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Future for Payments

What's going on with remittances?

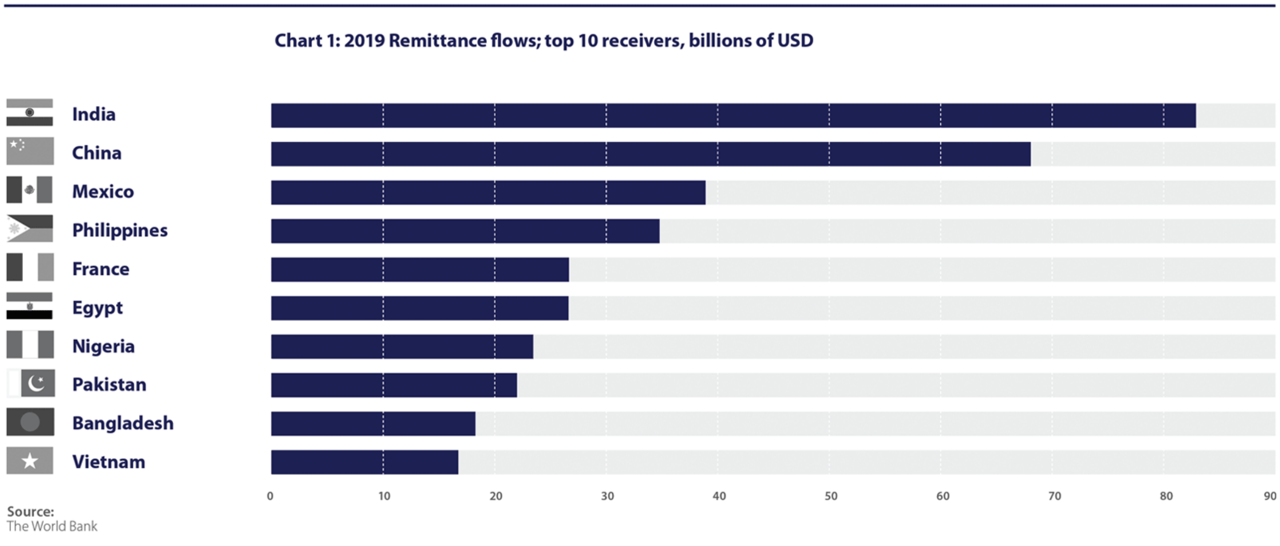
CHAD HARPER / DECEMBER 2020

Insights

- Over 200 million workers send remittances, and the United Nations believes one in nine people globally could be supported by them.
- The World Bank, International Monetary Fund, and other observers expect remittances to fall in 2020 due to the pandemic's effects on employment, but remittance flows have held strong in certain corridors.
- Along with jobs-focused recovery efforts, the private sector will need to continue its progress on making remittances as efficient as possible.

The importance of remittances

Remittances are hugely important for many countries around the globe. Hundreds of billions of dollars are sent annually by workers to their home countries. Over 200 million workers send remittances, and the United Nations (UN, 2019) believes one in nine people globally could be supported by them. Research indicates that these flows might actually be more stable than other inflows, investments, and aid (Ratha, 2005). In April 2020, a report from the Financial Stability Board (2020b) cited World Bank data and stated that "many international migrants send funds to support family and friends back home, and annual remittance flows grew 50 percent from 2010 to reach $707 billion, of which $529 billion were to low- and middle-income countries." Workers in G20 countries sent more than half of this total. While these funds are important for many countries, they are vital for the families involved, and it is the sender's costs that have received well-deserved attention. Chart 1 shows the largest receivers of remittances in 2019.



Description: A horizontal bar chart showing countries that are the top 10 receivers of remittances in 2019. The countries are India with $78 billion US dollars, Mexico with $36, Egypt with $27, Philippines with $26, Nigeria with $24, Pakistan with $22, Bangladesh with $18, Indonesia with $11, Guatemala with $11, and Nepal with $8 billion received.

A focus on costs

The Bank for International Settlements (BIS) Committee on Payment and Settlement Systems (CPSS) and the World Bank published "General principles for international remittance services" in 2007, and the principles provide a framework for improving the international remittance market. The principles address consumer protection, transparency, legal and regulatory frameworks, payment infrastructures, and the roles of the public and private sectors. The G7/G20 later endorsed these principles. In 2009, the G8/G20 established a target to reduce the cost of cross-border remittances from 10 percent to 5 percent within five years. The United Nations Sustainable Development Goals (SDGs), seeking to reduce inequality among countries, set forth a 3 percent target to be achieved by 2030.[1]

More recently, remittances have become an important part of a cross-border payments roadmap initiative being undertaken by the Financial Stability Board (FSB) with significant support from the Committee on Payments and Market Infrastructures (CPMI). Both retail and wholesale payments are being considered in the roadmap, with remittances receiving strong attention in the retail category. The cross-border review found that the average cost of sending a $200 remittance in 4Q 2019 was 6.82 percent;[2] another measure of what a well-informed consumer pays puts this figure at 4.37 percent.[3] Still, these figures have not fallen as much as the public and private sectors would like, and they are above the UN SDGs' 3 percent target.

[1] United Nations Sustainable Development Goal 10: Reduced Inequalities.

[2] Data can be found at https://www.knomad.org/data/remittances. World Bank staff calculations based on data from IMF Balance of Payments Statistics database and data releases from central banks, national statistical agencies, and World Bank country desks.

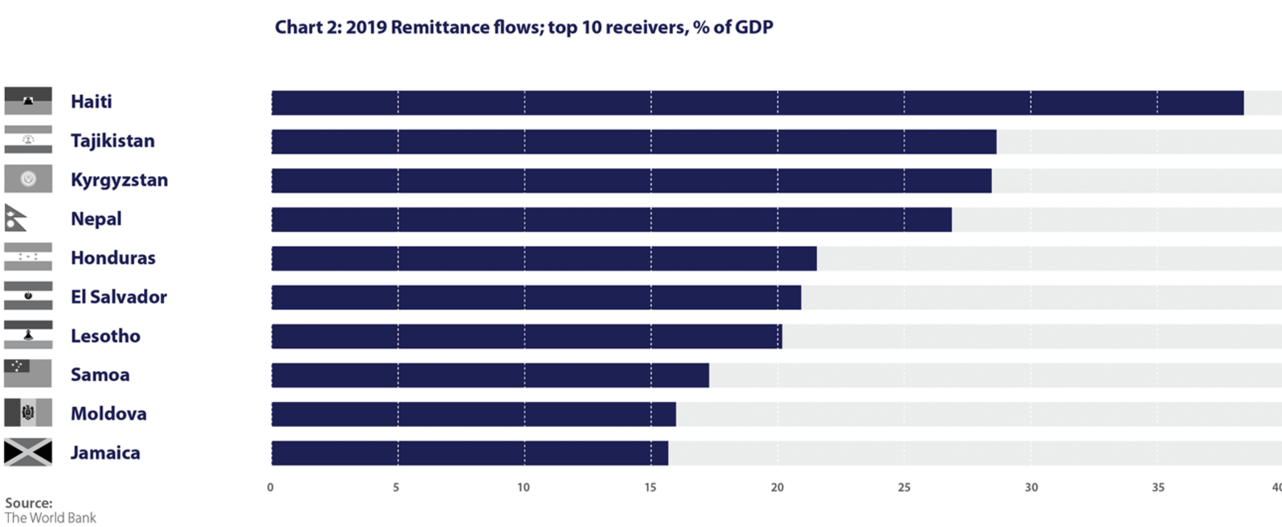
[3] World Bank SMART indicator.

The pandemic presents challenges

While the cross-border payments review has been taking place, the COVID-19 pandemic has been savaging the underpinnings of global remittances—employment. A summer IMF report, "Lifelines in danger," predicted the following:

> The pandemic will deliver a blow to remittance flows that may be even worse than during the financial crisis of 2008, and it will come just as poor countries are grappling with the impact of COVID-19 on their own economies. Migrant workers who lose their employment are likely to reduce remittances to their families back home. Recipient countries will lose an important source of income and tax revenue just when they need it most. In fact, according to the World Bank, remittance flows are expected to drop by about $100 billion in 2020, which represents roughly a 20 percent drop from their 2019 level (Chami and Sayeh, 2020).

This would be particularly devastating to nations that derive a sizeable part of their GDP from remittances, and these countries, as depicted below in Chart 2 from World Bank data, come from several regions.



Description: A horizontal bar chart showing countries that are the top 10 receivers of remittances in 2019, as a percentage of their gross domestic product. The countries are Haiti with nearly 39%, Tajikistan with 29%, Kyrgyzstan with 29%, Nepal with 27%, Honduras with 22%, El Salvador with 21%, Lesotho with 20%, Samoa with 17%, Moldova with 16%, and Jamaica with 16%.

Remittances in some corridors have defied projections

At the same time policymakers expected remittances to fall, counterintuitive data began arriving. Mexico was among the bigger surprises. Mexico experienced one of the smallest drops in remittances among Latin American countries in April 2020, at 2.6 percent. The buoyancy was partly driven by a favorable exchange rate between the Mexican peso and US dollar. According to Pew Research, Mexico and the Dominican Republic have received more remittances through the first half of 2020 than in the first half of 2019. Pew finds that other regions experienced a decline during the first six months of 2020—then showed signs of a rebound. "For example, remittances to the Philippines and Bangladesh, two countries that are among the world's top origins of international migrants, were down 4.2 percent and 1.4 percent, respectively, compared with 2019, with especially sharp declines in April. But monthly remittances to both countries rebounded in June" (Noe-Bustamante, 2020). At least in the case of Mexico, and perhaps elsewhere, the "overperformance" of remittances seems related to the "essential" nature of those workers in G20 countries. In the United States, Mexican workers occupy many essential jobs. Nevertheless, many researchers expect remittances to end down 20 percent or more for the year.

What's needed: A jobs recovery and continued innovation on remittances

A recovery for the countries that are hugely dependent on remittances needs, first and foremost, a recovery in jobs. Employment recovery in G20 countries will play a huge role, and the essential nature of many remittance-sending employees cannot be relied on to carry the day for remittances in all corridors. The recovery of small businesses will be key, as these firms account for more than 90 percent of global businesses and 50 to 60 percent of global employment. As the pandemic speeds the digitization of commerce (and the world), it will be critical to enable these businesses to participate fully. Visa has committed to digitally enabling 50 million small and medium-sized businesses over the next three years.[4] This initiative, and many more like it, will be needed to foster a robust recovery that re-creates jobs and, in turn, rebuilds remittance flows.

Along with these jobs-focused efforts, progress will need to continue on making the remittances themselves as efficient as possible. Fintechs and global money transmitters will need to continue leveraging innovative payment rails and networks to push consumer costs closer to the SDGs' 3 percent target for 2030. One notable shift in consumer behavior during the pandemic has been the increase in e-commerce. It will be interesting to see whether this shift has also occurred with regard to remittances; that is, have they shifted more to a web-based or mobile-only experience, which might offer lower costs? Certainly, a shift like this would bring more fintech offerings into play for more people. This also brings digital equity considerations to the fore—how many people would not be able to take advantage of these efficiencies? This is an area the Visa Economic Empowerment Institute will continue to explore.

[4] Visa to digitally enable 50 million small businesses to power recovery in communities worldwide, June 22.

Sources

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About the Visa Economic Empowerment Institute

The VEEI is a non-partisan center of excellence for research and public-private dialogue established by Visa.

The VEEI's overarching mission is to promote public policies that empower individuals, small businesses, and economies. It produces research and insights that inform long-term policy within the global payments ecosystem. Visa established the VEEI as the next step in its ongoing work to remove barriers to economic empowerment and to create more inclusive, equitable economic opportunities for everyone, everywhere.

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