I sending ending money home

Leveraging the impact of remittances to Latin America and the Caribbean

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Over the past decade, “globalization” has become the term most often used to describe the increasing integration of the world economy. Countless categories of financial flows, trade in goods and services, and various forms of technology transfer are all very carefully monitored, documented, and reported.

However, there is one aspect of globalization that has attracted relatively little attention: the flow of workers to fill jobs in more developed countries, and the financial flows back to their families in countries of origin. But this is rapidly changing as governments, international organizations, NGO’s and the private sector are currently in the process of “discovering remittances.”

From an economic perspective, this movement of labor across borders constitutes an international labor market in which people move North and money moves South. But this process also produces a fundamentally human connection of sending money home to support family members. In this sense, remittances can be characterized as “The Human Face of Globalization.” Nowhere is this more important than in Latin America and the Caribbean (LAC) where generally unemployment has been rising, personal incomes falling, and capital flows drying up.

As a result, LAC workers have been increasingly moving to seek better opportunities for themselves and their families. 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. However, the preferred destination for most LAC migrants has been the United States.

The Inter-American Development Bank has been intensively involved with remittances for at least 10% of GDP in six countries, and almost always exceed the largest export.

Mexico is the largest recipient of remittances, reaching over US$13 billion. But growth is widespread throughout the Region: Central America, the Caribbean, and Andean countries all exceeded US$6 billion in remittances during 2003. These amounts reflect both substantially increased volume and much improved mechanisms to accurately report the full dimensions of these flows.

Individual remittances of US$200/300, typically sent monthly, result in over 150 million separate transactions a year, mostly outside of the financial system. It is conservatively estimated that about 18 million households, and over 50 million people in the Region are supported by this flow of remittances.

Five years ago, the average cost of sending remittances was about 15% of the total transaction. But, as both awareness and competition increased, fees have been slashed by 50%. As a result, senders and receivers now have an additional US$ 3 billion available for their own use. Nevertheless, in an era of electronic transfer of financial resources, the cost of sending remittances can — and should — be further reduced by another 50% over the next five years.

For 2003, remittances to LAC reached over US$ 38 billion. This amount exceeded the combined flows of all Foreign Direct Investment (FDI) and net Official Development Assistance (ODA) to the Region.

LAC is now the fastest growing and highest volume remittance market in the world. These flows substantially exceed tourism income to each country, account for at least 10% of GDP in six countries, and almost always exceed the largest export.

The IDB is currently engaged in a series of projects with various partners throughout the Region to increase the potential multiplier effect of remittances. In designing these projects, however, one overwhelmingly important fact must always be recognized: “It’s Their Money.”

Therefore, the challenge for governments at all levels, international organizations, financial institutions, money transfer companies, NGOs, chambers of commerce, civil society and the private sector, and others is to provide more — and better — options for remittance families to use their own money.

Most resources, of course, will continue to be needed for basic living necessities; but various studies indicate that perhaps 20% would be available for savings and investment in housing, small businesses, and microenterprises. Moreover, the very process of sending and receiving remittances provides an enormous opportunity to deepen the Region’s financial system, by giving millions of currently “unbanked” families their first opportunity for a savings account, or a small loan. This effort will require intense concentration on at least three issues: improving regulatory and institutional frameworks, increasing competition to lower transaction costs, and promoting financial democracy.

In the final analysis, the process of remittances is more than just money. There are millions of transnational families currently living in two countries, two economies, and two cultures throughout the Western Hemisphere, and beyond.

The inevitable impact of these interactions is shaping societies in profound ways which are not yet fully understood or appreciated. It is our collective challenge in the years ahead to create a better environment for Latin American and Caribbean transnational families to flourish and to contribute even more to the communities where they live and work.