



**MULTILATERAL INVESTMENT FUND
INTER-AMERICAN DEVELOPMENT BANK**



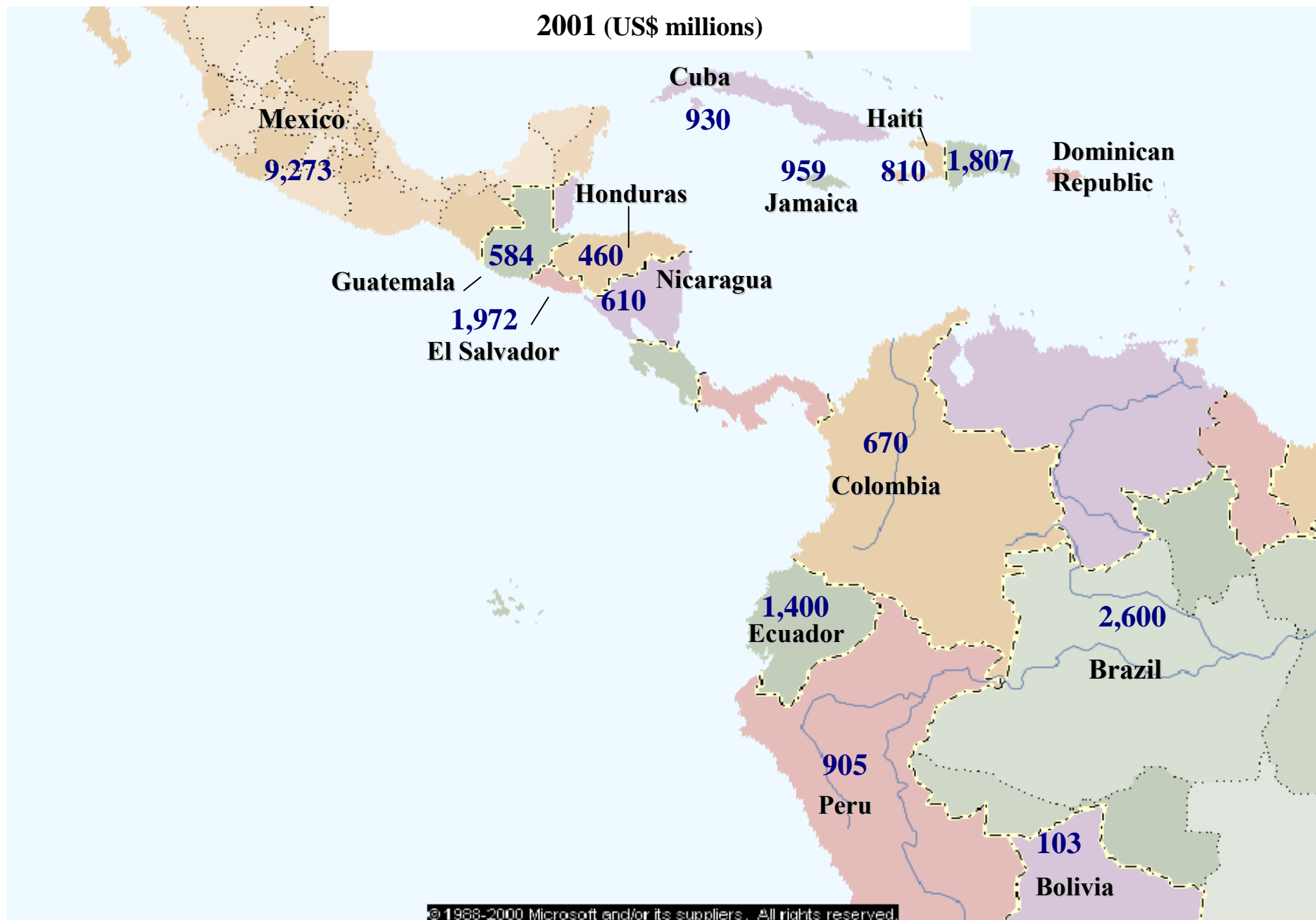
REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN



February, 2002

Remittances by Selected LAC Countries

2001 (US\$ millions)



Introduction

Remittances -- the portion of international migrant workers' earnings sent back to countries of origin -- provide a distinctly human dimension to globalization. For generations, financial flows back to the "home country" have constituted an important means of support to family members remaining in less developed countries.

However, as the scale of migration has increased in recent years, leading to a dramatic acceleration in remittances, their social and economic impact has grown well beyond family relationships, and is now drawing national and international attention. Improvements in transportation, communication and information technologies make it much easier for migrant workers and their families, not only to maintain close personal contact, but also to create significant new opportunities for economic exchange across national borders.

Nowhere is this more apparent than in Latin America and the Caribbean (LAC) where remittances currently constitute a critical flow of foreign currency to the majority of countries. The implications for national economies—and the corresponding potential multiplier effect on GDP, consumption and investment—are becoming major financial and development policy issues for recipient countries throughout the region.

Interest in remittance-sending countries is also growing rapidly, well beyond the traditional focus on immigration policy, and the business concerns of money-transfer companies. For example, banks and credit unions in the U.S. are seeking ways to expand their customer base in fast-growing populations; major employers of Latinos (e.g. food processors, hotel chains, and textile companies) as well as unions (restaurant and service workers) are looking to help provide better treatment for their workers and members. Meanwhile, civic groups are actively engaged in establishing hundreds of hometown associations (HTA's) to improve social and economic conditions in local communities throughout Mexico and Central America.

As a result of this rapidly expanding landscape, the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) began exploring various aspects of this phenomenon two years ago, and in May 2001 convened the first ever LAC Regional Conference on Remittances. Over a two-day period, some forty experts addressed the policy and programmatic implications of three major issues: i) documenting the growing size and role of remittances; ii)

promoting competition to help lower the cost of transactions; and iii) leveraging the potential economic development impact of remittances.

Over the past year, the interest and ideas generated from the 2001 Conference have led to a series of MIF remittance projects in Ecuador, Brazil, and Mexico, and several other projects are currently being developed. In addition, two national “Remittances Roundtable Discussions” were recently held in El Salvador and Dominican Republic.

As background for the second LAC Regional Conference on Remittances, February 26, 2002, the MIF has commissioned two separate reports:

- 1) A Survey of Remittance Senders, U.S. to Latin America, conducted by Bendixen and Associates, Miami, Florida.
- 2) Remittances to Latin America and the Caribbean: Money, Markets, and their Environment, by Dr. Manuel Orozco of the Inter-American Dialogue

The major findings of these two groundbreaking studies, statistics just now being released from the U.S. 2000 Census, and improved mechanisms for tracking remittance flows by Central Banks in Mexico, Central America, and the Caribbean, all provide a level of detail never before available. Much more work needs to be done before a total and accurate picture emerges of LAC remittances. But one thing is very clear at this point: remittances is a big and growing business which directly and profoundly affects the lives of tens of millions of families, and the economic prospects of the majority of countries in Latin America and the Caribbean.

The following analysis outlines current trends and issues regarding LAC, and provides a statistical summary of the latest information available on a number of topics:

- 1) Size of the LAC Remittances Market
- 2) Demographic Characteristics: Who, How, and How Much?
- 3) Economic Impact

Remittances at a Regional level

Migration trends of Latin American and Caribbean (LAC) populations reflect not only movements to other parts of the world, but also demonstrate important shifts within the region as migrants seek opportunities in neighboring countries. For example, there are significant communities of Bolivian migrants in Argentina, Nicaraguans in Costa Rica, Guatemalans in Mexico, Peruvians in Chile, and Haitians in the Dominican Republic.

When migrating to other regions, destinations within the European Union are increasingly favored. Latin Americans now make up more than 20% of immigrants living in Spain (mainly Ecuadoreans and Dominicans¹) and approximately 10% in Italy. Japan is currently experiencing a “return migration” of a quarter million temporary workers from Brazil, mostly the direct descendants of Japanese migrants who went to LAC during the first half of the 20th century².

However for the last two decades the preferred destination for the majority of Latin American and Caribbean migrants has been North America, and particularly the United States. According to the 2000 US Census, approximately 5% of the current US population (14.47 million people) and over 7% of the workforce were born in LAC countries.

These workers typically send home an average remittance of about \$200, seven to eight times a year. For the LAC region as a whole, this flow reached an estimated \$23 billion (\$23,000,000,000) from all sources during the year 2001. This represents not only a massive transfer of funds, but also involves more than 100 million (100,000,000) separate financial transactions annually.

¹ The first two “New Year’s” babies born in Spain on Jan 1, 2002 were to Ecuadorean and Dominican parents

² Three different Brazilian banks have now opened several branch offices in Japan in order to compete for over US\$1.5 billion in remittances each year

Size of the LAC Remittances Market

Remittances to Latin America and the Caribbean, 2001*

Country	Remittances (US\$millions)
Mexico	\$9,273
Brazil	\$2,600
El Salvador	\$1,972
Dominican Republic	\$1,807
Ecuador	\$1,400
Jamaica	\$959
Cuba	\$930
Peru	\$905
Haiti	\$810
Colombia	\$670
Nicaragua	\$610
Guatemala	\$584
Honduras	\$460
Bolivia	\$103
TOTAL	\$23,083

The \$23 billion transmitted to LAC during 2001 sustained the high annual growth rate of remittances over the past few years (approximately 10%). Almost 80% of these flows come from the United States, but Europe (particularly Spain, Italy and Portugal), Japan, and Canada all send considerable amounts as well. This continued growth is particularly noteworthy given the recession in the U.S. during 2001, which was compounded considerably by the terrorist attacks on September 11th.

As remittances have become an increasingly important source of foreign exchange, Central Banks and other governmental authorities in Mexico, Central America and the Caribbean have developed improved systems to effectively identify, monitor, and report these financial flows. However, the “official figures” for several Andean countries, and Brazil, do not typically capture remittances which flow through non-regulated channels, and therefore are likely to be significantly under-counted. Because remittances to Ecuador, Peru, Colombia, and Bolivia are expanding rapidly, this disparity needs to be addressed in the near future.

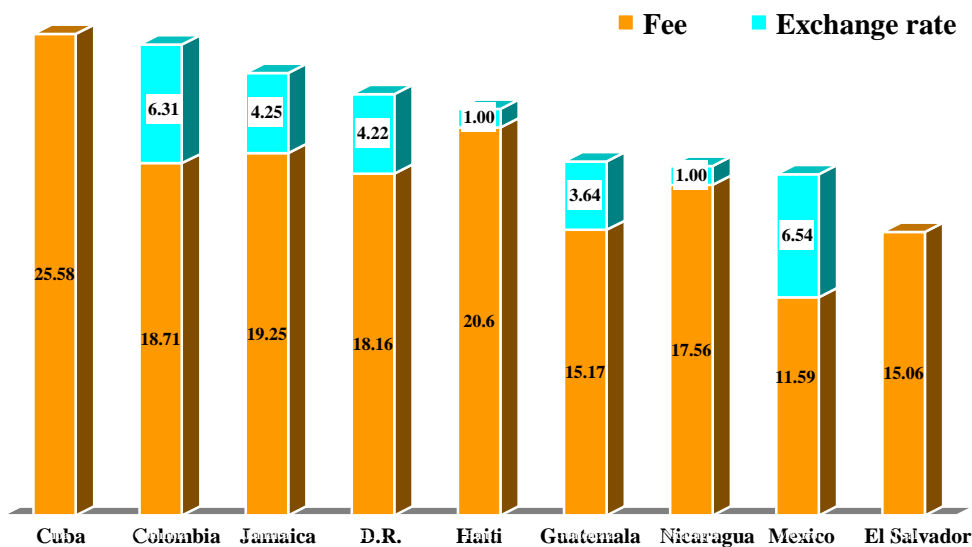
2) Demographic Characteristics: Who, How, and How Much?

Seven out of every ten LAC immigrants living in the U.S. send money home, most of them on a regular basis, and have been doing so for more than five years. Almost 60% of remitters have lived in the U.S. for over ten years, and more than 2/3 are aged 25-49. More recent immigrants are more likely to send remittances, and those making less than \$20,000 are more likely to send money than those making more than \$40,000.

Most LAC immigrants send remittances through international money transfer companies such as Western Union (30%), MoneyGram (11%), and dozens of smaller companies, which constitute less than 15% of the total regional market, but in some smaller countries have a dominant share. Regulated financial institutions such as banks and credit unions comprise about 20%. Mail orders and networks of individuals travelling (*encomenderos*) also play a significant role in many countries. “Convenience”—not cost—is almost always cited as the most important reason in choosing a particular method to send remittances.

Increased competition in the “remittance industry” over the past three years has substantially reduced the cost of sending money to LAC, perhaps by as much as 25% on the average individual transaction. However, costs still remain relatively high, and can and should be reduced even further.

Average transfer fee and exchange rate commission to send \$200*



*Does not account for additional costs such as: Cash checking fees and additional commissions levied in the recipient country

Current costs to send remittances continue to vary widely both by countries and companies. The above table summarizes the major costs for sending \$200 to nine LAC countries. Additional information provided in Dr. Manuel Orozco's study "Remittances to LAC: Money, Markets, and their Environment" documents a wide range of costs charged by 70 remittance companies, banks and credit unions.

The typical cost of transmitting \$200 to a LAC country (including transfer fee, exchange rate commission, check cashing fees, and other charges at the point of receipt) is estimated at approximately \$25 or 12.5%. This translates into total fees approaching \$3 billion associated with remittance transmittals to LAC.

Money transfer companies are currently providing convenient, fast, safe, and efficient services to the majority of LAC remittance senders. They also charge a premium for these services. Regulated financial institutions—banks and credit unions—typically charge less for these services, but they have not been traditionally involved/interested in this market for a variety of reasons. But that position is changing rapidly, as U.S. financial institutions are developing special programs targeted at marketing services, including remittance transactions, to LAC immigrants; and credit unions are seeking regulatory and other changes which would make it easier to reach this growing market.

Because of the paramount importance attributed to convenience, it is expected that private money transfer companies will continue to maintain a very high share of the LAC remittance market for the foreseeable future. But from a development perspective, formal financial institutions are clearly the preferred option. Only banks, credit unions, and other depository institutions can offer opportunities for savings accounts, checking accounts and various forms of low-cost credit to LAC immigrants. Only banks, credit unions, and regulated micro-finance institutions in recipient countries can leverage the economic impact of remittances, once received. It is for this reason, that the MIF and the IDB are actively engaged in helping to build a network of financial institutions in LAC countries which can then link up with formal financial institutions in developed countries to both lower transaction costs and increase the multiplier effect of remittances.

3) Economic Impact

The MIF survey of data from 14 LAC countries receiving 95% of the total value of remittances during 2001 found that these financial flows:

- Substantially exceeded Official Development Assistance (ODA) to each country;
- Accounted for at least 10% of GDP in five countries: Nicaragua (24%), Haiti (20%), El Salvador (14%), Jamaica (13%), and Ecuador (10%);
- Equaled 40% of total Foreign Direct Investment (FDI) to the region.

This survey fully confirms the importance of remittance flows for individual countries, as well:

- Remittances to Mexico were more than twice the value of agricultural exports, exceeded tourism revenues, and were two thirds the value of petroleum exports;
- Earnings of Salvadorans residing in the United States exceeded the entire GDP of El Salvador;
- Jamaica received the highest volume of remittances per capita, followed by El Salvador and the Dominican Republic;
- Ecuador has the highest growth rate of remittance in the region over the past three year period;
- 40% of families living in the Dominican Republic receive remittances;
- Remittances to Colombia were equal to half the value of the country's coffee exports.

If immigration patterns continue at current levels, the importance of remittances to the region will also grow significantly. At current growth rates, the projected cumulative remittances to Latin America and the Caribbean for the current decade (2001-2010) will reach more than \$300 billion.