Remittances are an important part of the globalization process: Immigrants leaving home to work in developed countries and sending money back home.

No where is this more important than Latin America and the Caribbean where unemployment has been rising, personal incomes falling and investment drying up.

This conference today will focus on three important issues related to LAC remittances:

1. Size and the growth rate of the LAC remittance market.
2. An international comparison of cost for sending remittances to countries outside LAC.
3. How to improve the economic leverage of remittances, once received.

First some facts. Last year, $ 32 billion in remittances was sent from all over the world to LAC, an increase of 17.6%.

The cost of sending those remittances was approximately $ 4 billion.

In an age of electronic transfer of funds worldwide, any economist or financial expert would characterize such high transaction costs to send remittances as “inefficient.” But I would characterize such fees in much stronger terms.

Why are these costs so high? That answer is simple: it is because a very small percentage of the $ 32 billion in remittances was sent to LAC through financial institutions.

But the much harder question is, why don’t Latinos use the most efficient, and the least costly way to send remittances back home? The answer to that question is much more complicated.

It starts with the fact that the financial system in Latin America does not work for most people. This is a major problem which we are working on at the IDB.

This means that when Latinos emigrate to the United States, they are coming from a society which is typically not comfortable with financial institutions. That is why only half of Latino immigrants to the United States are currently members of financial institutions.

But that is also only part of the answer, because even when Latinos are members of financial institutions, they do not usually use them to send remittances.
This conference will directly address many of the issues of access to U.S. financial institution by recent immigrants from Latin America with a groundbreaking study by Sheila Bair of the University of Massachusetts.

But I want to point out that there are several positive indications that attitudes and practices are changing and that progress is being made on this issue worldwide. Some of the people involved in these changes are here today to share their experiences.

For example, in Japan, three Brazilian banks now compete for the $2.5 billion remittance market, resulting in substantial reduction in fees for electronic transfers. In Spain, several Cajas de Ahorro and La Caixa are developing relationships with Latin American financial institutions, which are also cutting costs and improving development impact.

And in the United States, banks and credit unions, not only from California and Texas, but from all over the country are starting to go after the major Latino market, with a special emphasis on the $25 billion remittances flow to LAC.

I also want to mention the transforming effect that linking remittances with microfinance institutions could have in Latin America. If just 5% of the remittance market could be processed through microfinance institutions, this would substantially increase financing available to the small entrepreneurs of LAC.

I look forward to the day when Latin Americans, living and working anywhere in the world, will have the opportunity to send their remittances home in the same manner that every person attending this conference would use, that is, through an electronic transfer system.

This issue is more than just cost. From a development perspective, formal financial institutions are clearly the preferred option. Only banks, credit unions, and other depository institutions can offer opportunities for savings accounts, checking accounts and various forms of low-cost credit to LAC immigrants.

Only banks, credit unions, and regulated microfinance institutions in recipient countries can leverage the economic impact of remittances, once received.

It is for this reason, that the IDB is actively engaged in helping to build a network of financial institutions in LAC countries which can link up with financial institutions and both, lower transaction costs and increase the development impact of remittances.

I want to leave you with this thought: If remittances continue to grow at the relatively slow rate of 7%, aggregate remittances to LAC for the current decade (2001-2010) will exceed $400 billion.

Remittances sent from working people, $200 and $300 at a time, across national borders, continents, and oceans will likely exceed all foreign direct investment (FDI) and development assistances (ODA) combined to Latin America over the next few years.

That is the level of importance of remittances to Latin America and the Caribbean, and that is why today’s conference is being held.