How the social impact of remittances is aiding wellbeing in developing countries

By Andy Jury

18 Sep 2020

As developing nations reel from the impact of the novel coronavirus and national lockdowns, communities and households are seeing their collective resilience and wellbeing put to a rigorous test. While families draw on every possible means of support, the health crisis is underscoring which avenues of financial support and financial access are providing the much-needed resources that households need. Today, remittances stand out as a critical financial services function that is boosting social wellbeing and household resilience - both in times of crisis and 'normality'.

Andy Jury, CEO, Mukuru

To understand and grasp this impact more deeply, it is valuable to begin by reflecting on remittances flows during and post the global health crisis.

Following 2019’s record $554bn flow of formal remittance to low and middle-income countries (LMICs), the World Bank expects a 20% decline in 2020 as a result of the coronavirus pandemic. Although a recovery of 5.6% is tentatively forecast for 2021, direct foreign investment to LMICs is expected to fall by as much as 35%.

This will likely affect the remittance market in three pivotal ways:

1. A significant fall in direct foreign investment will see cross-border remittances becoming an increasingly vital source of external funding for LMICs.
2. Its impact on the social wellbeing of receivers will serve as an important real-picture indicator and measurement for the non-profit sector, as well as governments and regional regulators when setting policies and development goals.
3. Demand for financial services that deliver convenience to customers - while also reducing transfer time and lowering remittance costs - will see digital money transfer companies drawing on the latest fintech developments, making increasing use of collaborations and instituting robust compliance frameworks.

Measuring the social impact: reducing poverty, boosting resilience

While measuring the numbers around formal remittance payments is always going to be easier than measuring its social impact on receivers, there are strong indicators that we can turn to and continually use as key benchmarks.

To begin with, studies tell us that formal remittance is about four times larger than official development assistance - so we can make reasonable assumptions about the true effect of remittances on poverty alleviation while informal remittances remain unmeasured. So, if formal remittance impacts the lives of about one billion people, and informal remittance is estimated to be anywhere between 35% and 250% of formal remittances, the real-world impact of remittance on poverty reduction is most likely staggering.

Driving local economic activity

Perhaps unsurprisingly, current research suggests that remittances sent from migrant workers to families back home plays an important role in supporting local economies.

When looking at the UN partnership collaboration, The Transfer Project, for example, although it examines the social effects of cash transfer programmes, it's interesting to note that far from creating dependency on cash payments, receivers tend to invest money in projects that benefit their local economies.

For instance, the impact of just two years of transfers in Zambia, resulted in an impressive 34% increase in land dedicated to crop production. This yielded an increase in household consumption that was 25% greater than the cash transfer itself. Similar results have been seen in Lesotho, Kenya and Malawi.

Notably, a 2016 estimate puts the total of formal and informal remittances flowing from South Africa to Malawi at R477.4m. Based on the exchange rate at the time, this translated to around MK23.9bn. To put this into context, consider the real-world impact on local economies of a yield that is 25% larger than the remittance itself.

Many remittances sent intra-Africa by our customers actually align with crop planting season, building cycles and times when school fees are typically due.

A comment from lead economist at the Global Knowledge Partnership on Migration and Development (KNOMAD) – Dilip Ratha – illustrates this trend: "Remittances, unlike private investment money, do not flow back at the first sign of trouble in the country. When the family is in trouble, facing hard times, migrants send more money then. Unlike development aid money, that must go through official agencies, through governments, remittances directly reach the poor, reach the family, and often with business advice."

Supporting mental health, enhancing life satisfaction

In addition to alleviating poverty and enabling key economic activities, remittances have a major impact on mental wellbeing and household satisfaction. Indeed, the first global study on the wellbeing of the families of emigrants showed that receiving remittances had a positive and significant effect on perceived factors like stress, depression and quality of life. A 2% increase in life evaluations was noted despite the pain of separation from loved ones.

Not only is this the result of an increase in material living standards and expanded capabilities, it also alludes to the different social status that remittance-receiving families can have in the local community.

Perhaps most importantly, money transfer companies can offer greater peace of mind for those who send remittances as well as for their families back home, by creating value-added services in the form of money cards and insurance products with lower price points and improved accessibility.

Looking ahead, building customer education and protection into value-added services will be a crucial element in gaining trust and by extension, enabling the successful uptake of these products and services. As the numbers are indicating, remittances are playing an integral role in promoting global economic and social wellbeing.

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