



LATIN AMERICA AND CARIBBEAN REMITTANCES: THE NEXT FIVE YEARS



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The dramatic growth of international remittances is testimony to the hard work and commitment of migrant workers seeking better lives for themselves and their families. This phenomenon, hidden in plain view for decades, is now being discovered, highlighting the role of millions of transnational families who contribute to two countries, two economies and two cultures.

Today's conference is part of that discovery process, as two new documents are being presented:

- The 2003 Remittances Map for Latin America and the Caribbean (LAC), together with additional demographic information, country profiles, and current trends in transaction costs.
- A Set of Core Recommendations to Promote Best Practices in the LAC Remittance Market.

In 1990, remittances to LAC were largely transmitted through a patchwork of personal contacts in which money was hand delivered by friends and relatives. However, these informal networks could not process the rapidly growing volumes of remittances that ultimately reached tens of millions of transactions annually. Because financial institutions were either unaware or uninterested in this market, money transfer companies grew to meet the demand and the opportunity, and by the end of the decade, the delivery system had been transformed.

When the IDB began to look at the LAC remittance market five years ago, the actual volume was unreported in most countries; and transaction costs were very high due to lack of effective competition. The only available data usually had to be extrapolated from "errors and omissions" columns of various reports which carefully tracked categories of international trade and investment flows.

But the LAC Remittance landscape has changed dramatically in just a few years. We now know much more about several aspects of the process; but we fully recognize that we do not know nearly enough.

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

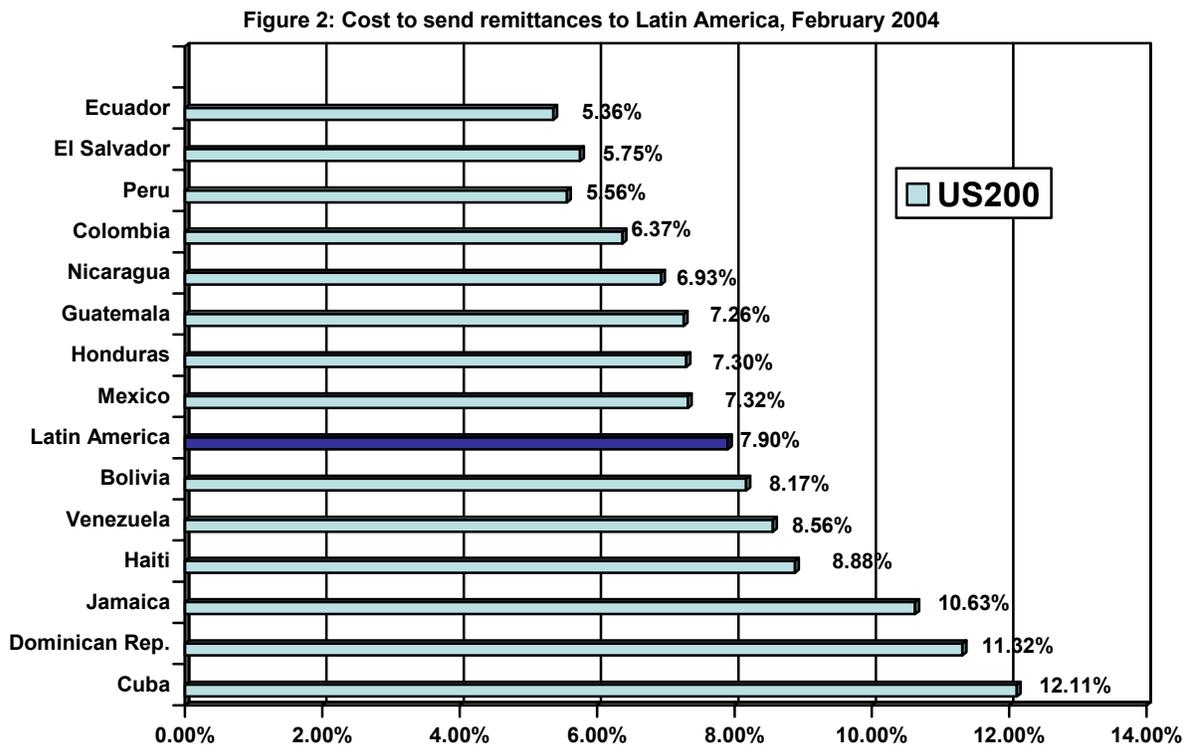
remittance market in the world. These flows substantially exceed tourism income to each country, account for at least 10% of GDP in six countries, and almost always exceed the largest export.

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 cost of sending remittances to the LAC Region averaged over 15% of the total transaction. As awareness and competition among money transfer companies has increased, fees have been reduced by 50%.

But, these averages mask some important differentials between countries:



The issue of remittances is now the subject of public discussion and policy consideration at the highest levels, including the upcoming G-7 meeting in June, 2004. In addition, last year, the World Bank assumed leadership of the remittance issue on a worldwide basis, along with DFID, and the International Organization on Migration (IOM). The IDB looks forward to working closely with the World Bank and other international organizations to help compare “best practices” and disseminate “lessons learned”.

Given the rapid growth rate in LAC remittances, the question most often raised is whether current trends are likely to continue. The answer is, apparently, “yes”. The reality is the explosive growth in LAC remittances reflects a fully integrating labor market within the Western Hemisphere — and beyond. Simply put, the economies of developed countries need the skills, sweat and dedication of workers from LAC countries which, in turn, are not generating enough jobs and income for their own populations.

So people will continue to move North by the millions, and money will continue to move South by the billions – at least for the near future.

Although progress is being made on several fronts, significant gaps remain:

- The costs of sending remittances are falling, but they are still too high, particularly in an era of electronic transfer of funds;
- Data collection is improving, but is still not comprehensive, uniform or systematic, thereby impeding informed policymaking;
- Remittances are financial flows in search of financial products – yet few financial institutions are seeking to meet the needs of transnational families.
- Remittances are private transactions that deliver public impact, yet public authorities have generally done little to improve the enabling environment in order to maximize the development impact of these flows.

Over the next five years, concerted efforts are needed from all major stakeholders to unleash the full development potential of remittances. This will require intense concentration on at least three issues: improving regulatory and institutional frameworks, increasing competition to lower transaction costs, and promoting financial democracy.

The path to financial democracy, in particular, will present both great challenges and historic opportunities. As with other developing regions, LAC financial systems do not serve the majority of their populations. However, the scale and scope of remittances can be a powerful lever to open up financial systems, mobilize savings, generate small business loans, and multiply development impact for local communities in many other ways.

In all these efforts, however, one overwhelmingly important fact must always be recognized:

“IT’S THEIR MONEY”

Therefore, the challenge for public authorities at all levels, international organizations, financial institutions, money transfer companies, NGOs, chambers of commerce, civil

society, the private sector, and others is to provide more — and better— options for remittance families to use their own money

Toward this end, the IDB will help develop and work with a network of participating stakeholders to meet two goals before 2010:

- Reduce by 50% the average cost of LAC remittance market transactions by promoting increased competition; and
- Increase to 50% the number of families receiving remittances through the financial system.

Over the course of the next year, the IDB will develop baseline data to measure progress toward these goals, and help make appropriate adjustments along the way.

In order to help reach these goals, the MIF, after consulting with an Advisory Committee of 22 organizations, is today issuing a set of Core Recommendations to Promote Best Practices in the Latin America and Caribbean Remittance Market:

- ❑ REMITTANCE INSTITUTIONS - IMPROVE TRANSPARENCY; PROMOTE FAIR COMPETITION AND PRICING ; APPLY APPROPRIATE TECHNOLOGY; SEEK PARTNERSHIPS AND ALLIANCES ; EXPAND FINANCIAL SERVICES
- ❑ PUBLIC AUTHORITIES - DO NO HARM; IMPROVE DATA; ENCOURAGE FINANCIAL INTERMEDIATION; PROMOTE FINANCIAL LITERACY
- ❑ CIVIL SOCIETY - LEVERAGE DEVELOPMENT IMPACT; SUPPORT SOCIAL AND FINANCIAL INCLUSION;

There are approximately 25 million LAC transnational families currently living throughout the world. Seventy percent of these families send money home to Latin America and the Caribbean as part of a international financing system that also sends remittances to Africa, Asia, Eastern and Southern Europe, the Middle East, and other developing nations.

The LAC Region has much to gain from the experiences and perspectives of major remittance countries such as the Philippines, Portugal, Turkey, and India. For our part, we hope that what is now being learned about the LAC remittance process will be of assistance to other developing regions of the world.

As noted earlier, the landscape of the LAC remittance market has changed dramatically over the past five years. We expect equally dramatic changes in the years ahead.