



Ria PRESENTS

A Case for Affordable Remittances 2020

Supporting Migrant Workers Through COVID-19

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Why are remittances important?

**HOW MIGRANT WORKERS
SUPPORT THEIR FAMILIES
FROM AFAR**

Close to **five million people** leave their native countries every year in search of a better life. [1] Sometimes, people immigrate to earn a college degree or to learn a language. Other times, to gain international experience in their field. But, more often than not, people move to lift themselves and their families out of poverty.

Currently, there are around **272 million migrants** across the globe. That's **one in every 30 people** overcoming language barriers, uncertainty, and even discrimination. [2] Yet, their motivation is unwavering. In the end, they must rise above it all to provide for their families and communities back home.

But, how can migrant workers support their families from far away? They rely on money transfer services like Ria to send **remittances** back home. 'Remittances' refers to the funds migrant workers send back to their countries of origin.

In 2020 alone, migrants sent **US\$554 billion** to low- and middle-income countries (LMICs). While these may sound like impressive numbers, they represent a lifeline for millions. [3]

A steady flow of funds from abroad goes a long way for recipient households. For one, their children are more likely to stay in school. Families have more options for health coverage. And whole communities can also thrive thanks to GDP contributions. In countries like Haiti, remittances can make up as much as **37%** of the national GDP. [4]

Unfortunately, migrant workers and their families must overcome an extra hurdle this year. The **COVID-19 pandemic** and its aftermath threaten the livelihood of many.

Lockdowns and restrictions have halted economic activity worldwide, resulting in job losses. This is compounded by the fact that many visas are only granted depending on the applicant's employment status. The possibility of forceful returns is also met with travel restrictions. With moving plans delayed, those displaced by climate change or political unrest must wait longer.

At the same time, migrant workers still employed are likely performing first-necessity tasks. This could mean they're risking their health without proper insurance. If there's one thing this pandemic has taught us it's that the most vulnerable are often the most exposed.

Now more than ever, the road to **financial inclusion** is not straight-forward. Curve balls like COVID-19 can derail or slow down the process. However, the livelihood of thousands of families is at stake. Bringing down **the global cost of remittances** can help fight poverty and encourage access to financial services.

Ria is committed to providing a service that is **affordable, convenient, and safe**. But we can't do it alone. Hundreds of **non-compete clauses** around the world keep average prices high. This refers to agreements signed by retailers, banks, or postal services that restrict them from working with more than one money transfer service provider. In short, lack of price competition results in higher or stagnant prices for customers.

If you represent an organization that can **help us facilitate affordable remittances for migrant workers**, we encourage you to keep reading. The same goes for anyone interested in **learning more about the benefits of remittances on receiving households**.

In this report, we will explore the impact of remittances and what we can do to propel and protect them.



Remittances today

THE CURRENT LANDSCAPE

As of 2020, remittances provide LMICs with **three times the funding** received through foreign aid. The same is true for private capital flows and foreign direct investment (FDI). [5] The money received by recipients of money transfers means greater domestic consumption. In turn, this generates more tax revenue for the receiving country.

The economic boost from remittances can be used by states to pay off their foreign debt and cover costs for **building new schools and hospitals**.

By increasing spending power in countries with limited cash flow, remittances help revitalize economies. The impact is so great that these funds represent **over 10% of the GDP** in 30 countries. For some, like Nepal and Tajikistan, the percentage is as high as **25%**. [6]

It's no surprise that the **United Nations** made it a goal to lower the global cost of remittances. This is part of the **Sustainable Development Goals for 2030 (SDGs) plan**. In the next 10 years, the average cost should be down to **3%**. Currently, **the average sits at 6.8%**. [7]

There are three main channels to send money home: banks, post offices and money transfer operators (MTOs). As of March 2020, banks remain the most expensive option, **averaging 10.51% in fees**. On the flipside, **MTOs continue leading the race at 5.99%**. Mobile operators are averaging **3.37%**, but they remain a small share of transactions. [8]

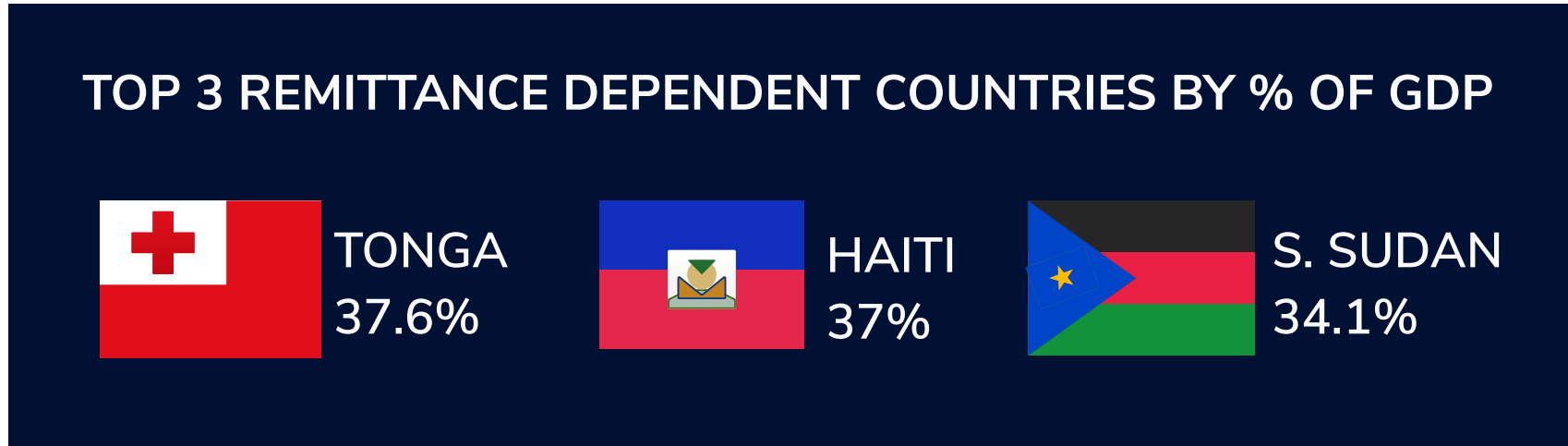
Every quarter, the **World Bank** publishes a **Remittance Prices Worldwide report**. Here, they share the average cost of remitting per region and remittance corridor. The latter refers to the bilateral channel of money transfers between one country and another. The report tracks **48 sending countries** and **105 receiving countries**. That's a total of **367 corridors**. [9]

Armed with the results of the World Bank's reports, governments and businesses can reassess their strategies to stimulate remittances. For

For instance, there is a section dedicated to the average cost for sending money in G8 and G20 countries. **G8 member countries average 6.57% cost over the sum remitted**, but the figure varies from country to country. While **Japan averages 9.40%**, the **Russian Federation is already below 2%**. [10]

At the same time, global averages of remittance costs can be misleading as they do not represent a 'standard fee.' While **fees for sending money to South Asia are the cheapest (4.95%)**, fees to **Sub-Saharan Africa remain sky-high at 8.9%**. [11] It's clear that this African region needs the most attention to facilitate affordable remittances for working migrants.

The key takeaway is that **dropping sending costs to 3% is vital**. By empowering more migrant workers to send money home, we're lifting entire communities out of financial hardships. And, for those who can already afford to send money? We'd be unlocking a little extra for **education, healthcare, and micro-investments**.





Powering education

THE IMPACT IN EDUCATION SPENDING

As we mentioned, remittances allow families to cover vital expenses. Such is the case for education, be it primary or secondary.

In global terms, the number of children who drop out of primary school has drastically **decreased since 1970**. [12] At the same time, the inflow of remittances has risen from **US\$35.8 billion** to **US\$689 billion** in the past thirty years. [13] Thus, it's likely that the rise in funding correlates with more children in school getting the education they need.

While these facts alone aren't enough to establish a direct correlation, a recent study conducted by **UNESCO** (United Nations Educational, Scientific and Cultural Organization) confirmed the positive impact of remittances on education spending.

The study found families in **Peru, Guatemala** and the **Philippines** used remittances to **triple their spending on education**. At the same time, recipient households in rural **India** and **Morocco** designated an extra **17%** of their savings to education on average. [14]

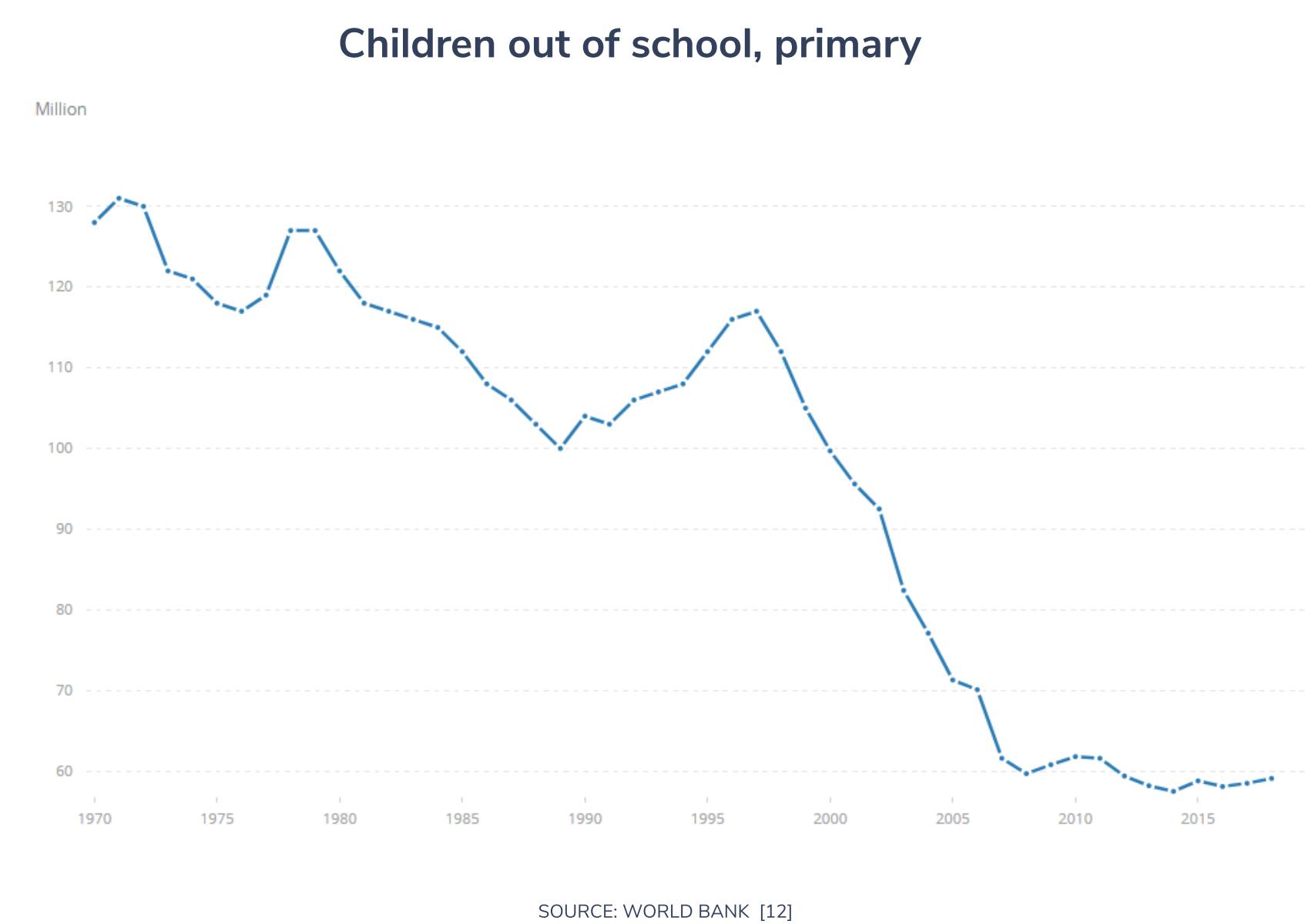
There are cases in which migration can affect family dynamics. For example, a younger child might quit school to take over for their expatriated sibling. This may include household chores or helping out with the family business.

However, the situation changes when remittances start to come in. For instance, in the Philippines, higher inflows of money to Filipino households helped cut unpaid child labor by three hours a week. [15]

In 18 countries across Sub-Saharan Africa and Asia, remittances boost education spending by an average of 35%. In Latin America, the average is a whopping 53% of household income spent on education for the family. [16]

With these education budgets in mind, what would happen if we were to lower the global cost of remittances to 3%?

UNESCO estimates that, if we made that happen, an **extra US\$1 billion** would go to education spending [17] Plus, it's not only tuition money that counts towards keeping children in school. When there are more funds to go around, families don't need to rely on their children's labor.





Improving health coverage

GIVING FAMILIES MORE OPTIONS

Medical emergencies can happen at any time. They can range from a broken bone to life-or-death surgery.

In high-income countries, many people have access to public healthcare. Others can afford private insurance to cover their medical bills. However, sanitation is not as accessible in low- and middle-income countries.

For one, medical infrastructure is limited. In many LMIC countries, public healthcare systems are often not robust enough to provide equal healthcare for all of its citizens. While private insurance is an option, it tends to be too expensive for many families.

This is where **migrant workers** come in. Having an expatriate parent or sibling can help in three ways. The first is by sending money back home via **money transfers**. The second is to **pass on healthcare knowledge**. Each country will have different healthcare practices that the expat can learn from to look after their wellbeing and that of their loved ones. The third is through **community outreach programs**.

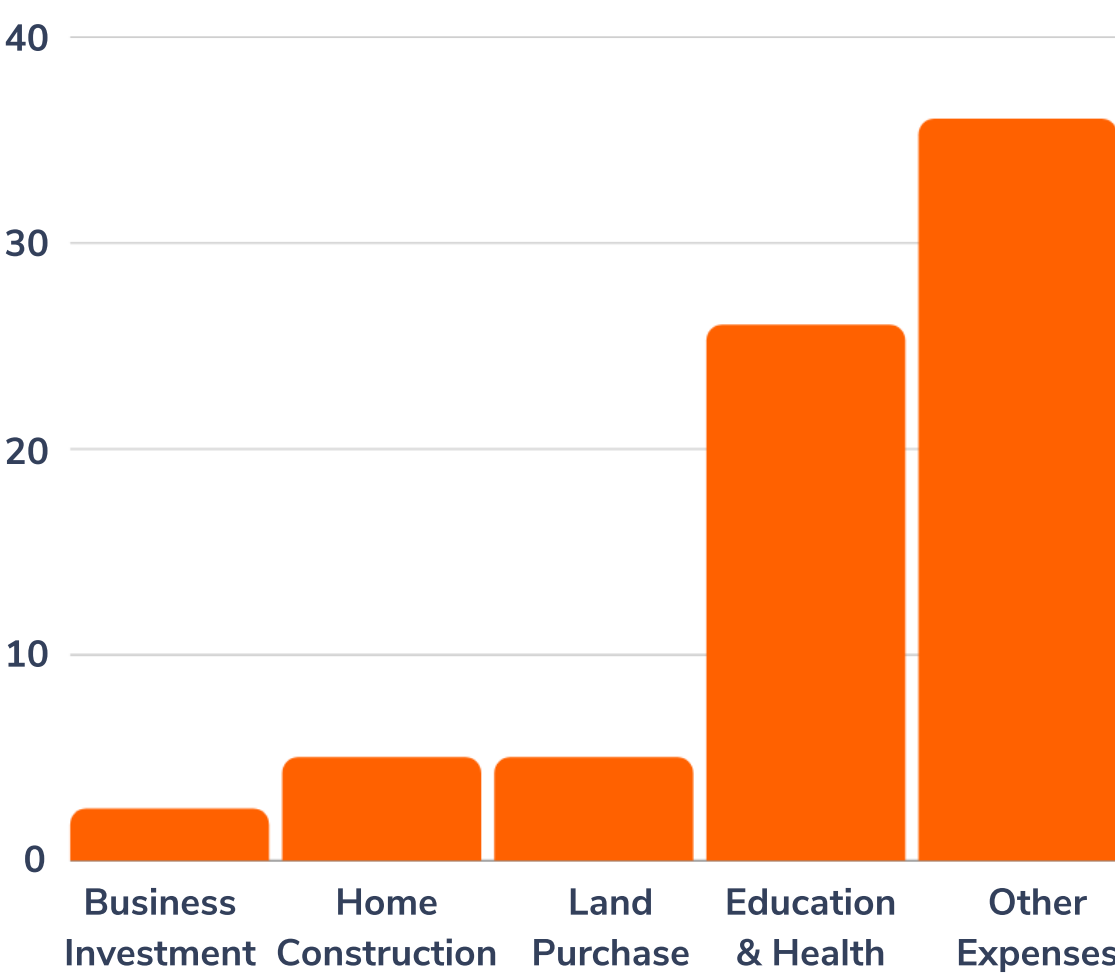
Through **hometown associations (HTAs)**, give and receive support in collaboration with their fellow expatriated countryfolk. These associations, formed by expatriates from the same community, help raise funds to pay for communal needs back home. [18] Examples include **building a new hospital or donating supplies to a local school**.

But, when cash is sent to individual households, how is it spent? The **North South University in Bangladesh** surveyed recipient families in the local village of **Hasanpur** to determine how they spent the money they receive from abroad. The study found over **25%** of remittances are spent on education and health, as can be observed in the graph on this page. [19]

Health spending, as with education, will depend on each country and its public systems. But, even if health investments vary, indirect spending on food and infrastructure can also benefit health. Things like keeping a balanced diet or sleeping on a better mattress can improve health.

To protect the most vulnerable, the **World Health Organization (WHO)** is pushing for universal health coverage. The goal is to ensure that every person in the world has access to medical assistance. [20]

While the WHO presses on with its projects, **remittances continue to play an important role in health spending**. It's up to us, the international community, to help accelerate the journey towards universal health coverage.



SOURCE: NORTH SOUTH UNIVERSITY IN BANGLADESH [19]

Micro-investments

SUPPORTING LOCAL BUSINESSES

In the **1970s**, the **microcredit business** boomed in Southeast Asia. These lines of credit started as small loans for poverty-stricken populations. If you couldn't qualify for a bank account or loan, microcredits were still an option.

Borrowers would then use the funds to **start a small business** to support their families. However, microcredit institutions have faced a lot of backlash since their dawn. [21]



Although microcredits can do a lot of good when done correctly, they come at a price. The borrower still needs to return the money with interest. Thus, the borrower risks getting stuck in a constant cycle of repayment.

Now, what if families could receive a cash injection without needing to return it? When families receive more than necessary through remittances, they can use the extra income to **buy land or start a business**. The problem is, unlike health and education, micro investments are not an urgent or vital need. This means families need to cover their basics before even thinking about investing.

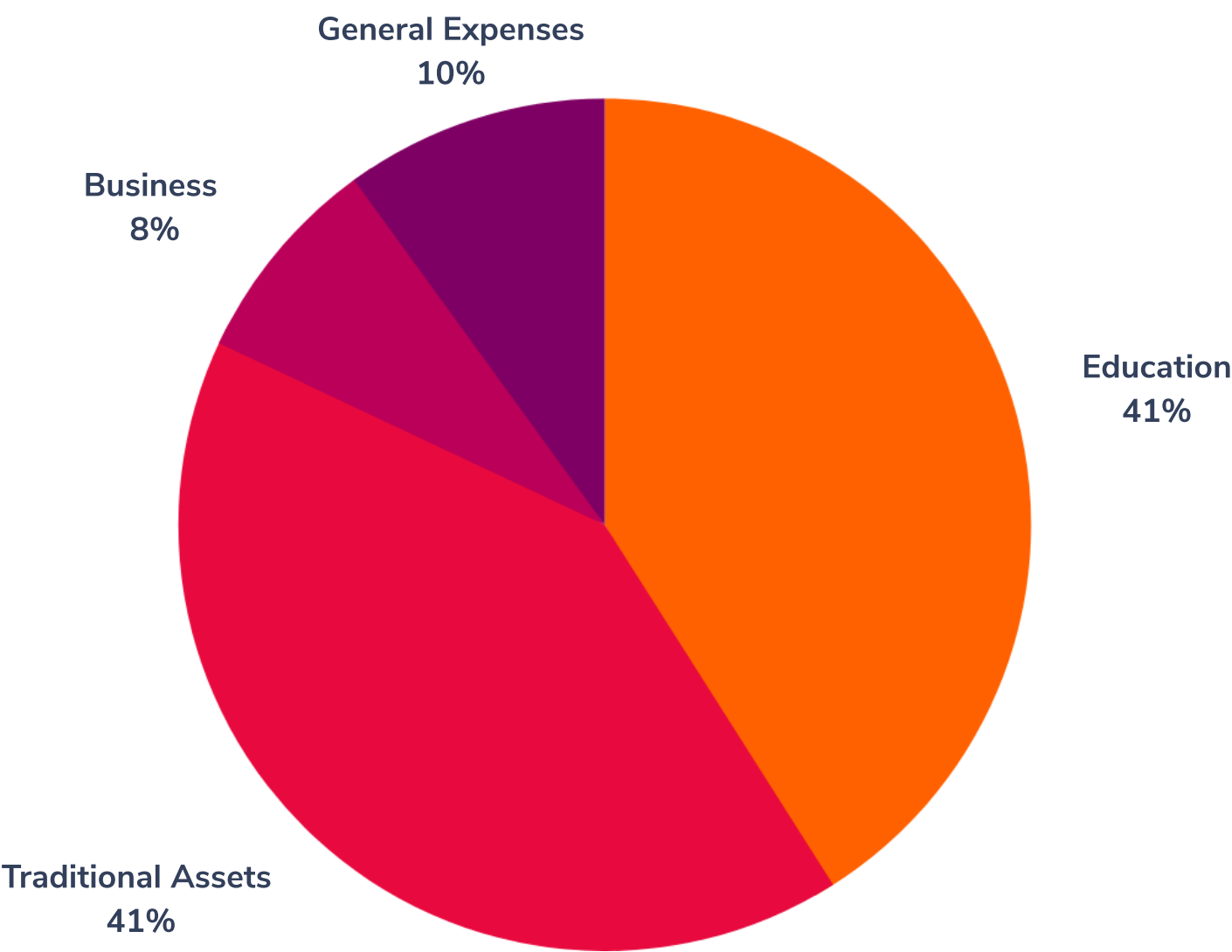
But there is good news. Some data already suggests families will opt for investing if given the chance and proper education.

One study found remittances amount to more than **25% of all capital invested** in small and micro-enterprises in Mexico. In regions with the highest rates of migration to the United States, remittances amount to **40% of investment**. [22]

Still, levels of financial literacy are low in rural areas, which hinders entrepreneurship. A study in **Nepal** found **only 5% of respondents use their savings to start a business**, while **only 8% were planning to invest in the future**. Yet, while most adults live off of farming, families do focus on education spending. [23]

In the future, these children might showcase a bigger interest in starting a business.

Even though the effect of remittances on local investment depends on financial literacy, extra funds can only help the family. Lowering the cost of remittances can both help keep children in school and give families the financial freedom to invest.



SOURCE: CHALISE, BHARAT. IZMIR UNIVERSITY INTERNATIONAL CONFERENCE IN SOCIAL SCIENCE [23]



Bringing down the cost

HOW TO REACH THE 2030 GOAL

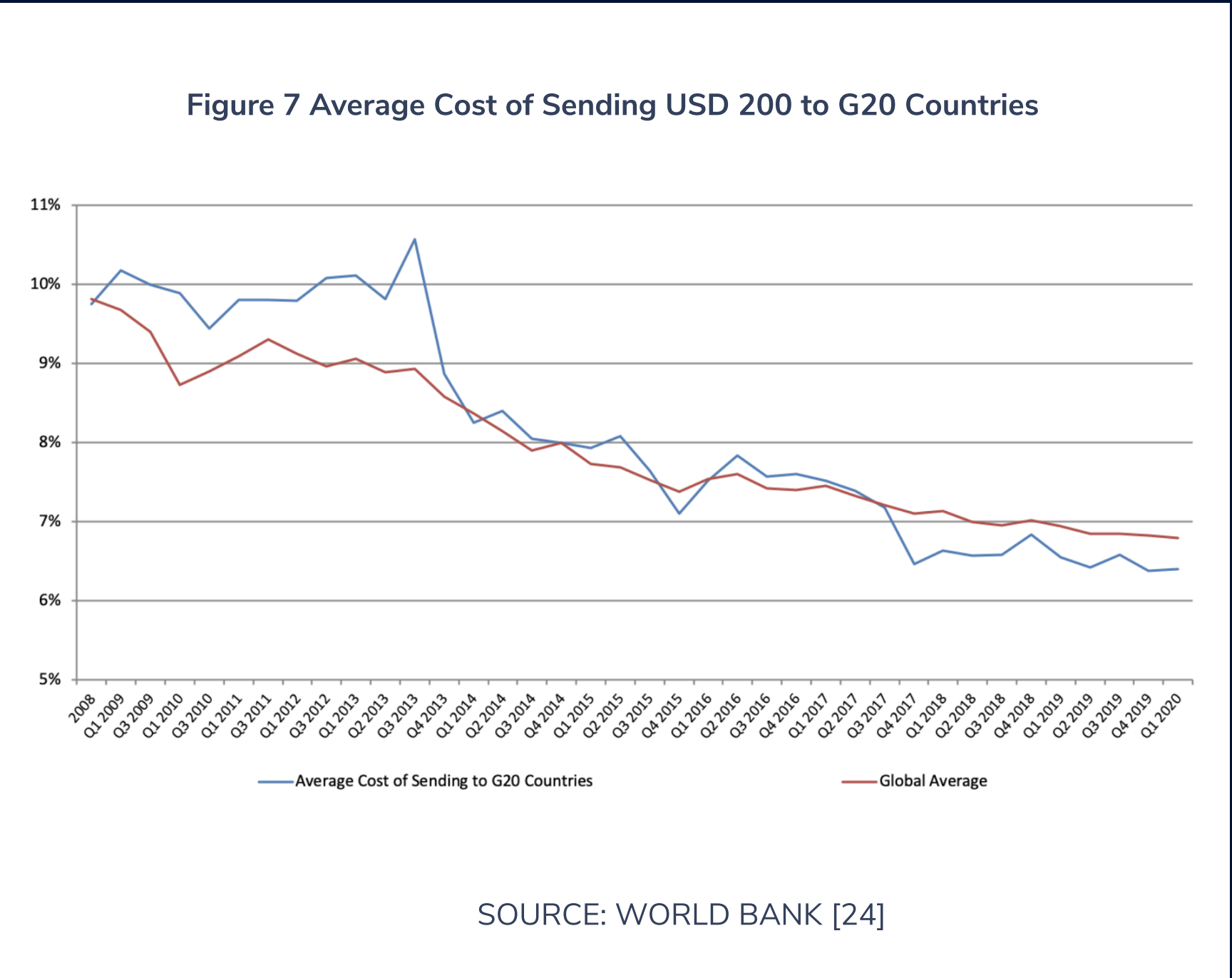
Until recently, the remittances market was a monopoly. It was only around 35 years ago that different players began to surface, racking up their own percentages of the market share. However, many signed **non-compete contracts**, locking prices in at the same rate.

Through allowing the different players to bounce off of each other, the price of remittances can drop significantly, at least at an MTO level. The use of technology to facilitate transfers and agreements with banks and postal services can alleviate the costs across the board.

Regions like Sub-Saharan Africa, where sending fees are the highest, will need to be the main focus to help migrant workers remit money affordably. But all around the world, the pressure must come from governments to follow the international goal of **bringing down the cost of remittances to 3% by 2030**. As of 2020, no region has reached the proposed average sending cost.

There is a lot to be done to help migrant workers send money home and only less than 10 years to do it in. However, we are progressing at a commendable speed. With only **3.79%** to go in bringing down remittance costs, it seems likely we will be able to emulate the **2009 to 2019 drop of 4%** in the next decade. [25]

At **Ria**, our remittance sending fees are close to reaching the 2030 goal globally, but we continue to foster competition in the hopes of offering an even better fee for our customers who live in the world’s most vulnerable regions.





COVID-19's impact

HOW TO BOUNCE BACK

The first half of 2020 was marked by a **coronavirus pandemic**, the aftermath of which is still felt across the globe. This pandemic hasn't only resulted in a sanitary crisis, but also a socioeconomic one. With major lockdowns paralyzing whole cities, many have found themselves out of a job.

Complications have arisen both in sending and receiving countries. For **migrant workers and their families**, this created a two-fold problem. On the one hand, weaker job security. On the other, the inability to pick up money transfers in cash, often the only choice for many recipients of remittances. Even now, as lockdowns soften and the economy begins to move, the situation hasn't improved much.

The World Bank projects a **20% decline in global remittances** following the crisis. In short, remittances to low and middle-income countries (LMICs) could fall by **19.7% to US\$445 billion**. [26]

To make matters worse, businesses and corporations have also suffered financially. Thus, foreign direct investment is also expected to drop **by at least 35%**. [27] This could lead to families in LMICs **relying almost entirely on remittances**. In other words, it's never been more important to help migrant workers overcome this financial hurdle.

Recently, the **IAMTN** (International Association of Money Transfer Networks) carried out a survey among money transfer companies to determine **main challenges and next steps** following the COVID-19 outbreak. The results were shared in a report titled **“Impact of COVID-19 on Migrants and Remittances”** published in May. [28]

The three main issues encountered by money transfer customers were:

- 1. Limited access to remittance services.** A direct result of partial or complete closures of physical stores following lockdowns.
- 2. Decrease in income.** Dampened economic activity in host countries led to job losses or salary cuts.
- 3. Limited adoption of digital channels.** For one, many migrant

workers aren't eligible for bank accounts or debit cards, which are necessary to transact online. At the same time, receiving countries could lack the infrastructure to power digital remittances.

Parallel to this report, the **World Bank** shared a set of proposals to aid migrant workers. Below are their main proposals.

- 1. Declare remittances an “essential service”** to exempt money transfer operators from store closures.
- 2. Support the infrastructure for going digital** by simplifying regulations and procedures. These could include increasing access to identification, bank accounts, and eKYC measures.
- 3. Incentivize money transfer companies** to reduce transaction costs. This could be achieved through tax exemptions or other fiscal support agreements. [29]

Although remittance volumes are currently in decline, an upsurge is estimated by **2021**. In the past, remittances have grown steadily, even during the 2008 financial crisis. Thus, the COVID-19 pandemic is projected to be a bump in the road rather than a full stop.

Remittance volumes to LMICs could **rise by US\$5.6 million over 2019 numbers, totaling US\$470 billion**. [30] But, the speed at which we get there will depend on MTOs and governments collaborating.

Conclusions

These times may be challenging for **empowering remittance senders and receivers**. However, it has never been more crucial to stand by the millions of migrant workers and their families.

Economic crisis or not, migrants are often amongst the most vulnerable. They usually make up a big part of our front lines, **supporting essential industries around the world**. During this pandemic, migrant workers may have even exposed themselves without necessary access to healthcare.

But, these are sacrifices migrants are willing to make. They'll do whatever is necessary to **break free of poverty**, for themselves and for their families.

So, it's **our responsibility** as an international community to look out for them.

They do the heavy lifting in opening ways for a better everyday life. And that applies to more than just themselves and their communities back home.

Migrant workers also help host countries thrive through their invaluable contributions.

By empowering migrant workers, we help lift economies, one family and one community at a time. And, isn't a global economic crisis **the best time to get started?**



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