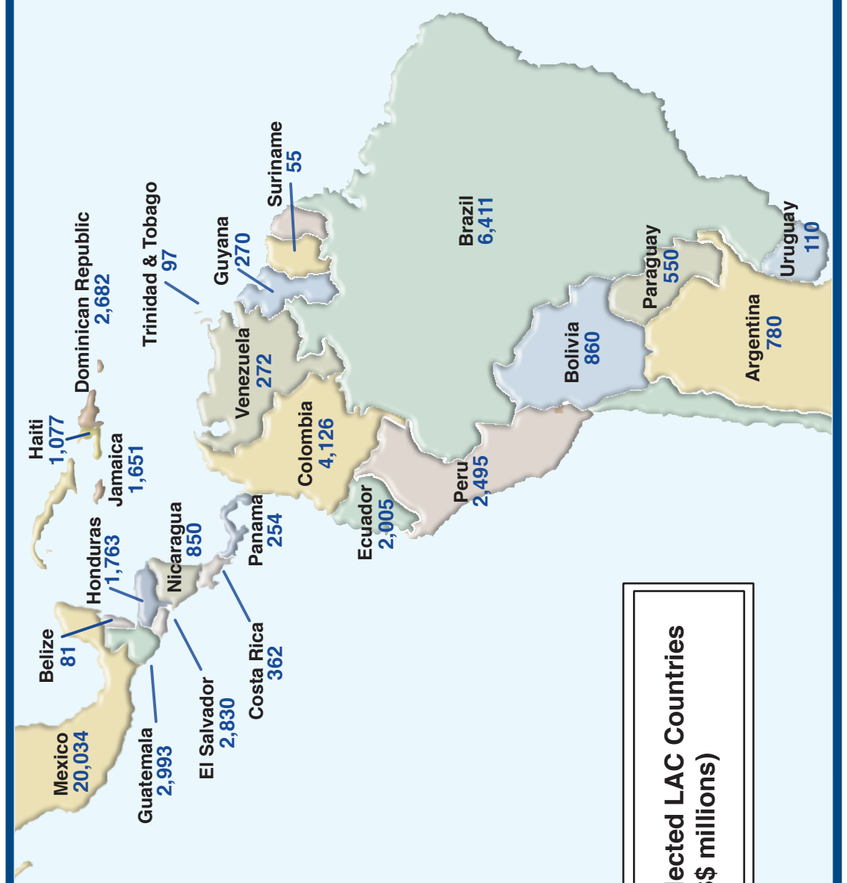


Remittances by Selected LAC Countries
2005 (US$ millions)

INTER-AMERICAN DEVELOPMENT BANK

MULTILATERAL INVESTMENT FUND

1300 New York Avenue, N.W.
Washington, D.C. 20577
United States

www.MigrantRemittances.org

Inter-American Development Bank

Multilateral Investment Fund

REMITTANCES 2005

PROMOTING FINANCIAL DEMOCRACY



WASHINGTON, DC.
MARCH 2006

Remittances 2005

Call it the case of the missing billions. For decades, millions of migrant workers have been sending billions of dollars back to their home countries to support their families. Yet the impact of these huge international flows of both money and workers is only now beginning to be understood. 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 2005, remittances to LAC reached over US$53.6 billion (a 17% increase), making the region the largest remittance market in the world. This amount exceeded, for the third consecutive year, the combined flows of all net Foreign Direct Investment (FDI) and Official Development Assistance (ODA) to the Region. Given the complicated process of tracking informal flows, particularly those still carried by hand, actual flows could be at least 10% higher. With these accounting and reporting challenges in mind, it is particularly gratifying to note the significant progress of many Central Banks throughout the Region in providing more accurate remittances information; particularly Colombia, El Salvador, Guatemala, Honduras, Jamaica, and Mexico.

Mexico remains the largest recipient of remittances, at over US$20 billion, followed by Brazil and Colombia which for the first time reached over US$6 and US$4 billion, respectively. Central America and the Dominican Republic combined to reach over US$11 billion; and the Andean countries totaled almost US$9 billion.

It is currently estimated that over 25 million LAC-born adults are living outside their country of origin. Approximately 65% send money home on a regular basis, typically $100/$200/$300 a month, resulting in about 200 million separate financial transactions a year. Transaction costs to send these remittances have been reduced by more than 2/3 over the past six years due to increased competition, and better use of technology.

About 75% of LAC remittances are sent from the United States (US$40 billion), while remittances from Western Europe, particularly, Spain, Italy, Portugal, and the United Kingdom now account for almost 15% of the market (US$7.5 billion). Other large flows come from Japan to Brazil and Peru, from Canada to Jamaica and Haiti — intraregional flows account for the rest.

In Search of Opportunity

Family by family, worker by worker, migrants are redrawing the map of global labor markets. There are approximately 22 million LAC economic migrants living in the developed economies of North America, Europe, and Japan, while another 3 to 5 million work in neighboring countries of Latin America or the Caribbean. Over the past quarter century, economic migration has increased at four times the rate of world population growth — globalization is clearly accelerating the scale and scope of remittances.



The basic economic equation in the Americas, as for the rest of the world, is quite simple: developed countries need migrant labor, and families back home need the remittances that come from such earnings. Each year, millions of individuals, both men and women, 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.

The process is profoundly entrepreneurial. Facing increasingly limited prospects at home, workers in Latin America and the Caribbean—particularly from rural areas— are bypassing 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.

Indeed, as people move “North” by the millions, money moves “South” by the billions.

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

If individual remitters and their families are too often invisible, the economic power of millions of the poor is becoming increasingly evident. If people living and working at the base of the economic pyramid have more options available to them, they can better leverage their assets for the benefit of their families and the communities where they live. Unfortunately, LAC financial systems are essentially irrelevant to the daily lives of the vast majority of their populations.

As a result, remittances remain financial flows in search of financial products. The huge scale of remittances to Latin America and the Caribbean presents an enormous opportunity for millions of families to enter the world’s financial mainstream. This can be a critical first step on the pathway to credit for individual families; and reaching the goal of financial democracy for a nation.

Over the next five years, the process of sending remittances can be entirely transformed, moving from the current “cash-to-cash” system into “accounts-to-accounts.” The technology is available; what is needed are innovative business plans and appropriate regulatory frameworks to bring millions upon millions of transnational families into the financial system where their remittances can help effect fundamental change.

Remittances do not constitute a development strategy. Nor are private family remittances a substitute for sound government policies and programs that are necessary for broad-based economic growth. But remittances can strengthen microfinance institutions, can spark an entire range of local economic activity through housing, and bonds can be securitized for on-lending to small businesses. Improved education can lead to higher productivity and increased national competitiveness.

In short, remittances can be an important part of any long-term solution leading to a future when such large numbers of young men and women are no longer forced to make the painful choice to leave home in order to provide for their families, and pursue the prospect of a better life for their children.

In the meanwhile, one out of every ten persons around the globe is directly involved with remittances—125 million migrant workers regularly sending money to support another 500 million relatives back home. We need to provide these millions of hard-working migrants and their families with more options to use their own money...

They will do the rest.