DATA INSIGHTS INTO BELGIUM'S REMITTANCE LANDSCAPE: TRENDS & DRIVERS

IOM UN MIGRATION

National Bank OF BELGIUM
E-REMIT
Belgium partner in development

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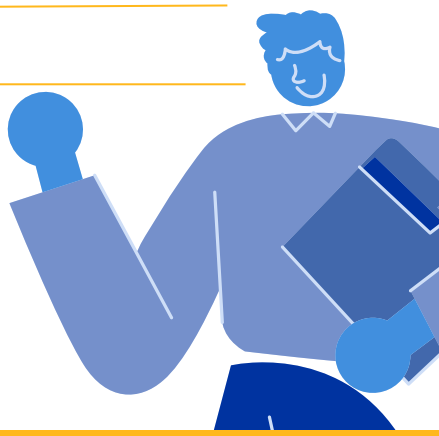

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GLOSSARY

Term	Definition
Diaspora	Migrants or descendants of migrants whose identity and sense of belonging, either real or symbolic, have been shaped by their migration experience and background. They maintain links with their homelands, and to each other, based on a shared sense of history, identity, or mutual experiences in the destination country (IOM, 2019).
Migrant	An umbrella term, not defined under international law, reflecting the common lay understanding of a person who moves away from his or her place of usual residence, whether within a country or across an international border, temporarily or permanently, and for a variety of reasons (IOM, 2019). In this report, references to migrants encompass the entire spectrum of the diaspora, unless specified otherwise.
MTO (Money Transfer Operator)	A financial service provider usually regulated or licensed by the government, that unlike banks that offer a wider range of financial services (including loans, deposits, and investments) MTOs specialize primarily in facilitating domestic and international money transfers. MTOs offer varied methods for sending and receiving money, including online platforms, mobile apps, and physical agent locations.
Remittances	Personal monetary transfers, cross border or within the same country, made by migrants to individuals or communities with whom the migrant has links (IOM, 2019).
Remittance corridor	Remittance corridor is the specific route along which remittances are sent from one country (origin) to another (destination)[i]. Each corridor has unique characteristics in terms of service providers, costs, and regulatory frameworks.
Remittance service providers	Remittance service providers are financial entities that facilitate the transfer of money from individuals in one country to recipients in another country. These providers can include banks, money transfer operators, mobile payment systems, and other financial services companies. They offer various methods for sending remittances, each with its own fee structure, transfer speed, and level of accessibility for both the sender and the recipient[ii].
Transaction costs	The costs linked to sending money abroad through a remittance service provider (like a bank, MTOs) include the service fee, the exchange rate margin and any other incurred cost[iii].

[i] IMF. (2019). International Transactions in Remittances: Guide for Compilers and Users.
[ii] The International Association of Money Transfer Networks (IAMTN). (2021). "Beyond a Money Transfer Service; Socially Responsible Companies." Available at https://familyremittances.org/wp-content/uploads/2021/06/IAMTN.pdf
[iii] Kpodar, K., & Amir Imam, P. (2022). How Do Transaction Costs Influence Remittances? IMF.

LIST OF ACRONYMS

FDI	Foreign Direct Investment
GDPpc	Gross Domestic Product per capita
IOM	International Organization for Migration
IMF	International Monetary Fund
KNOMAD	Global Knowledge Partnership on Migration and Development
MGI	Migration Governance Indicators
MTO	Money Transfer Operator
NBB	National Bank of Belgium
ODA	Official Development Aid
PPP	Purchasing Power Parity
RPW	Remittance Prices Worldwide
SDG	Sustainable Development Goals
STATBEL	Statistics Belgium
UNCDF	United Nations Capital Development Fund

1. INTRODUCTION

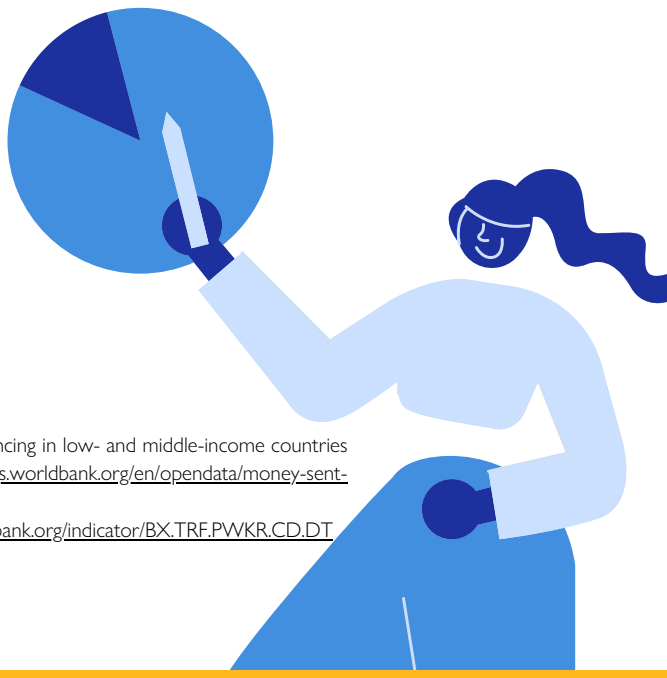
In the domain of global financial flows, remittances represent an important source of income for many low and middle-income countries. Often exceeding the funds received from foreign direct investment (FDI) and official development aid (ODA)[1], these financial transfers play a significant role in the economies of these countries. The past two decades have seen a substantial increase in remittance flows globally. The World Bank reported that in 2022, the global outflow of remittances reached 765 billion USD[2], marking an 83% growth since 2010. These figures only account for formal remittances. A considerable proportion of remittance transfers occur through informal channels, especially in contexts where high costs associated with formal transfers lead migrants to choose alternative means. Therefore, the actual amount of total remittances is likely times higher than what is officially recorded, pointing to the even greater economic impact of these financial flows (Freund & Spatafora, 2008, p. 357).

Belgium plays a crucial role in the international remittance landscape. This is attributed to the substantial volume of remittances sent from Belgium and the size of its migrant population. In 2022 the total outflow of remittances from Belgium reached 7 billion USD according to KNOMAD and according to the Belgian Statistical Office (STATBEL) as of 2022, the number of migrants residing in Belgium was approximately 2.1 million. When including second-generation migrants, this figure rises to almost 4 million, accounting for 34.5% of Belgium's total population in 2022. This demographic composition emphasizes the importance of remittances sent from Belgium, especially to countries with a significant migrant and diaspora population residing in Belgium. These remittances offer numerous possibilities for enhancing the developmental impact in recipient countries. However, a major challenge in the remittance process is the high transaction costs associated with these transfers. Recognizing this issue, the 2030 Sustainable Development Goals, specifically SDG 10.c[3], calls for a reduction of transaction costs to less than 3% and eliminate remittance corridors with transaction costs exceeding 5%.

Against this backdrop and under the framework of the O-REMIT[4] project's Stream 1, that focuses on understanding the remittance flows and behaviors of the diaspora in Belgium, this report aims to generate insights of Belgium's remittance landscape analyzing remittance trends and drivers.

This report sets out to achieve the following objectives:

1. Investigate the trends and drivers influencing the remittance landscape in Belgium.
2. Estimate whether and to what extent reducing transaction costs increases the outflow remittances from Belgium, as well as from other relevant factors.
3. Identify critical data gaps essential for a comprehensive understanding of the remittance landscape in Belgium.



[1] Barne & Pirlea (2019): Money sent home by workers now largest source of external financing in low- and middle-income countries (excluding China), World Bank. Retrieved from: or more information, see https://blogs.worldbank.org/en/opendata/money-sent-home-workers-now-largest-source-external-financing-low-and-middle-income

[2] For more information on The World Bank development indicators see https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT

[3] For more information see https://sdgs.un.org/goals/goal10#targets_and_indicators

[4] For more information on the O-REMIT project see https://belgium.iom.int/o-remit

2. CONCEPTUAL FOUNDATIONS AND METHODOLOGY

In this report, adhering to the IOM's definition, remittances are conceptually defined as personal monetary transfers, whether cross-border or domestic, made by migrants to individuals or communities with whom they have ties (IOM, 2019). It is important to differentiate between formal and informal remittances, with the former passing through the formal financial system and the latter comprising cash or in-kind transfers outside this system. Typically, remittance statistics capture only formal remittance flows.

The manner in which remittances are defined plays a pivotal role in their measurement and statistical recording, necessitating a clear distinction between their conceptual and statistical definitions. Key international organizations as the IMF[5], The World Bank[6], and KNOMAD[7] gather data on remittances within the balance of payments framework. Under this framework, remittances are constructed as the sum of two components: i) compensation of employees and ii) personal transfers. This method of measurement differs from the conceptual understanding of remittances, primarily due to its implicit assumption that these balance of payment components are predominantly comprised of transfers made by migrants. All transfers recorded in the personal transfers components are not necessarily made by migrants, this can be illustrated with a hypothetical scenario: If a Belgian national sends a private transfer to Morocco, this transaction would be recorded in Belgium's balance of payments. However, this transaction does not fit the conceptual definition of remittances as it does not originate from a migrant. However, there are many practical challenges in accurately identifying the migrant status of a remittance sender. For remittance service providers, recording such detailed information at the point of transaction and then conveying it to the relevant institution is a complex task which requires coordination and standard data collection protocols among all remittance service providers.

The National Bank of Belgium (NBB) plays a pivotal role in Belgium's financial system, encompassing a wide array of tasks and responsibilities. As the central authority on financial regulation and oversight, the NBB is tasked with collecting data from banks and Money Transfer Operators (MTOs) for various purposes, including payment statistics and prudential supervision. Furthermore, the NBB actively participates in international working groups alongside organizations like KNOMAD and the World Bank. These collaborations aim to harmonize definitions and methodologies related to money remittances at a global level. For a number of responsibilities, the NBB is bound by professional secrecy and information received, cannot be shared or made public. Depending on the regulation or legislation applied, the methods and definitions used to measure money transfers may differ.

While the conceptual definition of remittances can be delineated with relative clarity, its statistical definition varies depending on the reporting institution. Efforts to standardize remittance data are crucial for ensuring consistency and comparability across different reporting frameworks[8].

[5] For more information on the IMF Balance of Payments Manual 6th Edition see https://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm

[6] For more information see https://datahelpdesk.worldbank.org/knowledgebase/articles/114950-how-do-you-define-remittances

[7] For more information see https://www.knomad.org/data/faqs

[8] The World Bank, under the auspices of KNOMAD, has initiated an International Working Group aimed at Enhancing Data on Remittance Flows, for which one of its thematic groups focuses on: Definition and data compilation guidelines (to address misclassification, improve comparability over time and across countries). For more information see https://www.knomad.org/remittance-data-working-groups

2.1. What influences remittances?

For the analysis of remittances, it is essential to understand the diverse array of factors driving these financial transfers. At the microeconomic level, studies[9] have extensively examined the driving factors behind migrants' decisions to remit, revealing a range of personal and familial motivations:

1. Altruism and Family Support: Many migrants remit as an act of altruism. This is often motivated by a sense of responsibility to support family members left behind, particularly in contexts of poverty or financial need. It is not just about sending money; it is about providing for education, healthcare, or general livelihood support for their families (Lucas & Stark, 1985).
2. Loan Repayment and Investment: Some migrants may view remittances as means to repay their families for the investment made in their migration journey. This includes the costs of education, travel, and initial settlement in the host country. It is a form of financial return on the family's investment in the migrant's future (Ilahi & Jafarey, 1999).
3. Exchange Motives: Migrants may also remit as a form of payment for services rendered by family members back home, such as taking care of children, managing property, or handling financial matters. This is often seen in situations where the migrant cannot fulfill these responsibilities due to their absence (Rapoport & Docquier, 2006).

At the macroeconomic level, the factors influencing remittances are equally complex and varied:

1. Economic Conditions in Countries of Origin and Destination: The economic stability of both the countries of origin and destination plays a significant role. When the host country's economy is strong, migrants have better employment opportunities, leading to increased remittance flows. Conversely, economic downturns in the country of origin can increase the need for remittances (Coulibaly, 2009).
2. Transaction Costs: High remittance fees and charges significantly impact the decision to use formal channels for remittance transfers. Reducing these costs is vital for encouraging the use of formal channels, thereby increasing the volume of recorded remittances, and contributing to economic development in remittance recipient countries. Lower transaction costs are associated with increased formal remittance flows and potentially greater support for migrant families in their countries of origin (Ahmed, Mughal, & Martinez-Zarzoso, 2021; Kpodar & Amir Imam, 2022).
3. Skill Levels, community size: The size and skill level of the migrant community are crucial. A bigger diaspora expands the size of the remittance market in the host country which may in turn reduce transaction costs due to increased competition between remittance service providers (Ahmed, Mughal, & Martinez Zarzoso, 2021, p. 2442). Additionally, skilled migrants typically have higher earning potential and thus may remit more, potentially mitigating the negative effects of brain drain in the country of origin (Beine, Docquier, & Rapoport, 2008).
4. Financial Infrastructure and Institutional Efficiency: The ease with which migrants can send money, influenced by the financial infrastructure and institutional efficiency, also affects remittance volumes. Improved banking systems promote lower transaction costs which in turn encourage more formal remittances (Beck, M., & Kpodar, 2022).
5. Trust: When remitting, trust can plan a key role, especially when the level of financial infrastructure and institutional efficiency is low in the country of origin. This is likely to nudge diasporas to use informal channels that are highly based on trust and strong social bonds, with which financial institutions can hardly compete with (Maimbo, 2004).
6. Exchange Rate Volatility: Fluctuations in currency exchange rates can influence the value of remittances. Stability in exchange rates often encourages more consistent remittance flows (Freund & Spatafora, 2008).

2.2. Methodology

As a first step a literature review was conducted aiming to map out the primary factors influencing the outflow, as outlined in section 2.1. Although remittances are shaped by a combination of all these factors, for this report the primary focus is on the macroeconomic factors influencing remittance outflows from Belgium, with a special emphasis on transaction costs. After the literature review, an assessment of relevant data sources was conducted. During this process, substantial data gaps were identified for the analysis of remittances from Belgium.

[9] The O-REMIT project is currently conducting a national study in Belgium to better understand the motivations and behaviors of diaspora and migrants who remit. The report is expected to be published on the O-REMIT webpage: https://belgium.iom.int/o-remit.

These gaps present limitations to the data analysis, particularly when attempting to understand and interpret long-term remittance trends disaggregated by corridor. Despite these limitations, a descriptive analysis of remittance trends and transaction costs was conducted, and a statistical analysis was performed (see Annex II). The statistical analysis aimed to estimate the impact of transaction costs, and other macroeconomic factors, on remittances in Belgium. This analysis yields valuable insights, offering a deeper understanding of how these various elements collectively shape the dynamics of remittance outflows from Belgium.

2.3. Limitations

For a comprehensive analysis of Belgium's remittance landscape, it is ideally required to have quarterly or, at least, yearly corridor-disaggregated data on remittances sent from Belgium. These data should be methodologically consistent over time for comparability. Additionally, transaction costs data needs to be disaggregated by remittance corridor quarterly or yearly. Unfortunately, in practice, data on remittances and transaction costs are not comprehensive enough or not completely available, leading to significant data gaps that affect the robustness of the analysis of remittances in Belgium.

Remittances

There are two main sources for remittance data for Belgium. KNOMAD offers detailed annual data on Belgium's total remittance outflows and inflows, derived from the IMF's Balance of Payments. This data provides a year-by-year breakdown but lacks corridor-specific disaggregation. To complement this, KNOMAD presents the bilateral remittance matrix, which estimates global bilateral flows using the Ratha and Shaw (2007) methodology[10]. While KNOMAD outlines several gaps in this approach, another practical limitation is the availability of data: only the most recent (2021) bilateral remittance matrix is publicly available. Furthermore, post-Brexit numerous UK-based remittance service providers have relocated their operations to Belgium, using it as a hub for their European activities. This shift, however, is not (yet) reflected in the data and estimations provided by KNOMAD. As a result, KNOMAD's figures potentially overestimate the actual flow of remittances, given they include these redirected flows through Belgium that originally stem from the UK.

The second main source for Belgium's remittance data is the NBB. With data available for 2022, the NBB provides a more comprehensive picture of remittances for that year. Historically, NBB's figures were based on extrapolations from available data. The data collection system, initially relied on voluntary reports from the postal system. Currently, remittance estimates are derived from payment flows reported by Belgian financial institutions, including banks and MTOs. Belgian banks and MTOs are required to report to the NBB, however banks and MTOs that are governed by the law of another member state of the European Economic Area providing money remittance services in Belgium via their European passport are not always required to report to the NBB, potentially leading to underestimations of remittances. Moreover, the clarity on whether these payment flows represent personal transfers from migrants is not taken into account. Additionally, the reported destination country from MTOs might not reflect the actual destination country as some MTOs report payment flows to their seat country. Nonetheless, the NBB's 2022 data includes disaggregated information by corridor, with additional information on the number of transactions and average transaction amounts per corridor.

Considering the need for yearly data by corridor for the study of remittance from Belgium, KNOMAD's data would be better suited. However, the availability of only the latest bilateral remittance matrix necessitates an alternative approach. KNOMAD does provide yearly remittance outflow data for Belgium albeit in an aggregated form. Therefore, based on the Ratha and Shaw's (2007) methodology the approach involved estimating corridor level remittance outflows from Belgium. This involves using KNOMAD's total outflow figures for Belgium and estimating corridor-level outflows by year for 102 remittance corridors for the period of 2002-2022.

[10] The Ratha and Shaw (2007) method used for the construction of the Bilateral Remittance Matrix involves allocating a country's total remittance inflows in a given year to its emigrant stocks, adjusting for the migrant-sending and receiving countries' per capita income. KNOMAD uses two datasets to construct the Bilateral Remittance Matrix. The first is the UN Population Division estimates of migrant stock by country of origin and destination. The second dataset used in the construction of the Bilateral Remittance Matrix is remittance inflows data constructed as the sum of two components of the IMF's Balance of Payments Statistics: (i) employee compensation and (ii) personal transfers. A country's total remittance inflows in a given year are allocated to its emigrant stocks, adjusting for the migrant-sending and receiving countries' per capita income.

This is done using migrant stock data residing in Belgium by country, provided by STATBEL, and adjusting for the per capita incomes of Belgium and the remittance destination countries. As these are estimates, the limitations are similar to KNOMAD's bilateral remittance matrix and more importantly they are not considered official figures[11]. However, under the lack of suitable data the estimates serve as valuable preliminary insights on the magnitude of remittance flows between Belgium and its remittance corridors.

Transaction costs

Regarding transaction costs, the data availability is considerably limited. The primary, and often only, source of data on transaction costs for Belgium is the World Bank's Remittance Prices Worldwide (RPW) data. This data is collected quarterly in two ways: (1) By researchers posing as customers and contacting firms within each corridor. Researchers collect data within each corridor over a limited period of time, in order to control for fluctuations in exchange rates and other changes in fee structures. There may also be recollections within the following two weeks to ensure data quality standards are met. (2) In an automated way from APIs (Application Programming Interfaces) and websites of different remittances service providers.

Unfortunately, The World Bank's Remittance Prices Worldwide (RPW) data for Belgium presents limitations due to its coverage of only four corridors, with the diaspora size of these corridors' destination countries representing 18.1% of Belgium's total diaspora size as in 2022. This narrow scope hinders a comprehensive data representativeness for the overall transaction costs from Belgium. It poses a significant challenge, particularly in the context of tracking progress towards the SDG 10.c and analyzing the impact of transaction costs on remittance flows in Belgium. To enhance data availability regarding transaction costs, a more frequent data collection exercise is necessary, which encompasses a wider range of corridors.

Good Practices: O-REMIT tracking transaction costs in Belgium

IOM on behalf of the Belgian Directorate-General for Development Cooperation and Humanitarian Aid (DGD), is conducting a study on the costs of remittances in partner countries of the Belgian government. This research is a part of the O-REMIT Project, which seeks to identify cost-effective ways migrant communities in Belgium to send remittances and invest in their countries of origin. As part of the project the O-REMIT team carried out a market analysis, including mystery shopping, to gather insights on the transaction costs when using Money Transfer Operators (MTOs) for sending remittances from Belgium to 21 remittance corridors. The data collected by the O-REMIT team from August to November 2023 provides a highly disaggregated view of the transaction costs for sending remittances at that time, offering detailed insights into the various MTOs, total costs, transfer speeds, and methods of sending and receiving remittances. Although the data is time-specific, it remains a crucial resource amidst the general lack of detailed data on transaction costs. More systematic and ongoing efforts to gather data on transaction costs at this detailed level in Belgium should be more regularly conducted, to better support cost-effective remittance, transparency, and investment practices among migrant and diaspora in Belgium.

The RPW remains the only source offering yearly and quarterly data on transaction costs of remittances from Belgium, making it a pivotal resource for understanding this aspect of the remittance landscape. In the absence of alternative data on transaction costs this report employs the RPW data for estimating the impact of transaction costs on remittance flows from Belgium. This limitation points to the need for more granular data on transaction costs in Belgium.

[11] Limitations include: (a) The incomes of migrants and the costs of living in the migrants' country of origin are both proxied by per capita GDP in Purchasing Power Parity (PPP) terms, which is only a rough proxy; (b) Remittance behavior of second or third-generation migrants who may be recorded as native-born in the remittance source country are not accounted for; (c) There is no way to capture remittances flowing through informal, unrecorded channels.

Focus countries

This report mainly focuses on Belgium's 14 development cooperation partners countries, i.e., Benin, Burkina Faso, Burundi, Democratic Republic of the Congo., Guinea, Mali, Morocco, Mozambique, Niger, Occupied Palestinian Territory, Rwanda, Senegal, Tanzania, Uganda. These countries are particularly significant for Belgium as strong governmental, multilateral and non-governmental cooperations are established with these countries, as well as humanitarian aid actions in some cases (FPS, 2022). The O-REMIT team also chose to add 7 additional countries to be mainly analyzed, i.e., Brazil, India, Indonesia, Israel, Philippines, Thailand and Türkiye, based on a variety of indicators including but not limited to remittance volume, diaspora size in Belgium and geographical spread.

3. BELGIUM'S REMITTANCES TRENDS

This section provides an overview of the remittance outflows and transaction costs in Belgium, focusing on the patterns and trends observed in the data. It then delves into a more detailed examination, breaking the remittance outflows focusing on Belgium's 14 partner countries[12] and the 7 additional countries[13] chosen by the O-REMIT team.

3.1. Remittance trends in Belgium

Figure 1 offers a comprehensive view of Belgium's remittance outflows over the past two decades:

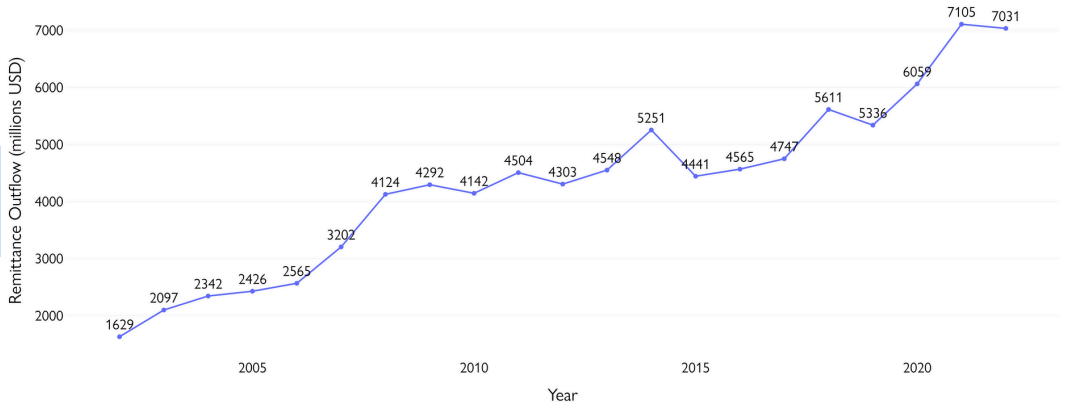


Figure 1: Total remittance outflow from Belgium (2002-2022)

Source: KNOMAD/World Bank, 2023

Over the past two decades the outflow of remittances from Belgium have considerably grown, reaching by 2022 a total of 7031 million USD. While there are a few years where remittances have decreased there is a very notable dip in remittances in 2015. This downturn coincides with a global deceleration of remittances flows, largely driven by weak economic growth in Europe, a downturn in the Russian economy, and the depreciation of the euro and ruble, this global slowdown affected most developing regions, particularly Europe and Central Asia, where flows were expected to decline by 12.7 percent (The World Bank, 2015).

Belgium is an important remittance-sending country in Europe, with these remittances holding substantial potential for the development of receiving countries. Figure 3 presents the top remittance destinations for 2022 from Belgium to developing countries[14], offering a more targeted view of where these funds are directed:

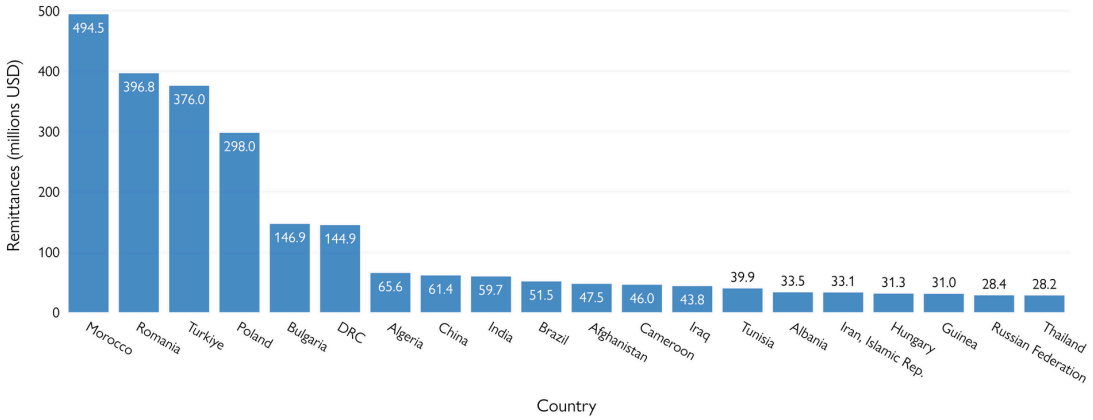
[12] Namely Benin, Burkina Faso, Burundi, Democratic Republic of the Congo., Guinea, Mali, Morocco, Mozambique, Niger, Occupied Palestinian Territory, Rwanda, Senegal, Tanzania, Uganda.

[13] Namely Brazil, India, Indonesia, Israel, Philippines, Thailand and Türkiye.

[14] According to the IMF's classification for developing countries, see https://www.imf.org/en/Publications/WEO/weo-database/2023/April/groups-and-aggregates

Figure 2: Top remittance recipient countries from Belgium (2022) – Developing countries

Source: Estimation based on Ratha and Shaw's (2007) methodology



Morocco, Romania, and Türkiye emerge as the more prominent remittance recipient countries from Belgium. Notably, these 3 countries have relatively bigger diasporas residing in Belgium, as of 2022 with 233,334 Moroccan, 109,176 Romanian, and 103,019 Turkish nationals residing in Belgium, according to STATBEL. These corridors have also been recognized by the NBB as some of the most critical remittance corridors for Belgium.

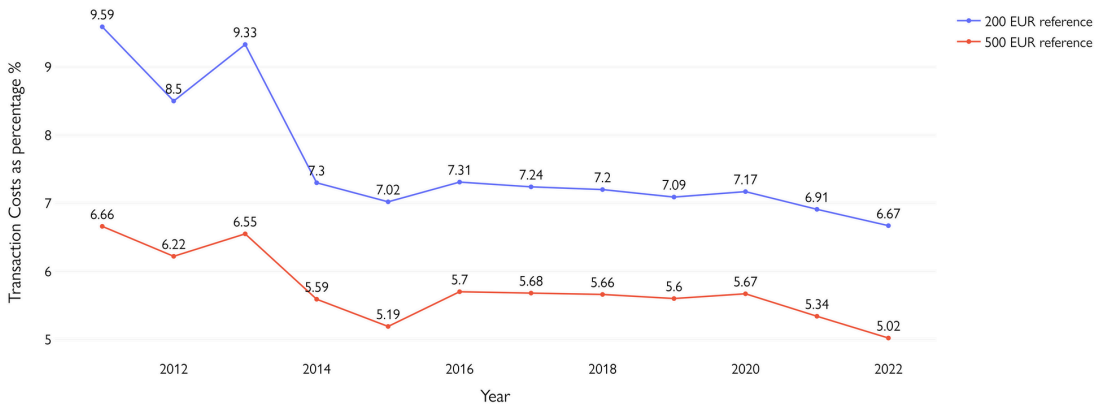
3.2. Transaction costs in Belgium

Transaction costs, while typically taking up an insignificant portion in large financial flows such as those in international trade, FID, or ODA, become a substantial issue with regards to smaller remittance transfers. Indeed, remittances usually consists of smaller financial amounts, which means that these transaction costs can be proportionally high. In Belgium, remittance service providers can charge up to 14% of the total amount for handling a remittance transfer of 200 EUR[15], a cost usually borne by the remittance sender. This high cost places a financial burden on both on the remittance senders and the recipients, who receive less from their family members' efforts abroad. Lowering the costs of remitting money is would hence be beneficial in several ways. It would increase the disposable income of migrants and their families back home, encourage the use of formal channels for remittances and would consequently positively impact the recipient country's foreign account balance. Importantly, reducing transaction costs does not necessarily mean reducing the profits of remittance service providers. Lower prices could lead to more frequent transactions by migrants, capturing some of the market share currently held by informal remittance channels, thereby offering increased business to formal remittance service providers.

According to the RPW data the average transaction costs in Belgium have been decreasing since 2011:

Figure 3: Average transaction costs from Belgium[16]

Source: The World Bank Remittance Prices Worldwide (RPW)



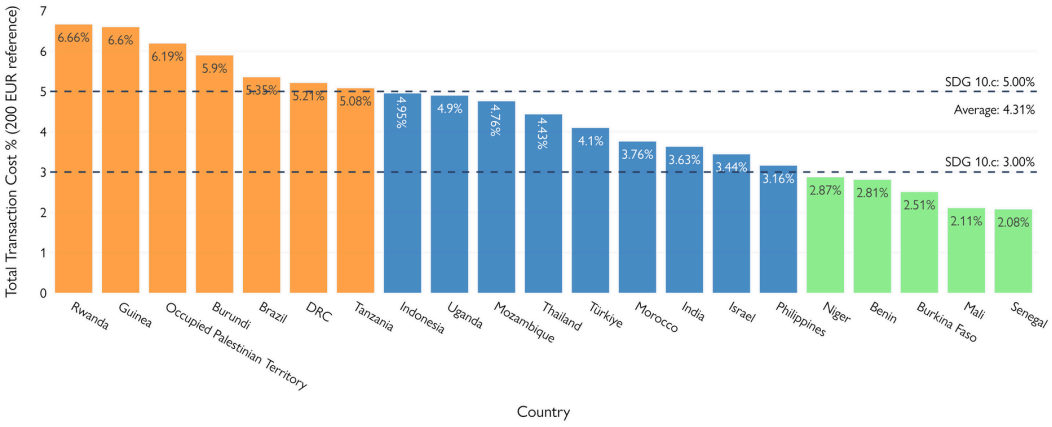
[15] O-REMIT Market Analysis, IOM Belgium & Luxembourg, 2023.

[16] Transaction costs, as reported by the RPW, represent the total percentage fee charged by a remittance service provider on the transfer amount.

As shown in Figure 3, transaction costs for a 500 euro transfer are lower compared to 200 euro transfer in Belgium. This difference is primarily due to the flat nature of certain fees associated with a remittance transfer, which become proportionally less significant as the amount increases[17]. However, these costs are still considerably higher than the targets set by SDG 10.c.

Although the RPW data offers the benefit of providing transaction cost data per year, its coverage is restricted to a limited number of corridors. To complement this, a comprehensive market analysis/mystery shopping was conducted by the O-REMIT team. The data collection covered 21 corridors between August and November 2023, and yielded critical insights into the dynamics of transaction costs at a highly disaggregated level in Belgium:

Figure 4: Average transaction costs from Belgium by corridor (2023)
Source: O-REMIT Market Analysis, 2023



Among the 21 corridors covered, only 5 fall below the SDG 10.c target of reducing transaction costs to less than 3%, with the average cost of remitting from Belgium being 4.31%. SDG 10.c also calls to eliminate all corridors with transaction costs above 5%. Notably, within the 21 corridors covered, 7 exceed this 5% threshold. Although the data provides a snapshot limited to the specific period of data collection, the data underlines the ongoing need for efforts to meet SDG 10.c targets by 2030. Understanding the influence of transaction costs on the outflow of remittances from Belgium is crucial. A comprehensive understanding of the cost dynamics is key to addressing the broader economic implications of high transaction costs.

3.3. Belgium's partner countries & relevant corridors

Among the 21 corridors covered, only 4 fall below the SDG 10.c target of reducing transaction costs to less than 3%, with the average cost of remitting from Belgium being 4.31%. SDG 10.c also calls to eliminate all corridors with transaction costs above 5%. Notably, within the 21 corridors covered, 7 exceed this 5% threshold. Although the data provides a snapshot limited to the specific period of data collection, the data underlines the ongoing need for efforts to meet SDG 10.c targets by 2030. Understanding the influence of transaction costs on the outflow of remittances from Belgium is crucial. A comprehensive understanding of the cost dynamics is key to addressing the broader economic implications of high transaction costs.

[17] A "flat fee" is a set amount charged for a transaction, regardless of the size of the transaction. This means whether 200 euros or 500 euros are sent, the flat fee charged by the remittance service provider will be the same.

Under this context, Figures 5 and 6 present the trends in remittance outflows to these 21 countries:

Figure 5: Belgium remittance outflow to the 21 countries of interest

Source: Estimation based on Ratha and Shaw's (2007) methodology

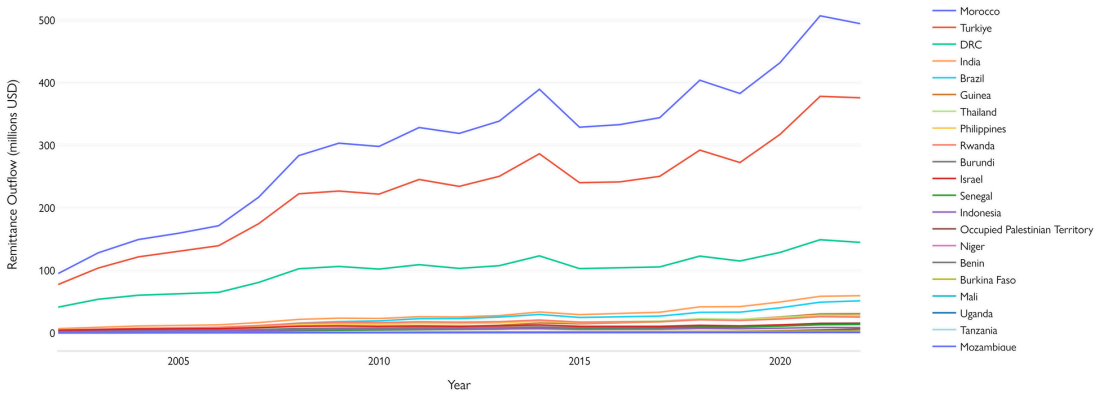
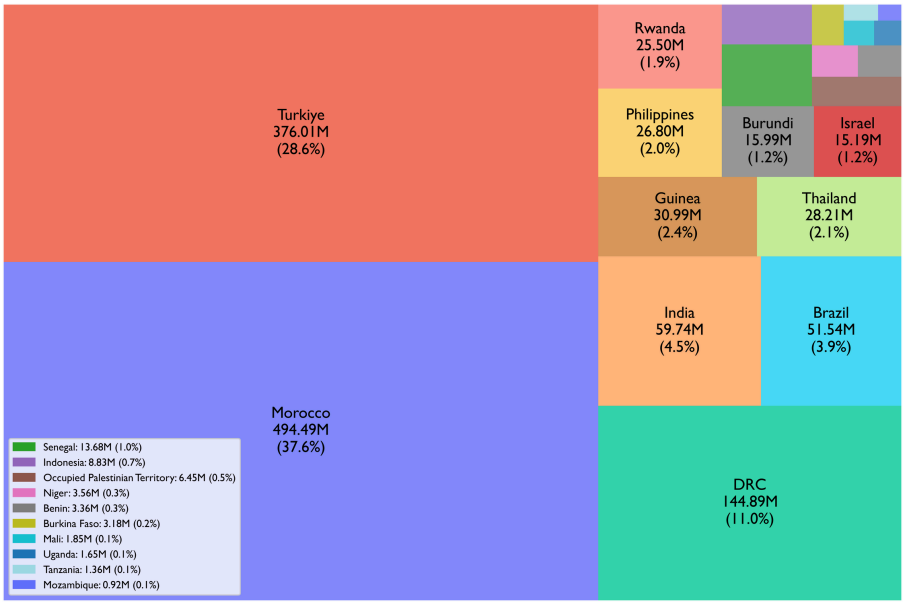


Figure 6: Belgium remittance outflow to the 21 countries of interest, 2022 (in million USD)

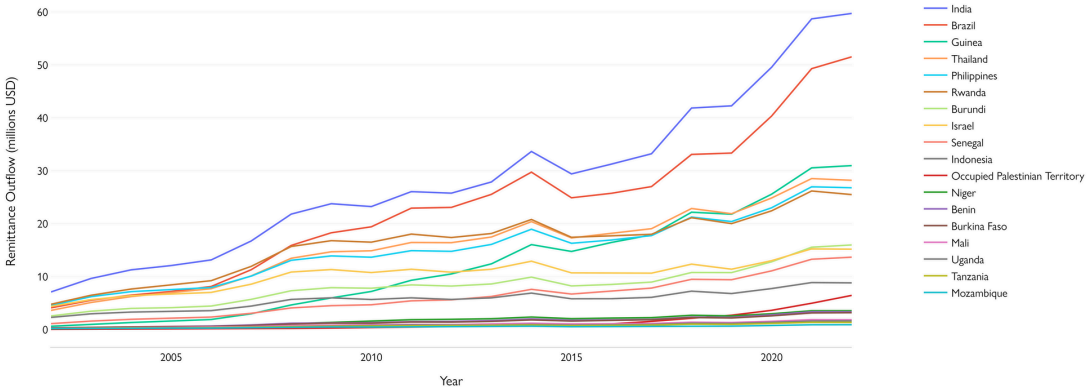
Source: Estimation based on Ratha and Shaw's (2007) methodology



Among the selected remittance destination countries from Belgium, Morocco, Türkiye and the Democratic Republic of Congo show the highest remittance levels, in 2022 with 494.5 million USD, 376 million USD and 144.9 million USD respectively (see figure 6). There is a stark contrast between the remittance levels of these 3 countries that markedly surpasses that of the other countries. To provide a more detailed view of the remittance trends of the other countries, Figure 7 shifts the focus to explore the remittance outflow excluding Morocco, Türkiye and the Democratic Republic of Congo.

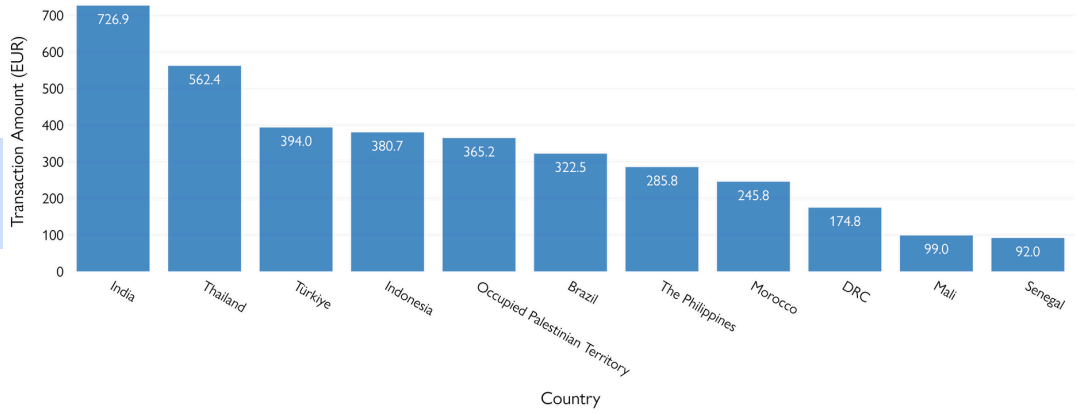
Figure 7: Belgium remittance outflow excluding Morocco, Türkiye and DRC

Source: Estimation based on Ratha and Shaw's (2007) methodology



Over the past two decades, the flow of remittances to the selected countries has generally been one of growth, highlighting the increasing significance of these financial flows, with some countries having experienced more pronounced growth than others. Nevertheless, it is essential to interpret these findings with caution due to their reliance on estimations, given the existing data limitations. Despite these constraints, the data provides a valuable preliminary insight on the magnitude of remittance flows between Belgium and these countries. This overview offers an understanding of the dynamics at play, though future research and more accurate data could further refine our insights into these crucial economic connections.

Figure 8: Belgium average remittance transaction amount (2022)
Source: National Bank of Belgium (NBB), 2022



While KNOMAD offers aggregate data on the outflow of remittances, the NBB provides more detailed insights regarding the average transaction amounts for 11 out of the 21 countries for the year 2022. For instance, India recorded the highest average transaction amount at 726.9 EUR, while Senegal reported the lowest at 92 EUR. This disparity is intriguing, especially considering that Senegal has the highest volume of transactions, totaling 9.5 million transactions in 2022. This potentially suggests a preference in Senegal for sending smaller amounts more frequently, a strategy that could reflect broader socio-economic practices or remittance sending behaviors specific to the Senegalese diaspora. Lastly, the weighted average transaction amount adjusted by the volume of transactions is 286 EUR.

4. KEY FINDINGS: DRIVERS OF REMITTANCE FLOWS

Belgium has seen substantial growth in the outflow of remittances over the last two decades, it is therefore essential to identify the drivers behind this trend. Understanding these influencing forces is key to comprehending the dynamics of remittance flows. Such knowledge is crucial for designing effective strategies to support migrant communities who depend on these financial transfers. This section provides the key findings from the statistical analysis.

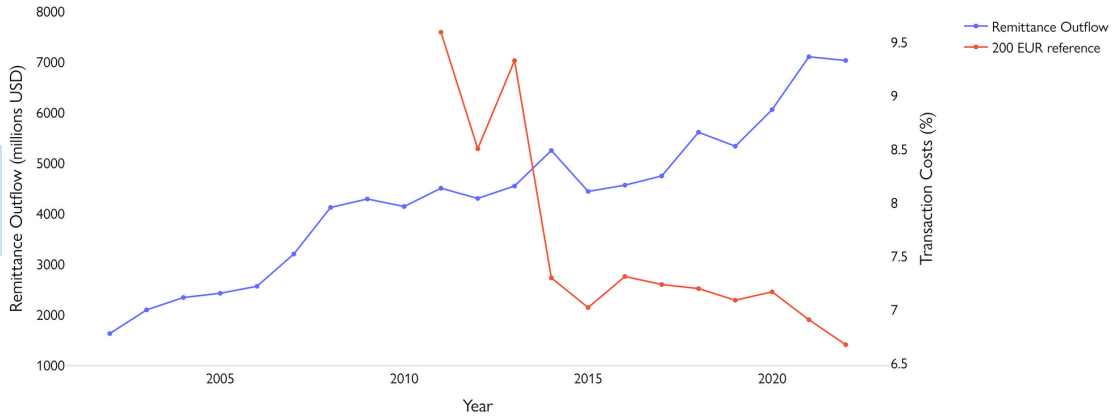
4.1. Transaction costs

Figure 9 overlays the trends of the average transaction costs associated with a 200 EUR transfer with the outflow of remittances from Belgium. Specifically, it illustrates a declining trend in average transaction costs over the past decade. It can be observed that the reduction in transaction costs may have played a facilitating role in the increase of remittance outflows from Belgium[18].

[18] It is also possible that higher remittance flows influence a reduction in transaction costs, this situation can arise as the more remittances are sent, competition among service providers might increase or economies of scale may arise, both of which could lower the cost of sending money. This creates a challenge for our analysis as it becomes an issue to tell which is influencing which—do lower costs lead to more remittances, or is it the other way around? To see how this challenge was addressed quantitatively please refer to the "Data Analysis" section on Annex II.

Figure 9: Remittance outflows vs Average transaction costs (200 EUR) - Belgium

Source: Data on Remittance Outflow obtained from KNOMAD, data on transaction costs obtained from the RPW



The relationship between remittance volumes and transaction costs is further corroborated by the results of the statistical analysis. The results indicate that transaction costs have played a significant role in influencing remittance outflows from Belgium over the past decade. The results indicate that a decrease of 1% in average transaction costs is associated with an increase in remittances that ranges from 1.078% to 0.969%[19] [20]. In the upper tranche this relationship is more than proportional, highlighting a higher sensitivity of remittance outflows to changes in transaction costs. To put this into perspective, considering the total remittance outflow of 2022 in Belgium, which amounted to 7031 million USD, 1.078% of this value amounts to 75.8 million USD.

What does this mean?

The statistical findings are particularly noteworthy. The results imply a highly responsive nature of remittance volumes to changes in transaction cost, indicating that migrants in Belgium are acutely sensitive to the cost of sending remittances, adjusting their remittance behaviors accordingly.

Such a marked response to changes in the average transaction costs suggests the potential existence of informal remittance channels in Belgium. In a market without informal channels, where only formal methods of remitting money exist, a change in transaction costs might not significantly impact the total volume of the outflow of remittances. Migrants may continue to use formal channels irrespective of cost changes or might opt to save their money instead. However, the presence of informal channels introduces an alternative for migrants, especially when formal transaction costs rise, thereby influencing the overall remittance landscape. The trend of decreasing transaction costs over the past decade, coupled with an increase in remittance outflows, could indicate a gradual reduction of informal remittance channels in Belgium[21].

The statistical results highlight the significant impact of reducing transaction costs for remittances. Lower transaction costs enable migrants to send a greater proportion of their earnings, thereby contributing more significantly to the economies of their countries of origin. This has implications for development policy: as remittances are a crucial source of foreign income for many developing countries, policies designed to increase formal remittances need to focus on decreasing the cost of remitting through formal channels. However, despite progress made, transaction costs in Belgium are still a distance away from reaching the SDG 10.c target of 3% by 2030.

[19] This effect is statistically significant at the 5% level and robust to using different controls, see Annex II for the estimation methodology.

[20] The coefficients are similar to the ones found by Ahmed, Mughal & Martinez-Zarzoso (2021) where the authors estimated the impact of transaction costs on remittances to developing countries.

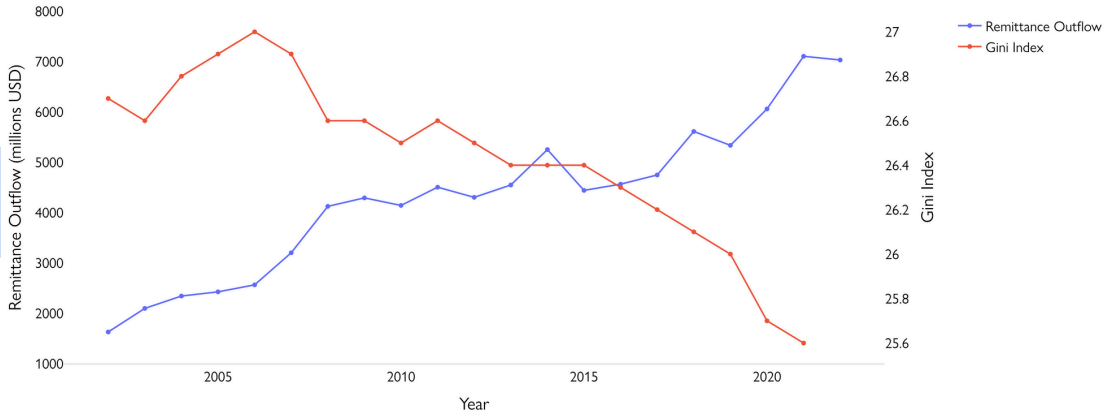
[21] To further understand the dynamics of informal remittance outflows, a comparative analysis could be conducted. This could involve estimating the average remittance amount sent through a specific corridor and comparing it with the total outflow of formal remittances and the size of the migrant stock from that corridor that resides in Belgium.

4.2. Inequality

Figure 10 displays the trends in inequality, as measured by the Gini Index[22], alongside the total outflow of remittances from Belgium. Similar to the observed pattern with transaction costs, the level of inequality in Belgium has been predominantly decreasing over the past two decades, particularly more pronounced in the last decade. Notably, in 2010, Belgium's Gini Index stood at 26.5 while by 2021, the latest year for which data is available, the index had decreased to 25.6.

Figure 10: Remittance outflows vs Inequality - Belgium

Source: Data on Remittance Outflow obtained from KNOMAD, data on transaction costs obtained from the SWIID [23]



The statistical analysis provides insights on the substantial impact of inequality on the outflow of remittances from Belgium. The results reveal that a reduction of one point in the Gini Index, is associated with an increase of up to 33% in the total outflow of remittances from Belgium[24] . This magnitude of change is heavily important and highlights the profound influence of inequality on remittance behaviors.

What does this mean?

The Gini Index[25] is a measure of income inequality; therefore, the statistical results indicate that as income distribution in Belgium becomes more equitable, there is an increase in the volume of remittances sent. Given that remittances are assumed to be predominantly sent by migrants, these results imply that migrants are particularly responsive to changes in income distribution in Belgium. However, income inequality typically results from a range of other inequalities (Kim, Chichhyeon, & Hong, 2020), including inequalities related to gender, social class, employment status, migration status, or inequalities in access to services, i.e., education and health among others. Various IOM reports [26] [27] [28] [29] [30] have highlighted these vital aspects as migrants are particularly vulnerable to these forms of inequalities in their host countries. Migrants typically face challenges, such as limited local networks, language barriers, and a lack of financial resources. Vulnerabilities are particularly acute in situations of forced displacement. The situation is further complicated by the fact that many of these inequalities remain invisible due to the lack of comprehensive data on these specific issues. This lack of visibility hinders the full understanding and the ability to address these issues effectively. These inequalities not only affect the well-being of migrants but also their capacity to support families back in their countries of origin in the form of remittances.

[22] The Gini index measures the extent to which the distribution of income or consumption among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.

[23] For more information see https://fsolt.org/swiid/

[24] This effect is statistically significant at the 1% level.

[25] The Gini Index is widely used in research due to the relative ease of obtaining data on income as these can be obtained from tax records, employment statistics, household surveys, and other financial documentation that are regularly collected by governments and financial institutions.

[26] IOM. PROGRESS: Periodic Global Report on the State of Solutions to Internal Displacement. 2023. https://dtm.iom.int/progress

[27] IOM. World Migration Report. 2022. https://publications.iom.int/system/files/pdf/WMR-2022.pdf

[28] IOM. Handbook on Protection and Assistance to Migrants Vulnerable to Violence, Exploitation and Abuse. 2019. https://publications.iom.int/books/iom-handbook-migrants-vulnerable-violence-exploitation-and-abuse

[29] IOM. 2021. https://publications.iom.int/books/leave-no-migrant-behind-2030-agenda-and-data-disaggregation

[30] IOM. Gender and Migration Data: A guide for evidence-based, gender-responsive migration governance. 2021. https://publications.iom.int/books/gender-and-migration-data-guide-evidence-based-gender-responsive-migration-governance

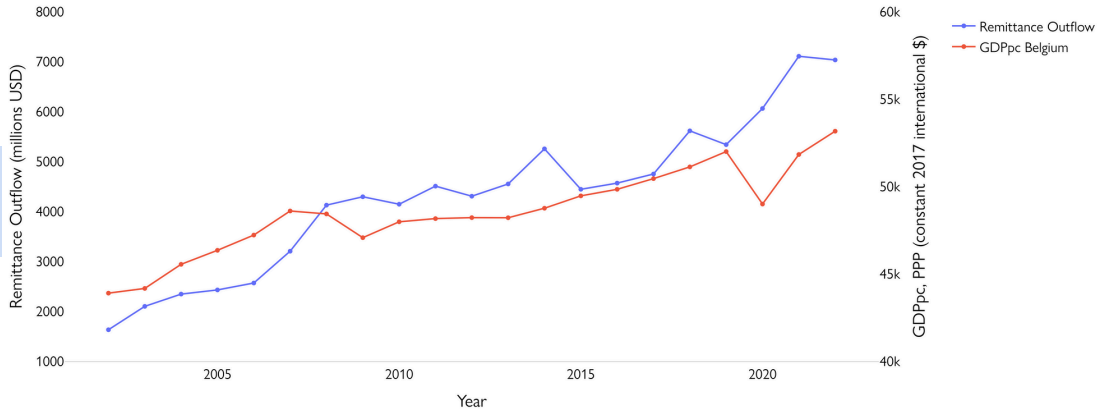
It is indeed heartening to observe that as income inequality in Belgium has reduced over the years, migrants appear to be reaping the benefits, potentially having more disposable income to support their families abroad. However, to sustain and enhance this positive trend, it is crucial to delve deeper into the specific challenges and inequalities faced by migrants in Belgium. Conducting targeted migrant-focused surveys and qualitative studies would be instrumental in gaining deeper insights into these issues, thereby paving the way for more effective support and empowerment of migrants and diaspora in Belgium.

4.3. Income

Income significantly influences the level of remittances sent by migrants. The rationale is straightforward: higher earnings enable migrants to potentially send more remittances home. Notably, the financial situation in both countries of origin and destination is crucial. Migrants often adjust remittances based on their income in the host countries and their families' economic needs back home. Figure 11 shows the trend between total remittance outflow from Belgium and the GDP per capita at PPP (Purchasing Power Parity) at constant 2017 international $[31].

Figure 11: Remittance outflows vs GDP per capita (constant 2017 international $) - Belgium

Source: Data on Remittance Outflow obtained from KNOMAD, data on GDPpc obtained from The World Bank



In examining the trends between Belgium's GDP per capita and the outflow of remittances, an interesting pattern emerges. While the trends in GDP per capita of Belgium and remittances seem to follow a similar path, the results of the statistical analysis reveal a different story. The statistical results indicate that Belgium's GDP per capita does not significantly influence the level of remittances sent by migrants in Belgium[32]. This finding is quite surprising as a stronger connection might have been initially expected between the economic performance of Belgium and the remittances sent. Conversely, the GDP per capita of the destination countries where remittances are sent does have a significant effect on the level of remittances[33] [34]. The results indicate that a 1% increase in the GDP per capita of destination countries leads to an increase in remittances from Belgium, ranging from 0.661% to 0.302%. This suggests that the economic conditions of the receiving countries are more influential in determining the volume of remittances sent from Belgium.

[31] For this report GDP per capita at PPP (at constant 2017 international $) is used as a proxy for income. This is particularly effective for analysis purposes as GDP per capita at PPP offers a more realistic comparison of living standards and economic purchasing power across different countries, accounting for cost of living and inflation rates. It is a comprehensive measure that aligns more closely with the actual purchasing power of individuals in different countries, making it a suitable stand-in for income data, which is often hard to obtain accurately for both Belgium and the destination countries.

[32] [1] T-tests were conducted to assess the impact of Belgium's GDP per capita on remittance outflows. The results did not show a statistically significant impact ($p>0.1$), suggesting that GDP per capita of Belgium does not have a measurable effect on the total outflow of remittances.

[33] [2] Given the large number of corridors being analyzed the trend for GDPpc were not displayed graphically as presenting this data on a single graph would make it difficult to discern clear trends.

[34] [3] This effect is statistically significant at the 1% level.

What does this mean?

While at first this may be surprising, these results further solidify the findings in section 4.2. It is important to understand that GDP per capita is essentially an average measure of income and does not reflect how income is distributed. Thus, in the context of Belgium, the overall increase in GDP does not have a substantial impact on the outflow remittances because what appears to be more relevant is how income is redistributed within Belgium rather than the average level of income.

Regarding the GDP per capita of the destination countries, the statistical results revealed that as income levels in these countries increase, so do the remittances sent there. This influence can be attributed to changes in the cost of living relative to income. As the average income in countries of origin increases, migrants may need to send more remittances back home to support their families, especially if living costs are higher back home. Conversely, if the average income in the country of origin is lower, a smaller portion of the income of the migrant living abroad might suffice for supporting their families. However, this trend could reverse if the income per capita in the countries of origin increases beyond a certain threshold, potentially leading to a decrease in remittances after that point (Kpodar & Amir Imam, 2022, p. 14).

4.4. Migrant stock

The magnitude of the migrant stock in Belgium is a significant factor influencing remittance flows. As of 2022, the migrant population in Belgium comprised approximately 2,1 million migrants. This figure becomes even more substantial when second-generation migrants are included, with estimates reaching around 4 million, according to data from STATBEL.

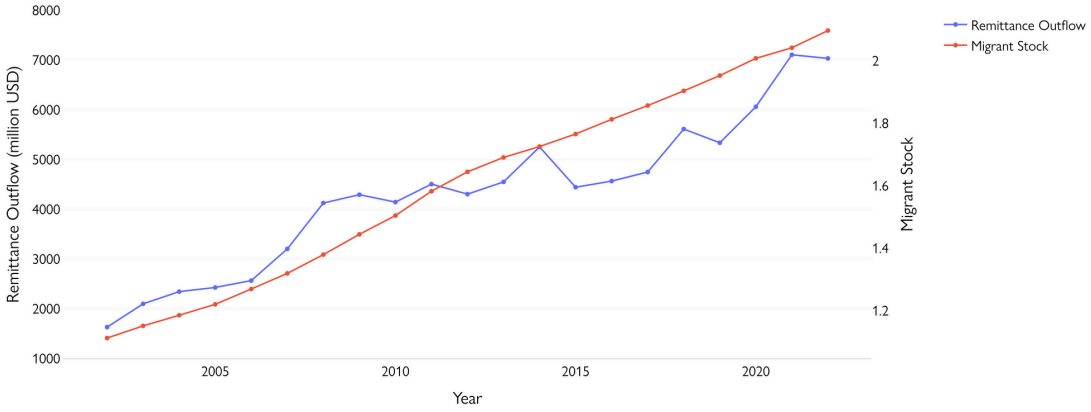


Figure 12: Remittance outflows vs Migrant stock – Belgium

Source: Data on Remittance Outflow obtained from KNOMAD, data on Migrant Stock obtained from STATBEL

Figure 12 illustrates a notable pattern between the size of the migrant stock in Belgium and the outflow of remittances. The results of the statistical analysis further supports this observation, revealing that a 1% increase in the size of the migrant population is associated with a 1.024% rise in remittance outflows[35].

What does this mean?

It is well understood that a larger migrant stock correlates with increased remittance flows, depending on the demographic composition and skill composition of the stock. However, the impact of the migrant stock may influence the outflow of remittances through other channels as well. One alternative of how the migrant stock can potentially boost remittance flows lies in the ease of integration for newcomers. A larger, established migrant community often means a stronger support network (MacKenzie & Forde, 2012; Shayan, 2021). This network can facilitate smoother integration for newcomers, who may find it easier to secure employment and navigate life in a new country. As they settle more efficiently, their capacity to support families back home financially increases, consequently increasing remittance flows.

[35] This effect is statistically significant at the 1% level.

It is worth noting that the current analysis primarily focuses on first-generation migrants. However, incorporating second-generation migrants could reveal a more pronounced effect on remittance trends, considering their potential economic contributions. Unfortunately, the lack of detailed, country-specific data for second-generation migrants presents a challenge in fully exploring this dimension. A more granular understanding of the second-generation migrant community and its remittance behaviors could yield deeper insights into the impact of the migrant stock on remittances.

4.5. Other factors

Bilateral exchange rate

The significance of bilateral exchange rates in remittance flows is well-acknowledged, primarily because they can directly affect the value of money transferred across borders. Typically, favorable fluctuations in these rates can increase the local currency value of remittances, potentially influencing migrants to send more money home. Conversely, unfavorable shifts in exchange rates may discourage senders due to diminished value, leading them to potentially opt for informal channels that offer more advantageous rates compared to formal ones. Generally, stable exchange rates are thought to encourage consistent remittance flows, minimizing the risk associated with currency value changes (Lopez, Molina, & Bussolo, 2007). Bilateral exchange rates were included in the statistical analysis, however, the results indicated that the bilateral exchange rate seemingly has a non-significant effect on the remittance outflow levels of Belgium. This finding challenges the conventional understanding that the exchange rate directly influences remittance volumes, suggesting that, at least in Belgium's case, other factors may play a more critical role.

The reasons behind this unexpected outcome are multifaceted. The reliance on estimations for the outflow of remittances rather than actual corridor disaggregated outflow data could obscure the true influence of exchange rate fluctuations on remittance behaviors. Additionally, the economic stability of Belgium, including a strong currency and the varied economic backgrounds of its migrant population, might lessen the perceived impact of exchange rate changes. It is also possible that the inclusion of eurozone countries in the analysis, where the euro serves as a common currency, further complicates the assessment of exchange rate impacts, as fluctuations within this group are non-existent.

Diaspora Policies

Diaspora policies enacted by countries of origin can represent a pivotal factor in shaping the volume of remittances. These policies, which vary widely in form and function, are designed to engage diaspora communities and can significantly influence remittance flows. An example of such a policy is Nigeria's initiative to extend a naira[36] incentive to diaspora members to encourage the increase of remittance inflows. By offering an additional naira for every dollar sent through official channels, the Nigerian government aimed to stimulate diaspora contributions to the Nigerian economy[37]. The policy directly targets the financial incentive structure surrounding remittances. The effectiveness of diaspora policies in modifying remittance behaviors lies in their ability to provide tangible benefits for using formal remittance channels, thereby potentially reducing the reliance on informal transfer methods (Siegel & Mori, 2024). These incentives do not only make formal channels more attractive due to better exchange rates or financial rewards but also enhance the visibility and traceability of remittance flows.

Quantifying the precise impact of diaspora policies on remittance outflows remains challenging. The diversity of diaspora communities, the variety of policy instruments, and data availability contribute to this difficulty. Moreover, the effectiveness of these policies can be influenced by factors such as the ease of access to formal remittance services, the level of trust in financial institutions, and the comparative costs of sending remittances through official versus unofficial channels. However, insights from IOM Migration Governance Indicators (MGI)[38]shed some light on the adoption of diaspora policies: The MGI assessments have over 99 indicators that offer a comprehensive picture of a country's migration governance[39]. Among the 102 countries evaluated for the analysis of Belgium's remittances landscape in this report, MGI assessments have been completed for 48. Figure 13 displays 4 MGI indicators that are related to diaspora policies and remittances for the 48 countries.

[36] Nigerian Naira is the standard monetary unit in Nigeria.
[37] For more information see This effect is statistically significant at the 1% level.
[38] For more information on the MGI see https://www.migrationdataportal.org/overviews/mgi
[39] For more information on MGI methodology and data collection process, see https://publications.iom.int/books/migration-governance-insights-informing-people-centred-migration-policies

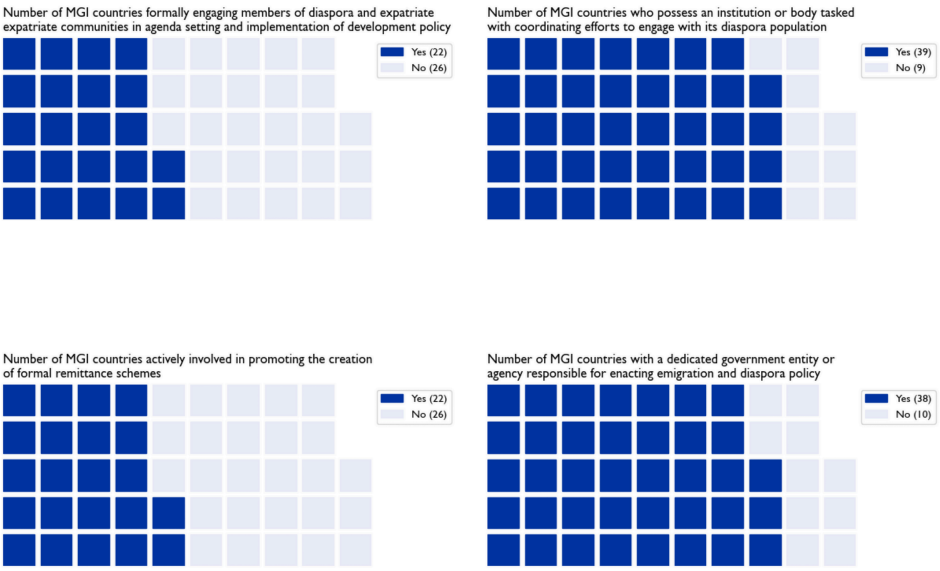


Figure 13: MGI indicators on diaspora policies
Source: Migration Data Portal

It can be noted that there is a majority widespread establishment of diaspora-focused institutions and policies among the covered countries which indicates a strategic acknowledgment of the important role diaspora communities play in national development in these countries. While the quantifiable impact of these policies on the outflow of remittances remains challenging, the MGI data suggests a robust commitment to leveraging diaspora resources. Nevertheless, this proactive engagement could serve as a catalyst for increased formal remittance flows and contributing to a more transparent and efficient remittance ecosystem.

Digital Literacy

Recognizing the impact of digital literacy on remittances is crucial, especially as the world increasingly moves towards digitalization. Digital literacy enhances access to financial services, potentially reducing costs and fostering financial inclusion. Moreover the improvement of access to financial services further promotes the shift from informal to formal remittance channels (Emara & Zhang, 2021) which not only supports economic growth but also aligns with efforts to boost financial inclusion across various demographics and geographies.

Recent decades have witnessed a significant surge in Information and Communication Technologies (ICT) usage, fundamentally altering economic and social activities worldwide. The expansion of mobile telecommunications and internet access has been identified as a critical factor in economic growth, especially in regions like sub-Saharan Africa (Lee et al., 2012; Bojnec and Ferto, 2012). In El Salvador, the extent of digitalization within households has been identified as a crucial factor influencing remittance inflows. Specifically, a higher level of digitalization in a household significantly boosts the likelihood of receiving remittances (Gascon, Larramona, & Salvador, 2023). Among BRICS countries (Brazil, Russia, India, China and South Africa) it has been revealed that improvement in digitization increases remittance inflows, but once a certain threshold is reached, further digitalization may lead to a marginal gains in the rate of remittance inflows implying that digital penetration has a more significant impact at its lower levels (Emara & Zhang, 2021). These technological advances facilitate more efficient transactions, including electronic commerce and banking operations, thereby impacting remittances. The digitalization of financial services presents an opportunity to lower remittance costs and enhance financial inclusion.

However, while there is a recognition of digital literacy's role in influencing remittances, a gap in data has limited a comprehensive analysis of it within this report. To more precisely gauge the influence of digital literacy on remittances, it would be more insightful to examine this relationship at a country-specific or corridor-specific level for Belgium's most important remittance corridors. Such an approach allows for a deeper understanding of how digital literacy affects remittances in various contexts, acknowledging that the magnitude and mechanisms of impact may differ significantly across different geographic areas and migrant communities.

5. NEXT STEPS

The review of datasets on remittances and transaction costs in Belgium, crucial for measuring progress towards SDG 10.c and understanding remittance behavior in Belgium, revealed notable data gaps. These gaps are particularly noteworthy for remittance data and transaction costs disaggregated by corridor. Regarding remittances, this gap is partly due to varying definitions and statistical measurement approaches of remittances. For transaction costs, while the definition is not contested, the primary challenge lies in the very limited data collection, leading to concerns about transparency and representativeness. The data available potentially does not fully capture the complexity of the transaction cost landscape in Belgium. These data limitations resulted in the need to develop assumptions in this report to enable the statistical analysis of Belgium's remittance landscape (see Annex II). However, these assumptions underline the need for more robust and comprehensive data collection. Improved and more detailed data, including corridor-specific data, could offer hidden insights into various dynamics of remittances in Belgium.

Therefore, addressing these data gaps and replicating an analysis similar as the one conducted in this report with new and more granular data will be necessary. This approach will not only refine the understanding of remittance trends and drivers in Belgium but also help in crafting targeted strategies to support the migrant diaspora in Belgium and track progress towards achieving SDG 10.c goal.

Transaction costs

To effectively monitor transaction costs in Belgium and work towards the SDG 10.c goal of reducing costs to 3%, a comprehensive data collection framework is needed. This framework needs to cover a broader range of remittance corridors and include frequent data collection to account for seasonal variations. Specifically, it should focus on gathering data on transactions of 200 EUR[40], as this is the reference amount highlighted in SDG 10.c, ensuring comparability with the SDG framework. Data collection should incorporate a variety of transfer and receiving options, as well as transaction speeds. Additionally, the ability to disaggregate data by the type of remittance — whether digital or cash — is also crucial. This differentiation is key to assessing the coverage of digital remittances and to compare the costs associated with different types of transactions. Moreover, incorporating qualitative data is essential to understand the underlying reasons behind transaction costs and the experiences of remittance senders and receivers. As the trend moves towards greater use of digital channels for remittances, understanding these cost dynamics becomes increasingly important. Greater transparency in transaction costs is not only vital for tracking progress but could also influence the market, potentially leading to lower costs. As remittance service providers adjust their prices in response to this transparency, it could encourage more remittances to be sent through formal channels.

Collaboration among key stakeholders is necessary to establish this data collection framework. Agencies such as IOM, the NBB, the Directorate-General for Development Cooperation and Humanitarian Assistance (DGD), and members of the remittance provider sector must coordinate to develop a shared vision and objectives for collecting transaction cost data. Making this data publicly available will benefit migrants in making cost-effective remittance decisions and assist in monitoring progress.

[40] It's important to recognize that in markets with significant fluctuations in transaction costs, and where these costs vary based on the amount transferred, data collection methods like those used in the Remittance Prices Worldwide (RPW) database may only offer an approximate understanding of the actual transaction costs. For instance, operators often employ a range of pricing tiers for transactions between 10 USD and 5,000 USD, each with different fees and exchange rates. Therefore, data captured at a single threshold, such as 200 USD, provides just a snapshot and may not fully represent the broader context of transaction costs. This limitation should be considered when interpreting such data, as it does not completely capture the complexity and variability of transaction costs across different amounts (Alvarez, Briod, Ferrari, & Rieder, 2015, p. 45).

Good Practice: Enhancing Remittance Transparency - Mandasoldiacasa.it

In Italy, a noteworthy initiative for monitoring remittance transaction costs is carried out by the website mandasoldiacasa.it. This platform stands out as a pioneering effort in systematically tracking the costs associated with remitting money across a variety of corridors and remittance service providers in Italy. The establishment of this resource was made possible through the collaborative efforts and a shared vision of key stakeholders within Italy's remittance sector. Monthly surveys of the remittance's costs from Italy to 14 corridors allow the data collection on different cost's components for sending remittances in Italy. This collective approach has been instrumental in encouraging transparency and, hence, healthy competition between those operating in the remittance transfer market, supporting the process of the financial inclusion of migrants, promoting greater awareness among migrants regarding the role they play as agents of development by sending remittances, and facilitating informed decision-making to the benefit of policymakers[41].

Remittance Data Collection Approach

Currently, remittances face a significant disparity in their conceptual and statistical definitions, not just in Belgium but internationally, which raises questions about the accuracy of what is being measured. Statistically, remittances within the balance of payments framework are defined based on residency status rather than migratory status. This results in an inability to distinguish between remittances sent by migrant and non-migrant in the final statistics. This challenge has been acknowledged by KNOMAD, which has a thematic group focusing on "types of senders and recipients (by type of migrants)". However, to date, there appears to be limited progress in addressing this issue as no concrete outputs have been found in the development of this report.

To enhance the accuracy of remittance data and truly reflect the impact of migrant communities, it is necessary to disaggregate remittance data based on migratory status. This approach should be in line with the principles and standards established by the UN Expert Group on Migration Statistics Conceptual Framework on International Migration[42]. Moreover, incorporating key demographic variables, namely sex and age, is vital for a comprehensive understanding of migrant remittance behaviors. However, it is important to acknowledge the complexities and challenges inherent in this level of data collection, especially when it involves direct engagement with remittance service providers. Gathering detailed information on the diverse aspects of remittances, including the specifics of sender and recipient demographics, requires a nuanced approach and cooperative efforts from various stakeholders in the remittance process which may explain the current lack of detailed data in this area. Nevertheless, these practical challenges should not discourage the pursuit of a more granular data collection approach on remittances. This endeavor not only aids in crafting more effective policies but also contributes to a deeper understanding of the socio-economic contributions of migrants.

[41] It is important to acknowledge the challenges associated with data collection methods, such as monthly surveys or 'mystery shopping' exercise. Although effective in capturing snapshots of transaction costs, these demand significant resources and may constrain the breadth and depth of data collection efforts. To overcome these limitations, the adoption of automated data collection techniques would be better suited. Leveraging technology, such as APIs (Application Programming Interfaces) from money transfer services if available or deploying web scrapers to collect more frequent cost data, could significantly expand the scope and accuracy of the information gathered.

[42] For more information see https://unstats.un.org/unsd/demographic-social/migration-expert-group/task-forces/taskforce-2

Good Practices: Systematic Remittance Data Collection - Bank of Italy

The Bank of Italy utilizes a structured process for collecting data on remittances, centered around an integrated reporting system enabled by legislative frameworks - the Consolidated Law on Banking (TUB) and the Consolidated Law on Finance (TUF). These laws grant the Bank the authority to require data submission from a very extensive spectrum of financial institutions, including banks and Money Transfer Operators (MTOs) operating in Italy. This data collection is facilitated through an automated approach to data collection and a consolidated central database. However, the system does face challenges, notably in capturing informal or unregulated remittance flows and fully digital transactions.

The data flow serves various institutional purposes, such as prudential supervision and statistical compilation. The system's efficiency is further enhanced by secondary regulations, which detail the reporting requirements, thereby reducing the reporting burden on financial entities. The Bank of Italy's data collection system represents a good practice in the systematic gathering of remittance data, offering insights into cross-border money transfers. The data gathered serves a multitude of functions, from supporting the Bank's supervisory and regulatory roles to informing monetary policy and research.

6. CONCLUDING REMARKS

Belgium stands as a key contributor within the global remittance landscape, showcasing remarkable growth in remittance outflows over the last two decades. This is supplemented by Belgium's varied demographic profile, where migrants alongside second-generation migrants, account for more than a third of the Belgium's population in 2022. Remittances serve as an essential lifeline, providing crucial financial support to family members of migrants in the remittance recipient countries. Given Belgium's considerable remittance outflows and its substantial migrant population, understanding the dynamics of remittance flows becomes necessary.

This report has systematically analyzed Belgium's remittance landscape, utilizing data from diverse sources to explore trends and drivers. The analysis focused on estimating bilateral remittance outflows to 102 corridors and assessing the impact of various determinants. Key findings include:

Total remittance outflows from Belgium have been consistently growing, reaching USD 7031 million in 2022 according to KNOMAD.

Average transaction costs have been steadily decreasing, with the cost for sending a 200 EUR remittance standing at 5.02% in 2022, according to RPW data.

The data analysis identified transaction costs as a significant driver of remittances; a 1% decrease in average transaction costs is associated with an increase in remittances ranging from 1.078% to 0.969%.

Inequality within Belgium has been determined as another significant factor, where a one-point reduction in the Gini Index is associated with up to a 33% increase in the total outflow of remittances from Belgium.

The GDP per capita of Belgium was found not to significantly influence remittance levels. In contrast, the GDP per capita of the remittance destination countries has a notable effect, with a 1% increase leading to a remittance increase ranging from 0.661% to 0.302%.

The size of the migrant stock in Belgium is a crucial driver, where a 1% increase is associated with a 1.024% rise in remittance outflows.

Additional factors, including the diaspora policies of recipient countries and the level of digital literacy, have been identified as having a potential impact on remittance flows. To thoroughly understand the extent of these influences, more focused analyses, either by specific countries or remittance corridors would allow for a quantitative evaluation of how these factors uniquely affect remittance levels, enabling a nuanced understanding of the dynamics at play in different contexts.

Despite these insights, the available data on remittance and transaction costs presents notable gaps, especially at the corridor level, posing challenges and limitations in comprehensively understanding Belgium's remittance landscape and measuring progress towards SDG 10.c. More granular data, including corridor level data that does not rely on statistical estimations, could offer hidden insights into various dynamics of remittances in Belgium. Collaboration among key stakeholders in Belgium's remittance sector is essential for enhancing the accuracy and comprehensiveness of remittance and transaction cost data.

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ANNEX I: DESCRIPTION OF VARIABLES AND DATA SOURCES

Source	Variable	Description
World Bank Remittances Prices Worldwide (RPW)	Transaction costs (%) of sending 200 USD and 500 USD. For this report only the 200 USD reference transaction cost is used in alignment with the SDG framework.	The Remittance Prices Worldwide (RPW) database, compiled by the World Bank, since the first quarter of 2011, includes data from both developed and developing countries. To ensure consistency in the face of exchange rate fluctuations and fee structure changes, the data collection frequency is harmonized across all corridors. The data covers major service providers in each corridor, including leading money transfer operators (MTOs) and banks. It details the transfer costs for remitting two specific amounts - 200 USD and 500 USD. For Belgium, the data specifically includes data for four corridors: DRC, Algeria, Morocco, and Türkiye.
KNOMAD	Remittance outflows	KNOMAD reports remittance outflow data using two components from the IMF's Balance of Payments statistics, specifically personal transfers, and workers' compensation. This data represents the total outflow from Belgium and does not provide corridor-level disaggregation, however, it does offer yearly data.
STATBEL	Stock of migrants	Data on Belgium's migrant population, disaggregated by country of origin, was sourced from STATBEL. This dataset specifically covers first-generation migrants residing in Belgium. While STATBEL does possess information on second-generation migrants, this data is only available in aggregated form. Detailed, country-specific breakdowns for second-generation migrants are not provided by STATBEL due to privacy concerns.
World Development Indicators, World Bank	GDP at PPP prices (2017 international $)	GDP at Purchasing Power Parity (PPP) prices represents the combined total of gross value added by all resident producers in an economy, including any product taxes, and subtracting any subsidies not factored into product values.
UNCTAD	Bilateral exchange rate	Data sourced from UNCTAD provides tracking of annual bilateral currency exchange rates, represented at current market prices.
Financial Access Survey (FAS), International Monetary Fund (IMF)	Financial access: ATMs per 100.000 adults	Number of ATMs per 100.000 adult population in the destination country. The IMF's financial Access Survey is a database used to track the use and access to basic financial services worldwide.

Financial Access Survey (FAS), International Monetary Fund (IMF)	Financial access: Bank branches per 100.000 adults	Number of Banks per 100.000 adult population in the destination country. The IMF's financial Access Survey is a database used to track the use and access to basic financial services worldwide.
Financial Development (IMF)	Financial Development Index	The IMFs Financial Development Index summarizes how developed financial institutions and financial markets are in terms of their depth, access and efficiency. The index ranges from 0 to 100.
Standardized World Income Inequality Database (SWIID)	Income inequality (Gini Index)	The SWIID aims to enhance cross-national research on income inequality by providing highly comparable data on income inequality across countries and over time. It consolidates information from multiple sources, including the OECD, CEDLAS and the World Bank, Eurostat, and national statistical offices. The SWIID offers consistent Gini indices of disposable and market income inequality for 199 countries from 1960 to the present, along with data on redistribution, balancing broad coverage with rigorous comparability.
Migration Governance Indicators (MGI)	MGI Indicators on diaspora policies	The MGI is IOM's flagship programme designed to assist governments in evaluating the comprehensiveness of their migration governance structures. This involves taking stock of their migration policies and identifying well-developed areas and areas with potential for further development in the governance of migration.

ANNEX II: METHODOLOGICAL NOTE

The statistical analysis aimed to estimate the outflow of remittance from Belgium and the impact of relevant remittance drivers on the behavior of remittances, encompassing all corridors and partner countries for which data was available. This exercise aimed to provide insights on trends and drivers of remittances and evaluate progress towards the 3% transaction cost threshold. A thorough examination of existing data sources revealed substantial gaps, particularly at corridor-level and yearly data which are essential for long-term trends analysis. This data is vital not only to understand the patterns of remittance flows in Belgium but also to understand the underlying factors influencing these remittance behaviors providing insights that go beyond correlations.

Remittances

To address the data limitations in analyzing remittance outflows, this report adopted a ground-up approach to estimate corridor level remittance outflows from Belgium based on the methodology outlined by Ratha & Shaw (2007). The variables needed for this estimation were: migrant stock, total remittance outflow, and GDP per capita in PPP terms for both Belgium and the destination countries. The methodology involved the allocation of Belgium's total remittance outflow to specific corridors by year, employing a weighted distribution system. The weights are calculated to reflect the proportion of the total outflow attributable to each corridor, offering insights into how these remittances are potentially distributed:

$$W_i = \frac{M_i\, Y_i'}{\sum_i M_i Y_i'}$$

For any given year, a weight *Wi* is assigned to quantify remittance flows to each destination country . This weight is based on the size of the migrant stock from country *i* residing in Belgium *Mi*, multiplied by the destination country adjusted GDP per capita in PPP terms *Yi'*. The bilateral remittance outflow for a given year for country is then calculated by multiplying with Belgium's total remittance outflow for that year.

$$Y_i' = f(Y_i Y_{BEL}) = \begin{cases} Y_i & if \quad Y_i > Y_{BEL} \\ Y_i + (Y_{BEL} - Y_i)^{\beta} & if \quad Y_i < Y_{BEL} \end{cases}$$

As shown in equation 2, the adjusted GDP per capita in PPP terms *Yi'* is at least equivalent to the per capita GDP of the migrant's home country *Yi*. When Belgium's GDP per capita is higher (*Yi* < *Ybel*) than that of the destination country, the level of remittances is assumed to increase at a decreasing rate. *Yi'* is used to model the fact that migrants remit amounts based on the economics conditions in Belgium and the economic conditions in their countries of origin, and that the differences in incomes proxied by GDP per capita are determinant in this decision. This in turn is reflected in the relative size of the outflow of remittances sent to each corridor. Four *ß* values (0.75, 0.80, 0.85, and 0.9) were selected to estimate the outflow of remittances, providing four potential remittance scenarios for each corridor. For the statistical analysis, the econometric model estimated the impact of the control variables on all four remittances estimations to assess the robustness of the results under varying scenarios. The transaction costs coefficients exhibited only marginal differences across these four specifications. Remittances estimated using the *ß* value of 0.9 were selected for the descriptive trend analysis in the report, following consultations with IOM and a comparative review of the remittance estimations values with the estimations of KNOMAD's Bilateral Remittances Matrix and data from the NBB. On average the remittance estimates based on the *ß*=0,9 fall in between the data reported by these two agencies.

Transaction Costs

To accurately assess how transaction costs impact remittance outflows, it is necessary to have detailed yearly transaction cost data for each corridor. This would allow for creating a panel dataset necessary for the econometric analysis of remittances. However, the RPW only provided data for four remittance corridors from Belgium. Due to the absence of alternative data on transaction costs that would allow for statistical estimations, the adopted approach involved assuming that the average transaction costs from the RPW data are indicative of Belgium's overall average transaction costs. This average was then used to estimate the impact of transaction costs on Belgium's remittance outflows. This assumption is strong, as the transaction costs in the corridors covered by the RPW may not accurately reflect those in other regions or countries. This could potentially lead to skewed results, especially when the analysis is region-specific. However, this method is potentially more justifiable when examining the entire sample, as it offers a uniform metric across all countries, even though it might be less precise for individual countries or regions. This limitation highlights the need for more comprehensive and frequent data collection on transaction costs in Belgium.

Data Analysis

The econometric model employed in this report follows the approach employed by Ahmed, Mughal, and Martinez-Zarzoso (2021). To estimate the impact of transaction costs on the outflow of remittances from Belgium, the two-step Generalized Method of Moments (GMM) estimator is used, incorporating fixed effects to address potential endogeneity in the target variable. However, there's a possibility that transaction costs are endogenously related to remittances. This can occur as higher remittance flows lead to reduced transaction costs due to increased competition in larger markets or economies of scale, creating an identification problem due to reversed causality. To tackle this issue, an instrumental variable approach is implemented.

The chosen instruments are designed to be correlated with the potentially endogenous explanatory variable (transaction costs) while not directly influencing the dependent variable (remittances). These instruments are constructed from the interaction of the share of a destination country's migrant stock residing in Belgium in 2011 with indicators of financial access in Belgium. Specifically, the number of bank branches and ATMs per 100,000 adults. The rationale behind is that corridor-specific migrant networks significantly influence remittance transfer fees in Belgium for their corresponding corridor, and indicators of financial access in Belgium indicate the ease with which migrants can use formal remittance services, which in turn affects the fees charged by these services. All variables, except for the Gini Index, are expressed in natural logarithms. Therefore, their estimated coefficients are interpreted as elasticities, providing insights into how changes in these variables proportionally affect remittances.