

South Asia's remittances to face sharp decline in 2009

By Santhush Fernando

Decline in remittances is likely to cause widespread economic hardship across South Asian countries for whom remittances have acted as a vital source of foreign currency contributing to economic growth and the livelihood of needy people. President of Bangladesh Enterprise Institute (BEI) and Guest of Honour, Farooq Sobhan made this remark at the recently concluded International Conference Migration, Remittances and Development Nexus in South Asia.



"I have alluded before to the World Bank's latest estimation that the world's flow of remittances would decline from a high of US\$305 billion globally in 2008 to around US\$290 billion in 2009. South Asia is expected to face a sharp decline in 2009, down from US\$66 billion in 2008 to US\$63 billion. On the face of it, that is not a huge decline." Sobhan said.

"But given that remittances have been registering double-digit growth in recent years, any downturn is likely to cause widespread economic hardship across our nations for whom remittances have acted as a vital source of foreign currency contributing to economic growth and the livelihood of needy people."

According to the International Fund for Agricultural Development, remittances directly reach 10% of the world's population. Given the current economic climate, the World Bank's forecast is still a quite resilient performance, but the scope, the depth and the duration of the economic crisis is fully known, South Asia cannot be sure that it will not actually have a greater impact than what has been posited.

"So we must maintain our vigilance, and we will also do well to remember that the World Bank figures are compiled from central bank figures from across the world, and hence cannot account for declines in the unofficial flow of remittances, which comprise the bulk of it." He said.

"It is perhaps appropriate at this point to expound upon how remittances drive economic growth and development in receiving countries. The benefits accruing to

efforts at poverty alleviation in these countries by virtue of remittances directly reaching poor households are obvious, but it is also important to consider the potential multiplier effect on economic growth and development of remittances as a source of investment.”

By necessity, remittance senders and receivers have a greater propensity to own bank accounts, thereby promoting access to financial services for the sender and the receiver. This created inclusiveness in the financial system, improving particularly in the rural areas of developing countries, as more and more banks open branches in these areas to facilitate these fund transfers.

“It has been said that remittances help to foster a sense of ‘financial democracy’. Typically, each of these transactions range between US\$100 to US\$300, thereby comprising more than a billion separate financial transactions in 2006 according to IFAD.” Sobhan added.

Primarily, these funds were directly used to meet families’ immediate consumption needs. Indirectly, the extra income from remittances above daily expenses could be spent on education or healthcare, contributing to a more healthy and productive citizenry. Often, a significant portion is also freed up for savings, credit mobilisation and other forms of investment.

“Up until the onset of the current crisis, remittances had also come to be accepted as a stable form of external finance, even increasing during periods of economic hardship by dint of the altruistic tendencies of those living abroad.

Hence, remittances represent a very potent force for delivering inclusive, grass-roots development particularly in rural areas of the developing world.”