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Remittances, a vital financial lifeline, are being squeezed

Each year, migrant workers send money to 800 million family members. But the pandemic is severely disrupting flows.

Domestic helpers line up for remittance services inside World Wide Plaza at the financial Central district in Hong Kong [File: Bobby Yip/Reuters]

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Remittance flows – the funds migrant workers send to their families back home – are projected to make their sharpest decline in history thanks to the coronavirus pandemic. And the disruption threatens to push millions of poor families deeper into poverty, the United Nations has warned in the run-up to the International Day of Family Remittances.

Every year, some 200 million migrants send funds to 800 million family members back home. Half the funds go to rural communities, where poverty and hunger are rampant and where the money helps families access food, healthcare and education. But this that vital lifeline is forecast to fall by more than $100bn as the coronavirus crisis upends livelihoods around the globe.

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Remittance flows to low and middle-income countries are estimated to drop by up to 20 percent to $445bn in 2020, from $554bn in 2019, according to April estimates by the World Bank.

This loss of income has a ripple effect on poor households around the world, and particularly in rural communities.

“Remittances account for over 10 percent of the gross domestic product in 30 countries in the world and for more than 5 percent of grosss domestic product for at least 60 low-and-middle-income countries,” said Asako Okai, United Nations Development Programme (UNDP) Assistant Administrator and Director of its Crisis Bureau.

“Without this money, investments and consumption drop, while poverty and inequality become entrenched,” she added.

UN Secretary-General Antonio Guterres is appealing to world leaders and “people everywhere” to support migrants during this unprecedented time when millions have lost their livelihoods and the ability to provide life-sustaining funds to their families in home countries.

“People on the move” are facing a “socio-economic crisis”, Guterres has warned.

The situation is especially dire for migrants working in the informal sector, who have little to no access to unemployment benefits or sick leave.

The loss in income and employment has far-reaching consequences. The drop in remittances is “nearly three-quarters of all official development assistance that is no longer being sent back home to the 800 million people who depend on it,” the UN chief said in a statement.

Migrants are particularly vulnerable as many of them worked in sectors such as construction, tourism, food, and domestic work – all hit hard by the pandemic and subsequent lockdowns.

“The hardship of COVID-19 felt by migrants in the form of lost wages and employment – often without government safety nets – is a large part of this crisis in remittances,” Judith Karl, Executive Secretary at the United Nations Capital Development Fund told Al Jazeera.

“The loss of this crucial financing lifeline is devastating for both the migrant households and receiving countries,” Karl said.

Indeed, the loss of remittance flows is causing severe hunger, and compromising health and education for tens of millions of families.

Early data from countries that rely on remittances is deeply worrying, says the International Fund for Agricultural Development (IFAD).

Senegal, Kenya, El Salvador, Nepal, the Philippines and Eastern Europe are among the countries that have not only experienced a drastic decline in remittance flows but also the return of a wave of jobless migrant workers now straining already burdened services and sectors.

In Mali, many families in rural communities cannot buy seeds to plant for the next agricultural season without the remittances sent by their family members working abroad, IFAD's Coordinator of the Financing Facility for Remittances Pedro de Vasconcelos wrote in a note.

Remittances disruptions are also compromising rural transformations that could expand financial services for the poor and spur new new job creation. Along with other private and public sector initiatives, IFAD is urging the expansion of rural access to digital technology that remittance flows could be used to support.

Digitalizing the remittance process could also give rural communities access to savings accounts and credit so they can expand their own economic opportunities, de Vasconcelos added.

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