of remittances from G20 member countries. The share of G20 nations in the global remittance flow fell from 80 per cent in 2011 to 73 per cent in 2021 (see Table 1).

Cost of Remittances and G20

This section attempts to analyse the global cost of remittances, as well as the cost of remittances from the G20 member countries. In 2021, the global average cost of remittance was 6.23 per cent (USD 12.46) (see Table 2). This is more than twice as much as the Sustainable Development Goals' (SDGs) goal of 3 per cent by 2030 and G20 commitments. Figure 1 (section 2) shows that the worldwide volume of remittances was USD 773 billion in 2021. This would imply that more than USD 48 billion in remittances did not reach those in need. The poorer countries have a gloomier situation. According to the World Bank, the average cost

Table 1: Outflow of Remittances from G20 member Countries (USD billion), 2011-2021

Country Name	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
European Union	92.2	85.2	92.5	94.8	87.1	91.0	101.9	107.7	110.0	108.4	122.5
United States	50.9	52.4	55.0	57.2	60.7	62.9	64.1	66.8	71.6	66.5	72.7
Saudi Arabia	28.5	29.5	35.0	36.9	38.8	37.8	36.1	33.9	31.2	34.6	40.7
China	1.6	1.8	1.7	4.2	5.7	6.2	16.3	16.5	15.1	18.3	22.9
Germany	16.1	15.6	20.0	20.1	18.2	19.3	21.7	18.1	17.8	15.7	17.3
Russian Federation	26.0	31.6	37.2	32.6	19.7	16.2	20.6	22.3	22.2	16.9	16.8
France	12.9	12.6	13.4	13.7	12.8	13.3	13.8	15.0	15.0	14.8	16.1
Italy	14.5	11.8	11.6	11.1	8.9	8.7	8.8	9.9	9.6	10.2	12.2
United Kingdom	9.9	10.1	10.5	11.6	10.7	10.2	9.8	10.4	10.4	9.4	10.1
Korea, Rep.	10.0	9.8	9.4	10.0	8.7	10.8	12.9	13.5	11.2	9.7	9.8
India	4.1	5.0	6.4	6.2	4.9	5.6	7.0	6.8	7.5	7.0	8.2
Canada	5.6	5.6	5.7	5.9	5.1	5.3	6.5	7.6	8.8	6.8	7.2
Japan	4.5	4.0	2.9	4.2	4.0	5.1	5.3	6.2	6.8	8.2	6.1
Indonesia	3.2	3.6	4.0	4.1	4.6	5.2	5.2	5.1	5.1	4.5	4.3
Australia	6.6	7.1	7.3	7.0	6.0	6.2	6.8	7.3	7.4	4.4	3.8
Brazil	1.1	1.1	1.2	1.5	1.3	1.4	2.2	2.3	2.2	1.6	1.8
Turkiye	0.3	0.4	0.7	0.8	0.9	1.1	1.1	1.5	1.7	1.3	1.5
South Africa	1.4	1.3	1.2	1.1	1.0	0.9	1.0	1.1	1.1	0.9	1.1
Mexico	0.0	0.0	0.9	1.0	0.8	0.7	0.8	1.0	1.0	0.9	1.1
Argentina	1.1	1.0	0.9	0.7	0.7	0.8	1.1	1.0	0.7	0.5	0.6
Total of G20	290.4	289.4	317.3	324.9	300.6	308.5	343.0	354.1	356.4	340.7	376.7
World Total (outflow)	364.2	379.8	418.2	431.3	429.5	435.6	468.9	494.1	502.3	477.8	518.1
Share of G20 in World total	79.7	76.2	75.9	75.3	70.0	70.8	73.1	71.7	71.0	71.3	72.7

Source: Author's Calculation of data of remittance (personal remittances, received from World Development Indicators). Personal remittances, paid[11]

of sending remittances to low-income countries in 2021 was a whopping 8.46 per cent (USD 16.92) (see Table 2).

Table 2 shows that the cost of remittances varies across income groups. The average transaction cost in low-income countries was 8.46 per cent in 2021, lower-middle-income countries were 5.63 per cent, and upper-middle-income countries were 6.74 per cent. It is important to note that remittance costs in high-income countries were 5.75 per cent in 2021, close to the G20 commitment but approximately 2.75 per cent short of the Sustainable Development Goals' target. Recent research indicates that

Table 2: Cost of Remittances ($ billion)

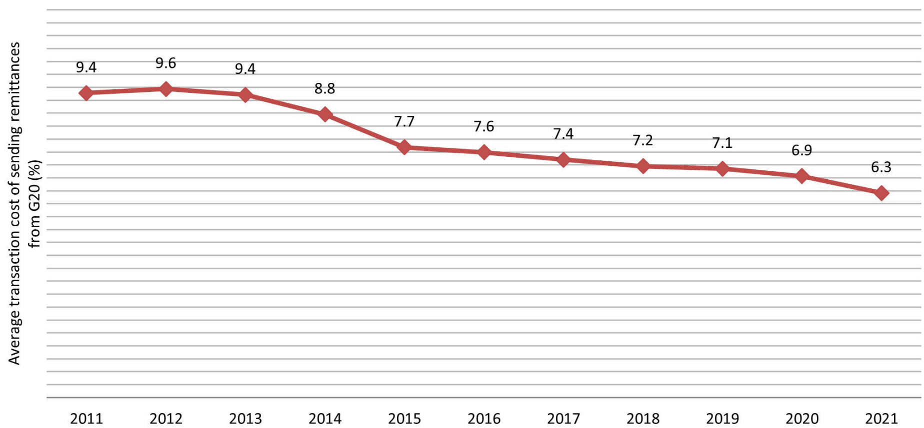
	Low Income			High income			Lower middle income			Upper middle income			Total		
Year	Personal remittances, received (US$ billions)	Average transaction cost (%)	Cost (US$ billion)	Personal remittances, received (US$ billion	Average transaction cost (%)	Cost (US$ billion)	Personal remittances, received (US$ billion	Average transaction cost (%)	Cost (US$ billion)	Personal remittances, received (US$ billion	Average transaction cost (%)	Cost (US$ billion)	Personal remittances, received (US$ billion	Average transaction cost (%)	Cost (US$ billion)
2011	8.06	10.69	0.86	135.45	9.80	13.27	215.22	8.40	18.08	155.72	9.41	14.65	514.99	9.10	46.86
2012	9.90	10.55	1.04	143.83	9.59	13.79	240.73	8.36	20.12	153.12	9.71	14.87	548.10	9.18	50.32
2013	10.30	10.57	1.09	147.08	7.59	11.16	248.94	8.24	20.51	163.51	9.42	15.40	570.34	8.95	51.05
2014	11.26	10.03	1.13	156.72	6.58	10.31	266.78	7.58	20.22	172.93	8.96	15.49	608.20	8.35	50.79
2015	11.54	8.21	0.95	156.55	6.66	10.43	268.15	6.87	18.42	174.30	8.32	14.50	611.03	7.54	46.07
2016	11.77	8.55	1.01	149.93	6.70	10.05	262.44	6.56	17.22	172.48	8.23	14.20	597.20	7.34	43.83
2017	7.74	7.87	0.61	151.79	6.18	9.38	284.71	6.56	18.68	186.09	7.94	14.78	630.64	7.18	45.28
2018	11.66	7.59	0.89	156.10	5.90	9.21	313.46	6.43	20.16	201.12	7.62	15.33	682.69	6.96	47.52
2019	11.45	7.49	0.86	161.31	5.86	9.45	328.65	6.23	20.48	212.42	7.55	16.04	714.18	6.83	48.78
2020	10.76	8.59	0.92	161.28	5.75	9.27	337.80	6.07	20.50	208.51	7.13	14.87	718.80	6.71	48.23
2021	12.81	8.46	1.08	167.97	5.75	9.66	366.83	5.63	20.65	225.08	6.74	15.17	773.19	6.23	48.17

Source: Author's calculation of data of remittances (personal remittances, received (current US$) from World Development Indicators (World Bank). The Average Cost is calculated as the simple average total cost for sending USD 200 from remittance service providers, as captured by the World Bank Remittances Prices Worldwide[12] remittances are a significant source of external financing for low and lower-middle income countries. The high cost of remittance leaves the sender with less money. Specifically, Ahmed *et al.* (2021) pointed out that a reduction in remittance costs significantly impacts the amount of remittances received by developing nations. According to the study's findings, a one per cent reduction in the cost of sending USD 200 is connected with as much as a 1.6 per cent rise in remittance inflows. Recently GPFI (2021) pointed out that overall remittance prices have decreased by 3.29 percentage points since 2009. World Bank (2021) found that the flow of remittances to low- and middle-income countries[13] is expected to exceed the total of foreign direct investment (FDI) and overseas development assistance (ODA) in 2021. However, sending remittances to poor countries has some of the highest transaction costs in the world. From 2011 to 2021, the average cost of sending USD 200 to low-income nations was 8.46 per cent of the transaction value, well exceeding the global average of 6.23 per cent (see Table 2).

It is also important to mention that the cost of global remittances has declined from 9.1 per cent in 2011 to 6.2 per cent in 2021 (32 per cent decline over a ten-year period), while in LICs it declines from 10.7 per cent to 8.5 per cent (21 per cent). The HICs witnessed a greater decline from 9.8 per cent to 5.7 per cent (42 per cent), followed by UMICs from 9.4 per cent to 6.7 per cent (29 per cent). Comparing the rate of decline in the cost of remittances between 2011 and 2021, we found that high-income countries reduced the cost of remittances much more rapidly than the other income group (see Table 1). It is worth mentioning here that the transaction cost of remittance by mobile money was 3.9 per cent, making it the most cost-effective method, when compared to other methods of transferring remittances in 2021 and just over 40 per cent of low and middle-income countries' populations are connected to the internet, compared to almost 75 per cent of the population in high-income countries. This is more likely than any other cause for the steadily decreasing cost of remittances in high-income countries. In addition, the regulatory and administrative costs, the amount transferred, the transfer mechanism, the destination country's financial infrastructure, and the intensity of market competition all have a role in determining the transfer fee charged (in both the sending and receiving country)[14]. Moreover, the exchange rate used in the transaction might have a substantial impact on the amount actually sent to the recipient.

Trends in Remittance Costs in G20 Countries

The G20 recognises remittance's role in achieving strong, sustainable and balanced growth. It represents a significant source of income for millions of families and businesses globally and facilitates financial inclusion. In 2011, G20 leaders agreed to work to reduce the global average cost of transferring remittances from 10 to 5 per cent by 2014.



Since then, the concerted efforts by G20 members, operators, and recipients have decreased the G20 average cost to 6.3 per cent, its lowest level yet. Given progress to date, the G20 recommits to the 3 per cent target to maintain momentum and translate the G20 ambition into practical development outcomes. The G20 recognises that (a) reducing the costs of remittances and increasing their development impact is a long-term goal; (b) market settings influence costs in both sending and receiving countries; and (c) a global goal plays a valuable role in encouraging action. Reducing the costs of remittance could enhance financial inclusion and investment opportunities for development. This is especially pertinent in the 2030 Agenda for Sustainable Development.

From this perspective, it is important to examine the current state of the cost of remittances from G20 countries (within the G20 many members are also recipients of remittances, for example, India and China). The cost of remitting from G20 countries declined from 9.4 per cent in 2011 to 6.3 per cent in 2021. As shown in Figure 2, there has been a declining trend in the average transaction cost of sending remittances, however, the cost of sending varies significantly across countries. As G20 efforts and promises on remittances continue and the focus is widened, it is necessary to sustain the existing level of attention on cost reduction. Without continued attention, further improvements would not be possible and the achievements of the last few years could be lost, with the potential risk of reversing to higher cost levels[15].

Way forward

As one of the largest development finance flows, remittance offers immense potential to contribute to the achievement of Agenda 2030 and financial inclusion. On the other hand, the high cost of remittances stops them from reaching their full potential. Thus, this issue becomes crucial not only for recipient countries' social and economic development but also helps to improve financial inclusion. In addition, remittance has proven to be a more stable source of foreign capital for low and middle-income countries than foreign direct investment and official development assistance. Thus, it is widely considered a potential source of funding for economic development in developing nations. Since 2009, there has been a global drive to reduce the cost of remittances. The average cost of sending money home was 6.23 per cent around the world in 2021. It is more than the G20 goal of 5 per cent and more than twice as much as the Sustainable Development Goal, (SDG), of 3 per cent by 2030. The study finds that the cost of remittance is crucial in determining the total amount of formal remittances. A one per cent reduction in the cost of remitting USD 200 would result in an additional USD 6.05 billion being sent to low and middle-income countries. There is a substantial variance in the cost of remittances, with high costs in low-income countries and low costs in high-income countries. The study recommends that G20 countries need to strengthen the policies that directly reduce the cost of remittance to fulfil the G20 commitment and SDG targets, and should also utilise existing technology, such as mobile money transfer, blockchain technology, and fintech to send the remittances.

Endnotes

1 GPFI (2022)

2 Personal remittances, received (current USD) Personal remittances comprise personal transfers and compensation of employees. Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from nonresident households. Personal transfers thus include all current transfers between resident and nonresident individuals. Compensation of employees refers to the income of border, seasonal, and other short-term workers who are employed in an economy where they are not resident and of residents employed by nonresident entities.

3 Global targets for reduction of remittances cost have focused on the USD 200 (or local currency equivalent) as the amount sent, which is believed to be an accurate representation of a typical remittance transaction size.

4 Average transaction cost of sending remittances to a specific country %. Average transaction cost of sending remittance to a specific country is the average of the total transaction cost in percentage of the amount sent for sending USD 200 charged by each single remittance service provider (RSP) included in the Remittance Prices Worldwide (RPW) database to a specific country.

5 IMF (2021)

6 G20 (2014)

7 G20 (2014)

8 G20 (2015)

9 GPFI 2022

10 In 2008, the World Bank developed the first global database for international remittance prices to promote cost reductions. Remittances Prices Worldwide (RPW) covered 14 sending and 67 receiving countries, totalling 120 corridors. Since then, it's grown to 400 corridors. Although the RPW survey initiated in 2008 the database is only available from 2011

11 Personal remittances comprise personal transfers and compensation of employees. Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from nonresident households. Personal transfers thus include all current transfers between resident and nonresident individuals. Compensation of

employees refers to the income of border, seasonal, and other short-term workers who are employed in an economy where they are not resident and of residents employed by nonresident entities. Data are the sum of two items defined in the sixth edition of the IMF's Balance of Payments Manual: personal transfers and compensation of employees (WDI, 2022).

[12] https://remittanceprices.worldbank.org/data-download

[13] excluding China

[14] https://sgp.fas.org/crs/misc/R43217.pdf

[15] World Bank, 2014.

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