

# **Coping During the Covid-19 Pandemic: Evidence from Remittances into Nicaragua**

## **Project stakeholders**

Arndt Reichert, Institute of Health Economics (IHE) – Leibniz University Hannover (LUH)

Project partners: Alejandro de la Fuente, Xavier Giné, Meritxell Martínez, Elizaveta Perova (all World Bank)

## **Funding agency, duration and funds**

Funding agency: Innovations for Poverty Action (IPA)

Duration: 24 months

## **Project goals**

The study assesses the impact of the COVID-19 pandemic on international remittances. It combines, for the first time, microdata from (high-frequency) administrative bank records and (phone-based) household surveys to provide a sufficiently comprehensive picture to draw robust conclusions about the relationship between the pandemic and remittances flows. The study contributes to an emerging literature that debates whether there is a genuine surge in international remittances or whether the mode of transfer among regular remittances recipients may have shifted in response to the pandemic. Existing empirical analyses using administrative and survey data, in isolation, report opposing results.

## **Background and project description**

Informal loans and donations from friends or relatives are important ways to cope with health shocks when there is incomplete access to formal credit and insurance markets. When many people experience such shocks locally, the spatial component of the social network is known to gain much importance for risk coping. A particular situation arises in the presence of a global shock that causes everyone in the social network to be affected, including potential remittance senders. This paper shows in the context of an event study design that despite the economic decline in sending countries the volume and number of remittances to Nicaragua increased substantially during the COVID-19 pandemic. Using high-frequency administrative data from the largest bank in Nicaragua, we find that this increase comes from new recipients that were not receiving bank remittances before. Complementary household survey data from a sample of recipients suggests that informal channels are rarely used by Nicaraguan migrants, confirming that these new recipients only started to receive remittances once the pandemic started. This suggests that economic contraction in the community of origin weighs strongly, offsetting the economic downturn in the locations of remittance senders.