

**Inter-American Development Bank**  
**MULTILATERAL INVESTMENT FUND**

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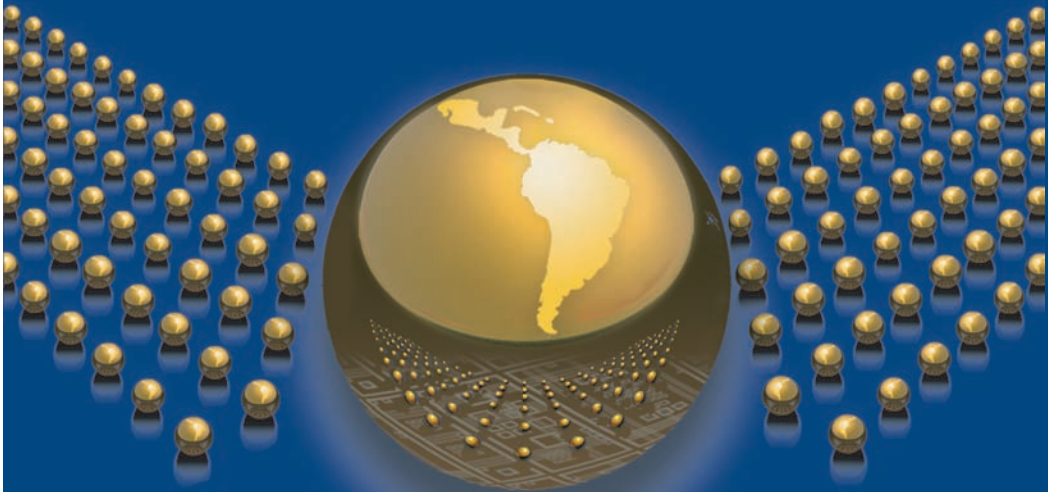
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**REMITTANCES 2007**  
**A BEND IN THE ROAD,  
OR A NEW DIRECTION?**



WASHINGTON, DC  
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# REMITTANCES 2007

**R**emittances to Latin America and the Caribbean (LAC) reached \$66.5 billion in 2007, an increase of 7% over 2006. During a year of economic growth across the region, migrant workers sent home one-third more than net Foreign Direct Investment (FDI), and more than ten times Official Development Assistance (ODA), making 2007 the fifth year in a row that remittance inflows topped the combined sum of FDI and ODA to the region.<sup>1</sup> This is even more impressive when keeping in mind that actual remittances are about 10% higher due to the difficulties of estimating the value of remittances carried across borders by hand.

Remittances to LAC are typically sent \$200/300 at a time, with approximately three-quarters coming from the U.S., but increasing amounts coming from Western Europe as well. In many countries, remittances are essential to lifting millions of families out of poverty, particularly in Mexico, Central America, Bolivia, Ecuador, Haiti and the Dominican Republic. While the majority of these funds are typically used to purchase daily necessities, significant resources remain for savings and/or investment. When combined with access to financial services, remittances can empower transnational families by offering them a broader range of ways to manage their money. Financial access can leverage remittances by not only enabling these families to build income and assets for themselves, but also by playing an important role in developing the communities where they live.

At the national level, remittances represent a significant contribution to the region's economies, comprising 12% of GDP or more in seven countries: Guyana 43%, Haiti 35%, Honduras 25%, Jamaica 18%, El Salvador 18%. Nicaragua 17%, and Guatemala 12%.

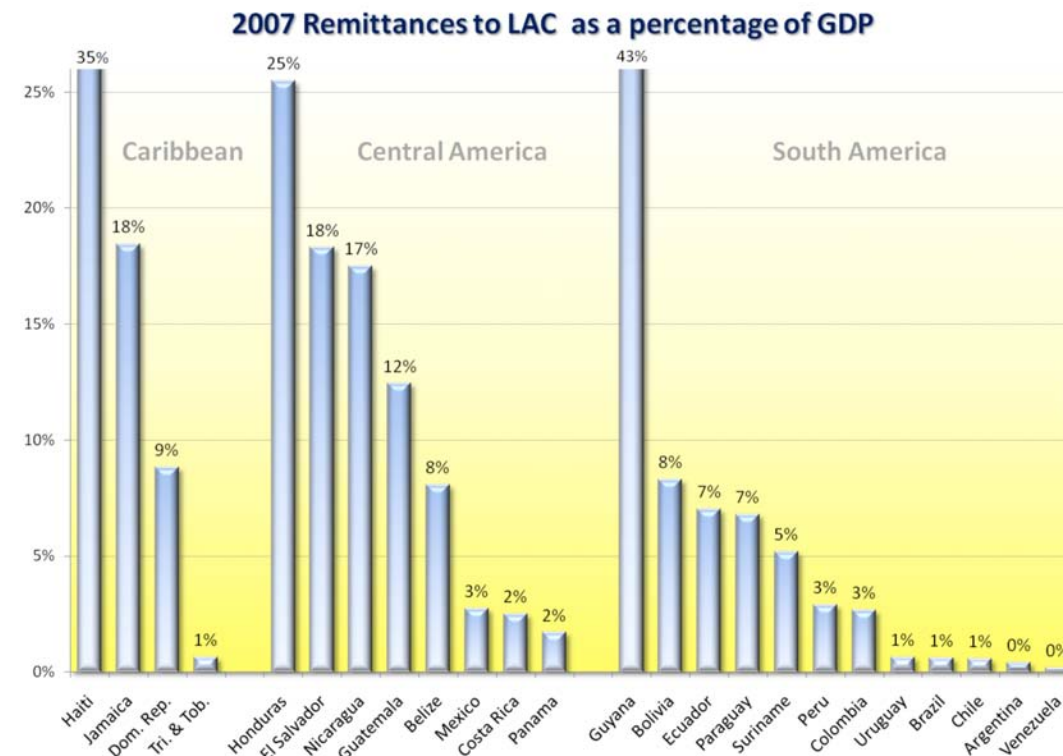
## A bend in the road, or a new direction?

During 2007, remittances to LAC slowed from the double-digit annual increases of recent years because the two largest recipients in the region departed significantly from past trends:

Official remittances to Mexico grew only 1% in 2007 (\$23.9 billion). It would appear that the combination of increased U.S. state and local immigration enforcement activities, coupled with a slowing economy, are having a significant impact on the ability of many migrants to send money home. For example, if remittances to Mexico had grown at the same rate as in recent years, at least 600,000 additional families would have received remittances in 2007. There is, in fact, growing concern that the slowdown in remittances to Mexico may actually be accelerating, as remittances in January of 2008 fell by 6% compared to the same period one year earlier.

1. According to the Institute of International Finance, net FDI to LAC was \$55 billion for 2007. Estimates of net ODA are approximately \$6 billion.

# THE YEAR AHEAD...



In addition, remittances to Brazil became the first to show an annual decrease (of 4%), but for entirely different reasons. With stellar economic growth in recent years, there is now less pressure to move abroad and more opportunity for Brazilians to return home. At the same time, the weakening dollar has lowered the value of remittances sent to Brazil from the U.S., decreasing their contribution to the income of recipient households.

For the remainder of the region, however, remittances grew 11%, with Central American remittances rising to \$12.4 billion, the Caribbean reaching \$8.1 billion, and Andean countries surpassing \$12.4 billion.

## The year ahead...

In the short term, remittances to the region will be carefully scrutinized to determine whether the slowdown is a temporary phenomenon, or the beginning of a trend which would affect the region more severely. The needs of family members back home will

# THE FUNDAMENTALS...

not diminish, however, suggesting that migrant workers will compensate by working longer hours and more jobs, shifting to different sectors, moving to other states, or even to different countries. If the data from Mexico represents the first signs of a regional slowdown, this will have a serious impact on the lives of millions of families throughout the region as well as on the communities where they live.

The depreciation of the dollar has not yet had a major effect on remittances to LAC, with the notable exception of Brazil. The rise in the value of the euro, on the other hand, has resulted in a higher percentage of the region's remittances coming from Europe (principally Spain, Italy, Portugal and the UK), making Europe increasingly attractive for Latin American and Caribbean workers.

## The fundamentals...

In the long term, remittances remain both a consequence of vast global imbalances in development and an increasing demographic necessity for migration receiving countries. Simply put, the need of young people in most developing countries to find jobs is matched by the need in most developed countries for young workers.

Demographic estimates project at least a doubling in the size of the elderly population of the U.S., Western Europe and Japan in the coming years, while the share of younger and working-age populations continues to dwindle. For example, it is expected that there will be a tripling of the size of the Latin American and Caribbean population in the United States, estimated to comprise almost 30% of the population of the U.S. by 2050.<sup>2</sup> Over the next two decades alone, the foreign born share of the U.S. population is expected to reach numbers that haven't been seen in 100 years, and then to surpass them. This pattern is mirrored in many developed economies, and was a driving force behind Spain's move towards migrant workers in order to meet the growing demands of its labor market, and to strengthen the solvency of its social security system. As a result, Spain is the fastest growing market for remittances to LAC, especially to the Andean countries.

As long as economic growth and demographic trends keep the demand for labor strong, so will the incentives to migrate, and the flow of remittances that result. The funds sent home by hard-working Latin American and Caribbean migrant workers worldwide have a significant and beneficial impact on the lives of their families, their communities and the economies of the region. It is the maximizing of this benefit through reducing the cost of remittances, the broadening of recipients' access to the formal financial system, and the leveraging of these important flows that will help transform the LAC's largest poverty reduction program into the region's most effective community development program as well.

2. Pew Research Center. U.S. Propulation Projections: 2005-2050, Feb. 11, 2008.