

РОЗДІЛ 2. СВІТОВЕ ГОСПОДАРСТВО
І МІЖНАРОДНІ ЕКОНОМІЧНІ ВІДНОСИНИ

REMITTANCE CHANNELS BY INTERNATIONAL LABOR MIGRANTS

КАНАЛИ ПЕРЕКАЗУ ГРОШОВИХ КОШТІВ МІЖНАРОДНИХ
ТРУДОВИХ МІГРАНТІВ

Remittance flows are an important source of financial support for citizens in developing countries. Cross-border remittance flows can be carried out through different channels depending on the availability of services, payer preferences and institutional environment. The choice of remittance channel can be influenced by a variety of factors, such as the type of institutional infrastructure available in the host and home countries, ease of access to common financial institutions, availability and speed of remittance through alternative channels, differential costs of remittance, government regulations, incentives offered by the home country in the form of tax breaks and interest rates, identification requirements and procedural burdens imposed by common channels. The ability to correctly identify the remittances flow channels and to convert them to productive use through their identification and formalization with proper financial literacy can increase economic development and should therefore be encouraged. This article examines main channels of remittance, identifies factors influencing the state and prospects of development of remittance channels from labor migrants, determines the volume of remittance through main, as well as their costs, and suggests ways to solve the main problems arise when labor migrants remittances made. Specific and representative data on migration and remittance flows through the main provide more detailed and reliable information at national or local level. This article describes the impact of remittances in the case of Ghana, one of the countries on the African continent.

Key words: remittance, remittance flow, international labor migration, money transfer channels, transaction costs, infrastructure, transactions, donor countries, recipient countries.

Потоки грошових переказів відіграють ключову роль як джерело фінансової підтримки для домогосподарств, особливо у країнах, що розвиваються, де доходи від трудової міграції часто є основним або додатковим джерелом засобів до існування. Транскордонні грошові потоки можуть здійснюватися через широкий спектр офіційних та неофіційних каналів залежно від рівня доступності фінансових послуг, вподобань відправника, технологічного прогресу, особливостей регуляторного середовища, а також економічних і соціальних умов як у країні походження, так і в країні отримувача. На вибір каналу грошового переказу впливає сукупність факторів, включаючи тип доступної інституційної інфраструктури, легкість та зручність використання офіційних фінансових інструментів, швидкість доставки коштів, витрати на транзакції, рівень довіри до фінансових установ, обмеження або заборони, передбачені національним законодавством, а також наявність стимулів з боку держави у вигляді податкових пільг, субсидій чи вигідних процентних ставок. Значну роль відіграють також вимоги щодо ідентифікації, процедура проходження контролю, рівень цифрової грамотності користувачів та доступ до інтернету або мобільного зв'язку. Здатність ефективно визначати канали грошових переказів і трансформувати їх у продуктивне використання є ключовою умовою для забезпечення сталого економічного зростання. Формалізація потоків грошових коштів, посилення фінансової грамотності отримувачів та розвиток сучасних цифрових фінансових сервісів можуть значно підвищити їх вплив на економічний розвиток як на мікро-, так і на макрорівнях. У зв'язку з цим особливої уваги потребують механізми підтримки та стимулювання переказів з боку урядів та міжнародних організацій, зокрема через зниження комісій, розвиток фінансової інфраструктури у віддалених районах, а також запровадження освітніх програм для мігрантів та їхніх родин. У даній статті проведено комплексне дослідження основних каналів переказу грошових коштів, проаналізовано фактори, що впливають на їхній розвиток, а також оцінено перспективи вдосконалення механізмів здійснення переказів трудовими мігрантами. Наведено кількісні показники обсягів переказів за різними каналами, охарактеризовано витрати, пов'язані з транзакціями, і виявлено основні бар'єри, які стримують ефективну роботу систем грошових переказів. На основі репрезентативних статистичних даних про міграційні процеси та грошові перекази виведено практичні рекомендації щодо оптимізації механізмів переказу коштів. Особливу увагу приділено аналізу ситуації в Гані — країні африканського континенту, яка є прикладом держави, де грошові перекази мають потужний соціально-економічний вплив.

Ключові слова: грошові перекази, міжнародна трудова міграція, канали переказу грошових коштів, транзакційні витрати, інфраструктура, транзакції, країни-донори, країни-реципієнти.

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Formulation of the problem. Channels of remittance transactions are wide and vary a lot, and every choice made between them depends on a number of factors, including cost of sending money abroad, delivery speed, information technology infrastructure at the sending and receiving locations, hidden costs in foreign currency transactions, security of funds etc. However, it can be difficult to calculate remittance statistics when taking into account even all available sources, especially informal ones. Remittance service providers are also quite innovative and new transaction channels are constantly being developed. There are money transfer institutions in all parts of the world that are often unregistered or unlicensed and are not a subject to any regulation. Reliable data and information about these channels is often lacking, making it difficult to track remittances through these channels. As a result a research on this issue is important when estimating the volume of remittances by international labor migrants.

Analysis of recent research and publications. Fundamental theoretical and practical problems of the study of remittances by international labor migrants are highlighted in the works of D. Rath, P. Alvarez, J. Irving, S. Mohapatra, S. Plaza, S. Medle, J. Szczyklinski, A. Kosse, M. Siegel, M. Luque. The World Bank, the IMF, the European Central Bank, the OECD, and other global organizations collect and evaluate data on remittance channels and the volume of funds flowing through these channels. Specific and representative surveys on migration and remittances can provide more detailed and reliable information at the national or local level [1–4].

The purpose of the article is to study the main channels of remittances; to identify the factors influencing the status and prospects of developments on remittance channels from labor migrants; to determine the volume of remittance by the main channels, as well as their costs; to propose ways of solving main problems arising when remittances by labor migrants occur.

Research methods. Main methods used writing this article in order to study channels of remittance by international labor migrants are methods of statistical and logical analysis, synthesis, comparison and historical method, alternative analysis, grouping and survey methods. In analyzing the impact of remittances by international labor migrants on the socio-economic development of emerging markets, the author uses economic and mathematical modeling methods such as factor analysis, correlation and regression analysis, graphical and analytical modeling.

Presentation of the main research material. Remittances are household income from other national economies that arise mainly as a result of temporary or permanent movement of economically active people to these national economies [5]. Remittances include cash and non-cash receipts that

come through formal channels (both electronic and traditional – within financial institutions) or through informal channels such as cash or goods transported by international labor migrants or other authorized persons across the national border to the country of origin.

Thus, remittances are a key lever for influencing pace of socio-economic development in the labor donor country both at the micro level (household) and the macro level (state). Accordingly, remittances by international labor migrants can have a significant impact on poverty reduction, macroeconomic stability and financing the modernization of industries and sectors of the national economy of the labor donor country. For many countries, this transfer is a significant and stable source of foreign exchange earnings, which sometimes exceeds the amount of Official Development Assistance or foreign direct investment [5–6]. Even though remittances often exceed other sources of funds to labor donor countries, it should be kept in mind that these are not public but private funds. Accordingly, this determines the specifics of these transfers and public policy that is formed in this area, considering a wide range of micro- and macro-level features, including the behavioral factor in the behavior of economic agents.

Remittances by international labor migrants as an economic phenomenon require an appropriate infrastructure for proper functioning. A key component of this infrastructure are the channels of remittance within this transfer. According to the ECB study [3], remittance channels of international labor migrants are essentially a way for private individuals employed abroad to transfer accumulated funds to other private individuals in the country of origin, which can be either formal or informal and depend on the specifics of the technology used in the transaction.

Accordingly, considering the remittance channels of such transfer as a complex economic phenomenon that is formed at the edge of financial market infrastructure and relations between different economic agents, we note that the channels of remittance by international labor migrants face many barriers to adequate functioning and development. In this context, one of the key limiting factors in terms of transfer channels is excessively high level of costs for the transfer, namely, the FX commission for this transaction.

In particular, there is a regional differentiation in the level of costs for making money transfers from different countries (primarily the most economically developed regions, i.e. Europe and North America) to countries of origin of international labor migrants. For example, the FX commission for a remittance from the EU to Africa varies from 3.83% (Belgium) to 6.60% (Portugal) as of Q4 2021 [7] (Fig. 1).

This situation can be explained by number of reasons, including peculiarities of national legal

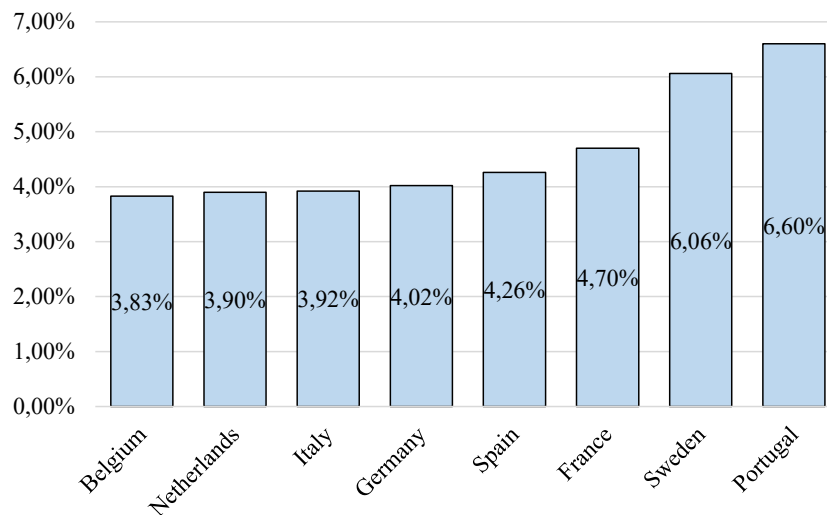


Fig. 1. Costs of making a money transfer in the digital transaction channel from the EU to Africa, % of FX commission, 2021

Source: compiled by the author based on data from [7]

and regulatory frameworks of respective countries, specifics of financial sector in these countries and different levels of access to digital financial services in individual countries. Accordingly, such a difference in the level of commission for making a remittance to a labor donor country can significantly affect number of critical aspects at micro level in terms of financial behavior of an international labor migrant, namely

- propensity to make money transfers through formal or informal channels;
- frequency of money transfers to the country of origin;
- decision by international labor migrants to save or invest earned funds in the country of destination or country of origin;

– limiting the level of current consumption by both international labor migrant and members of his or her household due to high level of commission costs.

It should be emphasized that the cost of making a small money transfer (in the amount of USD 200) is gradually and steadily decreasing (Fig. 2). In particular, the average level of FX commission for a money transfer from the EU to Africa over a 5-year period decreased from 6.94% (as of Q4 2016) to 5.80% (in Q4 2021) [3]. This amounted to a – 1.14 percentage point decrease in transaction costs, meaning that the level of bank fees in this context decreased by almost one-fifth (-19.66%).

It is worth noting that the European Commission expects further reduction in level of costs for

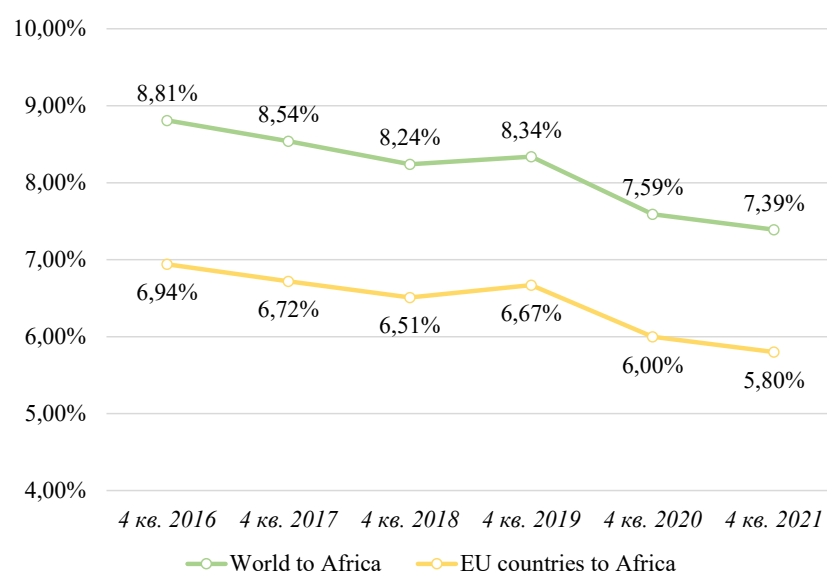


Fig. 2. Costs of making a USD 200 money transfer. USD from the EU to Africa, % of FX commission, Q4 2016 – Q4 2021

Source: compiled by the author based on data from [7]

remittances by international labor migrants to their countries of origin. In this regard, the European Commission has analyzed historical data, which revealed a downward trend in the level of bank fees for money transfers from the EU to Africa and predicts further reduction in the level of FX fees for this transfer under two main scenarios (Fig. 3).

The first scenario (based on historical trend of an average annual reduction in the FX fee by -3.99% from 2016 to 2021) envisages a reduction in FX fee for a USD 200 money transfer from the EU to Africa from 5.80% as of 2021 to 4.02% in 2030 (forecast). Accordingly, under the first scenario, the cost of this transaction is expected to decrease by – 1.79 pp, or more than 1.4 times (-44.3%) over the forecast period of 2022–2030.

The second scenario takes into account changes over the last period of the analysis (2021), for which the European Commission analysts had available actual data. Accordingly, under this analytical approach, the forecast is based on FX commission reduction data at the level of -10.71% in 2021 compared to 2020, which is further extrapolated to forecast period until 2030 [7]. It should be noted that the second scenario is more optimistic compared to the first scenario described above.

Under the second scenario, reduction in FX commission for a USD 200 money transfer from the EU to Africa is projected to drop from 5.80% as of 2021 to 2.10% in 2030 (forecast) [8]. As a result, the second scenario is expected to reduce money transfers costs by – 4.70 percentage points, or more than 2.7 times (-176.2%) over the forecast period of 2022–2030.

Accordingly, this significantly contributes to fundamental changes in remittance channels of

international labor migrants [7–8]. In particular, the key results include:

1. Increase in the level of financial inclusion of both international labor migrants and their household members in the country of destination and the country of origin;
2. Positive impact on propensity of international labor migrants to use formal channels for remittances to countries of origin, as opposed to the practice of using informal channels for saving money;
3. Development of digital financial market infrastructure in both the donor and recipient countries.
4. Increasing the level of transparency in terms of global, regional, and national flows of remittance by international labor migrants.

In scope of problems of developing remittance channels for international labor migrants a number of key challenges are identified (Figure 4). Let us consider these challenges in more detail.

One of the key issues is difficult access to official channels for financial transactions. This is due to the excessive amount of required documentation and procedures, as well as the inaccessibility of the financial system infrastructure in whole. This may be due, for example, to the recipient's residence in rural areas where banking infrastructure is barely represented, or to poor communication quality, which makes it impossible to use financial services effectively, especially in a digitalized environment.

Another key challenge in remittance channels is the high cost of transactions. This pushes international labor migrants and their household members in labor donor countries to use informal remittance channels. This is primarily since these channels offers more attractive conditions for making

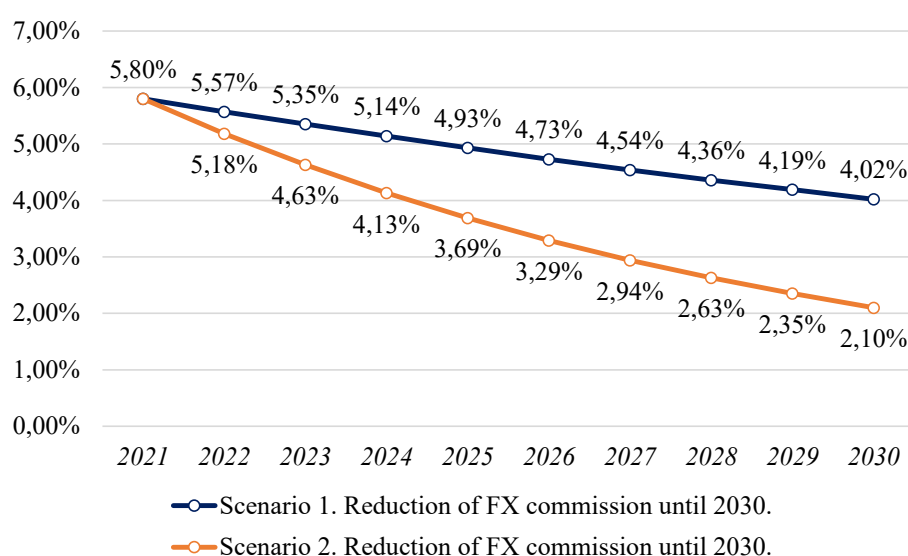


Fig. 3. Estimated cost of a USD 200 money transfer from the EU to Africa. USD from the EU to Africa, % FX commission, 2021–2030

Source: compiled by the author based on data from [7]

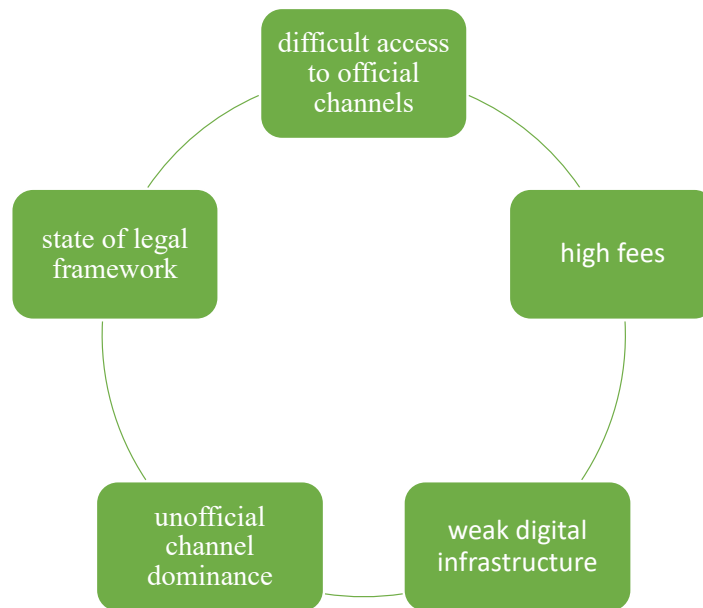


Fig. 4. Key challenges in terms of remittance channels for international labor migrants

Source: compiled by the author based on data from [7–8]

transfers to the sender's country of origin in terms of cost savings.

In this context, low level of accessibility to digital financial services also poses challenges. One of the main reasons for this situation is poor development of digital infrastructure, primarily in the country of origin of international labor migrants. The limitations in this context include, first, the low penetration of digital devices among population; second, the poor quality of communication coverage of certain regions and territories of the country of origin – mainly rural areas and remote inaccessible areas, where international labor migrants often come from; third, the insufficient development of digital services in the country of origin in terms of financial institutions, mobile operators and other players in the digital financial services market; fourth, the low level of financial literacy of social groups, international labor migrants and members of their households originate from; fifth, the insufficient level of financial inclusion in both national and regional sections in labor donor country. All this leads to complications in the context of modern digitalized environment and, accordingly, is a significant barrier to the adequate functioning of transfer channels.

Another important challenge is the widespread use of informal remittance channels by international labor migrants. This practice has developed for several reasons, both objective and subjective. First, informal remittance channels offer services at a lower cost, which is a key factor in decision-making process of international labor migrants and household members. Second, the specifics of the financial behavior of this category of citizens predetermines attraction to informal remittance channels, which are seen by the sender and household members as more attractive

over formal channels taking into consideration all characteristics. Third, there is a specific legal culture among international labor migrants and their household members that determines their preference for informal channels. Fourth, the use of formal remittance channels is often difficult for both the sender and the recipient of the transfer, and thus international labor migrants and their household members tend to use informal channels to avoid bureaucratic and infrastructural constraints.

In this context, the low degree of harmonization of financial sector regulatory framework is also important. It should be noted that addressing behavioral and infrastructural factors is not enough for the system to function adequately. This is due to the significant negative impact of inadequacy of the legal and regulatory framework, which creates corresponding unfavorable environment in the context of the widespread use of formal transfer channels.

In order to overcome the above limitations, a set of potential solutions is used to ensure the adequate functioning of remittance channels, including a number of inclusive, infrastructural, and regulatory changes (Figure 5). It is important to note that these measures should be implemented systematically and in a coordinated manner, which will make it possible to achieve an adequate level of efficiency of these changes in the field of remittance channels for international labor migrants.

In this context, the example of Ghana is of scientific and practical interest [5; 7–8]. This country ranks No. 2 in Africa in terms of the weight of remittances by international labor migrants in relation to GDP – in particular, in 2021, the volume of this transfer to Ghana amounted to 4.5 billion US dollars and as a percentage of the country's GDP reached 5.9% [7].

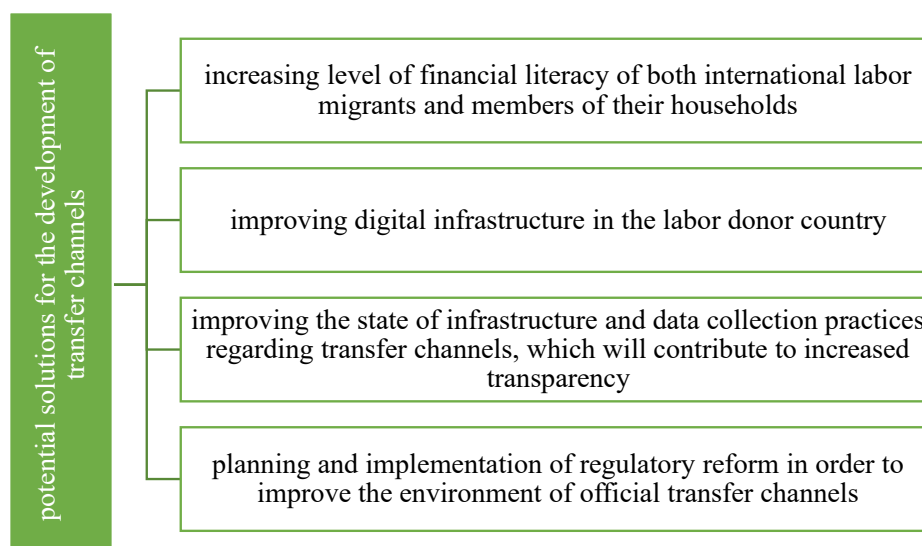


Fig. 5. A set of potential solutions for the development of modern channels of remittances by international labor migrants

Source: compiled by the author based on data from [7–8]

It is worth noting that international labor migrants from Ghana mainly live and work in large economically developed countries – the United States and the United Kingdom, as well as in the economic leader of their region – Nigeria. This, accordingly, leads to a relative high level of earnings of Ghanaian citizens employed abroad and, as a result, contributes to a more significant volume and frequency of remittances by international labor migrants to Ghana.

The level of financial literacy and digital penetration in Ghana is quite high. In particular, the level of financial inclusion in Ghana is 58%, and the national mobile money market is developing at the highest rate in Africa. Accordingly, the trend of adopting digitalized money transfer instruments in Ghana has grounds for strengthening. At the same time, the cost of remittances from the EU to Ghana is almost at the global level – 7.52% and 7.32% as of Q4 2021, which is generally the average level of commission for remittances to African countries [7].

Considering this, the government of Ghana is making efforts to manage the current situation more effectively by normalizing these socio-economic relations, as well as stimulating the long-term growth of the national economy. One of these steps is the introduction of a digital transfer fee (the so-called E-LEVY) [8, 10–11]. Legislation on this fee was introduced in May 2022 and imposes a 1.5% fee on all digital money transfers (including transfers from both bank accounts and mobile e-wallets) with an equivalent of EUR 13 (as of May 2022) or more. Only domestic transactions are subject to this fee. Currently, incoming money transfers to Ghana from other countries are not subject to this fee.

The Ghanaian government sees the key goal of these regulatory changes in the field of remittances – in

addition to filling the national budget – as regulating the situation with formal and informal channels of remittances by international labor migrants. Additionally, the Ghanaian government seeks to achieve a higher level of financial inclusion within the country through these regulatory changes, as well as to support the digitalization of the national economy. In the context of developing financial inclusion and stimulating socio-economic growth, the government of Ghana plans to develop a comprehensive state policy for the development and distribution of digitalized financial services to the population. In this direction, the government of Ghana also plans to move towards the introduction of a digital national currency – the eCedi Central Bank Digital Currency [7; 10–11]. Accordingly, the development of remittance channels for international labor migrants is a complex task that requires, firstly, meeting the needs of key stakeholders in this area, secondly, addressing key barriers at the micro and macro levels, including the behavioral nature of the main economic agents in the context of this issue; thirdly, attracting latest technologies to implement an effective solution, primarily a digitalization tool.

Conclusions. The analysis of labor migrants' remittance channels has shown a trend of steady reduction in the level of costs for transactions by official channels. The status and prospects for development of remittance channels are influenced by a number of factors of different nature, including difficult access to official channels, high transaction costs, weak digital infrastructure, excessive weight of informal channels in this area, and the state of legal and regulatory framework.

In the context of building modern formal remittance channels, a set of solutions should be

applied in the context of building modern remittance channels for international labor migrants, including, first, improving financial literacy of both international labor migrants and their household members; second, improving digital infrastructure in the labor donor country; third, improving infrastructure and data collection practices related to remittance channels, which will increase transparency; fourth, planning and implementing a comprehensive policy framework for the development of modern remittance channels. This should ensure the effective development of modern formal remittance channels at both micro and macro levels.

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