



## REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN GOALS AND RECOMENDATIONS



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.

Although remittances are primarily intended to meet the basic needs of family members back home, they also generate opportunities for local communities and national economies. Nowhere is this more apparent than in Latin America and the Caribbean (LAC), the fastest growing and highest volume remittance market in the world.

For 2003, LAC remittances reached over US\$ 38 billion, exceeding the combined flows of all Foreign Direct Investment (FDI) and net Official Development Assistance (ODA). Currently, more than 150 million separate transactions are sent each year from all over the world to approximately 20 million LAC families, typically \$200-\$300 at a time, mostly outside the financial system.

And the process is accelerating, driven by the forces of a global economy. Indeed, 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 and dedication of workers from LAC countries which, in turn, are not generating enough jobs and income for their own populations.

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

Remittance flows are now the subject of public discussion and policy consideration; and although progress is being made on several fronts, significant gaps remain:

- The costs of sending remittances are falling, but they remain 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 meeting the needs of transnational families; and few public authorities are creating enabling environments to leverage these flows.

Efforts are needed from all major stakeholders – transnational families, money transfer companies and financial institutions, public authorities, civil society, and international organizations – 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. The resulting “intermediation gap” is reflected in shallow financial markets which help to perpetuate inequality across the Region, particularly in rural areas. 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.

If these efforts are successful, transnational families will have more money available for their own purposes, and they will be empowered with more options in using those resources. In the coming years, IDB will work with a network of participating stakeholders to help reach two goals by 2010:

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

The following Basic Recommendations for the LAC Remittance Market are presented to help organize and focus priorities for this collective effort.

## **BASIC RECOMMENDATIONS FOR REMITTANCE INSTITUTIONS**

### **IMPROVE TRANSPARENCY**

Remittance institutions should disclose in a fully transparent manner, complete information on total costs and transfer conditions, including all commissions and fees, foreign exchange rates applied, and execution time.

### **PROMOTE FAIR COMPETITION AND PRICING**

Remittance institutions should compete on the basis of fair and non-discriminatory contractual arrangements. They should refrain from unfair pricing and the use of high exchange rate margins.

### **APPLY APPROPRIATE TECHNOLOGY**

Remittance institutions should apply cost effective technology and deploy innovative platforms to cut costs, improve speed and security, and create new products. Such systems can also help to reduce money-laundering and other illicit activities.

### **SEEK PARTNERSHIPS AND ALLIANCES**

Remittance institutions should seek partnerships and alliances, including linkages between money transfer companies and financial institutions, in order to leverage capabilities and promote “cash to accounts” services, and other forms of financial intermediation.

### **EXPAND FINANCIAL SERVICES**

Financial institutions should deepen financial markets through inclusive and integrated services for remittance customers, such as current account services, savings, credit, and mortgage products, among others.

## **BASIC RECOMMENDATIONS FOR PUBLIC AUTHORITIES**

### **DO NO HARM**

Public authorities should facilitate remittance markets, and avoid attempts to tax, overregulate or otherwise take actions that impede the flow of remittances.

### **IMPROVE DATA**

Public authorities should improve systems for collecting and reporting remittance market data, and help to develop international standards for measuring such data.

### **ENCOURAGE FINANCIAL INTERMEDIATION**

Public authorities should facilitate the mainstreaming of remittances into financial institutions by improving regulatory and financial sector frameworks.

### **PROMOTE FINANCIAL LITERACY**

Public authorities should raise awareness of the benefits of savings and other financial products, and inform consumers of their rights involving remittance transactions.

## **BASIC RECOMMENDATIONS FOR CIVIL SOCIETY**

### **LEVERAGE DEVELOPMENT IMPACT**

Civil society and private sector organizations should systematically identify obstacles to leveraging the development impact of remittances, and engage with all relevant stakeholders to address and remove such obstacles.

### **SUPPORT SOCIAL AND FINANCIAL INCLUSION**

Civil society and private sector organizations should support the social and financial inclusion of transnational families into their communities, and develop innovative partnerships to promote training and local productive opportunities.

## Definitions

**Remittance institutions/ Market participants:** Financial institutions and non-depository institutions that are regulated and/or authorized to execute cross-border payment transactions and are engaged in the remittances industry either on the sending and/or the receiving side.

Financial institutions include banks, savings banks, credit cooperatives, microfinance institutions and other institutions that are authorized to collect funds from the public and place them in financial assets.

Non-depository institutions include money transfer companies and other institutions that have a license to transfer money from senders to receivers.

**Sender/remitter:** the natural or legal person giving a payment instruction to the remitting/originating institution.

**Receiver/beneficiary:** the final customer due to receive or receiving the credit transfer. The receiver/beneficiary in this context is generally a natural person.

**Public authorities:**

Governments, local authorities and national and international regulators that have an impact on stabilizing the financial sector, sustaining public confidence, or implementing monetary policy and thereby have an impact on the functioning of the financial sector.

**Civil Society:** civil society includes trade unions, home town associations and other non governmental organizations (NGOSs).

***LAC Remittance Market  
Advisory Committee  
(Alphabetical order)***

1. Acción International (Microfinance Network, USA)
2. Banco Bolivariano (*Ecuador*)
3. Banco Caja Social (*Colombia*)
4. Banco de Crédito del Perú
5. Banco Solidario (*Ecuador*)
6. Banco del Ahorro Nacional y Servicios Financieros, BANSEFI, (*Mexico*)
7. Banco ITAU (*Brazil*)
8. Banco Hipotecario Dominicano – BHD (*Dominican Republic*)
9. BPA Bank (*Portugal*)
10. La Caixa (*Spain*), Chair
11. Confederación Española de Cajas de Ahorro - CECA (*Spain*)
12. Inter-American Dialogue (*USA*)
13. Internationale Micro Investitionen (*Microfinance Investment Company, Germany*)
14. Microfinance International Corporation (*USA*)
15. Remesas Quisqueyana Inc. (*Money Transfer Organization*)
16. Viaméricas (*Money Transfer Organization*)
17. Vigo Remittance Corporation (*USA*)
18. Visa Internacional (*Payment Card*)
19. Western Union (*Money Transfer Organization*)
20. Woman’s World Banking (*Microfinance Network, USA*)
21. World Council of Credit Unions (*WOCCU, USA*)
22. World Savings Banks Institute (*WSBI, Brussels*)