CALL TO ACTION

REMITTANCES IN CRISIS: HOW TO KEEP THEM FLOWING

75% of the world's migrants work in countries where three-quarters of the globe's COVID-19 cases have been reported.

90% of global remittances are sent by migrants from these countries.

20% projected slump in 2020 remittances – or US$110 billion.

Sources: KNOMAD/World Bank

As the world suffers the socioeconomic repercussions of the COVID-19 pandemic, the flow of global remittances to low- and middle-income countries (LMICs) is projected to decline sharply by about 20 percent in 2020. Remittances to LMICs are estimated to fall by US$110 billion, representing a loss of a crucial lifeline for many vulnerable households. With cross-border remittances to LMICs being higher than either foreign direct investment or official development assistance, the rapidly intensifying socioeconomic effects of the crisis are expected to be devastating to the local economies of migrants' countries and communities of origin, individual households and the overall achievement of the Sustainable Development Goals (SDGs).

IMPACT ON MIGRANTS AND THEIR FAMILIES

Migration creates new livelihood and income opportunities, including through remittances. Interruptions to cross-border financial flows related to the current pandemic particularly hit migrants and their families. Migrants in most cases have limited safety nets, due to often being in informal employment, engaged in jobs that cannot be done remotely and excluded from government measures to mitigate the impact of job losses, resulting in limited to no income. In this crisis, many migrant workers face unemployment or reduced income, are stranded in their host countries with little or no support and are unable to support their families at home.

Migrants' families in their home countries depend on incoming remittances for basic necessities such as purchasing food, and paying for housing, education and healthcare. Without remittances, families face the risks and acute consequences of not being able to afford these basic needs.

On both ends of the remittance channel, remittance service providers have had to close or reduce their service hours while mobility restrictions and limited public transportation make it difficult for people to reach branches and cash-in/out agents. These access restrictions are critical challenges to many migrants' and their families' abilities to send and receive remittances as there is limited awareness and adoption of digital channels. A reduction in remittances has the potential to reverse the development progress made on the 2030 Agenda for Sustainable Development and the SDGs.

IMPACT ON LOCAL ECONOMIES AND COMMUNITIES

Remittances account for more than 5 percent of GDP for at least 60 LMICs. For Least Developed Countries and Small Island Developing States, this share is often even larger. As foreign direct investment is expected to decline by more than 35 percent in 2020, remittance flows are expected to become even more important as a source of external financing for LMICs.

A reduction in remittances can have major ripple effects across entire local economies and communities, resulting in a decrease in productive investment, consumption spending and access to education and health services.

As such, it is critical that action is taken to ensure that remittances – from migrants and from wider diaspora communities – keep flowing, including through supporting greater access to and use of digital technologies.

IMPACT ON REMITTANCE SERVICE PROVIDERS

When migrants' income is reduced, remittances fall and so the revenues of remittance service providers in sending and receiving countries also decline. Unexpected flows and volatile exchange rates make it difficult for remittance service providers to manage their liquidity. Forced closures and remote working pose challenges to providers' ability to continue operating.

Remittance service providers are worried about their customers' health and safety, but face challenges in transitioning clients to digital channels due to lack of digital readiness in the market and face-to-face customer verification obligations. In addition, the lack of identification documents, adequate financial awareness, access to digital technology and digital literacy amongst migrants and families can mean that when access to formal channels declines, there is an increased reliance on informal remittance channels. Higher rates of digital financial inclusion can mitigate this, and help keep flows in formal channels.

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

UK Government

With a view to leaving no one behind in the current crisis, the following call to policymakers, regulators and remittance service providers should be considered for the benefit of migrants, their families and local communities in line with the 2030 Agenda for Sustainable Development.

POLICYMAKERS

- Declare the provision of remittances as an essential financial service
- Establish economic support measures that will benefit migrants and remittance service providers
- Support the development and scaling up of digital remittance channels for migrants and families

REGULATORS

- Advise banks to apply risk-based due diligence measures with a view to continuing to provide banking services to remittance service providers during the crisis
- Consider clarification of compliance and licence renewal requirements for remittance service providers during the crisis
- Provide regulatory guidance for proportionate Know-Your-Customer (KYC) requirements that are critical to scale digital financial services, especially for unbanked and undocumented individuals

REMITTANCE SERVICE PROVIDERS

- Explore measures to provide relief to migrants, such as reducing remittance transaction costs, free cash pick-up and delivery, and other value-added services
- Invest in financial education and awareness, including on digital remittance channels and available agent locations
- Promote inter-operable open systems that can enable a foundation upon which migrant-centric financial products can be offered

For more information on the Call to Action, please visit:
https://www.knomad.org/covid-19-remittances-call-to-action/

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