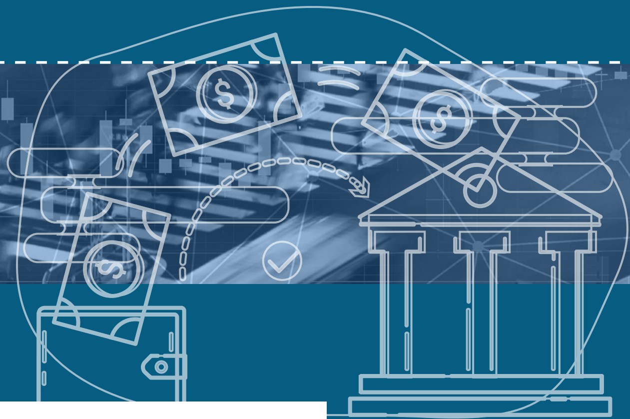
ONE

United Nations
Economic Commission for Africa

Coronavirus disease (COVID-19) and migrant remittances



PROTECTING AN ECONOMIC LIFELINE

EXECUTIVE SUMMARY

COVID-19 RESPONSE

Executive summary

Remittances constitute a global lifeline for people across the planet, especially in low- and middle-income countries. Their importance has even exceeded that of foreign aid, private capital flows and foreign direct investment in developing countries.

The COVID-19 pandemic has severely impacted remittance inflows to Africa, mainly owing to the situation that African migrants face in destination countries, many of which have been the greatly affected by the pandemic, and the disruption of the operations of remittance service providers.

Based on World Bank projections, the Economic Commission for Africa (ECA) projects that remittance inflows to Africa could decline by 21 per cent in 2020, implying $18 billion less will go to the people who rely on that money. It is therefore critical to preserve this essential lifeline. As the world enters an economic downturn, remittance flows will be more important than ever for the poorest and most vulnerable people, in particular those without access to economic and social safety nets. Governments across the world should take effective action to facilitate and boost remittances in view of supporting the fight against COVID-19 and ultimately building a more sustainable post-pandemic world.

Against this backdrop, ECA and ONE Campaign have analyzed the impact of the COVID-19 pandemic globally and in Africa, and have explored ways to attenuate the socio-economic consequences and preserve remittance lifeline.

COVID-19 and remittances in Africa: the importance of preserving the lifeline

In Africa, one out of five people sends or receives international remittances (IFAD, 2020). Since 2009, the flow of remittances to the continent has nearly doubled; they now comprise more than 5 per cent of GDP in 15 African countries. In 2019, migrant workers sent about $85 billion to their relatives on the continent. (World Bank, 2020)

But it is not just the volume of money that matters. Remittances provide cash in hand for people living in poverty. Millions of vulnerable people use remittances to cover their essential needs. Indeed, it is estimated that three-quarters of that money is used to purchase nutritious food or to cover healthcare, education and housing expenses. (UNDESA, 2019)

More important, around half of global remittances go to rural areas, where three-quarters of the world's poor and food insecure live. Poor households, in particular those headed by women, are more likely to spend remittances to purchase essential goods and services.

Exacerbating an economic crisis

The COVID-19 pandemic is wreaking economic havoc around the world, and the fallout in Africa will be acute. Under the most optimistic scenario, ECA estimates that the continent's economic growth could contract by 1.4 percentage points in 2020, pushing nearly 5 million people into extreme poverty. For both remittance senders and recipients, COVID-19 has meant job losses and a decline in income.

Migrants are overrepresented in many of the countries that have been most affected by the pandemic. While migrants make up less than 4 per cent of the global population, they represent at least 8 per cent of the population in six of the ten countries with the highest number of COVID-19 cases (World Bank data as at 5 June 2020). The wealthy economies of North America, Europe and Middle East also host a large share of African migrants and are the source of more than half of total remittances sent to Africa.

Beyond the loss of earnings, millions of senders also have found it difficult to send money to their relatives during the lockdown. There are 1.7 billion unbanked adults globally, of which 75 per cent own a mobile phone that could facilitate their access to financial services (World Bank, 2020). Financial technology companies (e.g., telecommunications operators) could help to lower remittances costs by facilitating access and speeding up the clearing and settlement of transactions (UN, 2020).

In Africa, ECA estimates remittance flows are expected to decline by 21 per cent, to reach $67 billion in 2020, wiping out 6 years of progress.

Cost of remittances and counter-cyclical measures

Typically, senders pay a premium that is negatively correlated with the amount of money that is sent. For example, the median global cost of sending $500 is 5 per cent; however, the cost of sending $200 is 7 per cent (World Bank, 2020). Surprisingly, banks charge the most to send $200, about 11 per cent. In 2017, senders paid approximately $30 billion in fees (Money and Banking, 2018).

At the global level, remittance costs remain relatively high, compared with the target of 3 per cent set in Sustainable Development Goal 10. Transfer fees to Africa vary substantially across remittance corridors, and additional global efforts should be made to reduce remittance costs and support the continent in mitigating the socio-economic impact of the COVID-19 pandemic. Although Africa is the region with the largest number of people living in poverty, it is the most expensive region for receiving remittances, with an average cost of 8 per cent (compared to 5 per cent for South Asia). Africa also has the highest cost of sending money, at almost 14 per cent. (World Bank, 2020). At the intra-regional level, the cost of remittances remains high, especially in the Angola to Namibia, the Tanzania to Rwanda, and the Nigeria to Togo corridors. In the context of the African Continental Free Trade Area, African countries should considerably reduce the cost of sending cash across the continent in order to support African economies in building back better.

Some countries have rolled out support mechanisms for people who typically rely on remittances. For instance, Ghana has lowered barriers to remittances, announcing that all mobile phone users could open accounts and transfer up to $170 daily without additional “know your customer” documentation. In Uganda, telecom company MTN has waived fees on mobile money transfers. The Central Bank of Kenya has coordinated with private banks to implement a series of policy changes to preserve access to remittances, including waiving fees for transfers from bank accounts to digital wallets; doubling the daily transaction limit; removing the cap on the number of transactions per month; and increasing the amount of money that can be kept in e-wallets.

Global call to boost remittances

Many steps have already been taken by countries and service providers to facilitate remittance flows, including in Africa. They should be adopted by other countries and scaled up. Recently, the United Kingdom and Switzerland jointly issued a global call to action,' with recommendations for policymakers, regulators and remittance service providers to keep remittances flowing during the COVID-19 pandemic. The call was supported by the World Bank, the United Nations Capital Development Fund, the United Nations Development Programme, the International Association of Money Transfer Networks, and the International Chamber of Commerce. The present report affirms that global call by presenting evidence of the urgent need stated therein.

To increase remittances during the COVID-19 crisis:

» Finance ministers of the Group of 20 should amend their national remittance plans, along with relevant bank regulations, to reduce the cost of sending remittances to close to zero until the pandemic ends, and thereafter ensure that remittance costs do not exceed 3 per cent, as agreed in Sustainable Development Goal 10.

» Governments should promote the digitization of the remittance value chain from sender to receiver to help increase volumes, reduce costs and enhance the convenience of sending money.

» Governments should offer tax incentives to remittance service providers to lower fees, along with relaxing stringent “know your customer” requirements for smaller transactions.

» All countries should include migrant workers in social protection and stimulus programmes and extend visas so that migrants can continue to work and send money to their countries of origin.

» Governments should allow money operators to be classified as essential businesses so that they can remain in operation during lockdowns.

» Governments in low- and middle-income countries should establish or strengthen safety nets for rural households that rely heavily on remittances.

In doing the above, countries will support the global effort to limit the socio-economic impact of the pandemic.This is particularly true for intra-African remittances. African remittances could serve as a leapfrogging instrument to bring about economic transformation by providing support in strategic areas, such as the development of small and medium-sized enterprises, food security, and investment in regional value chains with a view to supplying African markets and building productive capacity. Discussions that are currently underway regarding a continent-wide payment system and interoperable cross-border payment systems will determine the dynamics of intra-African remittances in the coming years.

The present report calls upon governments to make remittances an essential component of their strategies to build back better towards a more sustainable and resilient post-pandemic world. Given that reduced remittance flows could exacerbate the current crisis by cutting poor people off from their primary lifeline, facilitating remittance flows would be an effective way of directly supporting people in need and providing an economic boost to countries, thereby accelerating worldwide recovery and leaving no one behind.