



EMEA Webinar on "Remittances, labour markets and digitalisation in Africa and the Middle East: What to expect post COVID-19?"

Date 02 July 2020, 15:00

The panel was moderated by **Prof. Rym Ayadi**, EMEA President, and the speakers were: **Ralph Chami**, Assistant Director, International Monetary Fund and member of EMEA Advisory Board; **Dilip Ratha**, Lead Economist, World Bank; Ekkehard Ernst, Chief Macroeconomist, International Labour Organization; **Cinzia Alcidi**, Senior Research Fellow and Head of Economic Policy Unit, Centre for European Policy Studies (CEPS) and Member of EMEA Executive Board.

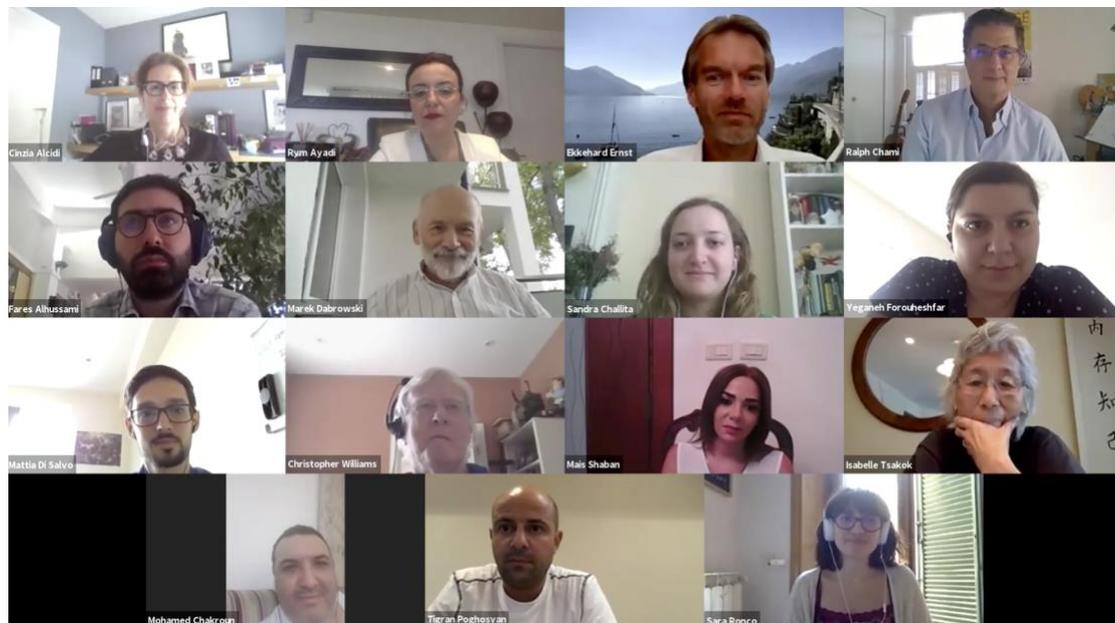
Rapporteur : Sara Ronco – EMEA Researcher

Introduction

This was the 5th webinar organised by EMEA under the umbrella of the COVID-19 Policy Response Initiative. The purpose of this webinar was to discuss challenges and opportunities from the recent sharp decline of remittances that registered a reduction of around US\$ 100 billion between March and April 2020. The aim of the discussion was to investigate the impact of such a significant phenomenon on the economy and the potential to reform labour markets in the wake of digitalisation in Africa and the Middle East.

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Speaker(s):



Ralph Chami: He started by stressing that low-middle income countries and fragile states have relied on remittances for many years, representing a lifeline for them. With Covid-19, this lifeline has become an unintended channel of transmission for the Covid-19 crisis. He said remittances are the flipside of migration and reported some data: there are about 165 million migrant workers worldwide, of which 42% are female and 65% are living in high income countries. The latest estimate came from official channels. Data reports that remittance flows to home countries worldwide amounts to UD\$550 billion (2019). For many years, remittances accounted for the major inflow in LIC and LMIC, for certain countries this has been higher than FDI and ODA. Furthermore, remittances represent a reliable source of income, since they are the least volatile amongst other typical inflow sources (i.e. ODA, FDI). Since they have been stable and reliable, for a long time they have been very important for households in recipient countries. The main uses of remittances for households: to increase and buffer consumption, for spending on health and education and to alleviate credit constraints whilst increasing self-employment and informality. Remittance flows to low- and middle-income countries are expected to decline in 2020, by around US\$ 100 billion relative to 2019. Typically, when a country suffered a shock, remittances increased thanks to migrant workers from abroad helping out families, but this time it hasn't happened. Something similar happened during the 2008-9 crisis, but not to this magnitude. The main impacts of a drop in remittances on households are: drop in consumption, reduced spending on public health and education, need to borrow and seek employment/underemployment. The fiscal implication of this for states

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translates into a drop-in consumption-tax revenue, an increase in spending on public health, an increase in debt service and the need to borrow to adopt countercyclical measures. The shrink in consumption increases spending on public health, whilst debt services decrease the ability of governments to engage in countercyclical measures to help citizens. He also discussed several financial and private sector implications since remittances are considered by banks as cheap deposits, which have suddenly started shrinking. He also illustrated various important monetary implications, since typically these countries have fixed exchange rate regimes. Labour market pressure puts pressure on social safety nets etc.). There is a risk, he said, of a boomerang effect from low income and fragile countries to high income ones: migrants workers in recipient countries lose their jobs and residency permits and try to return to the country of origin. Meanwhile, a new and more intense refugee problem arises with reach countries becoming less open. Therefore, he stressed the importance for high income countries to ensure protection for migrant workers (i.e. temporary permits, digital and fintech solutions to facilitate remittance flows). IFI should provide financial assistance to deal with health issues and to shore up fiscal and balance of payments needs. He concluded by saying that, differently from 2008 crisis, in the current crisis all economies are involved, so therefore a collective solution must be found.

Ekkehard Ernst: He started by saying that the majority of countries in Africa and the Arab States implemented strict lockdowns, preventing a huge part of the population from working. Since in those countries informal work is largely extensive, a lot of people relying on daily earnings experienced an immediate impact on their poverty and their livelihood. He illustrated data on the loss of working hours, for which different regions presented very close percentages, but a difference in the origin of the losses. Looking at some countries with more available, in most developing countries the loss in working hours was driven by job loss inactivity. He illustrated data on the different impact of the crisis on Global Supply Chains, depending on the type of industry. Then, he raised awareness of the younger generation since young people have always been the most affected during a crisis. In the current crisis, young people are experiencing unemployment, but also a loss in educational opportunity, which he thinks could persist in the long term.

Another aspect very specific to this crisis is the bad impact on female employment, which is much higher than for men. Females are usually predominantly employed in sectors which are the most hit by the pandemic crisis. He stressed that, as long as the virus has not been eradicated, the more the economy is opened up the greater the risk of an increase in cases (as has happened in some countries). Teleworking is a partial solution because it only applies to certain categories of labour. Some sectors are more digitisable than other. Furthermore, there is a risk of some jobs being replaced by machines (Artificial Intelligence), which are, to a large extent, jobs done by highly-skilled individuals. He concluded by suggesting that a

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broader framework was needed to prevent a large loss of jobs: a new form of taxation on labour; new social security and cover for new forms of work; profit sharing and wage negotiation; a sovereign digital economy wealth fund; strengthening resilience, to change our paradigm which is too focussed on efficiency.

Dilip Ratha: He started by presenting a comparison between the Covid-19 crisis and other ones that have occurred in the past. Focussing on Ebola and the 2008 Global Financial Crisis, in these cases, one main difference from the current one was the possibility of people emigrating and people working in a safe foreign country and sending money home. In 2008-9, remittances fell but by a small percentage. The general trend has always been that, when there is a crisis in the host country, remittances fall and when there is a crisis in the receiving county remittances rise. He said that the international migrant stock is not expected to change (a decline in new migration could be offset by a decline in return migration, of around a billion people). Migrants are more vulnerable to unemployment risks and the effect on them usually lasts longer. Remittances in 2008 went down by 5%, FDI even more. In this crisis, remittances are expected to decline by 20% (FDI will fall by 37%, remittances will remain higher in absolute value than FDI). Migrants are staying where they are, some are returning because of the deterioration in the condition of the receiving countries. The fall in remittances doesn't happen because migrants are coming back to their countries but because of economic recession, falling oil prices, changes to exchange rates. Policy intervention is needed. Remittances are projected to fall in all regions - in the Middle East and North Africa by -19%, in Sub-Saharan Africa by -23% and in Europe and Central Asia by -27.5%. Many countries have already started to see the lowering of remittances since April 2020. The average cost of remittances remains higher than the SDG target (3%), in SSA it is more than 8%, and in the case of south-south remittances it can cost up to 50%. He concluded by providing some policy responses for the short term: supporting stranded migrants (i.e. temporary protected status, support for informal businesses employing migrant workers); providing access to social services for migrants; supporting remittance infrastructure, remittance service providers (RSPs) should be declared as an essential service and there should be mitigating factors preventing customers or service providers of digital remittances (digital divide, financial inclusion divide). In the medium-to-long term, it will be important to support safe and regular migration, to revisit insurance regulation for migrants, to improve data on remittances and on migration, to facilitate financial access, to establish universal health programmes and to avoid brain-drain in low- and middle-income countries.

Cinzia Alcidi: She started by pointing out that even though North Mediterranean and Middle Eastern countries are not in the top ten list of recipients, remittances play a crucial role there (5-8% of GDP). The role of remittances is crucial because it is an important source of income and this crisis has created a big income shock for recipient countries, where governments don't have enough resources to protect those in difficulty and to kick start a recovery for their

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economies. The consequences for receiving countries will depend on whether the shock we are facing will be temporary, persistent or quite permanent. She said that there are three main areas of uncertainty: whether the state of the pandemic is under control, or whether we should expect new waves; to what extent lockdowns have been harmful on economies, not only on production but also in terms of consumption and whether job cuts will have a persistent impact on commodity prices; whether the health crises and the experience of lockdown is going to change our consumption and production, accelerating automation/digitalisation trends. She explored several possible responses from countries. She recalled the European short-time work schemes to protect employment; even if is temporary, it is a crucial measure. New measures on work protection have also been extended to atypical workers and the self-employed meaning a recognition of change in the labour market. In the informal sector, some measures have been taken but they are still weak ones. She concluded by asking everyone to reflect on what will make our economy more resilient.

Main issues discussed

- a) Remittances constitute one of the main sources of income for a large proportion of the vulnerable population in low- income countries and fragile states. The sharp decline in remittances could cause a return to poverty and famine in developing countries.
- b) Migrant workers are important both for host and countries of origins. Policymakers in host countries should protect them and a big change in remittance regulation and management is needed.
- c) Job loss has been experienced in all countries worldwide and highlighted the need for a change in the paradigm, currently based on efficiency, to one focused on resilience.