Resilience in the market for international remittances during the COVID-19 crisis

A report by the International Fund for Agricultural Development and the World Bank to the G20 Global Partnership for Financial Inclusion

October 2021

G20 ITALIA 2021

GPFI Global Partnership for Financial Inclusion

IFAD Investing in rural people

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Table of contents

Acknowledgements

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Abbreviations and acronyms

ACH	Automated Clearing House
ADA	Appui au Développement Autonome
AML/CFT	Anti-money laundering/combating the financing of terrorism
API	Application Programming Interface
ATM	Automated teller machine
BB	Bangladesh Bank
BDT	Bangladesh taka
BRSA	Banking Regulation and Supervisory Authority
CBE	Central Bank of Egypt
CBN	Central Bank of Nigeria
CBRT	Central Bank of the Republic of Turkey
CCAF	Cambridge Centre for Alternative Finance
CDD	Customer due diligence
CFL	Centre for Financial Literacy
CGAP	Consultative Group to Assist the Poor
CPMI	Committee on Payments and Market Infrastructure
DFS	Digital financial services
EAEU	Eurasian Economic Union
E-KYC	Electronic know your customer
EU	European Union
FATF	Financial Action Task Force
FDI	Foreign direct investment
FFR	Financing Facility for Remittances (of IFAD)
FPS	Faster Payments System
GCM	Global Compact for Safe, Orderly and Regular Migration
GFRID	Global Forum on Remittances, Investment and Development
GSMA	Global System for Mobile Communication Association
GPFI	Global Partnership for Financial Inclusion
G20	Group of 20
IAMTN	International Association of Money Transfer Networks
ID	Identity document

IDFR	International Day of Family Remittances
IDPs	Internally displaced people
IFAD	International Fund for Agricultural Development
KD	Kuwaiti dinar
KYC	Know your customer
LMICs	Low- and middle-income countries
MFI	Microfinance institution
MNO	Mobile network operator
MTO	Money transfer operator
NCFE	National Centre for Financial Education
NPCI	National Payments Corporation of India
NRSN	National Remittance Stakeholder Network
NSFE	National Strategy for Financial Education
ODA	Official development assistance
OTC	Over-the-counter
PSD2	European Payment Services Directive 2
RBI	Reserve Bank of India
RCTF	Remittance community task force
RDA	Roshan Digital Account
RSP	Remittance service provider
RTGS	Real-time gross settlement system
RUB	Russian ruble
SADC	Southern African Development Community
SMS	Short message service
SBP	State Bank of Pakistan
SDGs	Sustainable Development Goals
TCIB	Transactions cleared on an immediate basis
UAE	United Arab Emirates
UK	United Kingdom
UNCDF	United Nations Capital Development Fund
UPI	Unified Payment Interface
USA	United States of America

Glossary

AML/CFT: An acronym for anti-money laundering/combating the financing of terrorism; it refers to policies and procedures used to detect and reduce money laundering and terrorism financing.

De-risking attitude: The phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk.

Digital financial inclusion: Digital access to and use of formal financial services by excluded and underserved populations (CGAP).

Digital remittances: Digital remittances are defined as those that are sent via a payment instrument in an online or self-assisted manner, and received into a transaction account, i.e. bank account, transaction account maintained at a non-bank deposit taking institution (such as a post office), mobile money or e-money account. See World Bank (2021). Remittance Prices Worldwide Quarterly, Issue 37, March 2021. It is worth noting that, in the framework of that report, remittances sent online from a transaction account and received in cash, over-the-counter, or sent in cash to a transaction account, especially a mobile money account are also considered “digital” and are most often designated as “one-leg” digital.

E-KYC – Know Your Customer: A process in which an agent of an organization performs required due diligence to establish the positive identity of a user or claimant. When this is done using an online system or online-enabled tools it is referred to as e-KYC.

Financial inclusion: The effective access to basic financial services, such as payments, savings (including current accounts), credit and insurance provided by regulated financial institutions to all working-age adults.

FinTech: A broad term referring to technologically-enabled financial innovation that results in new business models for financial services (GPFI, 2017).

Migrant worker: A person who is to be engaged, is engaged or has been engaged in a remunerated activity in a state of which he or she is not a national (United Nations, 1990).

Mobile Money: A service is considered a mobile money service if it meets the following criteria:

- A mobile money service includes transferring money and making and receiving payments using the mobile phone.
- The service must be available to the unbanked (e.g. people who do not have access to a formal account at a financial institution).
- The service must offer a network of physical transactional points, which can include agents, outside of bank branches and ATMs that make the service widely accessible to everyone.

- Mobile banking or payment services (e.g. Apple Pay and Google Wallet) that offer the mobile phone as just another channel to access a traditional banking product are not included.
- Payment services linked to a traditional banking product or credit card, such as Apple Pay and Google Wallet, are not included (GSMA).

Mobile money account: An e-money account that is primarily accessed using a mobile phone and which is held with the e-money issuer. In some jurisdictions, e-money accounts may resemble conventional bank accounts but are treated differently under the regulatory framework because they are used for different purposes, for example, as a surrogate for cash or a stored value used to facilitate transactional services (GSMA)

Money transfer operator (MTO): A payment service provider that sends payment in cash or through other payment instruments and receives fees from the sender for each transfer without requiring the sender to open an account.

Online service: Method to remit money using the Internet or the telephone network as access channels; bank account or credit/debit/prepaid cards as funding sources; and computers, phone, smart phones or tablets as access devices. Online services replace physical and in-cash interactions by remote electronic transactions.

Payment institution: A specific category of non-bank institutions permitted to handle payment operations including remittances.

Payment system: A specific set of instruments, banking procedures and interbank funds transfer (e.g. clearing and settlement) systems that ensure the circulation of money.

Over-the-counter: Transactions made in a bank branch or at an agent in cash with the assistance of an agent (adapted from Microsave).

Payment service provider (PSP): An entity that provides payment services, including remittances. Payment service providers include banks and other deposit-taking institutions, as well as specialized entities such as money transfer operators and e-money issuers (CPMI, WB).

Remittances: Cross-border, person-to-person payments of a relatively low value. The transfers are typically recurrent payments by migrant workers to their relatives in their home countries. Remittances are – first and foremost – a private flow of funds between family members.

Remittance corridor: Also known as remittance market, a remittance corridor specifies the remittance flow between an originating country (or region) and a receiving country (or region).

Remittance families: Transnational households composed of migrant workers who send remittances and their relatives who receive them in their countries of origin.

Remittance service provider (RSP): An entity operating as a business that provides remittance services for a fee to end-users, either directly or through agents, and generally making use of agents such as stores, post offices or banks to collect the money to be sent. On the receiving side, the money is picked up by the recipient at a bank, post office, microfinance institution (MFI), or other pay-out location. RSPs encompass a wide array of financial institutions (bank and non-bank) and nonfinancial institutions. Institutions such as banks, postal networks and mobile network operators (MNOs), can be agents that co-brand and sell the product.

Introduction

The COVID-19 pandemic has highlighted the crucial role played by international remittances in building resilience during times of crisis.[1, 2] As national lockdowns and border controls took effect during the onset of the crisis, it was initially predicted that there would be an adverse impact on this essential countercyclical financial flow for remittance recipients in low- and middle-income countries (LMICs). Due to the lockdowns in the early stages of the crisis, declines in remittance volumes were observed as migrants struggled to find work and remittance service providers (RSPs) were forced to either limit their services or, in some instances the ceased to operate.

Yet, the flow of international remittances has proven to be resilient through the course of the pandemic, registering a small decline and exceeding the sum of foreign direct investment (FDI) and official development assistance (ODA) for LMICs.[3] The reasons for this resilience appear to be three-fold.

- The commitment and resourcefulness of migrant workers to support their families back home[4] ensured that the flow of remittances remained stable. As traditional sources of work in sectors disrupted by the pandemic disappeared and incomes declined, migrants found alternative means for funding these crucial remittances, such as reducing consumption, drawing down on savings or finding alternative jobs. This prevented many low-income households in LMICs, including rural, women-led and refugee households from falling into poverty.
- The actions of public sector and international bodies have significantly contributed to the continuity of remittance flows. Often working in consultation with the private sector, governments and regulators took measures to create a more enabling environment to keep remittances flowing and to promote the uptake of digital channels. As an immediate step, many governments declared remittance services as essential. For their part, international organizations used their convening powers to bring together different industry stakeholders, framing their efforts within the commitments to existing global development goals on remittances, such as the SDG target 10.c to reduce remittance costs to 3 per cent by 2030, SDG 17.3 to mobilize additional financial resources for LMICs from different sources, including remittances,[5] and objective 20 of the Global Compact for Safe, Orderly and Regular

1 According to the World Bank's Migration and Development Brief 34, in 2021, the officially recorded remittance flows to LMICs totalled US$540 billion, only 1.6 per cent below the US$548 billion recorded in 2019. In this regard, cross-border remittances exceeded foreign direct investment flows by a wider margin in 2020 than in previous years and remittances represented for the first time the sum of ODA and FDIs to LMICs.

2 A recent International Monetary Fund (IMF) research paper published in July 2021 titled Defying the Odds: Remittances during the COVID 19 Pandemic, documents a strong resilience in remittance flows. Despite an unprecedented global recession triggered by the pandemic, the paper notes that "remittances have proved to be an automatic stabilizer during the pandemic." The analysis is based on the remittances data from 52 countries covering the period January to December 2020.

3 World Bank's Migration and Development Brief 31 (April 2019) forecast the trend of remittance flows to LMICs as US$574 billion in 2020 (the latest available pre-COVID-19 period forecast) as opposed to the realized US$540 billion reported in April 2021 by the Migration and Development Brief 34.

4 IMF research (op. Cite IMF 2021) shows that "a 10 per cent rise in COVID-19 cases per million population would lead to 0.3 per centage point increase in remittances on a cumulative basis after 5 months. This result sheds light on the shock absorption role of remittances for vulnerable households in poor countries".

5 World Bank. 2020. Atlas of Sustainable Goals 2020. From World Development Indicators.

Migration (GCM) to “promote faster, safer and cheaper transfer of remittances and foster financial inclusion of migrants.”[6,7]

- There was an unprecedented switch to regulated and digital channels for remittances as the pandemic forced consumer behaviour and business model changes. Border closures and business lockdowns in the early days of the crisis caused cash-based over-the-counter (OTC)[8] and informal systems to struggle to operate. Under such conditions, the cost, convenience, and security attractions of digitally-enabled remittances became apparent, thus increasing the demonstrated use of these channels.[9] This, in turn, facilitated the development of linkages with other digital financial services, building longer term financial resilience for remittance users.

This report examines the factors that have contributed to the resilience of remittances during the pandemic and extracts key lessons learned on consumer behaviour, market performance and the creation of an enabling regulatory environment. Chapter 1 examines the impact of the pandemic on the financial lives of migrants and their families and their use of digital remittances as an income smoothing mechanism. Chapter 2 highlights the experiences of the private sector and how their actions, in coordination with public authorities, facilitated a switch to digital remittances. Chapter 3 emphasizes the role and importance of the enabling regulatory environment in keeping remittances flowing and laying the foundations for the digital transformation of the payment system ecosystem. The report concludes with a set of lessons learned for policy makers and industry on how to ensure the resilience of remittances and its continued digitalization can be maintained in an inclusive manner going forward.

6 These include: The Remittance Community Task Force (RCTF) convened by IFAD brought together 41 representatives from all sectors to provide technical support and advice to governments and the remittance industry contributing to the work of the GPFI and of the UN’s Financing for the Development in the Era of COVID-19 and Beyond Initiative (FFDI). In parallel, Switzerland and UK governments initiated a call to action, bringing together several other governments and development organizations, recommending measures to keep remittances flowing, and the European Commission submitted an initiative at the GPFI proposing a coordinated response to the impact of COVID-19 on remittances. Further, the World Bank issued a call to action and initiated research with a series of frequent pulse surveys with the regulators and providers around the world, along with more frequent data collection. Lastly, the G20 Roadmap for Enhancing Cross-Border Payments was developed in parallel and published in October 2020, under the leadership of the FSB and the CPMI. While the development of this Roadmap had started pre-COVID-19, the developments in the market for international remittances during the pandemic has been influential.

7 The experience has been uneven across countries, though. The World Bank’s Migration and Development Brief 34 (2021) reports, for example, that countries such as Bulgaria, Kazakhstan, and Nigeria experienced overall declines in remittance volumes (figure 1.2, page 5). The report goes on to note that weak oil prices in the case of Russia had an adverse impact on the volume of remittances from the Russian Federation to Central Asian countries, and remittances sent from the United Arab Emirates and Saudi Arabia, expressed in terms of US Dollars.

8 Over the counter (OTC) transfers refers to transactions made in a bank branch or at an agent in cash with the assistance of an agent.

9 While the global average cost for sending a US$200 remittance stood at 6.38 per cent for Q1 2021, the average cost of sending for a digital-only RSP was 3.43 per cent (World Bank, Remittance Prices Worldwide database, Q1 2021).

1 Remittance families' resilience

Migrant workers used digital methods to offset the adverse effects of disruptions to in-cash channels and send money to their relatives back home facing the pandemic. At the receiving end, wherever infrastructure for digital financial services (DFS) was in place, DFS-enabled remittances provided a convenient and an efficient alternative to traditional in-cash remittance distribution networks, whose opening hours and service were disrupted due to public health and social measures or were difficult to access due to mobility restrictions, especially from peri-urban and rural areas where they are less prevalent. Overall, **digital remittances** have helped migrant workers to sustain family livelihood with an immediate access to vital inflows of money at a time when sources of income and alternative safety nets were particularly scarce.[10] However, building long term resilience and inclusive access will require fostering the provision of complementary digital financial services (e.g. savings, insurance, loans) and to develop specific targeting strategies to reach out to vulnerable and underserved groups (e.g. rural population, women, youth, refugees and forcibly displaced persons).[11]

This chapter highlights the resilience of migrants in sending remittances home, and how the use of digital remittances helped both the migrants and their receiving families to maintain their financial interdependency in times of crisis.

1.1 Migrant workers

1.1.1 Factors explaining migrants' resilience to send

Migrant workers' incomes have declined during the pandemic. Due to the sanitary measures put in place to contain the spread of the virus, including lockdowns, mobility restrictions, mandatory closures of businesses, schools and administrations or working-hour reductions, migrant workers' economic activity, and in turn, their disposable income, have been particularly affected by the

TABLE 1: Digital remittances: end-to-end and "one-leg" models

Channel	First mile	Last mile
End-to-end digital	Online, from a payment instrument (e.g. debit, credit card) debiting a transaction account (bank, postal, prepaid account)	To a transaction account (bank, postal, mobile and e-wallets) from which cash can be withdrawn and/or payments made
"One-leg" digital	Online from a payment instrument	In-cash, over-the-counter, at an agent
	In-cash, over-the-counter, at an agent	To a transaction account

10 Digital remittances are defined as those that are sent via a payment instrument in an online or self-assisted manner, and received into a transaction account, i.e. bank account, transaction account maintained at a non-bank deposit taking institution (say a post office), mobile money or e-money account. World Bank (2021) Remittance Prices Worldwide Quarterly, Issue 37, March 2021. It is worth noting that, in the framework of that report, remittances sent online from a transaction account and received in cash, over-the-counter, or sent in cash to a transaction account, especially a mobile money account are also considered "digital". This latter category of digital remittances is most often designated as "one-leg" digital. For the sake of simplicity and due to the lack of disaggregated data, those two categories are interchangeably used in that report.

11 Alliance of Partners (AFI, BMZ, BTCA, GIZ, IRC, Netherlands, Norway, UNHCR, UK Aid), 2019: Roadmap to the Sustainable and Responsible Financial Inclusion of Forcibly Displaced Persons

COVID-19 crisis. In fact, incomes of migrant workers have been disproportionately exposed to the outbreak's economic effects[12] for several reasons:

- Migrants, men and women alike, work mainly in the service economy, which bore the brunt of the lockdowns, e.g. hotels, restaurants, airport services, etc. At the same time, other migrants work in the essential services sector such as health care, construction and agriculture,[13] which were not affected by the lockdowns.
- The status of migrants who work in the informal sector or lack the required resident documentation prevented them to benefit from income-support measures or government cash transfers programmes. This was particularly the case in Gulf Cooperation Council countries and LMICs.[14]
- Jobless migrant workers returned or were repatriated to their countries of origin without additional source of incomes.[15]

As a result, and even for those that had benefited from fiscal stimulus packages, migrants' current incomes have been reduced. A Western Union pulse survey covering consumers' behaviour over nine months in 2020 shows that a third of remittance senders reported a negative impact on their incomes with an average income loss of 30 per cent over the period from March to June 2020.[16]

Sending remittances to family back home is an obligatory expense for migrant workers. Despite the negative impact on their incomes, migrants' intention to send back home at least the same amount has not been affected. On the contrary, the crisis context affecting relatives abroad also influenced migrants who were not remitting regularly to support relatives and friends facing the outbreak back home. In the United States, Mexican migrants' propensity to remit increased from 60 to 80 per cent during the COVID-19 pandemic.[17] In France, while more than half of migrants originating from Northern and sub-Saharan Africa reported a reduction of their income at the onset of the lockdown, 70 per cent intended to send as much or more in June 2020.[18] Western Union's November 2020 COVID-19 pulse survey showed that 64 per cent of remittance senders give equal or more priority to the financial needs of their receivers.

Despite the resiliency shown by macro data, micro data from scarce household surveys indicate a different reality in some countries. For example, at the receiving end, rapid households survey conducted by the World Bank showed that receivers reported a decline in the remittances received as compared to the pre-COVID-19 pandemic period, contradicting macro data captured by central banks registering year-on-year growth.[19] This gap between the micro and macro data

12 For instance, unemployment rate of migrants originating from LAC countries in the USA stood at 9.1 per cent in September 2020, 5.3 per centage points higher than in February the same year, while for the whole population it was at 7.9 per cent in September, almost 4.5 per centage points higher than in February. Matthew Higgins and Thomas Klitgaard (2020), Has the Pandemic Reduced U.S. Remittances Going to Latin America? Federal Reserve Bank of New York Liberty Street Economics, November 9, 2020

13 OECD.Stat sub-set of data relating to migration and sectors of occupation.

14 Remittances Community Task Force, IFAD Financing Facility for Remittances, Task Force Brief 4, July 2020.

15 International Organization for Migration (IOM) reports an increase in their level of indebtedness due to lack of job opportunities back home in Asia and the Pacific. IOM 2020, Rapid Assessment Needs and Vulnerabilities of Internal and International Return Migrants in Bangladesh and Rapid Assessment Step 2.

16 Western Union COVID-19 consumer pulse survey, November 2020 in The Remittance Effect: A Lifeline for Developing Economies Through the Pandemic and Into Recovery, Oxford Economics 2021.

17 Orozco M, 2021, Migrant Workers and Remittances to Latin America and the Caribbean in 2020.

18 IFAD-RMDA survey, June 2020 and IPSOS-RMDA survey, September 2020. The World Bank estimates on remittance inflows from May 2021 tend to confirm that those intentions were accurate. Remittances received in the countries from where migrants surveyed were originating remained stable or grown slightly in 2020 as compared to 2019 (Morocco +7%, Tunisia +2%, Senegal +2%) except Mali (-3%).

19 For example, a World Bank blog on the Gambia shows (using micro data) that remittance receipts declined significantly during COVID-19. For more on the rapid household surveys by the World Bank, please see the World Bank's COVID-19 micro data dashboard: https://www.worldbank.org/en/data/interactive/2020/11/11/covid-19-high-frequency-monitoring-dashboard

can be explained partly by an increase in the proportion of flows formerly channelled through informal methods being re-routed through regulated channels due to travel restrictions hindering informal means.[20] This potential global resilience due to the recording of the shift from unrecorded to recorded flows underscores how important it is to investigate the behaviour of senders and receivers in times of crisis.

Resilience in sending money home was also a result of better preparedness for hardships by migrants after a series of economic downturns (e.g. the 2009 crisis). Pulse surveys and scarce longitudinal surveys undertaken in the period of the outbreak showed that migrant workers consider themselves more responsive compared to the previous crisis, having learned from past experiences of job losses and income disruptions. Notably, they have accrued precautionary savings with the purpose to remit home in case of financial shocks.[21] As a result, in the case of dropped incomes and their unwavering commitment to support relatives back home, migrants sacrificed both short-term and long-term consumption plans to meet the immediate needs of the family. Migrant workers appealed to several alternatives to continue sending remittances, by:

- Reducing consumption;[22]
- Refocusing the purpose of remittances on basic needs and setting aside longer-term expenses such as savings and investment back home, and deferring expenses related to travel back home for vacations and relatives' education;[23]
- Tapping into savings, including savings for planned travel back home; and[24]
- Finding other jobs in non-exposed sectors.[25]

1.1.2 Reasons for switching to digital remittances

Switching to digital methods to send money helped the digitally agile and financially included migrants to circumvent mobility restrictions and service disruption affecting the prevailing cash sending methods, including informal channels.[26] Mobility and service restrictions along with international travel bans generated a series of constraints preventing remittance senders to use traditional cash methods, particularly:

- At domestic level: business closures, limited opening hours and lockdowns combined with health exposure associated with queueing or cash handling encouraged remittance senders to choose remote and online 24/7 methods from the comfort and safety of their home, when and where feasible.
- At international level: international travels restrictions along with stricter custom controls in times of the COVID-19 pandemic have severely disrupted informal channels, including cash-in-hand carry. Remittance senders and informal brokers were obliged to use regulated methods rather than informal cash transfers.

It is worth mentioning that not all migrants were either able or willing to switch to digital. The majority of remittance flows have traditionally been cash-to-cash, and this trend has continued

20 For example, several regulators mentioned increases in official remittance inflow figures due to a shift from informal to regulated channels during the pulse surveys conducted by the World Bank. See World Bank (2021). The Impact of COVID-19 on the Market for International Remittances in the Short to Medium Term

21 Orozco M, 2021, Migrant Workers and Remittances to Latin America and the Caribbean in 2020.

22 IFAD-RMDA survey, June 2020 and IPSOS-RMDA survey, September 2020.

23 Western Union COVID-19 consumer pulse survey, November 2020 in The Remittance Effect: A Lifeline for Developing Economies Through the Pandemic and Into Recovery, Oxford Economics 2021.

24 IFAD-RMDA survey, June 2020.

25 In the USA this is illustrated in: Mandelman, Federico S., and Diego Vilán (2020), Remittances and COVID-19: A Tale of two countries. FEDS Notes. Washington: Board of Governors of the Federal Reserve System, December 30, 2020

26 Including cash-in-hand carry by individuals and informal brokers such as Hawala systems.

during the pandemic.[27] Several barriers contribute to this choice of cash remittances, including lack of financial and digital literacy of the senders and receivers and low trust in the regulated channels, reinforced by supply-side factors (see chapter 2) as well as regulatory barriers (see chapter 3) that make the digital customer journey too disruptive or complex.

Digital channels became a natural choice for users already accustomed with that method while appealing incentives, social networks and intrinsic convenience convinced non-digital users to overcome their reluctance to change. Existing digital remittance service users and those equipped with a transaction account reinforced their preference for online sending methods.[28] Others had to overcome a variety of impediments to switch, while at the same time being incentivized by several factors compared to cash methods. These are summarized in TABLE 2.

The private sector has been particularly responsive to adapt its platforms and to communicate proactively with customers while "word of mouth" among networks of trusted persons (including virtually through social media and through sponsorship marketing).[29] These were particularly effective in facilitating the switch towards digital methods. However, anecdotal interviews with customers also report that not all money transfer operator (MTO) platforms were able to adapt rapidly to offer a seamless user experience, while others faced system overload issues.

1.1.3 Building long-term resilience with financial inclusion and digital remittances

Pre-existing conditions such as transaction account ownership among migrants and simplified customer due diligence (CDD) and e-KYC were decisive to foster the use of digital channels. Migrants' financial access, measured by transaction account ownership in host countries, represents an essential steppingstone to access remittance services digitally. E-KYC facilitating remote account opening and the acceptance of identification documents such as passports were also instrumental to enrol unbanked migrants who otherwise prefer the convenience of (or have no other choice but using) informal and unregulated systems.[30, 31]

Building upon the use of transaction accounts and use of digitalized services also builds the case for remittance-related financial services to fulfil other migrant workers' needs. Precautionary

TABLE 2: Triggers and impediments to digital remittances adoption

Incentivizing factors	Objective impediments	Subjective impediments
• Intrinsic convenience of digital remittances reinforced in the context of the pandemic, e.g. instant payments, 24/7 availability, electronic know your customer (e-KYC) • Lower costs • Transparency • Option to maintain digital liquidity in a transaction account and use of funds for other purposes (e.g. bill payments)	• Lack of ID • Lack of proof of residence • Lack of information on access points at the receiving end • Lack of recourse mechanisms, lack of protection against potential fraud	• Lack of trust • Need for human touch • Fear of regulated system • Self-exclusion due to lack of digital literacy • Lack of an understanding of how the regulated channels work, recourse mechanisms, etc.

27 Even though a decline in the number of cash-based remittance services during the pandemic period has been recorded, some of this decline was offset by the increases in the availability of digital remittance services. For example, see World Bank (2021). The Impact of COVID-19 on the Market for International Remittances in the Short to Medium Term. Washington, DC: World Bank. Also, World Bank blog post "Ebb and Flow: Remittances in a year of pandemic."

28 IFAD-RMDA survey, June 2020 and IPSOS-RMDA survey, September 2020.

29 Leon Isaacs, DMAG CEO in Remittances in Times of Crisis: facing the challenges of COVID-19, IFAD / FFR, Issue n°2 April 2020, and interviews with RSPs in the framework of country diagnostics undertaken in 2020 for the IFAD PRIME programme.

30 The Roshan distant account opening option for Pakistanis abroad has proved to be an efficient means for local banks to on-board migrants remotely during the crisis.

31 Orange Money France interview about Malian migrant customers previously using informal channels, IFAD pulse survey June 2020.

or emergency savings have been essential to coping with income reduction, enabling migrants to support their loved ones in the context of the pandemic. Insurance products, such as those covering accident risks, can ensure remittance continuity in case of health or accidental issues. Providing savings products and insurance services along with financial education can help migrants cope with income shortages or unforeseen expenses in times of crisis. Therefore, digitalizing remittances offers additional opportunities to bundle savings and insurance services, strengthening migrants' financial resilience without compromising their long-term financial goals.

1.2 Receiving families

1.2.1 Impact of remittances on receiving households' resilience in times of crisis

The role of migrant remittances as a lifeline for millions of recipients has been further illustrated during the COVID-19 pandemic. Most recipient households (including refugees) in LMICs rely on varied livelihood strategies to make ends meet. During the pandemic, their usual daily activities, and their diversification strategies (such as internal migration) in several countries have been affected by mobility restrictions and the economic downturn. The situation was harder in rural areas where diversification options are more limited. In addition, other sources of hardship affected the receiving families such as adverse health and movement-related limitations leading to deteriorating economic and social conditions.[32] For example, household budgets were particularly stretched to cover rising prices of essential goods and services observed during the pandemic, such as food and transportation. Finally, access to credit through regulated financial service providers (including microfinance, digital lending and nano-loans) has been disrupted due to lack of liquidity and heavily affected loan portfolio in the sector, hampering coping strategies even further.[33]

Timely inflow of money and in amounts that match unmet essential expenses or small investments prevented recipient households from falling into poverty traps and provided impulse funds for coping with the adverse impact of the pandemic and implementing recovery strategies. In this context, international remittances were a definitive countercyclical source of income and a vital relief that provided an alternative safety net for low-income households, including those in rural areas, aside from government and donors' cash-transfer programmes. Remittances helped recipients stave off strategies such as selling productive assets or increasing debt that would in turn have stifled recovery.[34]

1.2.2 Experience and switching to digital remittances

Mobile money-enabled remittances provided immediate access to inflow of money when and where traditional over-the-counter cash remittances were not accessible. Non-bank agents, along with mobile money, played a key role in addition to the branches of financial service providers and automated teller machines (ATMs). They provided the recipients with a pre-paid instrument to make digital payments, pay bills remotely, and cash out when needed.

32 FSD Kenya, COVID-19 financial diaries, 2020-2021.

33 Ib. Idem and CGAP's Global Pulse Surveys of Microfinance Institutions, June to December 2020, CCAF and World Bank Global COVID-19 FinTech Market Rapid Assessment Study, Q1-Q2 2021.

34 The FSD Kenya financial diaries sample highlights or pressures from the economic downturn of the COVID-19 pandemic that have exacerbated financial stress. Rural families had found their normal coping mechanisms – drawing on savings, asking for remittances, borrowing from friends and family – had hit their capacities. In the meantime, only 1.9 per cent of Kenyans were getting relief cash from government, and even fewer were receiving food. Consequently, rural families (now 13 per cent nationwide in the FinMark Tracker) have begun to sell assets to squeeze liquidity from any source possible. Debts in distress: how ordinary people are finding the liquidity they need to survive COVID, September 2020, FSD Kenya.

However, the reach of digital remittances and their potential to enable access to other digital financial services for recipients remain limited by several conditions affecting vulnerable groups such as rural households, women and refugees. Women and rural households are, in general, less financially and digitally included than the rest of the population. Financial gaps and digital divides are not the only things preventing vulnerable groups from taking advantage of digital remittances. Digitalization can exacerbate those inequalities if not mitigated. Women have more irregular and lower incomes than men. The also rely more on remittances than men.[35] While mobile money-enabled transaction accounts have contributed to financial inclusion, women's account ownership is still less than men's by 9 per centage points in economies in LMICs.[36] For refugees, remittances are a key resource among the few income sources they can access. They were hit harder by the effects of the pandemic, and they also benefited less from digitalization due to lack of identification preventing access to transaction accounts and other financial services.[37, 38] Targeted interventions are necessary to bolster the catalytic role of digital remittances for financial inclusion of these sub-groups of population.

1.2.3 Building long-term resilience with digital remittances and financial inclusion

Short-term measures aiming at temporarily removing the need for in-person identification verification to open transaction accounts, under certain circumstances, and using these accounts to receive remittances, have proven to be efficient in bringing the unbanked population to the regulated financial sector. Among other measures that were time-bound (see chapters 2 and 3), simplified CDDs and e-KYC helped enrol recipients or enabled them to use transaction accounts to receive cross-border remittances.[39]

Digitalization of remittances offers new opportunities to develop use cases catering to the needs of remittance recipients that could reinforce their resilience to financial shocks.[40] To strengthen their financial resilience while lowering the burden of migrants' support, digital remittance recipients could take advantage of both the ownership of a transaction account and the growth of adjacent digital financial services such as savings, transaction-based loans or insurance.[41] Financial and digital education should be an underlying enabler to support this digital financial inclusion breakthrough.

35 GPFI. 2020. Advancing digital financial inclusion for women; Julie Zollmann and Caitlin Sanford. 2016. A buck short: What Financial Diaries Tell Us About Building Financial Services That Matter to Low-Income Women, BFA.

36 World Bank, Global Findex. 2017.

37 Displaced populations often live in crowed places, are excluded from the formal labour market and financial services (disproportionality for women) and are not included in many government welfare or safety net programmes. AFI June 2021, Forced displacement and COVID-19: Why financial inclusion matters.

38 International Rescue Committee, April 2021, COVID-19 and refugees' economic opportunities, financial services and digital inclusion.

39 See in annex: Orange Senegal reported signing up 350,000 on this reduced KYC basis with the vast majority transacting immediately.

40 IFAD project in partnership with Valyou piloted linking international remittances from Malaysia with some relevant financial services such as health insurance for the families in recipient countries.

41 See the Payment Aspects of Financial Inclusion, CPMI and World Bank, 2016, for the role of transaction account as a corner stone for financial inclusion.

2 Remittance service providers' experiences

The digitalization of remittances was a trend already under way before COVID-19 struck, but the pandemic accelerated it. Providers with a digital component to their business took advantage of the already shifting nature of consumer preferences. Many RSPs took actions on their own to speed up the process of digitalization, including reducing fees, conducting awareness campaigns and supporting their agent networks. However, it was when they worked in unison with regulators and government authorities that their actions had the greatest effect. An open dialogue on which emergency measures to implement and on communicating whether they were time-bound concessions, fostered the necessary trust to ensure that the measures were successful. Going forward, building on that collaboration and keeping dialogue open is perhaps the most important takeaway for the private sector from the pandemic. This chapter examines the trend to digitalization in remittances, how RSPs have experienced that trend, the enabling actions taken on the way and the barriers that remain in place today.

2.1 RSP experiences

RSPs experienced mixed fortunes through the pandemic. The first few months (April-July 2020) proved particularly difficult. In its industry surveys, the International Association of Money Transfer Networks (IAMTN, the industry trade body) reported a sharp drop in volumes as lockdowns took effect. This was followed by an abrupt increase as RSPs were deemed essential services and users shifted to mobile and digital channels.[42] Mobile money providers in net-receive countries saw similar fluctuations. Large RSPs with established cash or OTC businesses, such as MoneyGram and Western Union, saw strong growth in their digital channels even as their cash businesses came under pressure.[43, 44] Smaller RSPs also developed their digital channels.[45] Newer digital-only specialists such as Wise and Remitly also reported strong growth of their services.[46] Overall, service providers with a strong digital component to their business did well through the crisis whereas cash-based services were the most negatively impacted.[47]

This trend has also been reflected in the availability of remittance services over the past year. The World Bank initiated a weekly survey of RSPs at the start of the pandemic and found that cash-based business accounted for the majority (70 per cent) of services that had closed on the receiving side. At the same time, digital services accounted for 37 per cent of new openings on the sending side, twice the figure for cash services.[48] Overall, the number of cash remittance service providers decreased significantly during the first quarter of the pandemic, while the number of digital services continued to increase, though not enough to offset the decline in cash services.

42 IAMTN (2021), 2020 Annual Report, The Shift to Digitalization in Cross-Border Remittances: a trend driven by the COVID-19 crisis

43 Western Union reported growth of 38 per cent in its digital channels through 2020 with MoneyGram reporting 77 per cent year-on-year growth for its digital product.

44 For these larger, established RSPs, cash transactions still comprise 70 per cent of their remittances.

45 For example, https://koronapay.com/transfers/news/28-05-2020/

46 Wise, rebranded from TransferWise, reported a 39 per cent growth in revenues through the pandemic while Remitly's market valuation has increased from US$1.5 billion to US$5 billion over the same period.

47 IAMTN members reported that 40 per cent of new digital customers were conversions from their cash business

48 See https://blogs.worldbank.org/psd/ebb-and-flow-remittances-year-pandemic

2.2 The consumer trend towards digitalization of payments

The pandemic saw an acceleration in the decline of cash usage in many countries driven by social distancing concerns over face-to-face payments, the closure of many cash-accepting businesses and initial fears of cash itself being a vector of COVID-19 transmission. Countries with well-developed payment system infrastructures and policies saw a relatively easy shift from cash to digital payments. Globally, consumer preference for contactless payments rose as did demand for digital-only payment methods.[49] Across LMICs, mobile money account ownership increased 13 per cent through 2020, with the pandemic being a driving factor behind new account openings.[50]

The digitalization trend in global payments also extended to international remittances. This trend was already under way in the sector, with the value of digital remittances showing strong growth before the pandemic struck.[51] Within the context of the pandemic, the cost, convenience and security of remote digital transfers attracted migrants. The result was a rise in digitally-enabled remittance volumes that helped circumvent the issues facing the use of in-cash methods and ultimately offset an expected fall in official remittance flows to LMICs.[52]

2.3 Industry stakeholder actions

The switch to digital was facilitated by several industry stakeholders often acting in unison. For RSPs, scaling their digital businesses became their top priority as cash transactions declined dramatically.[53] Some acted unilaterally to cut fees, offer time bound incentives, or provide liquidity support to their agent networks. However, it was those actions taken in coordination with government authorities that again delivered the most significant results.

2.3.1 Unilateral private sector actions

With the abrupt drop in business volumes, RSPs were forced to take remedial measures. Although these measures taken in isolation did not necessarily result in a rapid digitalization on their own, taken concurrently with those taken by public authorities, they permitted the industry to keep operating during the early days of the crisis.

Support to agents: As national lockdowns took hold during the early days of the crisis, many of the shops and independent traders that facilitated the cashing out of digital remittances were forced to close. In the weeks that followed, many were quickly deemed essential services and permitted to reopen. However, liquidity issues remained as reduced opening hours and long queues at bank branches meant that many agents had difficulties rebalancing their cash floats. This was especially an issue for rural-based agents. Similarly, an increased demand for digital transactions meant that many agents suffered liquidity tightening on their e-money floats. Working with local banks, many receive-side RSPs ensured priority access was given to their agents, enabling them to maintain cash liquidity for cash-in and cash-out purposes. In some markets, RSPs also requested that the regulators temporarily increase e-money balance limits for agents to assist with liquidity

49 For instance, European users showed a preference to moving to contactless payments through the course of the pandemic while the UK saw a 75 per cent increase of those registered for digital-only payments (e.g. Apple Pay) to cover almost a third (32 per cent) of the adult population.

50 GSMA (2021), Assessing mobile money consumer trends in the wake of the COVID-19 pandemic

51 The IMF reports that between 2017 and 2019, remittances sent digitally over the internet grew 55 per cent. However, the overall value of digital remittances is still low compared to cash remittances.

52 For instance, with respect to mobile money international remittance volumes, Safaricom reported a 57 per cent rise in 2020 while the GSMA reported a 65 per cent increase to US$12.7 billion, albeit from a low base. This equates to 2.4 per cent of global flows, up from 1.5 per cent the previous year.

53 IAMTN report that for 63 per cent of RSPs in net-send countries scaling their digital business became their top priority during the pandemic.

management operations.[54] In addition to liquidity support, agents were also provided with sanitizing stations, protective equipment and training in order to maintain social distancing and hygiene requirements in line with public health regulations as recipients looked to cash out.[55] In some countries, RSPs were also permitted to train their agents online.

Change to business models: The pandemic forced a change to how many RSPs operated. Those with OTC or in person business models (i.e. cash-based) had to adapt. In the early days of the pandemic, remittance senders and recipients encountered long queues at those physical RSPs which had been permitted to remain open, albeit with significantly reduced operating hours. As queues grew longer, many customers went unserved and cash-based businesses suffered significantly reduced volumes or had to close.[56, 57] Those migrants that were in a position to do so, switched to digital remittances. As well as having to develop their digital channels, RSPs had their office staff work from home, and where possible investing in the necessary equipment, software and training to make that happen. However, this came at the expense of increased cyber-security risks.[58] In addition, as the switch to digital began to happen, RSPs began to receive enquiries from those that were unfamiliar with the service. Call centre volumes increased significantly and, with their operating hours curtailed, some customers went unserved, forcing providers to increase their support staff.

Fees and promotional incentives: Notwithstanding the fee waivers agreed with regulators (see below), many RSPs offered time-bound promotions to encourage the uptake of digital remittances. Several RSPs removed fees leaving the foreign exchange margin as their only source of revenue.[59] Vodafone Fiji worked with the United Nations Capital Development Fund (UNCDF) to offer free remittances into the country for two months on its M-PAiSA platform.[60] Other RSPs offered incentives, including free healthcare insurance for remittance recipients, sign-up rewards and free airtime for receiving digital remittances. Some even offered cash prizes.[61]

Awareness campaigns: Many RSPs announced awareness and marketing campaigns to promote the use of digital channels, including step-by-step guides on social media. Some made such campaigns their number one priority during the pandemic.[62]

2.3.2 Collaborative public-private sector actions

The stakeholder actions that had most significant impact on the digitalization of remittances during the pandemic were those taken in coordination with the public sector.[63] Private sector operators spoke of a sea change in governments' approach to the industry, with regulators far more willing to listen to industry concerns and in turn consulting it when emergency measures were being formulated. Providers reported that requests and applications that had been outstanding for some time were now being quickly resolved, resulting in new remittance corridors being

54 GSMA. 2021. Mobile money: Thriving in a year of global upheaval.

55 See https://www.vodacom.com/news-article.php?articleID=7588

56 IAMTN. 2020. COVID-19 Impact on Migrants and Remittance Industry.

57 RCTF, IFAD. 2020. Remittances in crisis: Response, Recovery, Resilience. Blueprint for action final report.

58 World Bank. 2021. The Impact of COVID-19 on the Market for International Remittances in the Short to Medium Term. Washington, DC: The World Bank.

59 The Manila Times. 2020. Stay home, send money online with LBC's Instant Peso Padala

60 See http://www.pfip.org/newsroom/programme-update/2020-2/vodafone-fee-free-remittances-covid19/

61 For example, see Financial Express (2020), Expatriates opt for bKash to send remittance safely amid COVID-19 crisis; Technology Times (2020), Easypaisa Facilitating International Remittances Amid COVID-19; and Nepali Times (2020), City Express wins Remtech Award.

62 IAMTN. 2020. COVID-19 Impact on Migrants and Remittance Industry.

63 Please see annex for G20 member state experience and best practice in this regard.

opened for digital RSPs.[64] While the actions taken with regulators are described in greater detail in chapter 3, they are examined here from the perspective of and impact on the private sector. Many were implemented as emergency measures and predefined expiry dates gave service providers clarity for business planning purposes.

Essential service declarations: Early in the pandemic, RSPs and their agents were forced to close or operate reduced working hours, resulting in a sharp contraction in remittance volumes. Cash-based services were especially affected.[65] Encouraged by the calls to action by multilateral agencies, governments in both send and receive countries moved to declare these businesses as essential services.[66] As a result, service providers, particularly digital specialists, reported sharp increases in business activity as the policies took effect.[67]

Promotion of digital payments: Governments and central banks worked closely with the remittance industry in launching initiatives to actively promote inbound digitally-enabled remittances. In Pakistan, local banks supported the creation of the Roshan Digital Account, while digital-only RSPs built awareness campaigns for similar incentive initiatives in Bangladesh and Nigeria.[68] Elsewhere, Orange reported that the governments of Senegal and Côte d'Ivoire chose their services to digitally distribute social cash transfers. Sensitizing the public to receiving payments digitally in turn opens the way for international remittances to be received via the same channel.[69] In addition, the governments of Ethiopia and Jordan provided direct incentives to use digital channels and special savings accounts to encourage senders to use formal channels.

Fee waivers: To encourage use of digital payments in net-receiving countries, regulators worked in tandem with payment service providers to temporarily reduce or eliminate fees on certain transaction types or sizes. This had a profound effect on the digitalization of transfers within those countries.[70] However, there were commercial impacts for providers from zero-rating fees in this manner. Where the waivers applied to lower transaction bands, operators observed behaviour change such as transaction splitting whereby larger sends were split into smaller sends to take advantage of the free fees. As a result, some providers reported a fall in transaction revenues even as volumes increased.[71]

Transaction and balance limit increases: Working with the private sector, authorities in many receive countries permitted a near doubling of transaction and balance limits for e-money wallets. This measure was conducive for the digitalization of international remittances where transaction sizes are typically larger than domestic remittance transactions. Some countries have maintained these measures on a permanent basis given the positive impact they have had on digitalization.[72]

64 GSMA. 2021. Mobile money: Thriving in a year of global upheaval. For some operators this resulted in new corridors being opened.

65 World Bank. 2021. The Impact of COVID-19 on the Market for International Remittances in the Short to Medium Term. Washington.

66 See footnote 6 in the introduction and Efforts undertaken by international bodies in chapter 3.

67 IAMTN (2021), 2020 Annual Report, The Shift to Digitalization in Cross-Border Remittances: A Trend Driven by the COVID-19 Crisis.

68 See Azimo, WorldRemit and Remitly related articles or blogs.

69 GSMA (2021) Mobile money: Thriving in a year of global upheaval.

70 Rwanda reported a seven-fold increase in transaction volumes on pre-pandemic levels in just three months which reduced to a two-fold increased once fees were reintroduced. Confirmed by Central Bank governor John Rwangombwa Oct 2020 (video, 48 mins)

71 Safaricom reported a slight fall in transaction revenues, even though transaction values increased by almost 60 per cent.

72 Countries that have maintained balance and transaction limit increases on a permanent basis include Ghana, Kenya and Rwanda.

BOX

Barriers to uptake of digital remittances

Whilst the digitalization of remittances offers advantages of cost, security and convenience, remaining barriers to its continued advancement exacerbates exclusion and inequality. For the private sector these barriers prevent uptake of innovative digital services. Addressing them will require coordination within the industry and with government authorities. Key barriers and exclusion risks include:

Digital exclusion: Digital exclusion remains a key barrier to uptake of digitally enabled remittances. The coverage gap (those who live outside a data network) is estimated at 500 million people globally. Many of them live in rural areas where often the business case of providing a network is lacking (demand versus cost of infrastructure). The usage gap for mobile internet data (for those who are covered but do not use the network) is far greater, at 3.2 billion people.[73] Together, this equates to half the world's population.[74] The principal causes are affordability, lack of digital skills and lack of product awareness.[75] Through the pandemic service providers attempted to address the affordability issue by offering free data packages in educational and health settings.[76] However, the cost of owning a handset is often a bigger barrier.

Financial exclusion: To take advantage of digitally enabled remittances, migrants and their families must also own and use transaction accounts. Whilst good progress has been made in financial inclusion over recent years, a significant share of world population remains financially excluded.[77] Progress in some LMICs has largely been driven by mobile money, which saw a 12 per cent increase of registered accounts and a 17 per cent increase of active accounts during the pandemic.[78]

Lack of financial and digital literacy: A lack of literacy and digital skills is one of the biggest causes of both digital and financial exclusion, which in turn inhibit demand for digital remittances. In LMICs in particular, agents often provide basic training when signing customers to a new digital service.[79] IAMTN reported that throughout the pandemic many industry providers invested financial education and digital literacy campaigns aimed at onboarding migrants to digital channels.[80] However, digital literacy also entails the capacity to understand and compare the cost structure. Full transparency of total remittance costs for the user by RSPs would assist in this understanding.[81]

73 GSMA. 2020. The State of Mobile Internet Connectivity 2020

74 While basic digital transaction accounts can run off 2G USSD services, most sites in low- and middle-income countries have been upgraded or are in the process of being upgraded to 3G or 4G sites using the same spectrum. Thus issues of coverage and usage remain the same.

75 For instance, handset and data costs remain the biggest barriers to digital inclusion according to the GSMA. More than half of LMICs are not meetings the UN's data affordability target. Within LMICs, people living in rural areas are 37 per cent less likely to be digitally included than those in urban areas. Also, despite recent improvements (the mobile gender gap reduced from 19 per cent to 15 per cent over 2020), women remain more digitally excluded than men. See both GSMA (2020), The State of Mobile Internet Connectivity 2020, and GSMA (2021), The Mobile Gender Gap Report 2021.

76 GSMA. 2020. The Mobile Economy Sub-Saharan Africa 2020.

77 Findex data (2017) reports that there are 1.7 billion financially excluded adults, the vast majority of them based LMICs.

78 GSMA. 2020. State of the Industry Report on Mobile Money 2021.

79 GSMA. 2020. Digital Literacy Training Guide: A Guide for Mobile Money Agents and Digital Literacy Change Agents

80 See IAMTN's 2020 Annual Report.

81 Monito is a Swiss start up that provides transparency services that is popular among migrants there.

3 Enabling environment

3.1 The COVID-19 crisis exposed underlying issues with enabling policy environment

The pandemic-induced crisis demonstrated a few important points:

- When and where digital channels were available for the purposes of international remittances, they proved to be cost-effective compared to cash-based services.
- At the same time, the use of digital channels was restricted, among others/also, by issues related to the enabling policy environment for payment and remittance services.

The key enabling environment barriers observed during the crisis included many instances inhibiting digitalization of remittances already observed during out-of-crisis periods, such as:

- Lack of proportionate and risk-based criteria to allow for the participation of non-bank RSPs to access payment infrastructures, limiting the availability of low-cost digital options.
- Ineffective risk-based approaches for customer due diligence in many markets, for example simplified CDD being applied on one side of the corridor.
- Lack of adoption of policies for remote account opening, creating problems for those willing to be first-time account openers for the purpose of sending and receiving remittances.
- Uneven application of proportionate KYC requirements, perceived high-risk internal control processes of MTOs and reliance on correspondent banking, amplifying the effects of de-risking in many receiving countries, especially Small States.[82]
- Regulations banning the receipt of international remittances into mobile money accounts in several receiving countries.

Regulators' responses to the crisis varied from regulatory and policy measures to directly address some of these barriers, in many instances temporarily. Some governments and regulators implemented policy measures as a response to some demand- and supply-side barriers, such as implementing campaigns for digital and financial literacy and providing incentive programmes to the private sector, while some others adopted temporary regulatory measures. Finally, convened by international organizations, many regulators and policy makers shared their experiences, sometimes with the involvement of the private sector, to develop solutions and undertake targeted actions.

3.2 Policy responses

3.2.1 Measures taken to ensure service continuity and declare remittance as an essential service

Immediately following the start of the pandemic, the continuity of remittance services was severely impacted as many non-bank RSPs in send and receive countries, except postal networks, were not considered as essential services by several governments. As a result, many cash-based locations were closed or had reduced hours at both ends of the transaction. This resulted in service

82 Small States are a group of countries characterized by common challenges due to their small population and economic base but are otherwise a diverse set of countries. For a definition of Small States, please see: https://www.worldbank.org/en/country/smallstates/overview.

disruptions and a shift to digital transactions wherever available, as well as postal networks acting as MTO agents. To counter the service disruptions and improve remittance flows, a handful of countries took early concrete action to declare remittance services as essential and exempt from lockdown restrictions. However, this policy was not consistently applied across the board as many other countries did not adopt such policies, which particularly affected cash oriented and agent-based money transfer services. This created bottlenecks for the recipients who did not have access to alternative mechanisms.

A good practice observed during the crisis was that public authorities extended the essential status to all types of RSPs, i.e. banking and non-banking financial institutions including their networks of agents. Countries including India, Italy, Jordan, Mexico, New Zealand, Nigeria, Oman, Pakistan, Rwanda, Spain, Turkey, the United Arab Emirates, the United Kingdom, Viet Nam and Zimbabwe classified remittances as essential services and exempt them from lockdown restrictions. Additionally, many governments declared postal networks as essential service providers to remain open for remittances and access to cash.

3.2.2 Digital and financial literacy programmes

The crisis underscored the importance of digital and financial literacy in promoting the adoption of digital channels. However, awareness-increasing campaigns were not systematically implemented across the board during the crisis to accompany the shift to regulated and digital methods. Only a few (and mostly receiving) countries implemented targeted financial awareness campaigns to inform remittance senders and recipients of digital alternatives. One such example of remittance focused digital and financial literacy programmes is from Albania, as part of the efforts under Project Greenback.[83]

3.2.3 Incentives to the private sector

Several governments provided direct incentives to promote the use of regulated financial services, particularly digital ones. While some of these were launched pre-crisis, the initiatives were further strengthened during the crisis to enhance their coverage and deepen their impact. As shown in the examples below, these incentives made a difference by boosting the inflow of remittances through regulated channels.

- In Pakistan, the State Bank of Pakistan (SBP) introduced the Roshan Digital Account (RDA) in partnership with commercial banks for non-resident Pakistanis.[84] In Nigeria, the Central Bank of Nigeria (CBN) started the Naira4Dollar initiative, where diaspora remittance recipients are rewarded with an extra 5 Nairas for every dollar wired through the official routes. Additionally, CBN urged the general use of alternative payment channels such as mobile and internet banking, mobile money wallets, point of sale transactions.
- In Bangladesh, the Bangladesh Bank (BB) exempted incoming remittances from several existing regulations and taxes.[85] The programme was introduced prior to the COVID-19 pandemic but worked well during the crisis. As per BB’s condition, expatriate Bangladeshis can get 2 per cent of the amount sent in incentives, without showing any paperwork on remittances up to US$5,000 (or Bangladesh Taka (BDT) 500,000 against an earlier ceiling of BDT150,000). This cash incentive has yielded significant benefits in the short run as they have increased the usage of formal channels.

83 Project Greenback was launched by World Bank in partnership with the Bank of Albania in 2018, and is referred to as “Greenback Albania”. More information about the project in the Annex, as Case Study 2.

84 See Case Study 1 in the Annex.

85 See Annex.

- In Africa, the central banks of Ghana, Kenya, Morocco, Senegal, The Gambia and Uganda, jointly with the European Commission and IFAD, supported the creation of National Remittance Stakeholder Networks (NRSN) to identify and address the challenges of the pandemic in the remittance market in their countries. Based on the challenges identified through these networks, in January 2021, each country's central bank sponsored the launch of specific calls for proposals to the private sector to identify COVID-19-responsive business models addressing identified priorities such as cost reduction, digitalization of remittances, remittance-linked financial services and alternative models to formalize remittance transfers.

3.3 Regulatory responses

To address the barriers identified above, various regulatory measures were implemented either directly as a response to the crisis or were accelerated because of the crisis. Some of them, for example the United Arab Emirates already had such regulations in place prior to the pandemic, as part of a broader reform agenda to improve national payment systems. Their value-added function was further amplified following the COVID-19 shock as they enabled cost-effective and easily accessible ways of sending money across borders. In several countries, in fact, the right mix of such policies provided the necessary enabling policy environment to promote the digitalization of remittances. Moreover, it proved to be effective in countering the negative impact of the crisis, and in addressing the broad challenges identified in the G20 Roadmap to Enhance Cross-Border Payments – i.e. the high cost, low speed, limited access and limited transparency of cross-border payments, including remittances.[86, 87] The section below evaluates the measures taken to promote the use of digital remittances using the guidance from the G20 Roadmap, the Remittance Community Task Force (RCTF) Blueprint for Action, the CPMI-World Bank General Principles for International Remittance Services and the Financial Action Task Force (FATF) guidance on digital ID.[88]

3.3.1 Access to national payment system infrastructures by non-bank RSPs

In many jurisdictions, non-bank RSPs face restrictions to access the national payment system infrastructures, including real time gross settlement system (RTGS), automated clearinghouse (ACH) and/or payment switches, which results in limited scale and higher prices for remittance services. Access for non-banks, provided in a proportionate and risk-based way, can play an important role for RSPs to move funds cross border and settle them domestically to carry-out their activities efficiently and provide more choice and usage in the services provided to end users.

As an immediate response to the crisis, no concrete measures were introduced to provide access to national payment systems infrastructures by non-bank RSPs. This was mainly because granting access is an extensive process that requires carefully establishing and communicating the rules for participation as well as vetting of risks to ensure that the prospective non-bank RSPs meet appropriate operational, financial and legal requirements, which will allow them to fulfil their obligations to the national payment system infrastructures on a timely basis. Given

86 FSB. 2020. Enhancing Cross-border Payments - Stage 1 report to the G20: FSB Technical background report, April 2020.

87 To address these challenges, FSB has proposed 2027 as the common target date, except the remittance cost target which follows the previously assigned date of 2030, set as a UN Sustainable Development Goal (10.c.1) and endorsed by the G20.

88 IFAD. 2020. Remittance in Crisis: Response, Recovery and Resilience, RCTF: Blueprint for Action, IFAD, November 2020; FSB (2020). Enhancing Cross-Border Payments: Stage 1 Report to the G20 – Technical Background Report, FSB, April 2020; FSB (2020). Enhancing Cross-Border Payments: Stage 3 Roadmap, FSB, October 2020; CPMI and WB (2007). General Principles for International Remittance Services; and FATF (2020). Guidance on Digital Identity, FATF, Paris.

the strategic significance of the role non-bank RSPs can play in reducing costs and improving speed and access – while at the same time keeping in mind the four challenges identified by the G20 Roadmap – governments are considering whether non-bank RSPs are given access, either as a direct or an indirect participant based upon the actual risks posed by them to the system.[89, 90]

3.3.2 Interlinking of payment systems for cross border payments

At the regional levels or between high frequency remittance corridors, many domestic payment systems and remittance platforms are not interlinked with each other. Lack of interconnectivity between payment systems can be related to fragmented and truncated data standards, high costs of capital and weak competition. All these factors extend the lifecycle of a cross border remittance transaction and negatively impact the challenges identified by the G20 Roadmap in terms of speed, cost and transparency.

In this regard, as an immediate reaction to the crisis, no specific action was taken to establish interconnectivity between high frequency corridors or at a regional level, as this would have required careful planning and design and could not have been implemented in a short timeframe. However, the crisis has shown the importance of such measures, also recommended by the CPMI for the G20 Roadmap. Such measures require careful planning and implementation and can often benefit from partnership with the private sector.[91] India is another example where the Unified Payments Interface (UPI) system, introduced in 2016, offers a robust framework and API-based protocols to facilitate interoperable retail payments. UPI is being leveraged by the Reserve Bank of India (RBI) in partnership with National Payments Corporation of India (NPCI) to establish network-to-network connectivity with payment systems in other jurisdictions to facilitate cross-border payments.[92]

CPMI Stage Two Report recommends using harmonized data formats (e.g. ISO 20022) to interlink retail and large value payment systems. Interlinked systems allow RSPs in send countries to directly interact with payment systems of the receive countries, reducing the processing time and reliance on corresponding banking relationships.[93] In the regional context, participating governments can establish a regional hub that interlinks all domestic payment infrastructures. In absence of a government sponsored hub, a private sector led hub operator (e.g., MFS Africa, TCIB in SADC region) can also provide a switching platform connecting and enabling transfers between two or more RSPs. These hubs connect different types of RSPs in different countries together and provide a "single processing window" for all remittance transactions for participating RSPs.

89 Indirect access occurs when a non-bank provider uses a direct participant (e.g., a sponsor bank) to act on its behalf as a settlement agent.

90 In this context, an effective practice that was introduced in the United Kingdom prior to the COVID-19 crisis is worth highlighting. In 2018, the Bank of England allowed Wise (formerly TransferWise, a digital only RSP) access to UK Faster Payment service and to have a settlement account at the RTGS. After gaining full access later that year, Wise started providing tailored remittance services to over two million people using a variety of non-cash payment instruments, facilitating transfers worth US$2.12 billion every month, and saving more than US$2.9 million every day. Wise also reduced 40 per cent of its processing costs due to the direct access to the RTGS. Similar provisions were also implemented pre-crisis in Australia, India, Mexico and Thailand to allow participation of non-bank service providers in the national payment system infrastructure, to improve remittance services, and in broad terms to improve the retail payments landscape.

91 An effective practice that was implemented prior to the pandemic is the Buna cross border payment system owned and operated by the Arab Monetary Fund. Buna enables financial institutions and central banks, in the Arab region and beyond, to send and receive payments, in local currencies as well as key international currencies, in a safe, cost-effective, risk-controlled and transparent manner.

92 UPI acceptance has been established in Singapore (in partnership with NETS) and Bhutan (in partnership with RMA) through QR Codes.

93 Building Block 13 and 14 of the CPMI Stage 2 Report to G20: Enhancing cross-border payments: building blocks of a global roadmap, July 2020.

3.3.3 E-KYC and tiered KYC framework for low-risk payment account and services

Progress towards digitalization is often held back by the need to carry out ongoing CDD by RSPs, to either send and disburse funds or for the purposes of account opening. In addition to remittances, lack of identification poses challenges for account opening and access to financial services by internally displaced people (IDPs) and refugees.[94] As a response to the barrier and to promote use of regulated channels of remittances, several countries implemented measures to streamline KYC requirements.

In June 2020, Turkey streamlined its customer onboarding process by amending the relevant laws. The Payments Law No 6493 and other relevant laws were amended to provide a legal basis for remote customer onboarding. Subsequently, relevant secondary regulations were introduced for the banks by the Banking Regulation and Supervisory Authority (BRSA). As for non-banks, they are in the process of being implemented by the Central Bank of the Republic of Turkey (CBRT).

In Egypt, the Central Bank of Egypt (CBE) temporarily allowed mobile phone users to open mobile wallets remotely as they were already verified for KYC through issuance of SIM cards. However, according to the CBE circulars, for full KYC, the accountholders would eventually need to bring their IDs to a mobile money agent to confirm their identity.[95] This practice was followed for about six months during the pandemic as an emergency measure and helped increase the number of mobile wallets issued in Egypt. Egyptian households can receive remittances into their mobile wallets.

In another example, Bangladesh Bank encouraged the adoption of e-KYC guidelines by financial institutions and mobile financial service providers to simplify the customer onboarding process. The new e-KYC guideline enabled customers to open their mobile wallet account digitally without submitting any paper-based documents.[96] Customers are required to fill a digital form and take a photo, allowing their data to be authenticated using the ID database. E-KYC guidelines enable banks to offer banking products including deposits and withdrawals within a limit of US$1,000, and term deposits below US$11,000. Non-banking financial institutions were allowed to offer products with a limit of US$11,000. By December 2020, all financial institutions were required to comply and apply the guidelines.

In another example, the Central Bank of Kuwait instructed exchange companies providing services through applications and online to open accounts using e-KYC and to link payments through short message service (SMS) for existing clients, with the maximum amount of transfer not to exceed US$5,000 (approximately KD 1500) per month.[97]

These examples reiterate the importance of tiered KYC and e-KYC in improving the process for account opening and transaction authentication. Guidance from FATF also supports this view, which states that the use of non-face-to-face customer identification and transactions based on reliable, independent digital ID systems with appropriate risk mitigation measures should be encouraged. For this purpose, reliable, secure, and confidential digital identity proofing solutions, including e-KYC, should be used wherever available.

Many measures implemented during the pandemic by the public authorities in this area were in the form of temporary circulars or guidance of emergency nature. Adoption of these measures in a permanent way will allow for the positive trends in the use of regulated and digital remittance

94 G20's Digital Identity Onboarding report prepared under Argentina's Presidency in 2018 discusses in detail the importance of digital ID for remote account opening with a particular focus on displaced persons and refugees.

95 It should be noted that for low-risk situations, a full KYC is not necessary and with proper e-KYC mechanisms in place, remote account opening can be facilitated even for normal situations.

96 These guidelines were issued pre-COVID-19 but were very useful during the crisis.

97 Source: South-South Galaxy.org for Bangladesh and IMF Policy Responses to COVID-19 for Kuwait.

services to continue. Nevertheless, this may require changes in existing regulations and guidance to the private sector, among others.

3.3.4 Customer protection and transparency

As a direct response to the crisis, there are no concrete examples of measures introduced by regulators to improve transparency and promote consumer protection. At the same time, due to the crisis, some previously unbanked people started using regulated channels to send and receive remittances, which underlined the importance of ensuring consumer protection and transparency in the market for international remittances. G20's High Level Principles for Digital Financial Inclusion highlights the importance of establishing a comprehensive approach to consumer and data protection that focuses on issues of specific relevance to digital financial services, including remittances.[98]

There are several examples of measures instituted well before the onset of the pandemic:

- The first is the EU Payment Services Directive 2 (PSD2) that came into effect in 2019, a year prior to the COVID-19 pandemic. It mandates that all authorized payment institutions provide information to customers before they commit to a transaction, including fee, foreign exchange rate, time taken and redress procedures.
- The second includes the creation of comparison websites for cost of sending from various countries, some of which are linked to the World Bank's Remittance Prices Worldwide database. These include Manda soldi a casa in Italy, SendMoneyPacific supported by Australia and New Zealand, Geldtransfair in Germany, Money from Sweden maintained by the Swedish government, SaverAsia covering several countries in Asia and supported by ILO, Australia and Canada, and other similar portals maintained by other major send countries. These databases carry information on costs and provides market updates to remittance senders. SaverAsia also provides financial literacy advice and information on financial services targeted to migrant workers.
- Finally, the Pradhan Mantri Gramin Digital Saksharata Abhiyaan (PMDISHA) programme in India was launched in 2017 to enhance digital and financial literacy for 60 million rural persons on characteristics, advantages, and risks of digital financial services and channels. India is also working toward the legal framework to redress grievances of consumers in the financial sector, especially digital services.

These examples served to protect the consumer, increasing transparency during the crisis, and supporting the switch to digital and formal channels.

There can often be lack of transparency in terms of disclosure of fees which can erode the trust of consumers, especially for new services if this is not a feature that is enforced through regulations. According to CPMI-World Bank General Principles,[99] transparency is crucial for consumer protection, enabling informed decisions when trust is most required. Additionally, effective dispute resolution, complaint-handling mechanisms, and greater awareness of redress channels by consumers are needed, especially for rural customers. The G20 has also identified transparency as one of the challenges affecting efficient provision of cross-border payments, including remittances. This will be addressed as part of the G20 Roadmap on Cross-Border Payments.

98 G20 High Level Principles for Digital Financial Inclusion, prepared under the Chinese Presidency in 2016.

99 General Principle 1: Transparency and Consumer Protection. General Principles for International Remittance Services. Bank for International Settlements: Basel, Switzerland. CPSS and the World Bank, 2007.

3.3.5 Cyber resilience

According to the CPMI report on cyber resilience, cyber-attacks against payments and financial systems have become increasingly frequent, sophisticated and widespread.[100] While no such events having direct impact on RSPs were reported during the pandemic, in general, cyber-attacks pose significant operational risks for all types of RSPs and can take the form of persistent malicious action by attackers' intent on creating systemic harm or disruption, with resulting financial losses and reputational damage. Any operational incident that results in the delay or interruption of a remittance service could immediately be observed by end users and can also cause reputational harm to the affected RSPs. Such events can also act as a barrier to digitalization of remittances due to loss of consumer trust.

The complexity of such attacks makes it harder to determine the extent of damage to the financial systems and the remedial actions needed to safeguard customer data. The key challenge lies in the complexity of cross-border payment networks where several vulnerabilities must be secured. This will become even more relevant as digital currencies continue to spread and where an increasing number of platforms/exchanges offer cross border transaction services, and where regulators continue to look for effective ways to govern these assets.

Therefore, the very unpredictability of cyber risks dictates the urgency of having a proper approach in place by the authorities, with RSPs managing these risks. The reputational damage that RSPs face from such events can be avoided if they communicate the problems to end users in a timely manner and provide adequate compensation if needed.

3.3.6 Guidance to the banking sector on correspondent banking and RSP partnerships

De-risking continued to be an issue during the crisis, with banks in the pandemic-hit send countries in Europe and North America adopting even tighter risk mitigation strategies, often justified by a lack of reliable CDD procedures in receive countries.[101, 102] During the pandemic, the situation with correspondent banking withdrawal is particularly acute in the Pacific. Many people risk losing access to payment and remittance services, while others might turn to unregulated payment options outside of the formal banking sector. Regardless, transfer costs through formal channels are likely to increase.[103]

To overcome risks associated with correspondent banking relationships, the CPMI Stage Two report recommends reducing the frictions with inefficient processing of compliance checks and proposes a safe corridor approach where feasible and appropriate.[104] In doing so, rules must be in place to harmonize data collection efforts in both send and receive countries, along with the analysis and publication of the data.[105] To build confidence among the banks in send countries, the Building Block 8 of the CPMI Report recommends a centralized multilateral KYC utility of bank customers

100 CPMI. 2014. Cyber Resilience in Financial Market Infrastructures.

101 FATF describes de-risking as the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk in line with the FATF's risk-based approach. It is a complex phenomenon that is linked to reputational risk, profitability, lower risk appetite and other factors.

102 IFAD. Remittances in crisis: Response, recovery, Resilience. RCTF Blueprint for Action, 2020.

103 The 2021 Pacific Islands Forum Economic Ministers Meeting (FEMM) was convened virtually in July 2021. The Forum discussed the pandemic-related issues still evolving and with potentially long-term consequences. The issue of de-risking remains one of the top concerns.

104 Safe corridors imply compliance with AML/CFT standards. Achieving this designation includes conducting adequate risk assessments for the targeted corridors as well as the use cases (e.g. mobile money), with a mutual recognition of the results between regulators of send/receive countries. This approach has the potential to reduce compliance-related concerns (resulting in de-risking) and to lower market entry barriers for new payment service providers to operate in these corridors.

105 Building Block 7 of the CPMI Stage 2 Report to G20: Enhancing cross-border payments: building blocks of a global roadmap, July 2020.

and, potentially, the recipients could be used to verify information and help address concerns about transparency and anti-money laundering/combating the financing of terrorism (AML/CFT) compliance by banks and money transfer operators. In February 2021, FATF launched a study to evaluate the unintended consequences in four areas resulting from the incorrect implementation of FATF standards: de-risking; financial exclusion; undue targeting of non-profit organizations; and curtailment of human rights.[106]

3.4 Efforts undertaken by international bodies

Since the onset of the pandemic, several international bodies launched initiatives and platforms to improve the remittance landscape. These provided national governments, RSPs and other stakeholders a place to share experiences, develop solutions and take targeted actions. Some of the primary ones include:

- The Remittance Community Task Force (RCTF) was launched by IFAD in March 2020, in response to the call by the UN Secretary General for global solidarity. The Task Force developed the Blueprint for Action to raise awareness of the impact of the COVID-19 pandemic on people directly affected by disruption in the flow of remittances. Forty-one organizations joined the RCTF. National remittances task forces (NRTF) were also launched in April in The Gambia, Ghana and Senegal.
- A World Bank call to action on 3 April 2020 outlined near- and medium-term actions to support the remittance sector, to accelerate reductions in remittance costs, and to respond to widespread unemployment and the plight of migrant communities in host countries.
- A call to action led by Switzerland and the United Kingdom "Remittances in Crisis: How to Keep them Flowing," was issued on 22 May 2020, and supported 31 governments and 16 organizations. The call to action created awareness of the critical importance of remittances for the achievement of the Sustainable Development Goals.
- On 1 April 2020, the Financial Action Task Force (FATF) called for the continued implementation of the FATF Standards to facilitate the integrity and security of the global payments system during and after the pandemic, through transparent channels and risk-based due diligence. Subsequently, an FATF study was launched in 2021 to address the unintended consequences resulting from the incorrect implementation of FATF standards.
- In the context of the COVID-19 pandemic, the United Nations' observance of the International Day of Family Remittances in 2020 and 2021 saw the launch of dedicated campaigns addressing the impact of COVID-19, namely "**building resilience in times of crisis**" and on "**recovery and resilience through digital and financial inclusion**" respectively. Supported by the Secretary-General of the United Nations, the President of the United Nations General Assembly, and Members States, both global observances brought together global stakeholders from all sectors in a historic opportunity to confront the global emergency in the remittance market and to promote concrete actions to support remittance families. In conjunction with the 2021 observance, IFAD organized the 2021 edition of the Global Forum on Remittances, Investment and Development (GFRID) included in objective 20 of the United Nations' Global Compact for Safe, Orderly and Regular Migration (GCM). With over 600 participants across sectors, the GFRID brought together representatives form 96 countries to address the resilience of migrants and their families, policy and market challenges and opportunities at global, regional and local levels.

106 See FATF-GAFI. Mitigating the unintended consequences of the FATF standards

4 Conclusions

Despite the onset of the COVID-19 pandemic, international remittance volumes held firm through 2020. This was due to the combined efforts of migrants, industry, and public and international organizations. Migrants displayed a resilience in maintaining the volumes of remittance flows, private sector operators adapted their business models while policy makers provided the necessary enabling environment.

Digitalization of remittances has emerged as a common theme. Although it was a trend under way before COVID-19 struck, digitalization was accelerated by the pandemic. While cash-based businesses suffered, providers with a digital component were able to gain advantage. The early onset of the pandemic and the drop-in business activity saw many service providers taking unilateral measures, including reducing fees, creating awareness campaigns and supporting their agent networks. While these actions had an impact on individual providers, they were not coordinated at an industry level.

As remittance volumes fell globally, the industry stepped up its dialogue with regulators. The subsequent emergency measures introduced to keep remittances flowing were collaborative and had industry buy-in. Having clearly defined expiry dates for these measures allowed RSPs to plan appropriately despite there being a short-term impact on revenues. Maintaining this dialogue going forward will be imperative to ensure the continued digitalization of remittances. As RSPs look to develop relevant remittance products for migrants, more attention could be given to coordinating activities at an industry level to unblock some of the barriers to digitalization, including financial and digital education programmes aimed at migrants and their families. Targeted strategies are necessary to reduce and avoid exacerbating the imbalances that vulnerable and underserved groups are facing to take advantage of digitalization. Public intervention and incentives to the private sector can mitigate those exclusion risks. Furthermore, the push to the digitalization has created an interest in emerging technology and business models. While these may offer costs and convenience promise for the future, the technology remains at an early stage in its development.

The main takeaway from the experience of the crisis is the necessity of cooperation and coordination between the public and private sectors. Where this happened, in fact, countries that depend on remittance flows as a source of finance were able to better-withstand the early shock as the pandemic took hold. This cooperation enabled an industry pivot from cash-based services to digital services. However, with the crisis still ongoing, neither side should wait to enlist the necessary innovative reforms and changes that are needed to build resilience for the sector for the benefit of migrants and their families.

The principal lessons learned are:

Migrants and their families

- At an aggregated level, remittances provided a countercyclical source of income for millions of people and to low- and middle-income countries (LMICs).
- Migrant workers in sending countries, and remittances families in receiving countries must be included in safety net programmes to consider specific circumstances of remittance-dependent families.
- Available pulse surveys showed that migrants sacrificed their long-term financial goals to meet families' immediate needs.

- Financial inclusion and digital and financial literacy increase the effectiveness of actions taken to address the crisis. However, longer term and targeted strategies are needed to reduce the digital and financial inclusion gaps and vulnerabilities that disproportionately affect women, and rural and refugee groups receiving remittances during crisis situations.
- Targeted strategies in favour of women, rural, and refugee groups are needed to make remittances and digitization enablers of, rather than barriers to, financial inclusion.
- Risk-based approaches and remote on-boarding have proven to be particularly effective.
- Long-term resilience requires additional financial services linked to remittances.
- Surveys and longitudinal studies are needed to understand remittance behaviours and trends at micro-level, as well as the triggers and impediments to adopt digital remittances.

Private sector

- Early unilateral action taken by RSPs had some positive localised impact.
- Collaborative action with regulators was more effective in driving digitalization.
- Open and honest communication by public authorities is key to industry buy-in.
- Having clearly defined expiry dates on emergency measures allows for business planning.
- Emergency measures led to increased digitalization but reduced revenues.
- When emergency measures expired, digital volumes were still above pre-pandemic levels.

Public authorities

- Measures to improve the enabling environment, especially those related to payment infrastructures, in general, require a longer time to be implemented, especially compared to the time crunch authorities face during a crisis.
- Public authorities have focused mostly on policy measures that involve incentivizing the use of regulated channels for remittances and digital remittances, and some temporary regulatory measures that are not related to payment infrastructures.
- Digitalization of remittances is key to ensure the continuity of remittance flows in similar crisis situations. When combined with complementary initiatives, this also has other potential benefits from the perspective of economic development, including financial inclusion, and the resulting empowerment of the beneficiaries.
- At the same time, digital remittances are not for everyone, and measures need to be taken to ensure regulated cash-based remittance services continue under crisis situations.
- Regular data collection and analysis is important to ensure informed policy making, especially during crisis periods to implement the right set of emergency measures.

Annex
Case studies and effective practices

1. Products catering to migrants and their families

1.1 Incentives package to channel remittances and savings through bank accounts in foreign currency with remote opening features, Pakistan Roshan Digital Account

Country		Sector		Targeting	
Sending country		Public	X	Migrant workers	X
Receiving country	Pakistan (State bank)	Joint public and private	X	Recipients	X

Case Study 1

Pakistan

The State Bank of Pakistan worked with local banks to create the Roshan Digital Account which permits Pakistani migrants to remotely open digital accounts in Pakistan for the purposes of sending remittances with tax incentives for onward investing. This has proved successful in improving the country's balance of payments statistics and government finances with US$1.5 billion being remitted into the accounts, of which US$1 billion has been invested into government bonds. As of June 2021, 181,556 accounts have been opened.

While send side digital RSPs don't yet appear to be actively promoting the Roshan account, they do promote the earlier Pakistan Remittance Initiative, which predates the COVID-19 pandemic and offers a rebate on remittance fees incurred by the sender. This programme was introduced prior to the pandemic but has since rapidly expanded to over 171 send countries.

1.2 Insurance products bundled with remittances for migrant workers

Country		Sector		Targeting	
Sending country	France, Malaysia	Public		Migrant workers	X
Receiving country		Private	X	Recipients	

Product	Description
Merchantrade Insure Product – By AXA and Merchantrade in Malaysia	A simple and affordable protection solution for migrant workers. How it works – Provides claims pay-out directly to the insured's beneficiaries through money remittance. Seeks to reach the migrant market by providing affordable protection solutions in case of accidental death or permanent disability. In case of hospitalization, **Merchantrade Insure** also provides a daily income benefit.
Transfer Protect – By AXA and Western Union	By linking insurance to money transfer services, the product aims to provide inclusive insurance products to Western Union's customers to better cover migrant workers and their families in their home countries. How it works – This product offers Western Union's customers sending money the option to seamlessly sign up for a life and disability insurance solution. The receiver will receive a payment in case of an unfortunate life or disability event.

2. Awareness and digital literacy campaigns

Country		Sector		Targeting	
Sending country	Germany, Italy, Switzerland, the United States of America.	Public	X	Migrant workers	X
Receiving country	Albania, India	Private	X	Recipients	X

Case Study 2

Albania: the "Project Greenback"

Implemented by the World Bank in partnership with central banks and governments, "Greenback Albania" aims at enhancing competition and transparency in the market to lower remittances costs.

The project launched a remittance-linked financial literacy programme, which included two separate sets of sessions since the start of the pandemic.

The first ran between June and July 2020, where four virtual financial literacy workshops were held for Albanian youth, focusing on risks associated with the COVID-19 pandemic, remittances, financial inclusion and other related topics, via online debates and edutainment approaches.

The second iteration ran between December 2020 and June 2021, where a larger digital and financial education programme was launched in collaboration with the Bank of Albania and the Ministry of Diaspora to provide awareness-raising on financial inclusion, digital remittances, and productive use of remittances to Albanian migrants abroad, including in Germany, Italy, Switzerland and the United States of America. Six virtual workshops were held providing migrants information on remittance services, including pricing, which also facilitated a better understanding of the needs of migrants and their families by the authorities.

Case Study 3

India: a multi-fold and long-term strategy to raise awareness and increase digital literacy

Since 2013, financial sector regulators in India set up the National Centre for Financial Education (NCFE) to promote financial education across India for all sections of the population in a holistic manner. This long track record and articulated approach allowed the RBI to adapt messages in times of pandemic to foster digital payments and remittances.

The National Strategy for Financial Education (NSFE) 2020-2025 has set an ambitious vision of creating a financially aware and empowered India.

Also, several initiatives have been taken for the creation of enabling digital infrastructure at the ground level and to accelerate the progress towards universalising digital payments in a convenient, safe, secure and affordable manner. Among those, the pilot project launched by the RBI in Oct 2019 to make one identified district in every state/union territory 100 per cent digitally-enabled is significant.

The RBI has also adopted a combination of alternative and innovative approaches to strengthen financial education at the grassroots. For example, the financial education messages of RBI were broadcast in regional languages/local dialects through local television channels and community radio. Existing financial education content have been shared with participants across mobile apps for easy sharing and wider dissemination.

In addition, RBI has implemented a pilot Centre for Financial Literacy (CFL) project which aims at promoting innovative and community led participative approaches to increase financial education at the grassroot level. These centres are being scaled up in a phased manner to reach out to the length and breadth of the country. The modules covered through the training programmes inter-alia focuses on digital financial education as well as awareness about consumer grievance protection.

Hence, keeping in view the challenges brought about by the pandemic, a combination of alternative and innovative approaches has been adopted by the Government of India to strengthen financial education and inclusion at the grassroot level.

3. Collecting data in the long run and fostering dialogue with the private sector

Country		Sector		Targeting	
Sending country	Italy	Public	X	Migrants	X
Receiving country		Private	X	Recipients	

Case Study 4

Italy

Italy has put in place a holistic approach for several years to support diaspora remittances and savings. The building blocks of this approach include data collection, monitoring of remittances, diaspora financial inclusion, and inter-governmental and multi-stakeholder platforms. This approach enabled the tracking of changes affecting the market during the pandemic and the implementation of informed decisions to mitigate the immediate impact of the crisis and potential longer-term effects on migrant workers' vulnerability.

The Bank of Italy collects outflow remittances data disaggregated by province and destination country providing a granular matrix of bilateral corridors on a quarterly basis. This system allows for the analysis of long-term as well as infra-annual trends, which enables the understanding of the dynamics of the main corridors during the crisis. As a consequence of the pandemic, outbound remittances decreased by 11% in the first quarter of 2020, followed by an increase by 30% in the 2nd and 3rd quarter. Overall, the remittances increased by 12 per cent in 2020. With a 26 per cent increase, Africa showed the highest growth. RSPs were included in the list of essential services with Law decree of 9 March 2020 which might partially explain remittances path in the second quarter.

The Observatory on the Socio-economic and Financial Inclusion of Enterprises managed by migrants, supported by the Ministry of Labour and Social Policies and the Union of Chambers of Commerce, undertake longitudinal demand-side studies, repeated every three years and covering a sample of 1,200 non-Organisation for Economic Co-operation and Development country migrants. The last iteration took place during the pandemic enabled the tracking of migrants' financial inclusion and remittances preferences. Micro-level data depicts three main behavioural trends which converge to explain remittance growth at macro level:

- repatriation of funds in view of a return given the deteriorating job market situation (with higher transaction amount average);
- the switch from informal to formal and recorded channels (the use of informal channels diminished from 14 per cent in 2017 to 8 per cent in 2021); and
- altruism to support families in times of the COVID-19 pandemic tapping into savings (with an observed reduction in savings accrued in Italy).

The study underscores a risk of higher financial vulnerability for migrant workers who have eroded the security buffer they had created in recent years. In terms of channel preference, the health emergency of the COVID-19 pandemic induced an increase in the weight of digital channels (electronic wallets, cards) used by 24 per cent among migrants and a reduction of in-cash MTOs from 64 per cent in 2017 to 40 per cent.

As part of a broader endeavour to strengthen digital financial literacy of various segments of the population, the Bank of Italy has developed targeted initiatives to migrant workers.107 General messages are translated into the language of main diaspora communities and adapted to their specific financial vulnerabilities and goals, such as sending remittances at lower costs, building safety nets in times of crisis, and preventing being over indebted. The development of online modules and a mobile app focused on money management and product awareness is envisioned to extend outreach at a lower cost.

In the context of the Italian G20 Presidency, **the Bank of Italy and the Ministry of Economy and Finance, with the support of the Ministry of Foreign Affairs and International Cooperation, have revived the Intergovernmental Table on Remittances**, resuming dialogue with the main market operators (banks and other payment services providers – PSPs), relevant market associations, the International Organization for Migration and the Centro Studi di Politica Internazionale (CeSPI, an Italian think-tank). The Table contributes to identifying public and private measures and strategies for conveying remittance flows through formal financial services, including low costs and specific financial services tailored to migrants' needs.

4. Digitalizing remittances by interlinking payment systems when payment infrastructure is already in place

Country		Sector		Targeting	
Sending country	Russian Federation	Public	X	Migrants	X
Receiving country	Belarus	Private	X	Recipients	X

Case Study 5

The Russian Federation

A larger variety of financial services, including the Faster Payments System (FPS) contributed to the growth of cashless payments which exceeded 70 per cent by the end of 2020. The FPS allows individuals to make instant interbank transfers 24/7 using a mobile phone number.

The FPS has successfully expanded its initial services from customer-to-costumer transactions to customer-to-business and business-to-customer operations using QR codes. Since the FPS launch in January 2019, more than 500 million transactions have been carried out at the total value of more than RUB3 trillion. Currently, 208 banks offer the FPS services.

The Bank of Russia has supported merchants by providing reduced fees of FPS services that are three times more valuable than the acquiring costs and has provided individuals with zero-sized fees for the transfer of amounts less than RUB100,000 per month and low charges for larger amounts.

107 Public adult schools in Italy host over 100,000 students, 70 per cent of whom are migrants.

The Bank of Russia and the National Bank of Belarus initiated a project aimed at connecting their two instant payments systems. The connectivity will enable individuals in the Russian Federation to send money to individuals in Belarus, and vice versa, instantly and securely, just through the use of their mobile phone numbers. The project is a blueprint to enable the Bank of Russia and the National Bank of the Republic of Belarus to cooperate with other Eurasian Economic Union (EAEU) countries to develop a linked network of faster payment systems in the EAEU that will further contribute to making remittances across the region even faster, cheaper and hassle-free.

5. Public and private sector measures

Action	Actor	Description	Private Sector Impact
1. Essential service declarations	Public	Governments in both send and receive countries moved to declare RSPs, mobile money operators and their partners essential services to keep remittances flowing as the pandemic took hold. **India**, **Mexico**, the **Philippines** and **the United Kingdom** were early movers in this regard while most G20 countries (including **Argentina**, **Germany**, **India**, the **Russian Federation** and **Switzerland**) permitted remittance service providers to remain open without explicit essential service declarations. Low- and middle-income countries (including **Pakistan**, **Rwanda and Viet Nam**) soon followed, urged on by international calls to action advocating for the same.	As nation lockdowns were imposed and borders closed with the onset of the pandemic, remittance volumes declined significantly as businesses shut. On the sending side, 55 per cent of RSPs reported a sudden drop in volumes particularly with respect to cash-based remittances.[108] **However, providers reported an offsetting increase once essential service declarations took effect**.[109] In net receiving countries, mobile operators such as Vodacom and Tigo reported the same experience as many shops and outlets that act as mobile money agents were initially forced to close but volumes increased once they were subsequently allowed to reopen.[110]
2. Fee waivers	Public and private	Regulators worked in tandem with mobile money providers (principally on the receive side) to reduce or eliminate fees on certain transaction types including peer-to-peer (e.g. **El Salvador**, **Kenya**, **Rwanda**), utility bills (e.g. **Senegal)**, merchant payments (e.g. **Indonesia**) and mobile-to-bank transfers (**Pakistan**)	The reduction in fees had a significant impact on transaction volumes for domestic digital remittances. For instance, **Rwanda** where waivers applied to all transaction bands, transaction volumes saw a seven-fold increase on pre-pandemic levels in just three months which reduced to a two-fold increased once fees were reintroduced, showing some degree of price elasticity.[111] **El Salvador** implemented some emergency measures, which consisted of tax benefits for remittances' recipients and special agreements with MoneyGram and Western Union to offer temporarily commission-free money transfers during the pandemic.[112]

108 World Bank. 2021. *The Impact of COVID-19 on the Market for International Remittances in the Short to Medium Term*.

109 IAMTN. 2021. *2020 Annual Report, The Shift to Digitalization in Cross-Border Remittances: a trend driven by the COVID-19 crisis*

110 GSMA. 2021. *Mobile money: Thriving in a year of global upheaval*.

111 Confirmed by Rwanda Central Bank governor John Rwangombwa on GSMA Thrive event Oct 2020 (*video, 48 mins*).

112 Remittances and COVID-19: a Tale of Two Countries. Federico S. Mandelman and Diego Vílan, the Federal Reserve System Notes, December 2020: *https://www.federalreserve.gov/econres/notes/feds-notes/remittances-and-covid-19-a-tale-of-two-countries-20201230.htm*.

Action	Actor	Description	Private Sector Impact
2. Fee waivers			In **Kenya**, where the waivers applied to lower transaction bands (under US$10), operators observed behaviour change, such as transaction splitting whereby larger sends were split into smaller sends to take advantage of free fees. Here the volume increases were witnessed in the lower transaction size bands. As e-money businesses whose revenue models rely on transaction fees, the waivers had a predictably negative impact on providers' revenues. Safaricom reported a slight fall in transaction revenues even though transaction values increased by almost 60 per cent. Zero-rated transactions accounted for a fifth of that total.[113] **The validity of the fee waivers agreed with regulators have now all expired but as a short-term emergency response their impact was significant in the digitalization of remittances.** On the send side RSPs announced similar measures with many eliminating them leaving only the foreign exchange margin. The World Bank pulse survey found that some jurisdictions had reduced fees for sending remittances.[114] Fifteen per cent of RSPs surveyed by IAMTN reported reducing transaction fees as their top priority during the crisis. Italy reported that many RSPs aimed at Eastern Europe and Africa put in promotional pricing to encourage the use of digital channels.
3. Limit increases	Public and private	Working with the private sector, authorities in many receive countries permitted an effective doubling of transaction and balance limits for e-money wallets.	Operators reported that along with essential service declarations, the limit increases helped maintain e-money liquidity in the system at a time when cash was at reduced circulation in the economy. This facilitated greater frequency and size of transactions for users as well as permitting greater e-money floats for agents who ultimately provide liquidity for the system. **While the validity of many of the transaction and balance limits measures have expired, some African countries have maintained them on a permanent basis given the positive impact they have had on digitalization.**[115]
4. Customer onboarding	Public	Authorities temporarily lowered know-your-customer (KYC) onboarding requirements which many receive side service providers used to bulk signing up of customers.	Many net-receiving countries lowered the onboarding requirements necessary to sign up customers to digital accounts (see Roshan example above). Often this took the form of permitting the basic checks that facilitated the opening of a mobile phone account rather than the stricter checks that usually accompany the opening of a transaction account, which can be difficult for those who lack basic identification. This permitted the bulk signing up of customers. For instance, Orange **Senegal** reported signing up 350,000 customers on this reduced KYC basis with the vast majority transacting immediately.[116] **Saudi Arabia** reported that many RSPs in its jurisdiction introduced remote account opening during the pandemic to encourage the use of remittance services. The **Russian Federation** also permitted remote account opening at banks, provided those accounts were used to make socially important payments

113 Taken from Safaricom's FY21 results *presentation.*

114 World Bank. 2021. *The Impact of COVID-19 on the Market for International Remittances in the Short to Medium Term*.

115 Countries that have maintained balance and transaction limit increases on a permanent basis include *Ghana, Zambia, Kenya and Rwanda.*

116 GSMA. 2020. *Mobile Money Leadership Forum: Building a Resilient Future Through Mobile Money*.

Action	Actor	Description	Private Sector Impact
5. Promotion of digital remittance channels	Public and private	Governments actively promoting digital remittance channels throughout the pandemic.	Working closely with the private sector, authorities took an active role in promoting digital channels for remittances. As described above, the State Bank of **Pakistan** worked with local banks to create the Roshan Digital Account, which permits Pakistani migrants to remotely open digital accounts in Pakistan for the purposes of sending remittances with tax incentives for onward investing. This has proved successful in improving the country's balance of payments statistics and government finances with over US$2 billion being remitted into the digital accounts as of August of which almost £1.5 billion has been invested into government securities. **Bangladesh** worked with local banks to incentivise remittance flows into the country by topping up transfers sent by Bangladeshi migrants by two per cent. The initiative pre-dates the COVID-19 pandemic but the qualifying criteria were relaxed during the crisis and have been actively promoted by RSPs in send countries since then.[117] Early data suggest the scheme has contributed to an uptake in remittance flows into the country.[118] **Nigeria** recently implemented a similar incentive scheme "Naira4Dollar" which sees a ₦500 top up for everyone US$ remitted (roughly 1.2 per cent at current exchange rates). This came on top of an earlier mandate for remittances to be paid out in US$ to dissuade the use of informal channels that had increased during the country's currency crisis. The scheme has been actively promoted by RSPs in send country's although there isn't yet sufficient data to determine whether it has had an impact. In the **United Kingdom** there is cross-government work to develop an Action Plan on Remittances that will look to key restraints on the uptake of digital remittances. In **Italy** new legislation permitted the sharing of identities digitally via APIs which strengthened the partnerships between banks and RSPs. **India**'s Unified Payments Interface (UPI) system can be similarly leveraged to enable cross-border remittances with discussions ongoing to increase its international reach (with **Singapore** and **Bhutan** being early adapters). Germany continued to promote the use of digital services for sending remittances and through the work of its development agency with LMICs (including Jordan), while at the same time encouraging digital diaspora investment in **Cameroon** and **Ghana.** **Switzerland** recently developed a framework that looks to promote the use of distributed ledger and token technology to promote the use of digital currencies including Stablecoins within remittances. The **Russian Federation** promoted the use of its Mir card to enable digital remittances to Mir card beneficiaries in other countries such as **Belarus**, the **Kyrgyz Republic** and the **Republic of Uzbekistan.**
6. Support to agents	Private		As well as working to ensure their agents were classified as essential services, many operators further supported their agents by providing protective equipment, sanitising stations and training on social distancing requirements including Tigo and Vodacom in Africa. This was furthered bolstered by ensuring their agent networks had sufficient liquidity for both cash and e-money to deal with increased volumes of digital transactions, which was necessary given the reduced operating hours of local banks. On the sending side, regulators permitted MTOs to remotely train their agents allowing businesses to remain open (NL, IAMTN).

117 See *Azimo*, *WorldRemit* and *Remitly*.

118 Dhaka Tribune. 2021. *Bangladesh's forex reserve hits record high of $46 billion*.

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