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The impact of COVID-19 on remittances for development in Africa

COVID-19

By Amanda Bisong, Pamella Eunice Ahairwe and Esther Njoroge

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Remittance flows, which are an integral part of development finance, proved relatively resilient during the 2008 financial crisis and the 2014 Ebola epidemic. However, they are currently under threat by the COVID-19 pandemic. Lockdown measures implemented in host countries have caused many migrants to lose their jobs, consequently reducing remittance flows to developing countries. In 2020, the World Bank estimates a historical decline in global remittances of US$110 billion, with sub-Saharan Africa (SSA) expected to experience a decline of about 23.1%.

Individuals, households, businesses and nations that are highly dependent on remittance flows are already suffering a huge financial blow. The estimated sharp fall in remittances will undermine developing countries' ability to deal with the COVID-19 pandemic, let alone their ability to achieve the Sustainable Development Goals. This paper stresses the importance of filling the development financing gaps that have been widened by shrinking remittances and suggests adaptations and increases in official development assistance (ODA) as an immediate solution to cushion some of the short-run effects of the COVID-19 pandemic.

The paper also highlights the short- and medium-term measures that policymakers and development partners in both sending and receiving countries should take to lessen the decline in remittance flows. First, we recommend policymakers in remittance-sending countries to either make available or relax stringent identification requirements demanded of migrants for them to remit, incentivise the use of digital platforms, and protect migrants from job losses. Second, we call on policymakers in remittance-receiving countries to ensure remittance-providing centres are in service despite lockdown measures, to promote digital financial inclusion by expanding money operator networks, and to eliminate or reduce transaction fees on remittances. Finally, we recommend private actors to embrace the digital revolution in Africa to make remitting easier and more convenient.

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Authors

Amanda Bisong works as a policy officer in the migration programme at ECDPM.

Pamella Eunice Ahairwe works as a junior policy officer in the Economic Transformation and Trade programme at ECDPM.

Esther Njoroge is pursuing a master's degree in Economics and Strategy in Emerging Markets at Maastricht University and works as an intern at a leading development bank in the Netherlands.

Acronyms

ACP	African, Caribbean and Pacific
AfCFTA	African Continental Free Trade Area
AU	African Union
COVID-19	Corona Virus Disease 2019
DFI	Development financial institution
ECA	Economic Commission for Africa
ECDPM	European Centre for Development Policy Management
EU	European Union
FATF	Financial Action Task Force
FDI	Foreign direct investment
G20	Group of Twenty
GDP	Gross domestic product
GSMA	Global System for Mobile Communications
ID	Identity document
IFAD	International Fund for Agricultural Development
IFI	International financial institution
IMF	International Monetary Fund
KNOMAD	Global Knowledge Partnership on Migration and Development
KYC	Know your customer
LDC	Least developed country
LMIC	Low- and middle-income countries
MDB	Multilateral development bank
MTN	Mobile Telephone Network
MTO	Money transfer operator
ODA	Overseas development assistance
ODI	Overseas Development Institute

PWC	PricewaterhouseCoopers
RSP	Remittance service providers
SADC	South African Development Community
SDG	Sustainable Development Goals
SME	Small and medium-sized enterprise
SSA	Sub-Saharan Africa
UEMOA	West African Monetary and Economic Union
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
WB	World Bank
WEF	World Economic Forum

1. Introduction

As governments respond to the impact of COVID-19 on their citizens, public health systems and economies, we see changes in development finance[1] flows, particularly remittances to African countries. With the exception of healthcare, retail and agriculture,[2] sectors such as tourism, hospitality, construction and manufacturing that employ most migrants are struggling to survive the economic impact of the lockdown measures taken by governments to prevent the spread of the COVID-19 pandemic (WEF 2020). The mobility restrictions are impacting households and businesses in both remittance-sending and -receiving countries.

Migrant workers are already feeling the impact of the COVID-19. Many have lost their jobs. This, in turn, is having dire consequences on incomes of individuals, families and societies in regions where remittances are highly consequential for daily survival (WB 2019). Remittances are expected to decline globally by about 20%. In sub-Saharan Africa, remittances are projected to decline by 23.1% (WB 2020c). It is also estimated that the COVID-19 pandemic will lead to about 35% of migrants sending less than 5% of their previous remittance volumes (Orozco 2020).

The pandemic is further causing declines in foreign direct investment (FDI) flows, increases in capital flight, tightening of domestic financial markets and a slowdown in investments (Velde 2020). Indeed, a global recession has been predicted. In reference to Africa, various international organisations predict a loss in output, although percentages vary. UNECA (2020a) forecasts Africa's GDP growth to fall from 3.2% in 2019 to 1.8% in 2020. The World Bank (Calderon et al. 2020) predicts sub-Saharan Africa's real GDP growth to sharply decline from 2.4% in 2019 to -2.1 in 2020, while the IMF (2020a) expects a decline from 3.1% in 2019 to -1.6% in 2020. These forecasts vary given the different times at which they have been made and the different methodologies used to make them. With the prevailing uncertainty on when the pandemic will end, the actual loss in GDP growth could actually be higher than estimated.

Among other factors, declining remittance flows are contributing to weakening economic growth and development of sub-Saharan Africa in the period of the COVID-19 pandemic. The current low remittance flows pose huge economic development implications on remittance-dependent economies, with the possibility of lowering the welfare of several households, and pushing them back into poverty (Ataguba 2020, Damak and Bahtia 2020). A collaborative effort between policymakers, private sector actors and development partners is hence needed to ensure that short- and medium-term measures are put in place to cushion the impact of the expected drop and dynamic shifts in remittance flows to low-income households. If adopted in a flexible and responsive manner, and provided they embrace financial inclusion (SDG 8.10) and a reduction in the costs of remitting (SDG 10), these measures will contribute to achieving the Sustainable Development Goals (SDGs) (UN 2019).

[1] Financing for development comprises either public or private financial flows from both domestic and international investors (WB 2018).

[2] Migrant workers are largely employed in the healthcare sector as cleaners, medical workers, care providers et cetera. In agriculture, seasonal migrant workers are needed by most European countries to fill the gap in the agricultural sector (see for Germany (Rising 2020) and Italy (Fortuna 2020)) and to assist with the harvest of products such as strawberries, asparagus and zucchini.

2. How African remittances responded to prior crises

Remittances as an element of development finance are usually affected by global crises. This is the case regardless of whether the centre of the crisis is in developed countries that host about 32% of global migrants who remit the highest, or in developing countries where about 34% of global migrants are (WB 2019). Two recent crises that have had relative significance on African remittances are the 2008 financial crisis and the 2014 Ebola epidemic.

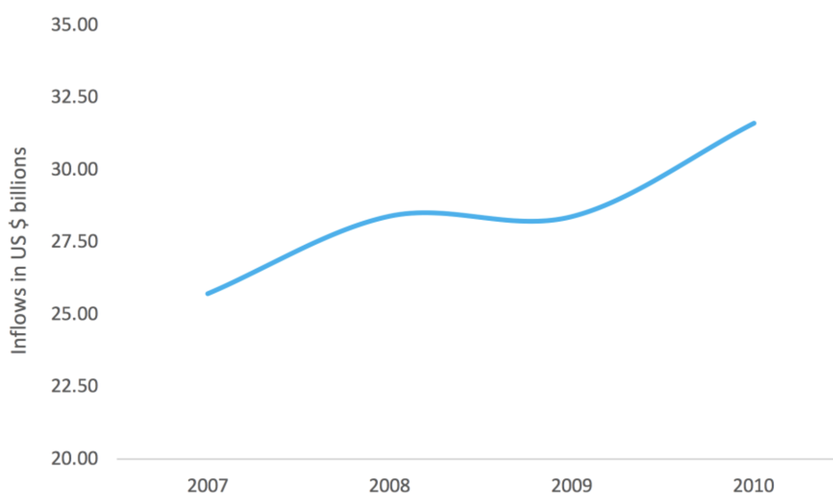
2.1. The financial crisis of 2008

During the 2008 financial crisis, remittances to developing countries remained resilient, countercyclical and fairly stable. Despite most migrant workers losing their jobs in 2008 and 2009 (Taran 2009), global remittances exhibited only a 6% decrease. This was relatively insignificant when compared to other external financing, such as FDI, private debt and portfolio equity flows that experienced a 40% and 80% decline respectively (WB 2010a). In particular reference to sub-Saharan Africa, remittances reduced slightly by 4%, as shown in chart 1 below (WB 2010b).

Amid this crisis, migrants were able to keep remittances flowing in different ways. First, migrants who lost their jobs sacrificed their savings for remittances until they were able to find alternative sources of income (Orozco 2009). Secondly, upon losing their jobs, migrants in the procyclical sectors such as construction and manufacturing switched to part- or full-time employment in retail trade and/or agriculture (Sirkeci, Ratha and Cohen 2012). This enabled them to maintain a source of livelihood and send remittances to their families in developing countries. Thirdly, in the wake of and following the 2008 financial crisis, some migrants reduced their expenses so they could maintain their obligations of sending remittances (Sirkeci, Ratha and Cohen 2012). For instance, in the Gulf economies such as the United Arab Emirates, several migrant workers had to share accommodation so that they could send remittances back home.

Migrants' ability to sustain remittance flows to their home countries contributed to cushioning the effect of the financial crisis in African countries, playing a shock absorber role (Singh 2010). These remittance flows provided incomes that enabled households to recover from the economic breakdown. In this case, whenever adverse economic shocks reduced income in their home countries, migrants would remit more to protect their families from the shocks' effects.

Figure 1: Sub-Saharan African remittance flows during the financial crisis



Source: Migration and Remittances Data as at October 2019 (WB 2017; updated data as of October 2019).

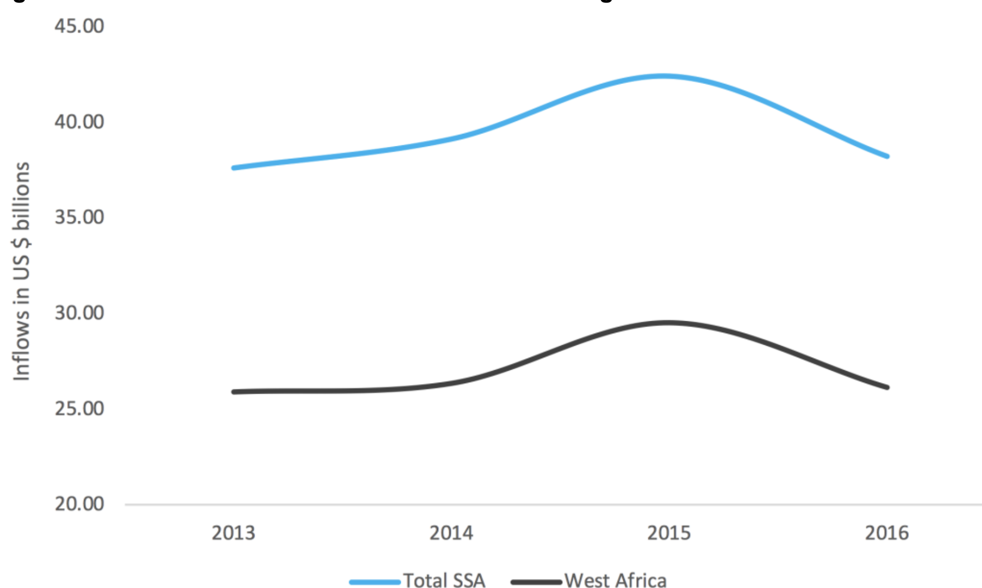
The financial crisis caused variations in exchange rates, which altered many migrant remittances' behaviours. Most currencies of developing countries depreciated during the financial crisis. This made it cheaper to invest at home and encouraged many migrants to increase remittance flows, specifically for investment activities (Ratha and Sirkeci 2011). Migrants who were hit hard by the crisis were forced to return home (Rajan and Narayana 2014). Some of them started businesses in their home countries, using the remainder of their savings carried with them (Sirkeci, Ratha and Cohen 2012, Rahman 2012). This kept migrants economically active and enabled them to contribute towards their countries' economic recovery from the financial crisis.

2.2. The Ebola epidemic of 2014

The 2014 Ebola epidemic occurred mostly in West Africa. Government measures to protect public health and safety resulted in quarantines of affected areas and border closures with affected countries (Campbell 2017). These measures severely disrupted cross-border mobility and economic activities in the region. The outbreak equally had negative economic consequences in the region which made remittances vital, mainly in supporting households and small businesses (WB 2014, Sy and Copley 2014, WB 2014). During the Ebola epidemic, remittances remained steady, see chart 2 below. West African diaspora communities and migrant workers in mainly North America and Europe used remittances to help families stock up on food and necessary supplies during the quarantine period.

The crisis also contributed to an uptake in the use and acceptance of digital payment systems across West Africa, especially in the affected countries. As a result, West African countries had to design digitisation policies and regulations for the financial sector, which included regulating the use of payment platforms, their connectivity to financial institutions and the payment currencies (Bangura 2016). E-wallets were used to pay health workers and ensure that remittance transfers were received by the families of migrants (Bangura 2016). In the aftermath of the crisis, remittances provided the basis for kick-starting economic activities in the region (BBC News 2017). For example, they were used to finance small businesses, pay school fees and hospital bills. Collective (pooled) remittances were used for larger infrastructure projects to assist communities that were decimated by the crisis and ensure their economic recovery.

Figure 2: Sub-Saharan African remittance flows during the Ebola crisis



Source: Migration and Remittances Data as at October 2019 (WB 2017; updated data as of October 2019).

2.3. A crisis like no other: The COVID-19 crisis

The COVID-19 crisis is different. Beginning as a health crisis, it has evolved into an economic crisis affecting finance flows, with the possibility of resulting in a political crisis in some countries (Devermont 2020). As the crisis unfolds, there is still uncertainty about its secondary economic impacts. The IMF forecasts that the current pandemic will cause the worst global recession since the Great Depression and much worse than the 2008 financial crisis (IMF 2020a). African countries, now more integrated into the global economy through global value chains and financial markets, are likely to experience more severe impacts from this crisis than has been the case with prior crises (Kitenge 2020).

As no region has been spared by the pandemic, the immediate global cessation of most economic activities as a result of implementing lockdown measures has left many businesses, households and individuals financially strained. In addition, the rapid and unanticipated nature of the COVID-19 pandemic prevented governments from preparing adequately for measures that would mitigate the adverse impact of an economic shutdown (Danielsson et al 2020). While governments of several countries are designing stimulus packages to keep businesses and their employees afloat, not all migrant workers will benefit from them (IMF 2020b).[3]

Certainly, migrant workers such as doctors, nurses, care workers, delivery drivers and farmers are working in sectors that are vital in dealing with the pandemic. Most of them, whether they are on long-term contracts or not, are not losing their jobs and thus will maintain their income flows. Other migrants on long-term or permanent contracts are protected by labour laws and very unlikely to lose their jobs. In instances where they do, they can benefit from social protection packages. However, the opposite is true for sectors such as construction, tourism and hospitality hotels and restaurants that have been dubbed as 'non-critical' and are now temporarily out of operations. Most migrants working in these sectors, especially those on temporary contracts, are facing more difficulties as they are being laid off with little or no legal protection (Callaham 2020, Hubbard 2020, Law 2020, Garson 2020). Other migrants in informal employment and on seasonal employment are unable to benefit from stimulus packages and social benefits, partly due to the conditions of their employment (Erizanu 2020). In a worse condition are migrants in an irregular situation who due to their legal status or lack of required identity documents are not eligible for any social benefits.[4] This leaves them with no source of livelihood, and without remittances to send back home.

All these challenges are most likely going to affect the usually resilient remittance flows in an unprecedented manner. Indeed, the World Bank is projecting the highest historical decline in global remittances of about 20% as a result of COVID-19. Relative to other income group countries, remittances to low- and middle-income countries globally are expected to decrease by 19.7% in the year 2020, while SSA will experience a decline of about 23.1% (WB 2020c). In some countries, low-income households that are reliant on remittances may be pushed further into fragility and vulnerability, given the predicted reduction in the volume of remittances. It is estimated that the economic effects of COVID-19 in Africa may in the best scenario push about 27 million people into extreme poverty (UNECA 2020b). For poorer households, remittances may be less stable and already low to begin with, as migrant workers from poorer households often engage in migration that is closer to home, where wages are lower than in higher-income countries. The crisis is expected to further exacerbate outstanding issues in remittance transfers to African

[3] Social safety nets and unemployment insurance that cater for resident migrants in most developed countries like Switzerland, Germany, Italy and France may help most migrant workers in formal employment sustain their lifestyle and savings (Mora and Rutkowski 2020). However, payments may be up to 70% of regular earnings, which is a significant reduction in income and may likely reflect in the amount of remittances sent.

[4] However, in Italy, there are ongoing discussions on possible regularisation procedures to enable irregular migrants to work in the agricultural sector (Roberts 2020). For an overview of positive practices towards migrants following the COVID-19 crisis see https://www.odi.org/migrant-key-workers-covid-19/.

countries in particular, such as the high cost of remittance transfer fees (Gagnon 2020) or high foreign exchange fees (Mora & Rutkowski 2020). But on a positive side, this may present an opportunity to address some of the current challenges such as financial literacy, financial inclusion and digitisation of remittance transfers (Isaacs 2020).

3. How COVID-19 is expected to affect African remittance flows (short-term/ immediate impact)

3.1. Volume of remittances will shrink

The COVID-19 crisis coupled with the declining oil prices, is expected to greatly weaken the potential and size of remittance flows to most developing countries. The pandemic has hit the major global economies of the Eurozone, the Gulf Cooperation Council, the United States, the United Kingdom, Canada and Australia. These double as major migrant employers and thus, the main sources of remittances to low- and middle-income countries (Ratha et al 2019, WB 2020c). However, the lockdown measures implemented to control COVID-19 across countries have led to the closure of businesses and industries, leaving the majority of the casual, seasoned and already lowly-paid migrant workers unemployed, either temporarily or permanently (Reed & England 2020).

Remittance inflows to sub-Saharan Africa were formerly estimated at US$46 billion in 2019 and projected to increase to US$65 billion in 2021 (UNECA 2020b). However, with COVID-19 hitting most SSA migrant host economies hard, remittances to SSA are expected to report the highest historical decline of about 23.1% in the year 2020 (Bloomberg 2020, WB 2020c).

Unlike the 2008 financial crisis, during which migrants who lost their jobs adapted new ways to keep remittances flowing, the COVID-19 pandemic has led to closure of many businesses and limited the movement of unemployed migrants under the ‘stay at home’ guideline. This has made it hard for migrants to find new (even temporarily) jobs in new places. The current travel restrictions implemented by almost all countries have made it impossible for some migrants to return home, where they could incur relatively lower daily expenses while staying with their families (WB 2020d). As most countries continue to extend their lockdown measures, these migrants are facing more uncertainties on when they are likely to be employed again. Rather than remit, they may be forced to either hold onto their savings for the unknown future or deplete them to finance their everyday survival. This leaves migrant workers and diaspora with little or no funds to remit to developing countries and help their families cope with the pandemic (The Economist 2020).

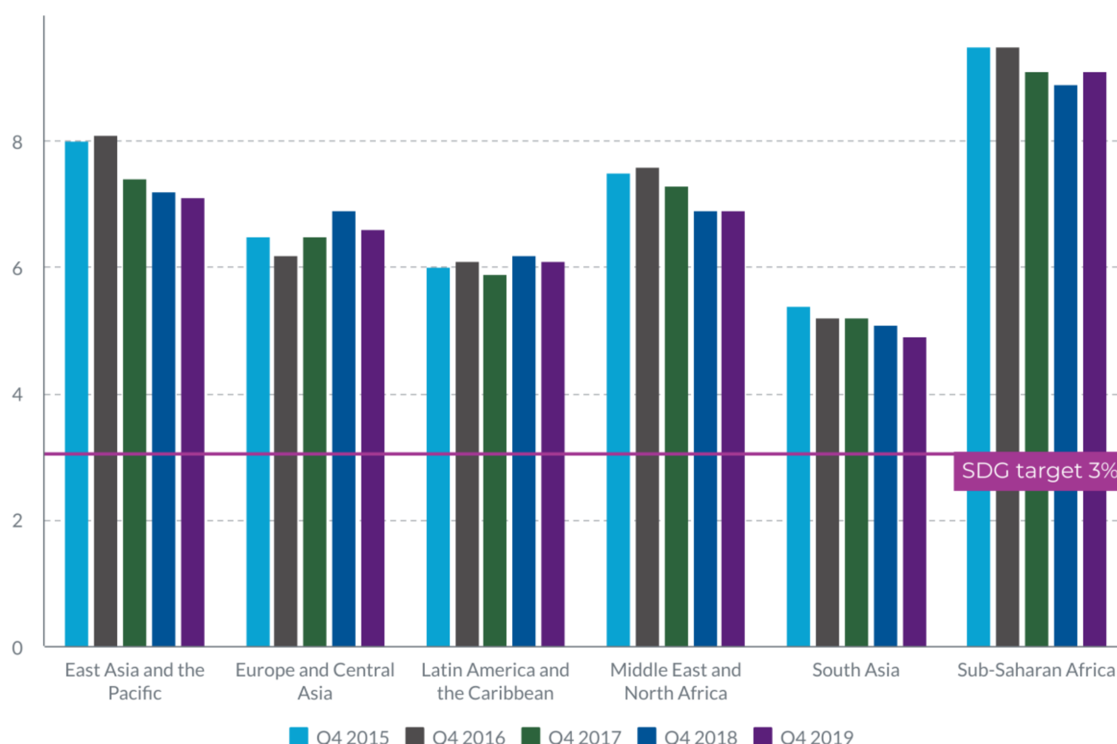
During the early phase of the crisis, when countries’ borders were still open, many migrants returned home, either due to losing their jobs, experiencing low business performance, or preferring to be with family (IOM 2020b, Knoll and Bisong 2020, Mbiyozo 2020, Africanews 2020). Others chose to return due to a lack of proper documentation that could not allow them to access healthcare in case they got infected with the coronavirus. These mobility elements hinder their ability to remit in the foreseeable future, which will further reduce the remittance receipts of their respective families. Unless these migrants have the ability to return to destination countries through reopened mobility channels, remittance flows will shrink in the during and after the pandemic.

3.2. A paradigm shift from cash to digital by both remittance senders and recipients

Health officials have urged the public to reduce the use of cash transactions so as to minimise the coronavirus spread. This guideline equally adheres to the physical distancing rule that a cash exchange would otherwise undermine. Countries, including African ones, are therefore increasingly promoting the use of digital payment solutions (WEF 2020b). The digital option also applies to the transfer of remittances, since restrictions to mobility and social distancing rules in sending countries have limited the possibility of remitting with cash. Although this has resulted in a short-term increase in the global use of digital payment platforms to send remittances, it raises two sets of challenges (Soper 2020). One, there are some migrants in the sending countries who may not have access to a bank account, legal identification, and/or other basic requirements for using these digital payment platforms. Second, the onboarding process – registration and setting up an account – may be difficult for people who do not frequently use these platforms. Additionally, first-time users may have limited trust in digital platforms because of the increasing number of digital fraud cases that have been reported.

High transfer costs have always discouraged some migrants from using formal channels of sending remittances to their families. Although governments and private actors have committed to reducing these costs globally, they have remained high and a great limiting factor in remitting to Africa. On average, the costs of remitting from major migrant host communities such as Europe, America and Asia is about 6.5% of the US$200 in remittance flows. These remittances go as high as 9% of US$200 when remitting within SSA, see chart 3. However, the SSA case may be different as (depending on their host country) migrants may also need to change their remittances to an international dominant currency (US dollar or Euro) first and then to their home country's domestic currency.

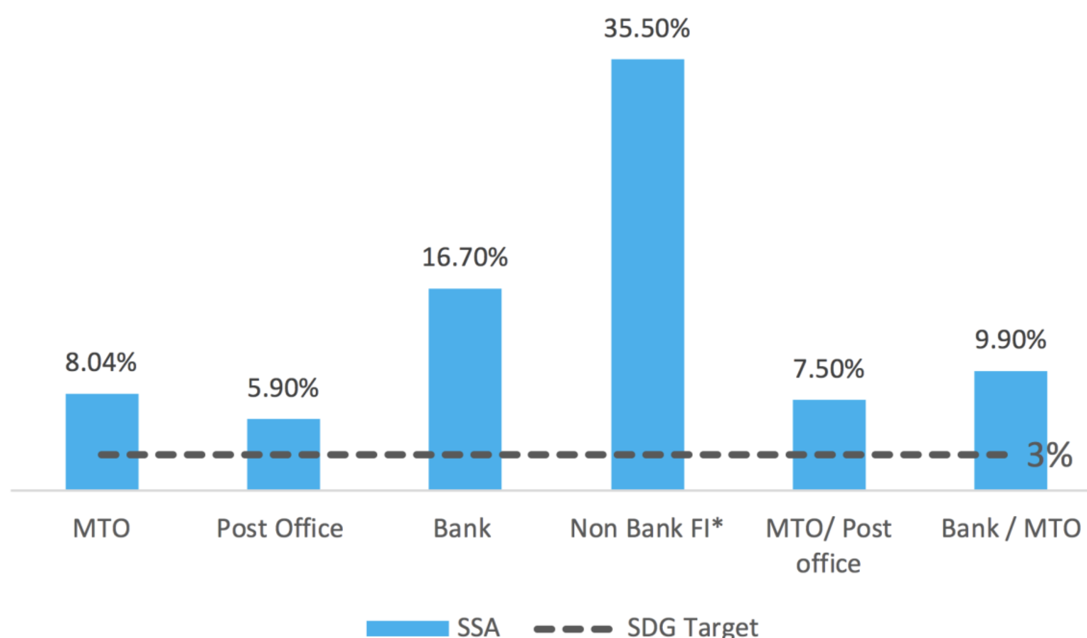
Figure 3: Average total cost for sending US$200 by region, 2015-2019
(percentage)



Source: UN 2020.

In some channels, senders and recipients of remittances in SSA pay premiums of up to 30% relative to the SDG target of 3% (SDG 10). Non-bank financial institutions are the most expensive channel of money transfer, but contribute the least in volumes transferred. Post offices on the other hand are the least expensive at around 5.9%, as shown in Chart 4. According to the World Bank (2020e), remittances costs of as low as 5% are leading to a loss of about US$16 billion annually. Therefore, high cost channels make remittance transfers more expensive for the economies and are an obstacle in attaining the UN 2030 Agenda for Sustainable Development.

Figure 4: Average cost of remittances by service providers



Source: WB 2020e

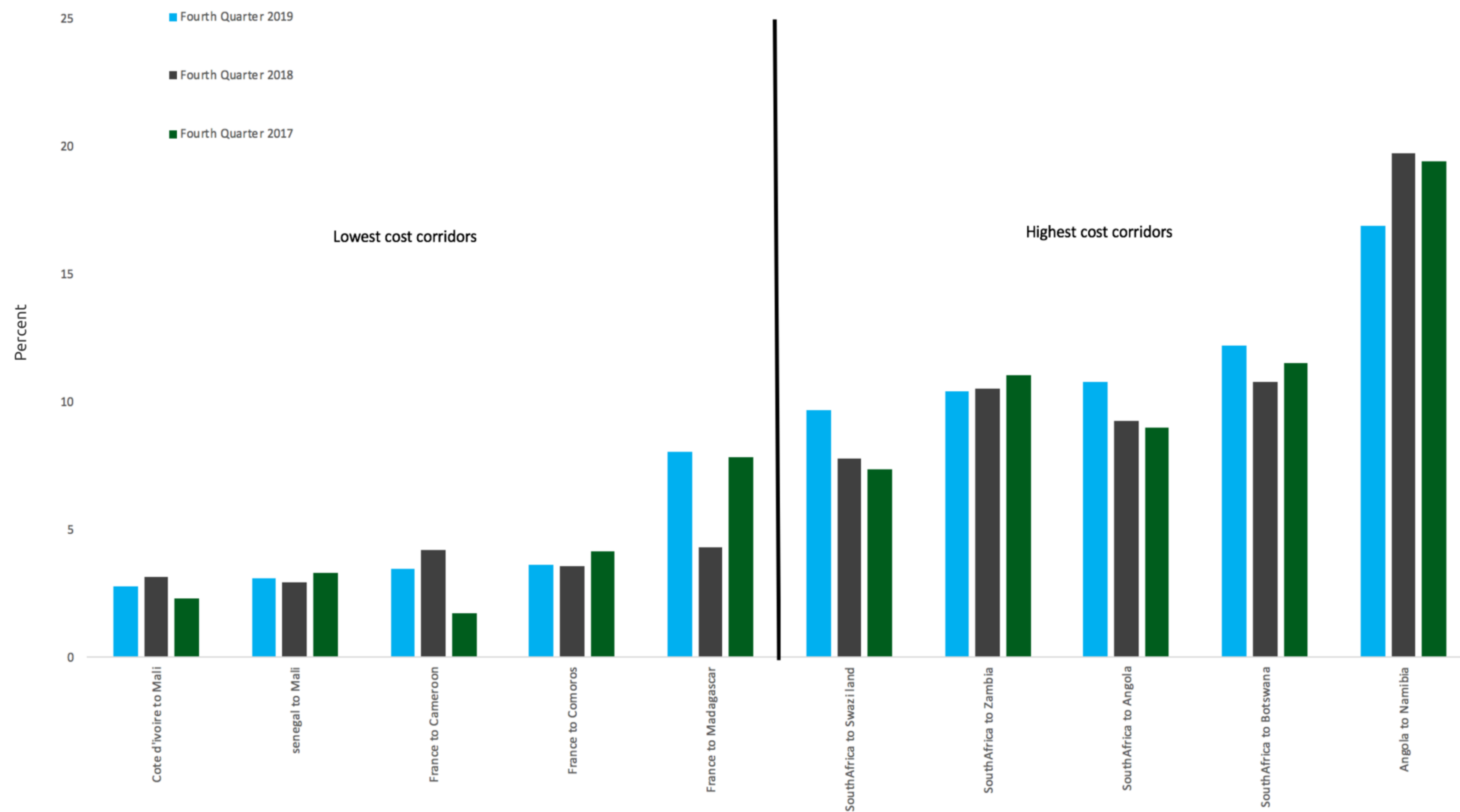
Restrictions to mobility in remittance-receiving countries may mean that money transfer operators (MTOs) which are not considered an essential service in some countries may be closed (Mora & Rutkowski 2020).[5] In other countries, banking institutions are considered an essential service and may be open, therefore MTOs linked to banks may be accessible. Restricted postal services may lead to an increased difficulty to receive cash transfers, especially in rural areas.[6] These changes do not pose a problem if receiving families or individuals are linked to the formal banking system with bank accounts. Digital transfer platforms are increasingly offering services that transfer remittances directly to the bank account of individuals in receiving countries. However, these account for only about 30% of global remittance transactions (Orcozo et al 2020). A significant number of remittance-receiving family members or individuals reside in rural areas with limited connectivity to formal banking institutions. This may mean an increased difficulty to receive cash flows which are often essential for families in preparing for their various stages of lockdown or quarantine restrictions.

[5] Some migrant-dependent countries like Oman, Jordan (Roya news 2020) and Singapore are considering remittance service providers as an essential service and have made provisions for migrant workers to send remittances to their families, using mostly digital platforms.

[6] For example, in South Africa (SA Gov 2020), postal services are considered an essential service and therefore post offices are open with some geographical restrictions. However, in other African countries they are not considered essential services and thus closed. Most European countries have skeletal postal services running with post offices in smaller cities and rural areas closed.

In addition, the high costs of intra-African remittance transfers, especially along certain regional corridors **which account for high outflows of remittances to other African countries,** have contributed to the low use of formal remittance transfer channels. For example, the World Bank in 2018 estimated that the South Africa transfer corridor to a number of African countries was among one of the most expensive, see chart 5 below (WB 2017; updated data as of October 2019). While a large proportion of intra-African remittances are transferred through informal channels and using self-carry, the restrictions on movement will affect these options. The use of formal channels may mean that families and migrant workers may need to pay high transfer fees, thus losing up to 10% of the already reduced amount.

Figure 5: Five most and least expensive remittance corridors in SSA



Source: Author's compilation using WB (2019) data

Other informal remittance transfer channels may survive only with difficulties. Informal remittance channels, such as the Hawala system, have already been negatively perceived in several countries before COVID-19 because of the propensity to be used to finance illegal activities (New Europe 2019). Many migrants resort to sending remittances through irregular channels simply because they do not have the requirements for using formal transfers, and because they have more trust in informal transfer mechanisms (for example using relatives who may self-carry remittances). Hawala channels are dependent on people moving with cash across borders. With the restrictions to mobility, there is a shortage of physical cash moving, resulting in difficulties in meeting payments for both businesses and individuals using these informal systems (Dave & Vays 2020). Hawala channels are also dependent on trade transactions across countries, usually involving retail businesses and a semblance of a trade by barter mechanism. However, with mobility restrictions resulting in the closure of several (non-essential) businesses, cash flows within the system have been severely limited.

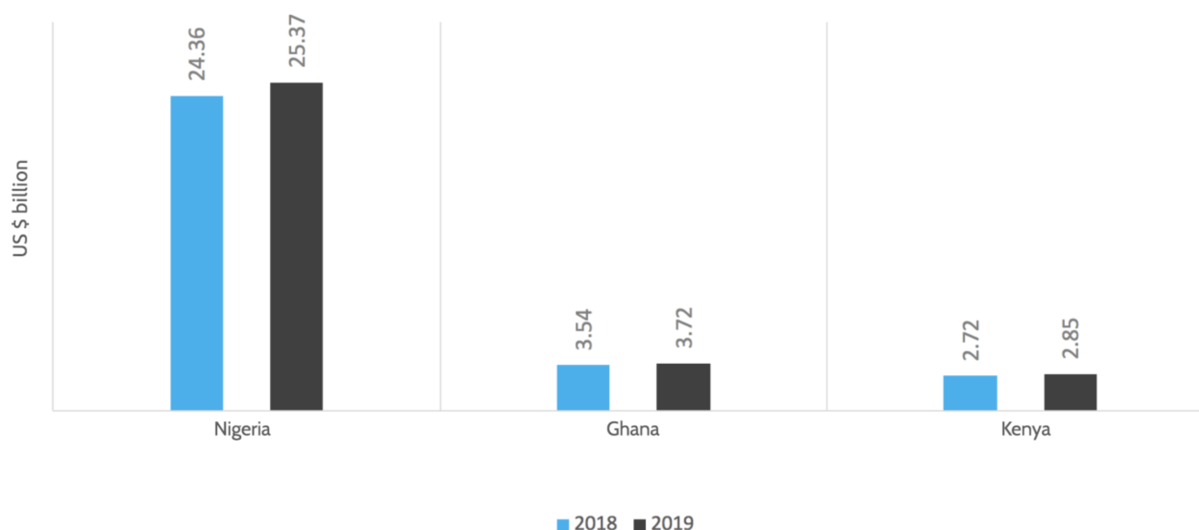
Although this crisis may create an opportunity for a surge in the use of digital payment systems, regulatory requirements and varied user experience of consumers limit the extent to which this increased use is achieved in a sustainable manner. For example, most e-wallets or mobile payment systems still require some form of identification for registration, which many people (especially in rural areas) do not possess.

3.3. Short-term impact on selected African countries

The anticipated effects on remittance flows presented above may have varied implications for sub-Saharan African countries depending on their reliance on and existing relationship with remittances.

For major remittance-receiving countries such as Nigeria, Ghana and Kenya (see chart 6 below), the reduction in volume of remittances will have welfare implications on low-income households that are dependent on these inflows for consumption and investment in small businesses. But in these countries, it may still be possible to receive remittances because of the existence of several digital payment platforms and services (WB 2020f).

Figure 6: Top three SSA countries with remittance inflows in 2018 and 2019



Source: (WB 2017; updated data as of October 2019).

In Kenya, remittances became the highest source of foreign exchange by the end of 2019, ahead of coffee, tea and horticultural exports (Mwaniki 2019). Therefore, a substantial decrease in remittances in Kenya may result in further decrease in foreign reserves essential for exchange rate stability. Additionally, a high level of remittances is essential to shore up reserves needed to meet foreign currency debt obligations, especially with the uncertainty regarding debt service relief from international institutions and private creditors (IMF 2020a). The growth rate in remittances has in part been a result of the development of digital and financial systems for receiving remittances, including increased partnerships between banks and MTOs and the expansion of M-Pesa to allow direct cash transfers from the diaspora. In the wake of this crisis, regulatory bodies are encouraging financial institutions and mobile money operators to review pricing guidelines, with the aim of supporting households and enterprises while reducing reliance on the dominance of cash as means of transaction. In light of this, some banks have waived mobile money transfer charges (Mutua 2020), while M-Pesa has doubled daily withdrawal limits and waived charges for person-to-person transfers for up to US$10 (Wafula 2020).

In Nigeria and Ghana, while digital transfer payment platforms exist, regulations limit the transfer and receipt of remittances through mobile money. Another challenge users may face which limits their use of digital transactions, is the payment currency. Whereas in cash transactions users may determine the payment currency subject to local financial restrictions and may receive a certain amount of the total transaction in foreign currency, domestic digital transactions may mean that the payment currency is limited to domestic currency only in most cases. However, senders and receivers of remittances prefer to make whole or partial transactions in foreign currency in order to take advantage of high exchange rates existing in the parallel market, as opposed to the official exchange rates used by financial institutions.

In Ghana, remittances were projected to increase following the celebration of the 'Year of Return' in 2019, which had encouraged diaspora to visit and to make investments resulting in growth in the tourism and construction sectors. In 2020, diaspora was projected to send more remittances for starting-up businesses, supporting investment and development of projects based on positive memories of their visits (Emi 2020; ITWEB 2020). However, a decrease in remittances in addition to the fall in oil prices will badly affect the economy, which is still laden with high public service debts (Debuysscher 2020). Mobile telecommunications companies and network operators in agreement with the Bank of Ghana have also reduced their transaction fees to promote digital payments for the next three months (Africanews 2020). These measures have been extended to remittance transfers. For example, mobile money operators like MTN have doubled the monthly transaction limit for sending to Mobile Money from US$1500 to US$3000 (World Remit 2020).[7]

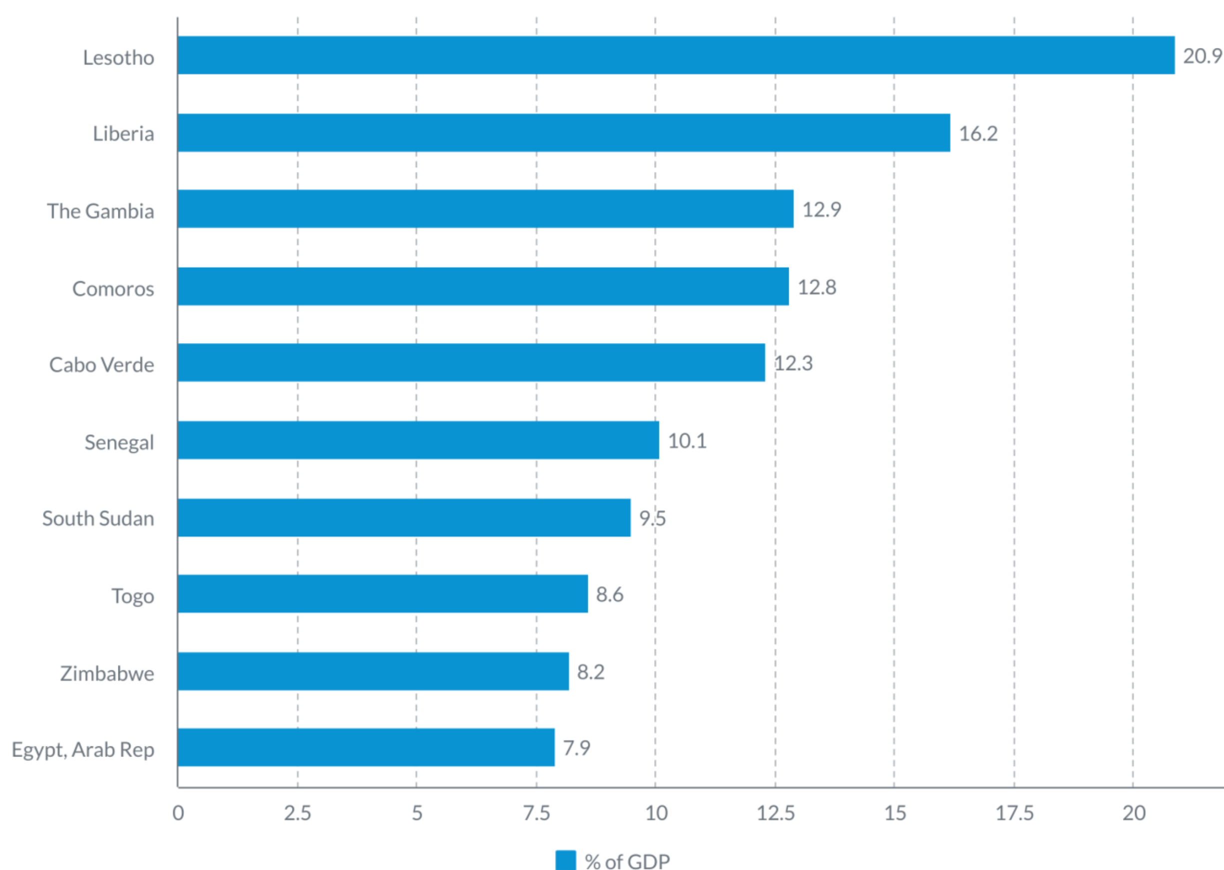
In Nigeria, remittances have a significant impact on economic growth – they contribute about 6.1% of GDP and are seven times higher than ODA flows (PWC 2020). Official remittance inflows to Nigeria account for over one-third of remittance flows to sub-Saharan African countries. However, these flows, estimated at US$25.37 billion, are still lower than the actual amounts received, as informal flows are not captured. Coupled with the fall in global oil prices, a reduction in remittances will have severe micro- and macro-economic implications for Nigeria, with reduced investments in the economy directly affecting the construction and real estate sector, as well as domestic production. This will create financing gaps for small businesses.[8]

[7] However, the daily transaction limit of US$500 remains unchanged.

[8] At the time of writing, the Central Bank of Nigeria has not taken any measures to facilitate the receipt of remittances, although banks are considered an essential service provider and skeletal services are available during the lockdown in major cities.

In addition, in **countries with a high share of remittance to GDP ratio,** such as Liberia (FPA 2019) and the Gambia (Jeffang 2020), remittances account for over 31% and 22% of GDP respectively in 2019, as illustrated in chart 7 below. These countries highly dependent on remittance inflows may expect a severe contraction in their economies as a result of the reduction in volume. This has already begun in countries like the Gambia, where the economy has been affected by the reduction in tourism. Consequently, the reduction in remittances will directly affect over 60% of households dependent on remittances at the micro level and external reserves at the macro level.

Figure 7: Top most remittance-dependent African countries by share of GDP (average 2015-2018)



Source: UNECA 2020b.

In **fragile and conflict-affected societies,** like **Somalia**, this situation poses additional difficulties for over 40% of the households that are dependent on remittances (Majid et al 2020). In a bid to cope with the difficulties of receiving remittances, families have diversified their use of both formal and informal channels. Additionally, a formalised Hawala system and the flexibility of payment channels may reduce the difficulty in transferring remittances. In Somalia, the payment channels as such may thus not be disrupted severely by COVID-19. However, the drop in the volume of remittances sent, which has already begun, may lead to more difficulties for households to afford consumption goods and to pay bills.

Countries without a diversified diaspora base, like Senegal, may have more severe impacts, especially as the economies of European countries, where most of these migrant workers reside, are being affected negatively by the pandemic. Countries with a diversified diaspora and migrant worker base may fare better and see less reductions in remittances received (UNDP 2016).

Among the **African economies from which a significant amount of intra-African remittances flow**, South Africa hosts migrant workers from Southern African Development Community (SADC) countries, including Zimbabwe, Mozambique, Lesotho, Malawi, Namibia, Eswatini and Zambia (Statistics South Africa 2016).[9] Following lockdown measures, most migrants working in the informal sector have lost their jobs and returned home (Cohen and Vecchiatto 2020). In addition, the South African economic output is expected to decline from 0.2% in 2019 to -5.8% in 2020 (IMF 2020a). This has caused fears among foreign investors, leading to about US$6.3 billion in portfolio outflows since the beginning of the pandemic until 17 April 2020 (WB 2020g, IMF 2020b). The expected recession will weaken migrants' business capability, their job availability and their ability to send remittances to their home countries. Furthermore, the South African Rand has depreciated, weakening the volumes of remittances being sent home by migrants whose incomes have been little or not at all affected by the economic downturn (IMF 2020b). Lower levels of remittances from South Africa will lower the economic growth and development, especially in the South African remittance-dependent countries of Lesotho and Zimbabwe (WB 2020g).

4. Possible medium-term impacts of current disruptions on remittance flows

While the above scenarios describe the short-term impacts of COVID-19 on remittances, secondary economic impacts and post-COVID-19 recovery effects may raise new challenges. While it is impossible to predict what will happen to remittances over the medium and longer term, there are several factors to take into account.

Remittances are, and have been in the past, a very integral part of financing development in low- and middle-income countries. The United Nations acknowledges that facilitating remittance flows at low cost will not only support the Addis Ababa Action Agenda but also the UN 2030 Agenda for Sustainable Development and its SDGS (United Nations 2015a, United Nations 2015b). In the past, remittances have contributed to the alleviation of poverty (Masron and Subramaniam 2018; Naoyuki et al., 2017), to access to water, food, medicine, housing and clean energy (UN 2019b, Ebadi and Sirkeci 2018, Ndiaye et al. 2016, Gyimah-Brempong 2014), to promoting entrepreneurship (UNDP 2016), and to empowering women (Sambo 2016, UN 2019). They thus supported progress on many of the SDGs.

Additionally, the prevailing environment does not attract foreign direct investors into developing economies. According to the World Bank, COVID-19 has reduced foreign financing flows and encouraged higher capital flights from developing countries, leaving large scale industries, factories and SMEs either underfunded or non-operational (WB 2020g). This will in the medium term lower the local productive capacity of developing countries and threaten more jobs – and thus sources of livelihoods. The reduction of remittances are also lowering household disposable incomes, which is estimated to lower household welfare by about 10% to 14% in case trade borders are closed (WB 2020g).

The macro-economic impacts on African economies reliant on remittances may differ, with some being able to absorb shocks better than others. Some may take an additional hit to GDP beyond the economic impact of lock-down measures. Given the effect on households, governments will need to consider social safety nets and reallocation of scarce resources. Continued COVID-19 lockdown measures may overstrain governments' fiscal space, making them less capable of doing so.

[9] Migrants from SADC countries account for about 75% of migrant workers in South Africa.

The ability of remittances to pick up again will depend on possibilities for mobility and migrant work after COVID-19. The current lockdown measures in high-, medium- and low- and middle-income countries (Hirsch 2020), and the return of many workers to their home countries, results in the depletion of emergency cash. It is likely that restrictions on mobility and migration will stay in place for some time and it may well lower migration flows in the medium and longer term.[10] If the latter is the case, the contribution of remittances as a coping mechanism and contributor to economic resilience will fade.

The socio-economic situation will become more or less grave depending on the duration of the pandemic and related policy measures. The impacts of current disruptions in remittance flows can be cushioned by policy choices and necessary reform efforts.[11] Welfare and financial measures to address COVID-19 are relevant towards addressing the gap created by the reduction of remittances. The following section discusses possible short- and medium-term measures that governments and international partners can take to support migrants and their families to cope with the current disruptions and to help remittance-reliant households to still have access to remittance flows during the crisis.

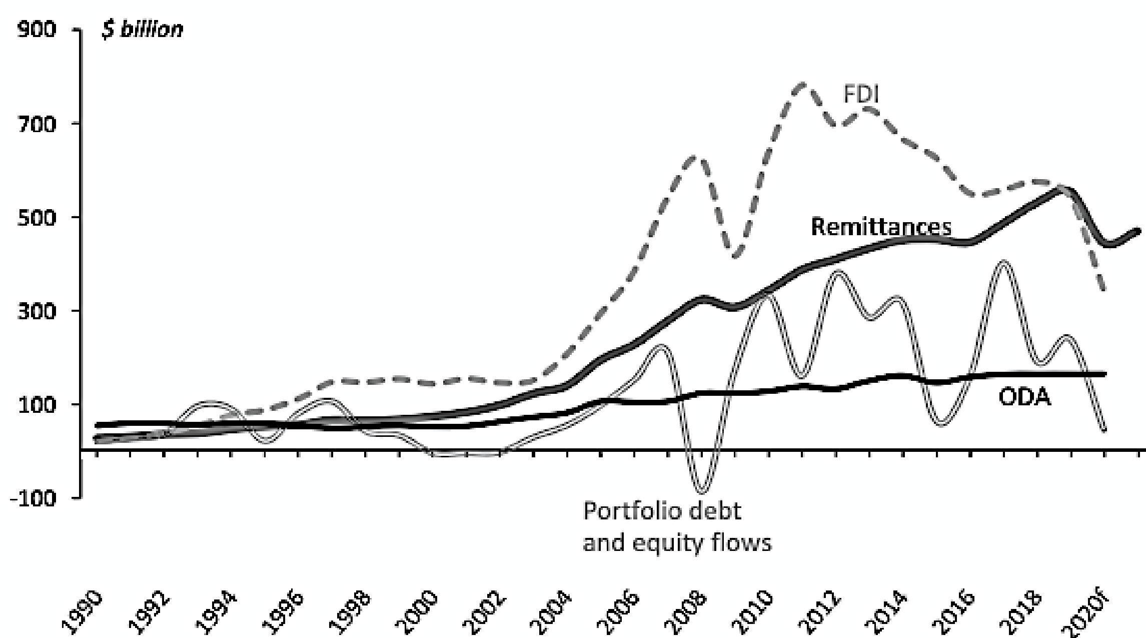
[10] Some analysts point out that post-COVID-19 regional mobility between developing countries may become greater than flows between the developing and developed worlds with a longer-term decrease in overall remittance flows.

[11] The reduction in remittances to economies and the resulting loss of foreign currency can lead to a balance of payment crisis, which may trigger reforms. Yayboke (2020) gives the example of reform efforts regarding excessive export subsidies to underperforming sectors in India, which were triggered by the return of migrants during the Gulf War (see Yayboke 2020).

5. ODA as an alternative to remittance flows?

Over the years, remittances to developing countries (excluding China) have increased to thrice the ODA flows and are expected to be higher than ODA and FDI combined in the following years (Barne and Pirlea 2019). Yet the COVID-19 pandemic has now undermined remittance flows and widened the domestic financing gaps. Accordingly, alternative sources of external financing need to be embraced if poorer countries are to protect their vulnerable households and businesses. Since FDI flows are also decreasing as portrayed in chart 8 below, this leaves ODA as an important and resilient option that development partners can increase to bridge part of the existing financial gaps among the low-income households and SMEs.

Figure 8: Expected remittance and FDI flows during the COVID-19 pandemic



Source: Migration and Development Brief 32, World Bank (2020)

Indeed, there are increasing calls for more foreign aid flows to help vulnerable economies deal with the pandemic (Milne 2020). Proponents of foreign aid argue that developing countries in Africa will not be able to deal with the pandemic or its consequences without this kind of external assistance. In order to partly address the effects of the pandemic, such as a likely US$200 billion loss in GDP and a US$20 million loss in employment respectively for the case of SSA (AU 2020), ODI proposes a 28% increase in the current ODA to poorer countries (Miller et al. 2020).

Multilateral and bilateral donors are mobilising additional development assistance to comply with the above calls and help developing countries deal with the COVID-19 pandemic and its consequences. The IMF has offered debt relief to 25 highly indebted countries in Africa so that they can channel debt repayment funds towards combating the epidemic (Georgieva 2020). The World Bank has also launched COVID-19 emergency health support and a broader economic program to strengthen both the health and economic capacities of developing countries (WB 2020a, WB 2020b). In addition, the G20 has agreed to suspend debt service payments up to the year 2022 for all the world's poorest countries that request forbearance (G20 2020). The G20 action plan intends to create fiscal space that governments of the third world can use to invest in health and the economy so as to limit the crisis and its effects.

As the G20 further calls on private creditors and multilateral development banks (MDBs) to suspend debt service payment obligations of developing countries, the European Union has pledged to cooperate with the IMF and the World Bank to support low-income countries and finance research on coronavirus in Africa (EC 2020). Since China is a significant creditor as regards developing countries, it is equally being tasked to offer debt relief to African countries in particular (The New York Times 2020).

The current and promised ODA provisions will bridge the financing gap that has been partly widened by falling remittances. However, ODA alone is still not sufficient to either protect African countries from the worst case scenario or support them to full economic recovery during and after the pandemic. The UN estimates that developing countries require about US$2.5 trillion if they are to prevent the worst outcomes following the COVID-19 pandemic (UNCTAD 2020b). In addition to remittances, mobilising finance from different actors, including for example donors, development finance institutions (DFIs) and private philanthropists, is still necessary to provide the needed resources to enable low- and middle-income countries achieve a sound economic recovery.

Likely negative medium-term effects call for increased foreign aid and foreign aid options to ensure that all people in need are able to access the basics during the crisis. However, like remittances, ODA to developing countries is being disrupted by the COVID-19 pandemic.[12] Humanitarian aid assistance aimed at helping developing countries deal with communicable diseases has been weakened by COVID-19 lockdowns, leaving about 13.5 million people susceptible to such diseases (The New Humanitarian 2020). The United Nations notes that the intensity of the COVID-19 pandemic has taken donors' attention away from other outbreaks that continue to affect vulnerable people during the pandemic, such as cholera and yellow fever (UN 2020b). Some donors however are trying to repurpose their ODA packages to manoeuvre the pandemic challenges and provide the needed support to developing countries and are currently pledging further support.

Though ODA cannot be a substitute for remittances, its availability makes governments and implementing agencies able to support households and businesses that have previously benefited from remittances. Many households in SSA require remittance flows and/or government support at micro level to survive emergency situations, such as COVID-19 lockdown measures. As regards the COVID-19 pandemic, SSA governments can use ODA and other complementary external financing to provide free tests and health treatments for those infected with COVID-19, as well as welfare support such as food packages and business survival capital for SMEs that have been affected by the COVID-19. Some countries, such as Chad, Uganda, the Democratic Republic of the Congo and Ethiopia, have put in place measures to provide food to the most vulnerable households, some of which may have previously depended on remittances (IMF 2020b).

Overall, donors should establish efficient strategies and systems to disburse ODA for its traditional use and target groups. More ODA should also be extended to developing countries to support sectors where shrinking remittances are leaving financing gaps.

[12] COVID-19 has created an intense state where rather than offer medical equipment aid, developed countries are competing with developing nations for appliances such as personal protective gears and ventilators (Igoe 2020).

6. Coordinated and collaborative measures to help cushion negative impacts

The current crisis highlights the need for urgent and coordinated short- and medium-term measures between the various stakeholders to ensure that remittance-reliant households can still have access to remittances during the crisis (Mora & Rutkowski 2020). The crisis also presents an opportunity to reduce the costs of remittance transfers to African countries (SDG 10c), which are currently the highest along certain corridors, and to improve on financial inclusion measures targeted at reaching the unbanked (SDG 8.10) (Gagnon 2020, Isaacs 2020).

6.1. Policymakers in remittance-sending countries

First, to ensure that migrants can send remittances to their families and communities, where possible, host governments should consider implementing measures that enable migrants to obtain their identification documents in time despite the COVID-19 pandemic. These are usually demanded by remittance-sending service providers as **know your customer (KYC) requirements**. Policymakers may also consider promoting the use of digital identification such as e-KYC by users of digital platforms.[13] Additionally, governments can temporarily suspend the stringent KYC requirements. These include for example rental or employment contracts that financial institutions in host communities demand for in addition to migrants' identification documents. However, risks may exist with the possibility of illicit financial flows going undetected. Complementary measures may therefore be required to ensure that these platforms are not used for fraud. In such cases, governments, regulators and financial institutions may impose threshold conditions such as limits on the amounts of transactions to be remitted (FATF 2020).

Policymakers in remittance-sending countries may embrace **temporary policies such as incentivising the use of digital platforms, and help build public trust among individuals so that they can use them**. For example, regulators may offer to underwrite or guarantee certain transactions through digital platforms. In addition, financial literacy and sensitisation measures on available alternatives to cash transfers may be conducted together with governments and regulators through official government information channels. Currently, sensitisation measures are taken on an individual basis by different companies or through increased advertising by private sector actors.

Also, governments may implement policies that **protect migrant workers from income and job loss.** They may include conditionalities in bailout mechanisms for private actors that will ensure that workers are guaranteed employment after the lockdown measures are lifted. These measures should target both migrant and domestic workers. In creating fiscal stimulus and bailout packages for companies, governments should equally consider the implications on migrant workers and refugees, especially those in domestic employment. For example, companies may receive bailout funds if they allow all workers – including migrant workers – to maintain their employment contracts and resume work after the crisis subsides. In Denmark, the government will pay the salaries of workers who stay home during this quarantine period, thus ensuring their income and job security (Collington 2020).

[13] For more information on eKYC requirements see: Electronic Identification 2020 and FATF 2020b.

Governments may also provide **guidelines to employers on specific measures to assist foreign workers during this crisis**. For example, IOM has recently released a guidance note for employers and businesses to enhance the support of migrant workers during this crisis (IOM 2020c). The government in Singapore has provided guidelines for employers to assist foreign workers in remitting their salaries to their home countries, especially where the workers' movements are restricted due to safe distancing and isolation requirements (Government of Singapore 2020). Public authorities should classify **remittance service providers as an essential service** and access should be granted to these services during the lockdown period.[14]

6.2. Policymakers in remittance-receiving countries

Public authorities, including actors in regions and cities, should **consider service providers through which people receive remittances as essential services**. These include money transfer operators, mobile money agents, financial institutions and postal services (Mora & Rutkowski 2020). Individuals, while complying with public health directives, should be able to access these services. For some poor and low-income households, receipt of remittances act as the life-line for financial freedom. If these services are closed down, it would add to the detrimental impact of the crisis on their ability to access essential finances.

Governments and regulators may temporarily suspend regulatory requirements to promote financial inclusion and expand the network of MTOs, especially those using digital platforms. The regulations should also link domestic payment systems with international remittance transaction platforms, through a smoother and seamless process.[15] While mobile money platforms exist in most African countries as an alternative to promoting financial inclusion, some KYC requirements may pose a challenge to its use in rural areas and by certain parts of the population who are dependent on cash transactions. Linking mobile money to legal IDs, which most Africans may not have, may contribute to putting families in a more precarious position, leaving them unable to access remittances.

Governments and regulators may also offer to reduce or suspend the transaction fees for transfer of remittances. Bank account to mobile wallet transfer charges for example may be temporarily waived to assist those in rural areas with limited branch network affordably access funds received through bank accounts. In Kenya, M-Pesa increased the daily limit on mobile money transactions and reduced the transaction fees paid on each small ticket transaction, which should ease the transmission of funds among individuals (Shemin 2020).[16]

More importantly, **governments should, on a wider scale, step in to implement policies that support the common good**. This should be through providing welfare support including food packages, sanitary services, subsidised water and energy services especially during the lockdown periods. For example, the government of Ghana has offered to pay water bills for its citizens (Larnyoh 2020). Other countries are offering food packages to their vulnerable low-income households, some of whom survive on remittances (IMF 2020b). Such measures are closing the domestic financial gap that has been caused by reduced and at times delayed remittances. African countries may also design social welfare packages to guarantee

[14] In the United Kingdom (Afford 2020), money transfer operators have been classified as essential service providers and exempted from restrictions during the lockdown. Also see: Government of United Kingdom 2020.

[15] Currently, intra-African remittance transfers may be made through digital platforms using a series of transactions and conversions, all with antecedent costs – for example through transfers from bank accounts, to e-wallets and subsequently mobile money in the desired currency.

[16] Similar waivers have been introduced in other African countries including Ghana, Nigeria and all countries in the West African Monetary and Economic Union (UEMOA) (Akeko 2020b) such as Senegal and Côte d'Ivoire (Akeko 2020a).

wages for those unable to work in remittance-funded businesses. African states are currently designing several bailout packages to help those in need (AU 2020). However, it is not clear how these measures will target and reach vulnerable and low-income households reliant on remittances. This is especially problematic in countries which do not have functional social welfare mechanisms.
Governments may work towards encouraging financial institutions to extend preferential programs such as offering preferential exchange rates, reduced transactional fees for transfers, debt service relief programs, or even a combination of programs to their clients.[17] Such programs would ensure that individuals that receive remittances are inclined towards channeling such funds towards meeting more urgent daily needs. This measure would work to complement other social welfare packages and government initiatives to bridge the gap arising from reduced remittances. In Kenya for example, banks are offering grace periods on loan repayment of up to three months for SMEs and individuals (STANBIC Bank Kenya 2020). Other countries such as Ghana and South Africa have also instituted such programs (Ghanaweb 2020, Ngalonkulu 2020). Whether or not these measures will actually benefit those most vulnerable however, remains to be seen.

As part of the **medium-term measures** aimed at improving financial inclusion and lower remittance transfers, the following measures are relevant for policymakers.

Regulations may need to be implemented or changed to facilitate the transmission of remittances. Countries which do not have adequate fintech regulations may need to improve their regulations to enable service providers to deliver services to migrant workers and their families that are located in rural areas. These regulations will need to be flexible and responsive to the current crisis. They will also have to ensure that the users' experiences encourage them to adopt digital payment and remittance platforms as an alternative to the use of cash (which is still prevalent in many African countries). The acceptance of digital payments by both merchants and regulators may contribute significantly to the uptake of digital alternatives by the wider population.

Greater collaboration between MTOs, financial institutions and even telecommunications companies should be encouraged so as to extend the reach within the region. Encouraging competition and collaboration by removing entry barriers as a long-term measure may encourage further growth in remittance transfers. Further partnership between banks and MTOs for example may lead to a direct cost reduction (WB 2019). With reduced cost of transfer, the overall amount of disposable income for the receiving families would increase. Practically speaking, such collaboration is fraught with perceived differences in approaches and systems used, as well as compliance standards maintained. In some instances, regulatory requirements – such as ID requirements for small ticket transactions – differ substantially and in some cases conflict. Regulatory bodies in African countries should consider encouraging a greater adoption of a more consistent risk-based approach, a common understanding of what the key legal components are, and what acceptable risk management measures look like for all the stakeholders involved. Where possible, institutions such as micro-finance or co-operative societies should be encouraged to open up their services in partnership with banks to include receipt of remittances, further expanding their reach.

[17] In Pakistan (Siddiqui 2020), in a bid to reduce fraudulent transactions and better manage its foreign exchange reserves, the Central Bank has raised the profit margins on remittances and the transaction fees for receipt of remittances.

6.3. Private sector actors

This crisis provides an opportunity for private sector actors such as MTOs, banks, digital currency platforms and e-wallets to **expand the revolution in the African digital economy** (PYMNTS 2020). Private sector actors may extend their services to households in rural areas through partnering with telecommunications companies (GSMA 2020). They may also roll out new platforms that are easy to use by unbanked and non-tech-savvy users. These services may include voice or text prompts with instructions in native languages. Fintech innovators may also use this opportunity to create innovative products and services that provide financial services to the underserved population. Products that have been used as pilots such as e-wallets may now be upscaled to provide access to a wide variety of consumers. Remittance service providers are also repackaging their services to fit with the realities of restrictions on movements in both sending and receiving countries. For example, Western Union is now promoting remittance-sending options through their website or app. Also, in Oman, Lulu Money allows residents to send remittances using debit cards following changes in the regulation by the Central Bank of Oman (Paypers 2020).

Private sector actors may also use this period as an advantage to **extend their consumer base and offer inclusive services** to enhance their experience in using these platforms. For example, they can create links to existing domestic payment platforms or offer services such as providing information on how to access or use domestic financial services. They can also offer health insurance services or information on COVID-19 and how to avoid its spread.

Private actors can also work together with public actors to sensitise the public on the available digital remittance platforms. Furthermore, they can assist in building trust in the customer base by making their transactions in a more transparent manner and by showing the costs involved in processing transactions.

6.4. Development partners (Donors and implementing agencies)

Some development partners may receive aid transfers through money transfer operators (for example in Somalia), and the restrictions in movements and service providers may affect their operations. However, development partners like the International Fund for Agricultural Development (IFAD) and the UN Capital Development Fund (UNCDF) have been working on improving financial inclusion in rural areas and this crisis presents an opportunity to scale up their activities.

Development partners may, building on synergies within various programmes, **support the scaling up of smaller projects linked to financial inclusion and the reduction of remittance transfer costs**. For example, they can jointly advocate for flexible regulations for payment systems to be adopted by public sector actors in sending and receiving countries. They can also facilitate discussions among the various stakeholders towards reducing the costs of remittance transfers, especially in countries where banks are favoured over alternative service providers by the regulators, thus providing an objective balance in the discussions between public and private stakeholders.

Development partners may also **promote the design of innovative services** to address some of the challenges faced by migrants and their families in receiving remittances. The African Development Bank for example is currently organising a digital challenge to identify and support innovative digital solutions for African countries during the pandemic (AFDB 2020).

7. Conclusion

The COVID-19 pandemic has caught the world by surprise. As an exogenous shock in a globalised world, it has various socio-economic and political consequences for rich and poor countries alike. Remittances, which are part of the globalisation cycle, have equally been affected. The expected decrease in remittance flows will weaken existing efforts to attain several SDGs, including those on ending poverty, hunger and inequalities (income and gender). This calls for optional use of external financing, such as increasing ODA flows, to close the financing gap that has been created by shrinking volumes of remittances. The COVID-19 crisis provides an opportunity for all actors, especially public authorities and private sector actors in both sending and receiving countries, to work together in redesigning low-cost and financially inclusive options to facilitate sending and receiving remittances. In the meantime, short-term measures should be taken to ensure that low-income households do not fall back into poverty.

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HEAD OFFICE
SIÈGE
Onze Lieve Vrouweplein 21
6211 HE Maastricht
The Netherlands *Pays Bas*
Tel +31 (0)43 350 29 00
Fax +31 (0)43 350 29 02

BRUSSELS OFFICE
BUREAU DE BRUXELLES
Rue Archimède 5
1000 Brussels *Bruxelles*
Belgium *Belgique*
Tel +32 (0)2 237 43 10
Fax +32 (0)2 237 43 19

info@ecdpm.org
www.ecdpm.org
KvK 41077447