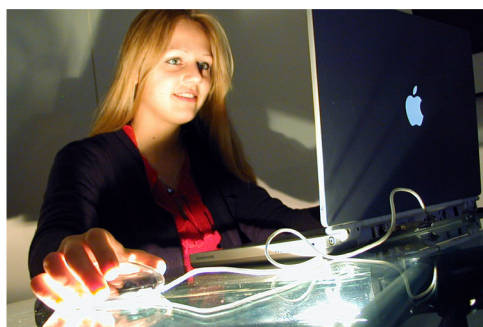


Remittances to Latin America and the Caribbean: Money, Markets and Costs



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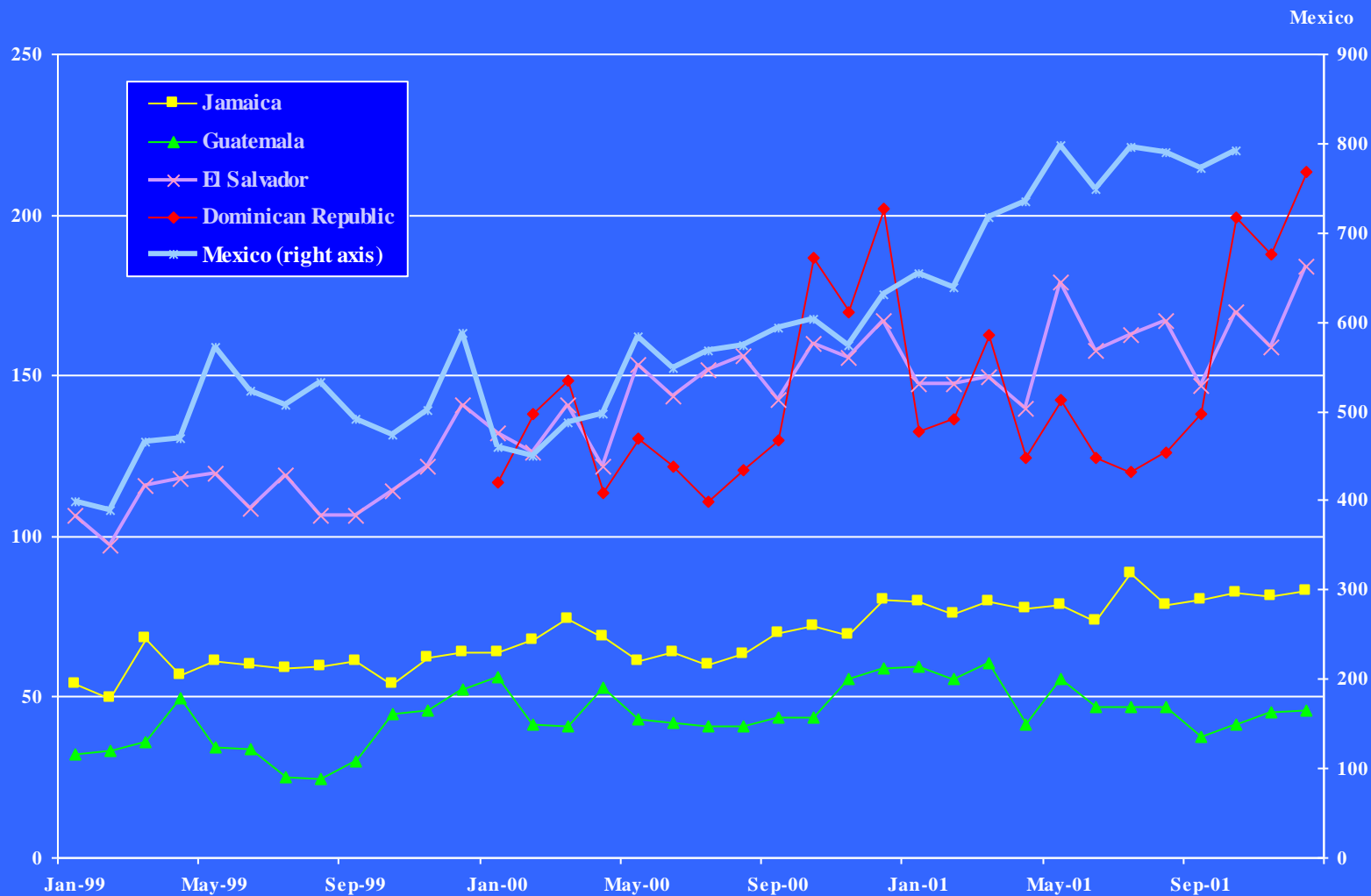
Manuel Orozco,
Project Director, Central America
Inter-American Dialogue

Remittances to Latin America and the Caribbean in 2001*

Country	Remittance S (US\$millions)	As % of GDP	As % of Exports
Mexico	\$9,273	1.7	6.5
Brazil	\$2,600	0.4	4.0
El Salvador	\$1,920	17	60
Dominican Republic	\$1,807	10	27
Ecuador	\$1,400	9	20
Jamaica	\$959	15	30
Cuba	\$930	5	40
Peru	\$905	1.7	10.6
Haiti	\$810	24.5	150
Colombia	\$670	0.75	2.4
Nicaragua	\$610	22	80
Guatemala	\$584	3.1	16
Honduras	\$460	7.5	17
Bolivia	\$103	1.25	6.71

*Information for Mexico, Central America, and the Caribbean are provided by the countries' Central Banks. Statistics for South American countries (Colombia, Ecuador, Bolivia and Brazil), are likely to be undercounted.

Monthly remittances, January 1999-December 2001 (U.S. million)



A major economic change in Latin America:

Integration into global economy through labor migration

- Remittances
- Trade and Tourism
- Donations (Hometown Associations)
- Investment in small businesses

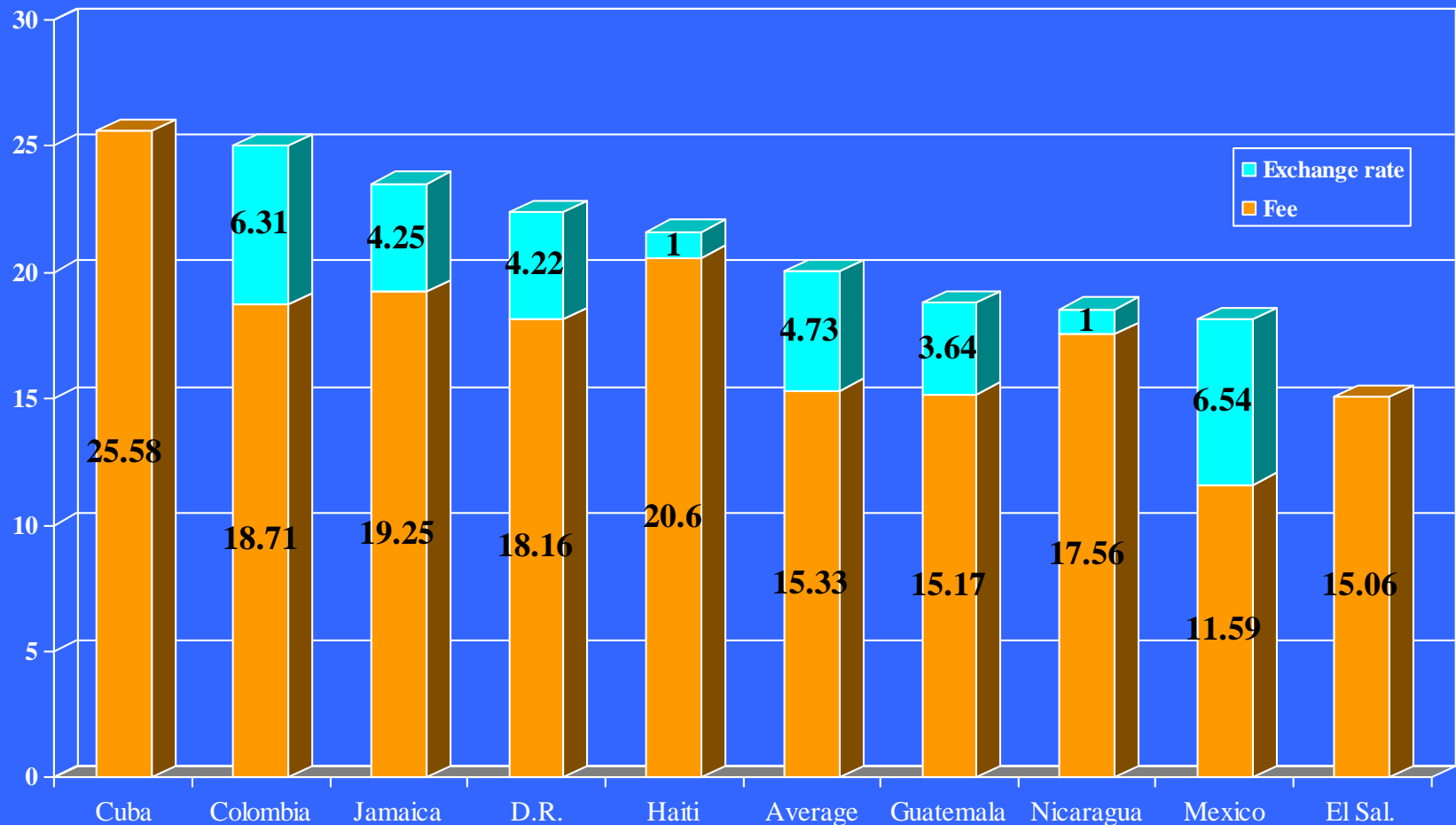
Remittance Companies

- Over 70 remittance companies studied;
- Analysis looked at:
 - prices,
 - exchange rates,
 - transfer methods,
 - market share,
 - services offered,
 - type of currency sent,
 - kind of money transfer actor,
 - extent of community outreach;
- Focus on \$150, \$200, + \$300 transactions;
- Multiplying effect of remittances was considered;
- Four countries studied in depth: Dominican Republic, El Salvador, Guatemala, Jamaica.

Transaction Costs

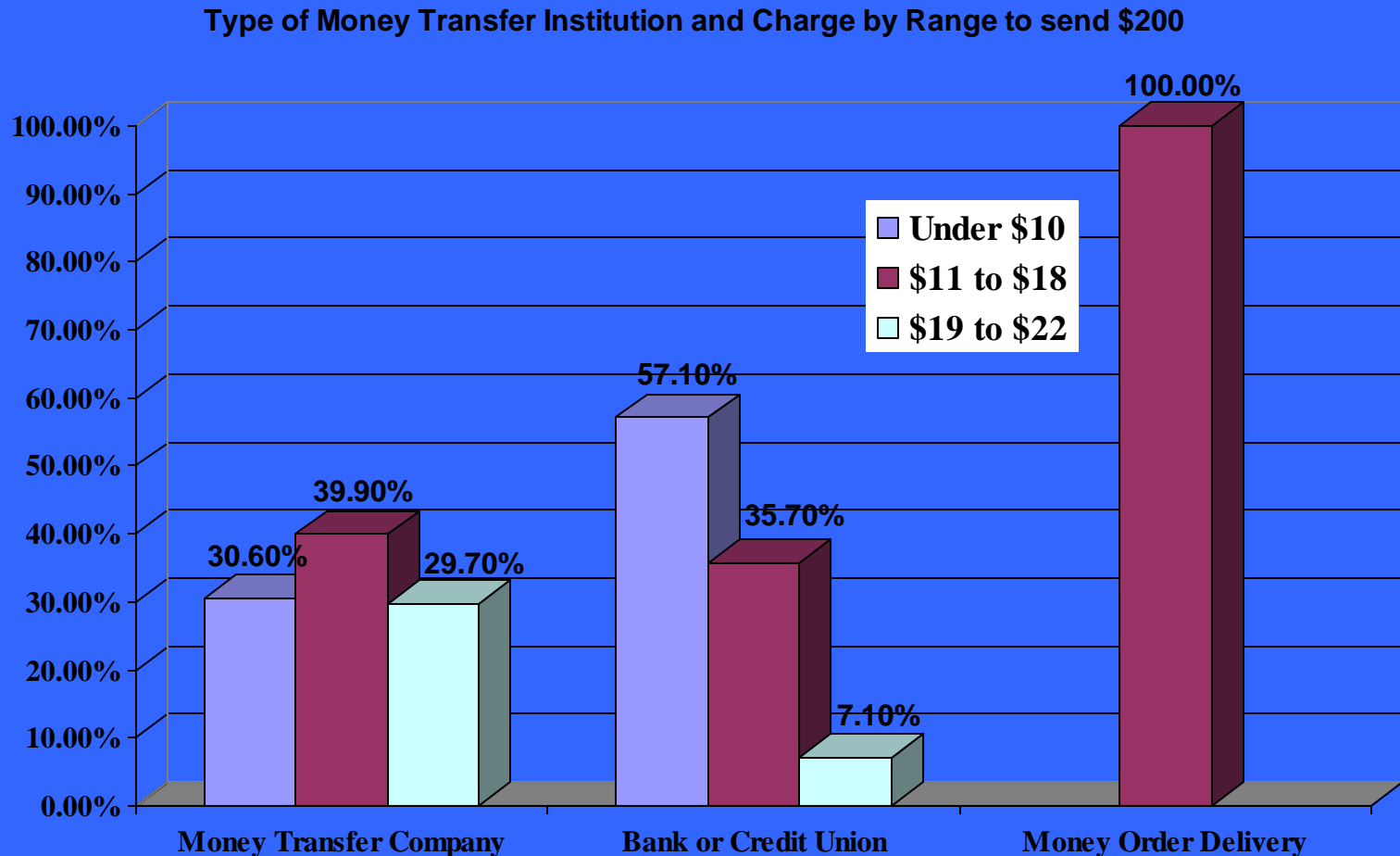
- Charges have declined significantly over the past 2 years, yet still remain relatively high.
- Transfer costs incurred by customers range from \$7 to \$26.
- Fee charges decrease with competition.
- Banks and credit unions are opening money transfer franchises offering some of the lowest charges, but these institutions continue to have a small and limited reach.
- A growing number of companies offer money transfers in dollars.

Average transfer fee and exchange rate commission to send \$200



* Does not account for additional costs such as: Cash checking fees and additional commissions levied in the recipient country

Type of Money Transfer Institution and Charge by Range to send \$200



Promoting a Favorable Money Transfer Environment

A favorable enabling environment is one that facilitates economic interaction among all parties concerned. Five factors that improve a particular economic environment are:

- Participation of a significant number of economic players;
- Communication and networking efforts;
- Easily available information about transactions;
- Policy, business initiatives, and ventures; and
- Resource availability to enhance initiatives and motivate players.

Current Enabling Environments

- No major obstacles for migrants exist to transfer resources (remittances, donations, or investments), or for companies to engage with their Diaspora;
- There exist few initiatives to increase and enhance the quantity, range, and value of flows;
- There is need for outreach and marketing to migrants;
- In most countries, there are no outreach strategies in place;
- Private sector initiatives are in the early stages and involve few players.

Enabling Environments Compared

Factors Countries	Actors	Communication	Information	Resources
Guatemala	Very few	Very Limited	Very limited	Very limited
El Salvador	Small & Growing	Expanding	Expanding	Limited
Dom. Rep.	Few	Limited	Limited	Very limited
Jamaica	Few	Limited	Limited	Very limited
Mexico	Multiple	Extended	Almost widespread	Increasing

Recommendations

- Better integrate migrants and money recipients into formal banking institutions; improve networks between formal financial institutions across borders
- Create a remittance oversight board in the U.S.;
- Establish a customer rights office in Latin American countries and the U.S.;
- Create a Latin American task force on remittances and development;
- Improve money transfer companies liaison with banks and credit unions;
- Expand debit card use and motivate recipients to open dollar accounts;
- Expanded role for Latin American and U.S. civil society organizations

The multiplying effect of remittances: consumption, savings, and investment

1. Reducing transfer costs to \$7.00, that is 50% of current charges, can increase the flow of remittances from 7 to 10%, resulting with an increase in foreign currency equivalent to 0.5% to 4% of a country's GDP.
2. Incentives on money recipients increase the national savings rate : Targeting 10% of money recipients as new bank customers opening dollar savings accounts can produce new lines of credits.
3. Micro-finance and investment. Senders and recipients dedicate 1% of their remittances in some small business activity.
4. Hometown associations. Working in tandem with international organizations, private sector and governments, hometown associations can increase the worth value of their development projects.
5. Strategic trade alliances. At least one in ten migrants do business with their home country. That means that a trade alliance can increase commerce between the U.S. and the home country.

Effects and Benefits of an Improved Money Transfer Process

	5% increase in remittances	Credits offered from savings of 10% of recipients who open dollar bank accounts	Micro-finance opportunities	HTAs	Strategic alliances
El Salvador	\$98,600,000.000	\$2M (20,000 customers saving \$100)	\$3M	\$3M + \$1M matching	\$5M investments
Guatemala	\$29,215,000.000			\$3M + \$1M matching	\$5M investments
Nicaragua	\$30,000,000.000			\$3M + \$1M matching	\$5M investments
Honduras	\$30,000,000.000			\$3M + \$1M matching	\$5M investments
Dominicana	\$90,350,000.000			\$5M + \$1M matching	\$5M investments
Jamaica	\$47,960,000.000			\$5M + \$1M matching	\$5M investments



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