



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



REMITTANCES 2004

**TRANSFORMING LABOR MARKETS AND
PROMOTING FINANCIAL DEMOCRACY**



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Call it the case of the missing billions. For generations, millions of migrant workers have been sending billions of dollars back to their home countries to support their families. But these flows of both money and people have been hidden in plain sight for decades. Why? Because the money is sent regularly in small amounts, usually outside the formal financial system; and the workers typically live on the margins of society.

All of this is now changing. Remittances are widely recognized as critical to the survival of millions of individual families, and the health of many national economies throughout Latin America and the Caribbean (LAC). Unlike foreign aid, migrant remittances go directly to families in places that are often difficult to reach with development assistance. And while international capital flows have fluctuated with market cycles, remittances have increased, even during economic recession.

For 2004, remittances to LAC reached over US\$45 billion, making the Region the largest remittance market in the world. This amount exceeded, once again, the combined flows of all Foreign Direct Investment (FDI) and net Official Development Assistance (ODA) to the Region.

Mexico was the largest recipient of remittances, at over US\$16 billion, followed by Brazil and Colombia. But growth was widespread throughout the Region: Central America and the Dominican Republic combined to reach over US\$10 billion; Andean countries totaled over US\$7 billion; and Haitian remittances topped US\$1 billion for the first time. These amounts reflect both substantially increased volume and much improved mechanisms to accurately report the full dimensions of these flows.

There are currently an estimated 25 million LAC-born adults living outside their country of origin. Approximately 65% send money home on a regular basis, typically \$100/\$200/\$300 a month, resulting in about 175 million separate financial transactions a year. Transaction costs to send these remittances have been cut in half over the past five years; but at 7%, still remain too high.

Almost 75% of LAC remittances are sent from the US (US\$34 billion); but in recent years, Western Europe has become the fastest growing destination for LAC migrants, resulting in 12% of the market. Other large flows come from Japan to Brazil and Peru, Canada to Jamaica and Haiti; intraregional flows account for most of the rest.

Transforming Labor Markets

Family by family, worker by worker, migrants are redrawing the map of global labor markets. Over the past few decades, economic migration has increased at four times the rate of world population growth, as globalization is clearly accelerating and expanding the process of remittances.

The basic economic equation in the Americas, and throughout the world, is quite simple: developed countries need migrant labor, and families back home need the remittances that come from their earnings. Each year, millions continue to leave their villages and hometowns to seek jobs and better lives for themselves and their families. Today, the number of economic migrants (approximately 175 million) would alone constitute the sixth most populous country in the world.

So people move “North” by the millions, and money moves “South” by the billions.

The process is profoundly entrepreneurial. Facing increasingly limited prospects at home over the past two decades, workers in Latin America and the Caribbean—particularly from rural areas—have bypassed their own cities in favor of moving directly abroad. Like entrepreneurs who seek markets around the world, foreign workers cross borders in search of comparative advantages.

But the driving force behind this phenomenon remains a fundamentally human connection: a commitment to family values lies at the core of these flows. As a result, new networks of social and economic connections are being formed. These are transnational families, living and contributing to two countries, two economies, and two cultures at the same time. Shifts in international trade, investment, and communication have required the world’s political and economic systems to adopt new rules and mechanisms to meet modern realities. The same needs to be done for the migrant laborers who have become such an integral part of the world’s labor markets.

- **Promoting Financial Democracy**

Financial systems in most developing countries generally serve only the social and economic elites of their populations. Currently, less than 10% of remittance recipients are estimated to have access to banking accounts, loans or other basic financial services. But the scale and scope of LAC remittances can be a powerful tool to open up these financial systems, and thereby multiply economic impact for millions of families and their communities.

Over the past five years, remittances have undergone dramatic changes. Over the next five years, the system can be entirely transformed.

By the end of this decade, remittances to Latin America and the Caribbean can move from the current “cash-to-cash” system into the electronic or digital transfer system of “accounts-to-accounts.” The technology is already available; what is needed are innovative business plans and appropriate regulatory frameworks. The costs of sending money can continue to fall. Millions of poor people can be brought into the financial system, and remittances can be leveraged by linking flows to local microfinance institutions, home mortgages, and even the securitization of bonds for on-lending to local small businesses.

The millions of decisions made each year to migrate and remit are individual decisions made in the best interests of individual families. These decisions are grounded in the reality of the lives of the families involved, not by some econometric model, abstract theory, or government policy.

Remittances have now been “discovered.” Today, 1 of every 10 persons around the globe is directly involved with remittances—125 million migrant workers regularly sending money to support another 500 million relatives back home (averaging four per household). The challenge ahead is to provide these millions of hard-working migrants and their families with more options to use their own money...

They will do the rest.

