Common Market for
Eastern and Southern Africa

Diaspora Remittances Critical to Post Covid-19 Recovery

Special Report

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This article espouses the contribution of diaspora remittances to the regional economies and the critical role these resources will play in the post COVID -19 recovery. However, regional countries have to undertake reforms to secure these resources and diversify the sources for long term sustainability. Such measures include implementing the COMESA Protocol on free movement of persons, labour and services and that on gradual relaxation and eventual elimination of visa requirements

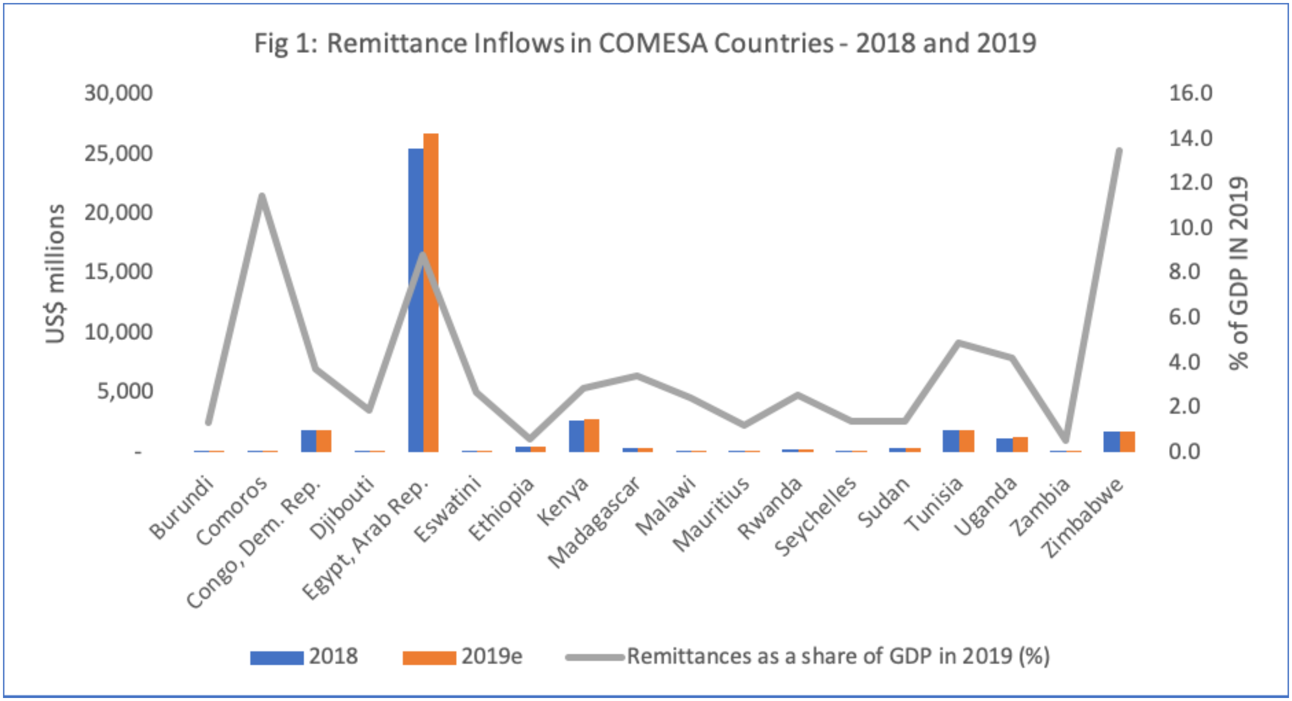
Introduction

According to the World Bank, remittance flows to Sub Saharan African countries will drop by 23.1% from $ 48 billion in 2019 to $37 billion in 2020 in the wake of the Covid-19 economic crisis. This is unlike the last decade where a strong growth of remittances was driven by stronger growth in the United States, Middle East and Asia.

During 2019, the top remittance recipients globally were India with $79 billion, followed by China ($67 billion), Mexico ($36 billion), the Philippines ($34 billion), and Egypt ($26.7 billion) among other countries. So far, the wealthiest countries including the United States, France, United Kingdom, Italy and China, who account for up to a quarter of all funds remitted to African countries were the worst hit by the pandemic. Migrants in the diaspora have lost jobs and taken pay-cuts amidst the Corona Virus outbreak and subsequent lockdown leading to the drastic fall in remittances. Thus, many countries have suffered a double hit by the crisis, more so those that remittances constitute a significant share of the GDPs.

In the COMESA region, the leading recipients of remittances during 2019 were Egypt (US$ 26,791 million), Kenya (US$ 2,819 million), Tunisia (US$ 1,912 million), DR Congo (US 1,823 million) and Zimbabwe (US$ 1,730) as shown in Figure 1.

In terms of contribution of remittances to GDP, Zimbabwe (13.5%, Comoros (11.5%) and Egypt (8.2%) top the list of COMESA countries with significant share of remittances to GDPs.



Data Source: https://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data

Importance of Remittances

Diaspora remittances are a key source of investments and enabler of economic growth and sustainable development. According to the United Nations 2030 Agenda for Sustainable Development (SDG), remittances sent by migrants to their families are fundamental for governments, international organizations and other partners in realizing their sustainable development objectives. They have multiplier effects in the economy through savings, investments, fiscal and debt sustainability. By increasing consumption base, remittances expand the revenue base, and allow governments to carry more debt or incur more expenditures.

At household levels, remittances support start-up of small-scale enterprises, while increased household consumption, inspired by remittances increases the demand for locally produced goods and services. In addition, remittances are a vital source of income for health and nutrition, education opportunities, improved housing and sanitation, entrepreneurship, financial inclusion and reduced inequality.

The World Bank estimates that foreign direct investment will drop by around 35% due to travel restrictions, disruption of international trade and decline in the stock prices of multinationals. Thus diaspora remittances will remain crucial to many countries in the region.

Policy and regulatory issues on remittances

The United Nations Sustainable Development Goal (SDG) goal No. 10 seeks to reduce remittance costs to less than 3 per cent and to eliminate remittance corridors with costs higher than 5 per cent by 2030. The purpose is to create a convergence between the goals of remittance families, government development objectives, private sector strategies to tap underserved markets. Initiatives such as the Global Compact for Safe, Orderly and Regular Migration, demonstrate the international community's recognition that remittances support hundreds of millions of people across the globe and works to strengthen their development impact on families and communities.

In Africa, the African Union recognizes the role of the diaspora in the development of Africa. The Global Africa Diaspora Summit of May, 2012 underscored the need to build sustainable partnerships between the African continent and the African Diaspora through sustainable dialogue and effective collaboration with governments where Diaspora populations are located. Article 3(q) of the Protocol on Amendments to AU Constitutive Act, which came into force on 26 May 2001, invites and encourages the full participation of the African Diaspora as an important part of our continent in the building of the African Union. Indeed, the AU Directorate of the Citizens and Diaspora Organizations (CIDO) coordinates the participation of the diaspora in the African Union. Moreover, the African Diaspora Network in Europe (ADNE) advocates for the voice of diaspora be included in development policy planning both in Africa and in Europe.

Within COMESA, Chapter 28 of the Treaty provides for the free movement of persons, labour, services, right of establishment and residence. Although the provision does not directly provide for treatment of remittances, the Protocols on the free movement of persons, labour and services and that on gradual relaxation and eventual elimination of visa requirements in themselves envisage increased earnings from migrants within the region.

Challenges to growing remittances

The COVID-19 pandemic has tremendously constrained mobility and travelling across countries. This may reverse the gains already made in promoting greater openness and flexibility in migration. This is because a range of professionals and semi-skilled workers are needed to provide various services. For instance, about 13% of essential workers, including ICT technicians, teachers, health professionals, sports men and women, cleaners, drivers and other general workers in Europe are immigrants. Stringent immigration policies are therefore likely to close out immigrant workers and therefore reduce diaspora remittances.

The other challenge has been the high cost of sending remittances. For instance, the global average cost of sending $200 stood at around 7 percent in the first quarter of 2019, according to the World Bank's Remittance Prices Worldwide database. No wonder the reduction remittance costs to 3 percent by 2030 is a global target under Sustainable Development Goal (SDG) 10.7. For many countries in Africa and the small islands in the Pacific remain the costs are above 10 percent. The high remittance costs encourage the use of informal channels or even illegal transactions, including money laundering. In addition, actual data is not captured in most cases leading to under-estimations.

In Africa, banks are the most expensive remittance channels, charging an average fee of 11 percent in the first quarter of 2019. Post Offices were the next most expensive, at over 7 percent. Remittance fees tend to include a premium where national post offices have an exclusive partnership with a money transfer operator.

In this regard the following measures and reforms are necessary:

- There is need for sustained migration reforms at the global level. This is not only in light of the role played by migrants during the pandemic, many being in the front line, but also the need to enhance peaceful coexistence of humanity to foster global economic development.

- Within Africa and by extension COMESA, the commitments to remove restrictions on the movement of persons across the region is paramount. Restrictions on movement of professionals and other essential workers hinder productivity and growth of both migrant source and destination countries and subsequently, the associated remittances.

- COMESA Member States should undertake financial regulatory reforms to streamline and effectively reduce the costs of sending remittances. This would entail review of Central Bank Acts, Money Remittance Regulations, National Payment System Act, and the E-money Regulations. The reforms should also guide licensing and operations for Remittance Operators as well as anti-money laundering measures.

- Member States should not only full implement the protocols on free movement persons, labour and services and that of elimination of visa requirements, but also develop specific rules and regulations to guide and harness remittances as a critical source economic growth and development.

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