Brief #5: 24 April 2020

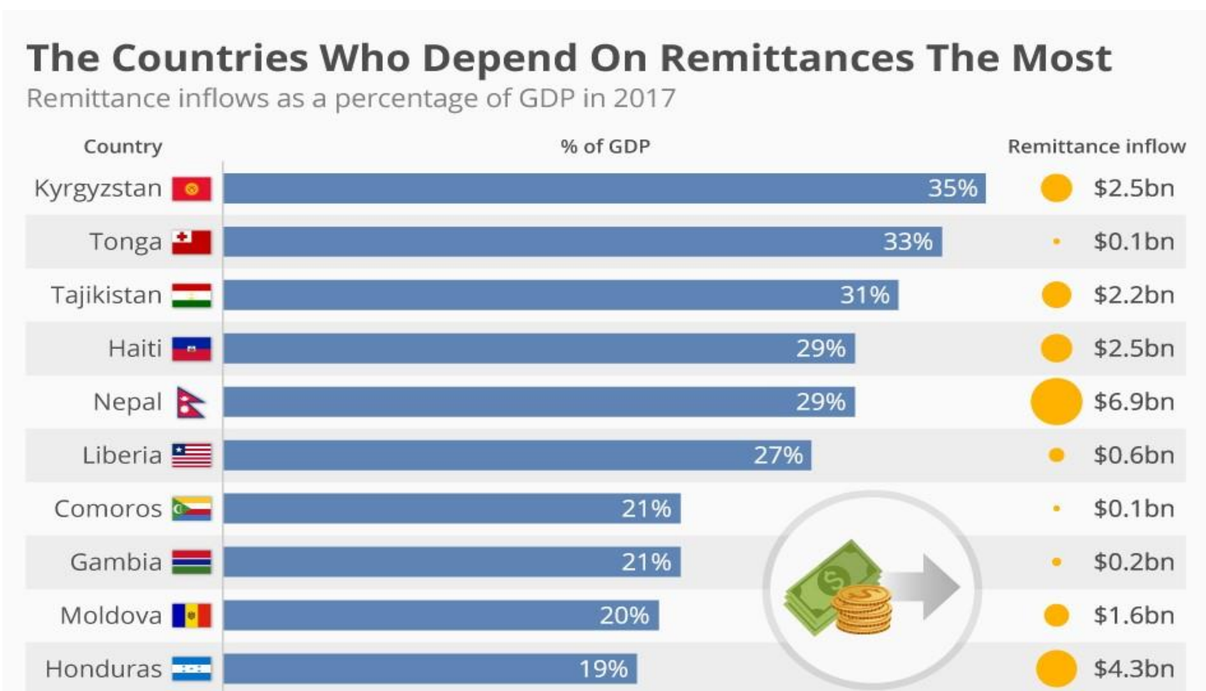
THE IMPACT OF THE COVID-19 OUTBREAK ON REMITTANCES IN THE GAMBIA

INTRODUCTION

Remittances from abroad are a key source of capital income for The Gambia and an important contributor to the economy. The remittance volume to The Gambia has been increasing steadily the past few years from US$ 205.6 million to US$226.7 million to US$277.9 million in 2016, 2017 and 2018 respectively. Remittances to the country increased to US$318.50 million in 2019.[1] This figure does not include remittances sent through informal channels which is also significant. The contribution of remittances to GDP is estimated at 20%.

The Gambia according to the World Bank is one of the top ten countries in the world dependent on remittances and the third highest dependent country in Sub-Saharan Africa after Liberia and Comoros:

Figure 1: Countries Most Dependent on Remittances (% of GDP)



Source: World Bank

[1] Central Bank of The Gambia (CBG)

Similar to trade, remittance inflows are usually heaviest during the Ramadan and Tobaski periods as individuals abroad send funds to their relatives at home for consumption. Given that the outbreak of the COVID-19 took place prior to both these periods, there is sure to be a negative effect on remittance inflows this year which in turn will lead to a decline in economic activity.

STATUS OF REMITTANCES IN THE GAMBIA

In The Gambia, over 122,000 households are receiving remittances on a monthly basis from over 89,000 total emigrants mainly based in the United States, the United Kingdom & Northern Ireland, Spain, Sweden and Germany[2]. These remittances help to boost household income and consumption as private consumption makes up 88% of GDP.

The Central Bank of The Gambia (CBG), working together with the Ministry of Finance & Economic Affairs, the Migration and Sustainable Development in The Gambia (MSDG) Technical Cooperation Project and other partners will develop and implement a scheme to reduce the transaction cost of remittances sent to The Gambia to the lowest level possible. The scheme is in line with the Sustainable Development Goals, specifically Goal 10 – target 10.7c that states: “By 2030, reduce to less than 3 percent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 percent”. For some remittance corridors, the cost of sending money to The Gambia is over 20 percent. Even in well-established markets such as the UK-Gambia remittance corridor, the World Bank reported that in 2019, the total average cost was 12.62 percent, four times higher than the SDG target of 3 percent.

Foreign direct investment (FDI) in The Gambia in 2019 was US$44.05 million while remittances amounted to US$318.50 million in the same period, over 7 times the amount of FDI[3]. The private remittances sent to friends and relatives are mostly used for social investment and consumption, paying recurrent costs of feeding, health, education and social amenities of families. Foreign remittances from Gambian emigrants play a fundamental role in national development – reducing hunger and poverty, improving health & education and helping attain other key SDG goals and targets.

Based on estimates from ‘A Statistical Portrait of Gambians Living Abroad’ (2019), there are over 140,000 Gambian migrants living abroad. This number is most likely even higher given that non-refugee irregular migrants are not captured in the data and neither are second and third generation Gambians. The figure below shows that the majority of Gambians now live in the United States and the US and UK have now also leapfrogged Spain as the main source of remittace inflows to The Gambia.

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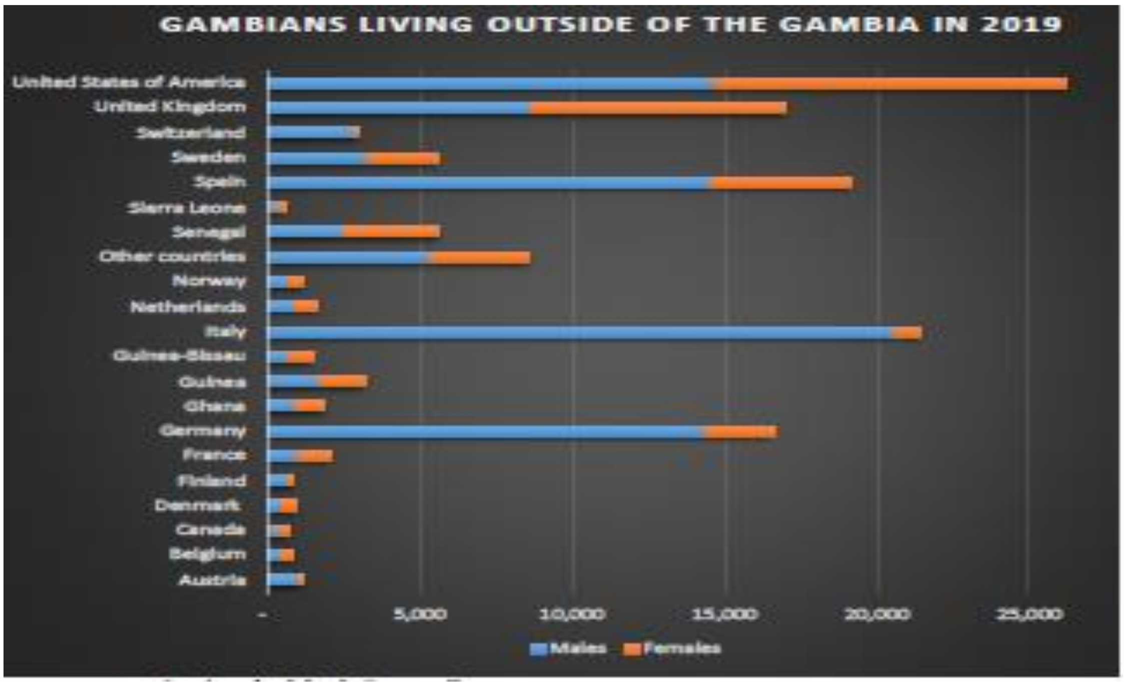
[2] Integrated Household Survey 2015/16

[3] CBG

Figure 2: Number of Gambians Living Abroad (2019)



Source: Cherno Omar Kebbeh – A Statistical Portrait of Gambians Living Abroad (2019)

GLOBAL DEVELOPMENTS IN EMPLOYMENT RESULTING FROM COVID-19

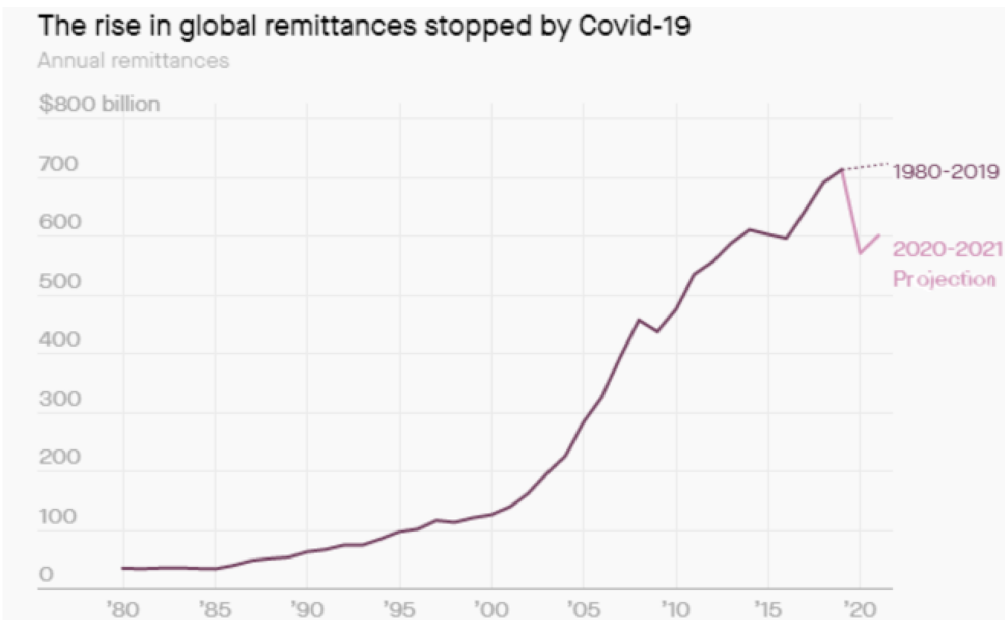
Global remittances are projected to decline sharply by about 20 percent according to the World Bank due to the socioeconomic crisis resulting from the COVID-19 outbreak and the measures being taken the curtail the spread of the virus. The significant decline, which would be the sharpest decline in recent history is largely due to a fall in wages and loss of jobs for migrant workers, who are usually most vulnerable to losses in jobs and wages when there is an economic crisis in a host country and this crisis is happening at the same time around the world.

Remittances to low- and middle-income countries (LMICs) are projected to fall by 19.7 percent to US$445 billion, representing the loss of significant financial source for many vulnerable households. In The Gambia at least 5 percent of all households benefit from remittances monthly and this number is even higher when remittances from informal channels are considered.

Given the fundamental role of remittances in achieving sustainable development, alleviating poverty and hunger, improving health and nutrition, a sharp decline will also have a negative impact on progress towards the SDGs and would worsen the lives of the many vulnerable households that are already living from day to day.

The expected large decline in remittance flows in 2020 comes at a time when remittances were on the rise to LMICs reaching a record US$554 billion in 2019. Despite the decline, remittance flows are expected to become even more important as a source of external financing as the fall in remittances is expected to be less than the fall in FDI projected at 35 percent. Remittance flows already surpassed FDI in LMICs in 2019, a trend that also occurred in The Gambia, and this is important considering the emphasis on innovative financing for development.

Figure 3: The rise in global remittances and the decline due to COVID-19



Source: World Bank

The World Bank projects that remittances to LMICs will recover and rise by 5.6 percent to US$470 billion, still below the record number in 2019. The outlook for remittances remains uncertain as the impact of COVID-19 on the outlook for global growth and the measures being used to curb the spread are still ongoing.

DEVELOPMENTS ON REMITTANCES FROM COVID-19 OUTBREAK IN THE GAMBIA

The Gambian economy is already suffering from the COVID-19 outbreak and its negative impact on key sectors especially trade and tourism. A negative impact on remittances is also expected. With lockdown measures taking place in the main host countries for Gambian migrants, many have lost jobs or simply do not have the regular access they did to send money back home to The Gambia. The US, UK, Italy, Spain, Sweden and Germany are all affected by the crisis at the same time and this is detrimental for the dependent households here in The Gambia.

The decline in remittances by even 20 percent as is being projected globally would bring down remittance inflows from US$318.5 million to US$254.8 million which is a significant loss of about 4 percent of GDP for a small economy like The Gambia.

The ramifications of a decline in remittances will be felt all over the economy. A majority of remittances to the country go towards supporting household consumption and towards construction, a growing sector. Declines in these areas will also adversely affect the economy. Education will be affected as some families will no longer be able to afford for their children to go to school. Health, provision of medicines and affording medical expenses will also decline at a time when hospitals are already expected to be overwhelmed dealing with COVID-19 patients.

The financial soundness of the banking sector will also be put in jeopardy as activity will slow down in banks and forex bureaus with less remittances coming in. Savings will be affected and be reduced meaning there will less deposits and the banks' ability to provide loans will be further hampered. All in all, economic activity in the country will slowdown.

Most important is the human element of the crisis and reduction in remittances. Many households that were on the brink of poverty will become even more vulnerable and efforts must be undertaken by government and development partners to ensure they are not left behind, especially as the Ramadan and Tobaski period are approaching. Social assistance to households feeling the effects from abroad must be expedited as well.

SDG progress in The Gambia will be hindered as remittances can support the achievement of least 7 of the 17 SDGs due to their interconnected nature. It is certain that there will be a national development regression as a result of COVID-19.

Eliman Jallow, CEO & Founder of Pay365 and Ping Money, a company that facilitates the transfer of remittances to The Gambia on a digital platform says they have already felt the negative impact of the COVID-19 outbreak on their business:

"Based on our figures pre- and post- lockdown, we have seen a **40%** drop in remittances. However, numbers have started to bounce back due to Ramadan remittances".

RECOMMENDATIONS

A number of policy responses and recommendations can be enacted to mitigate the negative effects of the COVID-19 crisis on remittances:

- ✓ Government can facilitate the increased flow of remittances by exempting remittance inflows from certain regulations and taxes. Other transaction costs can also be reduced;
- ✓ Money transfer agencies and forex bureaus should be considered essential business services and be allowed to remain open despite any other declarations;
- ✓ Social assistance should be expedited for households severely impacted by the decline in remittances;
- ✓ Social protection measures should also be provided to migrant workers in host countries;
- ✓ Government can take advantage of schemes to improve diaspora investment for development by offering bonds, providing tax breaks and incentives and revising laws, regulations and practices to facilitate innovative forms of financing from Gambians abroad;
- ✓ Data on Gambian emigrants, remittances, recipients and uses should be strengthened to provide a more accurate picture that will allow for more effective interventions.