Remittances likely to plunge 23%: World Bank

Part of: GS-III- Economy (PT-MAINS-PERSONALITY TEST)

The World Bank has said that remittances to India are likely to drop by 23 per cent from 83 billion US Dollars last year to 64 billion US Dollars this year due to the Corona virus pandemic, which has resulted in a global recession.

According to a World Bank report on the impact of the COVID-19 on migration and remittances, the remittances are projected to decline sharply by about 20 per cent this year due to the economic crisis induced by the pandemic and shutdowns due to out break of Novel Corona virus.

The projected fall, which would be the sharpest decline in recent history, is largely due to a fall in the wages and employment of migrant workers, who tend to be more vulnerable to loss of employment and wages during an economic crisis in a host country.

World Bank Group President David Malpass (PT) said, remittances are a vital source of income for developing countries and they help families afford food, health care and basic needs.

Data:

- In 2019, low- and middle-income countries (LMICs), commonly known as developing countries, received around $554 billion in remittance flows, a larger amount than all the foreign direct investment (FDI) flowing into those countries that year (excluding China).
- World Bank predicts remittances will decline 19.7% in 2020, to $445 billion.
- Families in developing countries are often reliant on the income generated by remittances, with some 800 million people living in households that receive them.
- In India, remittances for 2020 are projected to fall by 23% to $64 billion.
- Remittances to low- and middle-income countries reached a record high in 2018.
- Among countries, the top remittance recipients were India with $79 billion, followed by China ($67 billion), Mexico ($36 billion), the Philippines ($34 billion), and Egypt ($29 billion).

Importance of remittances for India:

- It is a vital source of income for financing household and family expenses.
- Higher remittances improve nutritional outcomes by increasing investments in higher education.
- It is important to address poverty and hunger in the country.
- To achieve its SDGs particularly SDG-1,2,5,6,10.
- RBI forex reserve
- Current account deficit and strengthening of rupee
- Tax and revenue of the government
Remittances are usually understood as financial or in-kind transfers made by migrants to friends and relatives back in communities of origin. These are basically sum of two main components - Personal Transfers in cash or in kind between resident and non-resident households and Compensation of Employees, which refers to the income of workers who work in another country for a limited period of time. Remittances help in stimulating economic development in recipient countries, but this can also make such countries over-reliant on them.

World Bank’s Migration and Development Brief

- This is prepared by the Migration and Remittances Unit, Development Economics (DEC)- the premier research and data arm of the World Bank.
- The brief aims to provide an update on key developments in the area of migration and remittance flows and related policies over the past six months.
- It also provides medium-term projections of remittance flows to developing countries.
- The brief is produced twice a year.

About World Bank

With 189 member countries, the World Bank Group is a unique global partnership: five institutions working for sustainable solutions that reduce poverty and build shared prosperity in developing countries.

The Bank Group works with country governments, the private sector, civil society organizations, regional development banks, think tanks, and other international institutions on issues ranging from climate change, conflict, and food security to education, agriculture, finance, and trade.

A Group of Institutions

Together, the International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) form the World Bank, which provides financing, policy advice, and technical assistance to governments of developing countries. While the World Bank Group consists of five development institutions.

- **International Bank for Reconstruction and Development (IBRD)** provides loans, credits, and grants.
- **International Development Association (IDA)** provides low- or no-interest loans to low-income countries.
- The **International Finance Corporation (IFC)** provides investment, advice, and asset management to companies and governments.
- The **Multilateral Guarantee Agency (MIGA)** insures lenders and investors against political risk such as war.
- The **International Centre for the Settlement of Investment Disputes (ICSID)** settles investment-disputes between investors and countries.

All of these efforts support the **Bank Group’s twin goals of ending extreme poverty by 2030** and boosting **shared prosperity** of the poorest 40% of the population in all countries.
The Bretton Woods Conference, officially known as the United Nations Monetary and Financial Conference, was a gathering of delegates from 44 nations that met from July 1 to 22, 1944 in Bretton Woods, New Hampshire (USA), to agree upon a series of new rules for international financial and monetary order after the conclusion of World War II.

The two major accomplishments of the conference were the creation of the International Bank for Reconstruction and Development (IBRD) and International Monetary Fund (IMF).

Founded in 1944, the International Bank for Reconstruction and Development (IBRD) — soon called the World Bank — has expanded to a closely associated group of five development institutions.

Originally, its loans helped rebuild countries devastated by World War II. In time, the focus shifted from reconstruction to development, with a heavy emphasis on infrastructure such as dams, electrical grids, irrigation systems, and roads.

With the founding of the International Finance Corporation (IFC) in 1956, the institution became able to lend to private companies and financial institutions in developing countries.

Founding of the International Development Association (IDA) in 1960 put greater emphasis on the poorest countries, part of a steady shift toward the eradication of poverty becoming the Bank Group’s primary goal.

International Centre for Settlement of Investment Disputes (ICSID) founded in 1966 settles investment disputes between investors and countries.

Multilateral Investment Guarantee Agency (MIGA) founded in 1988 insures lenders and investors against political risk such as war.