Remittances, 2006

The remittance market has changed dramatically over the past few years. Once "hidden in plain view," remittances are now 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 official development assistance. And, while international capital flows have fluctuated with market cycles, remittances have steadily increased, even during economic recession.

For 2006, remittances to LAC reached US$62.3 billion (14% over 2005), making the region the largest remittance market in the world. This amount exceeded, for the fourth consecutive year, the combined flows of all net Foreign Direct Investment (FDI) and Official Development Assistance (ODA) to the region[1]
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 remittance information.

Mexico remains the largest recipient of remittances, at over US$23 billion, followed by Brazil and Colombia which reached over US$7 and US$4 billion respectively. Central America and the Dominican Republic combined to reach over US$13 billion; the Andean countries totaled almost US$11 billion; and the Caribbean, $4.5 billion.

It is currently estimated that over 20 million LAC-born adults send money home on a regular basis – typically $200-$300 a month – resulting in more than 250 million separate financial transactions a year[2].

Over the past six years, transaction costs have been reduced from 15% to just above 5%, as Latin America has moved from being one of the most expensive remittance markets in the world to being one of the least expensive.

About 75% of LAC remittances are sent from the United States (US$45 billion); while remittances from Western Europe, particularly, Spain, Italy, Portugal, and the United Kingdom now account for almost 15% of the market (US$9 billion). Other large flows come from Japan to Brazil and Peru; and Canada to Jamaica and Haiti — intraregional flows account for the rest.

[1] According to the Institute of International Finance, net FDI to LAC is estimated at $45.9 billion for 2006. Estimates of net ODA are approximately $6 billion.

[2] Some remittance senders send to more than one household.

Remittance Market Myths & Facts

Do remittances reduce poverty?

Yes. Remittances are cash income delivered directly to family members, and, while the income level of remittance recipients varies depending on the country, most are poor. For an estimated 8-10 million families in LAC, funds from relatives abroad serve to provide food, shelter, and other basic necessities.

Without remittance income, these families would otherwise fall below the poverty line. For them, remittances effectively alleviate poverty and are critically needed.

Are remittances a development tool?

They can be. The fact that Latin America and the Caribbean is the largest remittance market in the world means, unfortunately, that domestic economies are not generating enough jobs. While there is no single "panacea" for development, it is nevertheless clear that remittances already constitute an important source of savings and investment. Poor people will save and invest if given the opportunity, and about 20-25% of remittances are available for uses other than consumption.

A MIF survey documented that remittance recipients are very interested in purchasing financial products such as small business loans, life and health insurance, home mortgages, and educational loans, if they are made available.

How can remittances be leveraged? Aren't they usually a cash-to-cash transfer?

Until recently, a common assumption has been that because remittances are generally cash-to-cash transfers outside the financial system, most remittances are distributed through a retail store or money transmitter licensee such as a bodega. This assumption is wrong. The majority of remittances are distributed at some point through a bank, cooperative, credit union, microfinance or other type of deposit institution.

Unfortunately, only a very small percentage of remittances are transferred directly into a deposit account because in the vast majority of instances where banks are distributing remittances, they serve merely as an agent for a money transfer company. The challenge ahead is for financial institutions to make a major commitment to substantially increase direct deposit for the remittance market.

Remittance Market Myths & Facts

Can remittances cause inflation?

Remittances are a cash inflow into a national economy just like any other. As such, they can contribute to inflationary pressures. However, this negative impact is relatively small compared to the positive benefits of increased foreign currency reserves and the countercylality, and, in any case, it can be managed

Will remittances continue to increase?

In the short to medium-term, yes, because, at their core, remittances are a manifestation of vast global imbalances in development, demographics, and labor markets.

Why do people migrate? Jobs.

What do they do when they get to their destinations? Work.

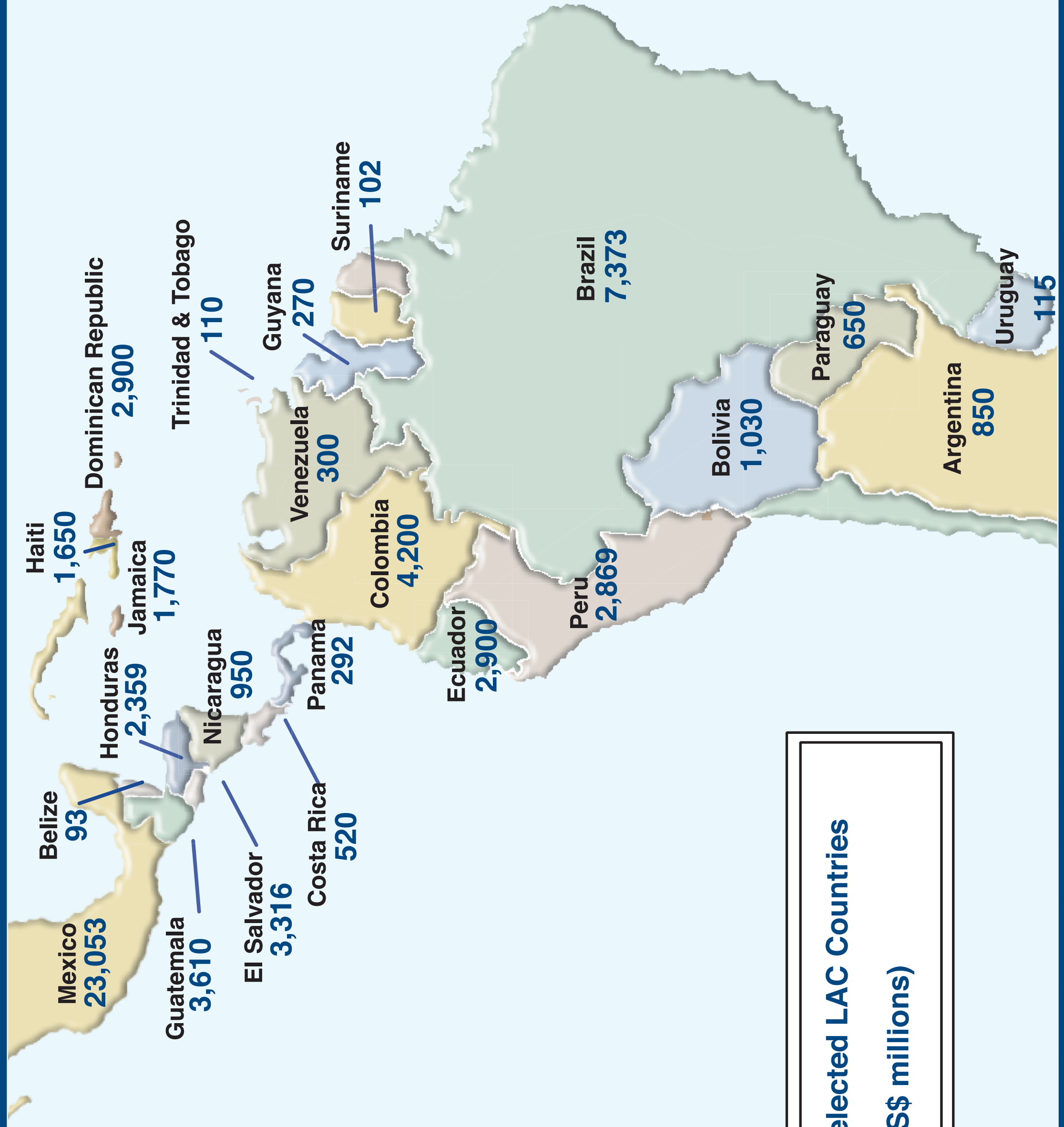
For generations, immigrants have been migrating from rural to urban areas in search of better opportunities for work. That dynamic has not changed. However, as a result of globalization and facilitated international travel, people from economically depressed areas can now skip over the urban areas in their own countries to fill higher-paying labor needs in the developed world. As long as developed economies, such as the United States and Western Europe, need migrant labor and unemployment in developing countries remains high and wages remain low, migration, and thus, remittances, will increase.

A recent MIF survey of remittance senders in the United States illustrates this dynamic:
More than half of remittance senders in the United States were not regularly employed before departing for the North, and those that had jobs earned very little. After arriving in the U.S., more than half became employed within a month, at an average monthly income of US$900.

Looking Forward

Even though the topic of remittances is enjoying a day in the sun, the people who send and receive these funds too often remain in the shadows. Deep seated cultural, historical, and regulatory challenges need to be overcome in order to foster financial inclusion and put these families on a pathway to credit. Toward this end, the MIF is working with a wide variety of institutions and organizations, both public and private, in developed and developing countries to help make the needed changes a reality.

We now know how to count remittances. The time has come for the people who send and receive them to also count.



Remittances by Selected LAC Countries
2006 (US$ millions)

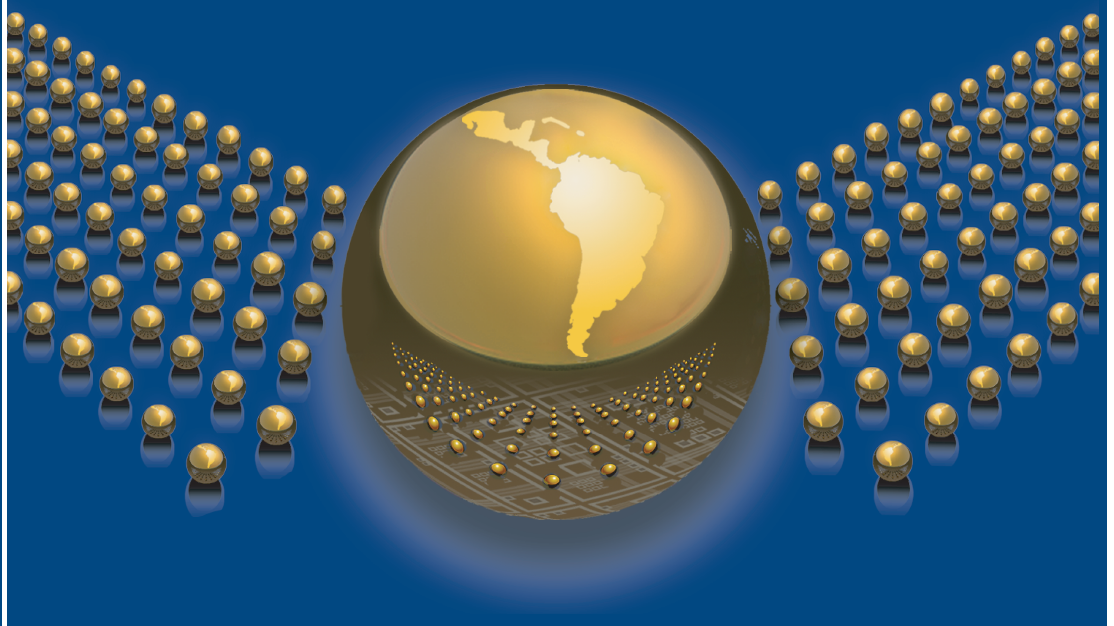
INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

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

www.MigrantRemittances.org

Inter-American Development Bank
Multilateral Investment Fund

REMITTANCES 2006
The Development Impact of Remittances



Washington, DC

March 2007