Sending Money Home

Leveraging the Development Impact of Remittances

Inter-American Development Bank
Multilateral Investment Fund

MIF
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INTRODUCTION

The Inter-American Development Bank's Multilateral Investment Fund began to intensively analyze the volume, transaction costs, and development potential of international remittances to Latin America and the Caribbean in 2000. At that time, the phenomenon was literally "hidden in plain view," the subject of errors and omissions columns in international financial reports.

A great deal has happened since that time. MIF programs to improve remittance data collection, increase competition and reduce costs in the remittance industry, and explore the development impact of remittances have borne fruit. Today, we know that:

- Remittances sent to Latin America and the Caribbean from all parts of the world are expected to be more than $60 billion in 2006, surpassing both the amount of official development assistance and foreign direct investment to the region;
- Money transfer costs have been reduced by over 50 percent;
- Remittances constitute one of the broadest and most effective poverty alleviation programs in the world, reaching approximately 20 million households in the LAC region alone.

The challenge now is to help leverage the economic development impact of remittances. For this reason, the MIF recently commissioned a comprehensive survey of remittance senders and receivers to focus on the development potential of these flows.[1] This survey also updates information gathered in 2001 and 2004, which analyzed the characteristics of remittance senders and receivers and studied remittance markets between the United States and Latin America and the Caribbean.

This latest survey includes data not previously available on transnational families, labor markets, the banking practices of immigrants, their investment potential, and the financial products they are most interested in receiving. While remittances are clearly far from reaching their full potential as an investment tool, the recent survey shows the

[1] MIF commissioned Bendixen and Associates, one of the leading independent polling and research firms in the United States, to conduct the surveys. Bendixen and Associates interviewed 2,511 Latin American immigrants in 2006 by telephone in Spanish with a margin of error of two percentage points. Additional information was obtained from focus groups of LAC transnational families. The remittance senders lived in New York City, Los Angeles and Miami. The recipients lived in Mexico, Colombia, El Salvador, Guatemala, Ecuador, the Dominican Republic, Jamaica and Haiti.

international migrant community is becoming increasingly aware of the potential of structuring the transfer of funds to achieve more effective economic results. Remittance senders are making greater use of the formal financial system, lowering costs and multiplying financial benefits.

But, much more needs to be done to leverage these resources, and, particularly, to provide transnational families with access to the financial system and more options to use their funds. Despite the unprecedented levels of interest in remittances, a variety of historical, legal, regulatory, and cultural obstacles continue to prevent the financial sector from successfully integrating remittance senders and receivers.

REMITTANCES, LABOR MARKETS, AND REALITY

Why do immigrants migrate? Jobs. What do they do when they get to their destinations? Work.

The basic economic principle of remittance flows in the Americas and throughout the world is quite simple: developed countries need migrant labor, and families back home need the money that comes from their earnings. Each year migrants leave their villages and hometowns to seek jobs and better lives for themselves and their families. The equation over the years has not changed: people move “North” by the millions and money moves “South” by the billions.

The process is profoundly entrepreneurial. Workers in Latin America and the Caribbean, particularly in rural areas, bypass cities in their own countries when moving abroad.

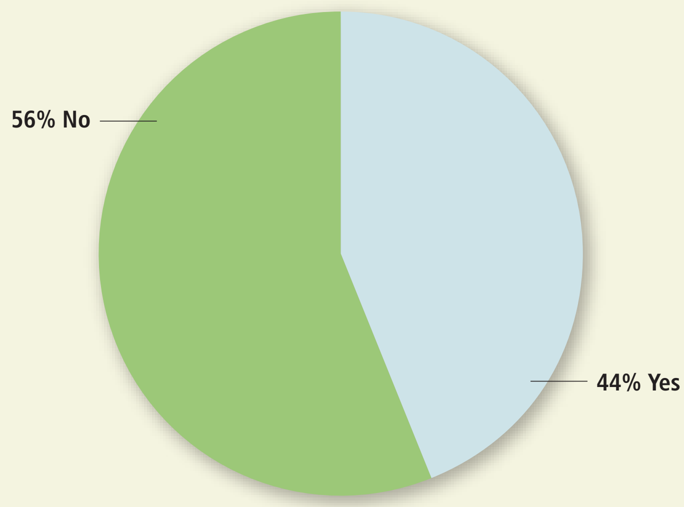
A commitment to family values is the driving force of the remittance flows linking these transnational families that live in two countries and contribute to two economies and two cultures at the same time.

Migrants have become an integral part of the labor market not only in the United States, but also in many other countries around the world. Recent studies indicate that employment in about one-third of all U.S. job categories would have contracted during the 1990s in the absence of recently arrived, noncitizen immigrant workers.[2] Immigrants currently play a vital role in important sectors of the U.S. economy including 23 percent of production workers and 20 percent of service workers.[3]

The MIF survey provides new information and insight regarding the relationship between the labor markets of the U.S. and LAC: high unemployment exists in LAC and migrant workers are needed in the United States.

The study found that more than half of Latin American remittance senders in the United States were unemployed before departing for the North. Those that were employed earned very little.

DID YOU HAVE A FULL-TIME JOB IN LATIN AMERICA IN THE YEAR BEFORE YOU CAME TO THE UNITED STATES?

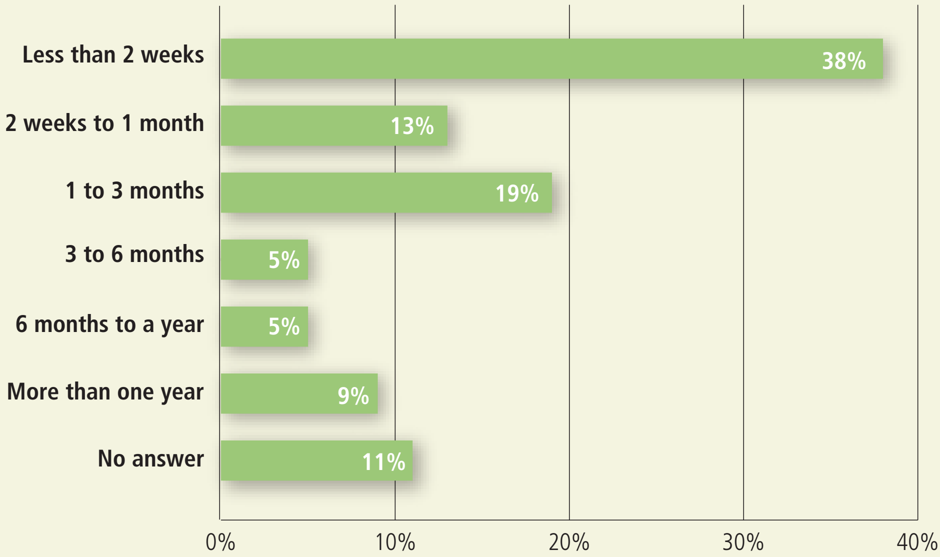


After arriving in the U.S., more than half became employed within a month and the average monthly salary of their job in the United States was $900, six times more than they were earning in their country of origin.

[2] Paral, Robert, "*Essential Workers: Immigrants Are a Needed Supplement to the Native-Born Labor Force*." www.ailf.org/ipc/essentialworkersprint.asp

[3] Bureau of Labor Statistics, Economic News Release: "*Labor Force Characteristics of Foreign-Born Workers in 2003*," December 1, 2004.

WHEN YOU FIRST CAME TO THE U.S., HOW LONG DID IT TAKE YOU TO FIND WORK?



The contrasting availability of jobs, and the disparity in wages between the North and South, illustrate the powerful economic forces that contribute to a migrant's decision to take the difficult step to leave home in search of a better life.

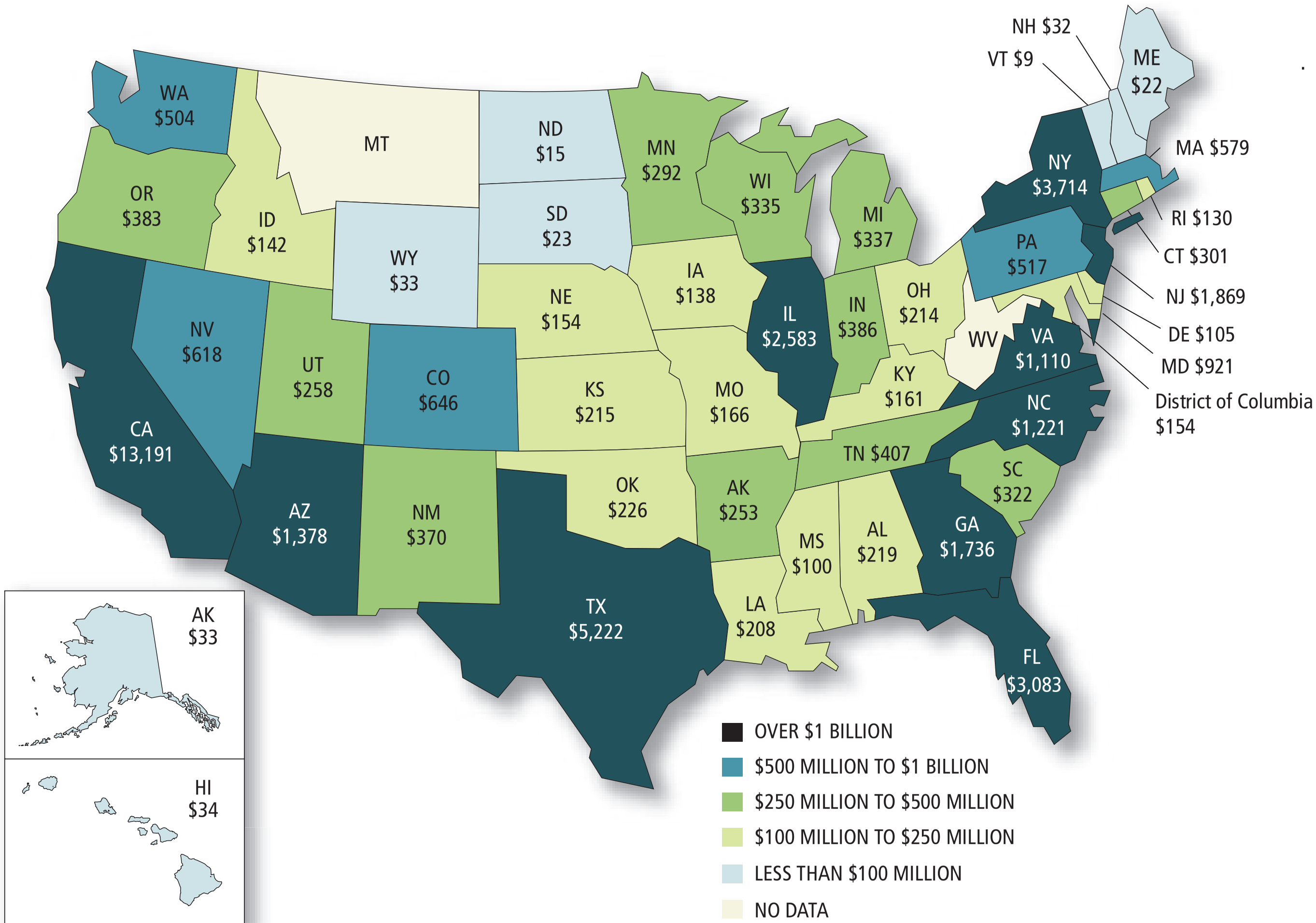
PROFILE OF REMITTANCES: UNITED STATES TO LATIN AMERICA

The study estimates that 12.6 million Latin American immigrants in the United States will send home approximately $45 billion in remittances in 2006. This is a substantial increase over 2004, due to the fact that more immigrants are sending remittances, and they are sending more money each time.

Over the last two years, the percentage of Latin American immigrants sending money home on a regular basis to their relatives has increased from 61 percent to 73 percent. In that same period, the average amount of each remittance sent has also increased from $240 to $300.

Immigrants in the United States now also have more purchasing power: total income for Latin American immigrants is estimated at more than $500 billion. While almost 10 percent of these earnings are sent home to their families, more than 90 percent is spent in the states and towns where they live, directly contributing to local economies.

REMITTANCES TO LATIN AMERICA FROM THE U.S.—2006 (in US$ millions)



REMITTANCES 2006: UNITED STATES TO LATIN AMERICA
(estimated $ in millions)

State	LAC-Born Adults	% That Send Regularly	Remittances	% Increase since 2004	Contribution to Local Economy
California	5,829,226	63%	13,191	37%	133,365
Texas	2,832,784	47%	5,222	64%	52,792
New York	1,444,224	77%	3,714	4%	37,547
Florida	1,370,345	70%	3,083	26%	31,171
Illinois	935,656	73%	2,583	69%	26,110
New Jersey	712,207	79%	1,869	36%	18,898
Georgia	465,786	85%	1,736	83%	17,555
Arizona	701,863	57%	1,378	127%	13,930
North Carolina	376,272	84%	1,221	47%	12,340
Virginia	318,436	88%	1,110	89%	11,219
Maryland	264,193	88%	921	84%	9,308
Colorado	328,960	57%	646	19%	6,529
Nevada	314,722	57%	618	38%	6,246
Massachusetts	307,158	74%	579	10%	5,849
Pennsylvania	148,452	88%	517	187%	5,230
Washington	233,272	70%	504	43%	5,092
Tennessee	140,611	78%	407	151%	4,113
Indiana	147,652	68%	386	103%	3,906
Oregon	177,190	70%	383	75%	3,868
New Mexico	188,698	57%	370	260%	3,745
Michigan	125,709	71%	337	75%	3,404
Wisconsin	125,174	71%	335	121%	3,389
South Carolina	111,211	78%	322	117%	3,253
Connecticut	159,753	74%	301	133%	3,042
Minnesota	108,912	71%	292	98%	2,949
Utah	131,650	57%	258	58%	2,613
Arkansas	87,573	78%	253	122%	2,562
Oklahoma	115,340	57%	226	45%	2,289
Alabama	75,654	78%	219	47%	2,213
Kansas	81,999	68%	215	128%	2,169
Ohio	79,881	71%	214	98%	2,163
Louisiana	71,861	78%	208	241%	2,102
Missouri	63,392	68%	166	58%	1,677
Kentucky	55,501	78%	161	203%	1,623
D.C.	44,148	88%	154	64%	1,555
Nebraska	58,748	68%	154	92%	1,554
Idaho	65,752	70%	142	48%	1,435
Iowa	52,690	68%	138	100%	1,394
Rhode Island	69,279	74%	130	n/a	1,319
Delaware	30,240	88%	105	n/a	1,065
Mississippi	34,428	78%	100	n/a	1,007
Hawaii	15,974	70%	34	n/a	349
Wyoming	15,244	70%	33	n/a	333
Alaska	15,184	70%	33	n/a	331
New Hampshire	16,998	74%	32	n/a	324
South Dakota	8,795	68%	23	n/a	233
Maine	11,530	74%	22	n/a	220
North Dakota	5,821	68%	15	n/a	154
Vermont	4,969	74%	9	n/a	95
Total 48 States and D.C.	**17,228,349**	**73%**	**45,276**	**51%**	**457,746**

No data are available for West Virginia and Montana.

For example, in Texas, $5.2 billion in remittances equates to a contribution of more than $50 billion to the local economy. In Georgia, a state with more recent immigration, $1.7 billion in remittances reflects an impact on the local economy of more than $17 billion. In Virginia, a total of $1.1 billion in money transfers means an influx of more than $11 billion into the local economy.

Remittances from the seven major “traditional sending” states (California, Texas, New York, Florida, Illinois, Arizona, and New Jersey) generally continue to show large increases, now totaling over $30 billion annually. California is the leading state, now reaching over $13 billion in remittances.

However, the data trend lines also demonstrate dramatic changes in migration patterns across the United States. From the Southeast to the Mid-Atlantic and New England; from the Midwest to the Mountain States and Northwest; there are substantial remittance flows coming from “new migration” states. This provides further confirmation that immigrants are no longer simply moving to traditional “magnet” communities tied to their country of origin. Instead, workers are migrating to wherever the jobs are.

The next five states—Colorado, Nevada, Massachusetts, Pennsylvania, and Washington—all send more than $500 million each, followed by Tennessee, Indiana, Oregon, New Mexico, Michigan, Wisconsin, South Carolina, and Connecticut, each of which sends over $300 million.

Immigrants from the next 16 states and the District of Columbia send home between $100 million and $300 million annually, and the final eight send lesser amounts. All told, 40 states and the District of Columbia now send more than $100 million annually. No data are available for Montana and West Virginia.

One state, Louisiana, is expected to experience a nearly 250 percent increase to $208 million in 2006 from $61 million in 2004, largely as a result of an influx of reconstruction workers in the wake of Hurricane Katrina. This example typifies the need for migrant workers in the U.S. economy.

The Mid-Atlantic region (Virginia, District of Columbia, Maryland, Pennsylvania and Delaware) leads the nation in the percentage of immigrant adults sending remittances regularly (88 percent), followed closely by Georgia (85 percent) and North Carolina (84 percent).

DEMOGRAPHICS OF REMITTANCE SENDERS

The median age of frequent remittance senders in the United States has decreased over the last five years. Fifty-four percent of the senders were younger than 35 years old in 2006 compared to 48 percent in 2001. Nevertheless, the percentage of older immigrant remittance senders who have been in the United States for 10 years or more remains substantial. Migrants from Mexico and Central America who send remittances are significantly younger than remittance senders from other Latin American countries. More than three-fifths of remittance senders can be considered "working poor" or "lower middle class," with annual incomes of less than $30,000. Yet, based on focus groups convened for this study, remittance senders remain optimistic about their economic futures.

FINANCIAL DEMOCRACY

A pressing issue going forward is how to give more remittance recipients and their families access to the financial system in order to provide them increased options to use their money. While the survey shows that the use of a bank or credit union to send remittances has increased from 8 percent of senders to 19 percent, most immigrants in the United States still feel disenfranchised from the banking system as a result of legal and regulatory hurdles, cultural factors, and a lack of appropriate products.[4]

Lack of access to financial products is not only a problem in the United States. Perhaps the most surprising and provocative indicator revealed by a recent MIF scorecard on the remittance industry deals with the distribution network of remittances throughout Latin America.[5] Until now, 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.

According to the scorecard data, the majority of remittances to LAC, 54 percent, are distributed through a bank or other type of financial institution. Unfortunately, only a very small percentage of remittances transferred through the financial system are currently going into bank accounts.

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[4] For more information see MIF/IDB/Stookey, "*Financial Services Segregation: Improving Access to Financial Services for Recent Latino Immigrants*", June 2006, available at www.migrantremittances.org.
[5] *Sending Money Home: A Scorecard of the Industry*. MIF/IDB, May 2006, available at www.migrant remittances.org.

The reality is that in the vast majority of instances where banks are distributing remittances, they basically serve as a licensed distribution agent for a money transfer organization. Indeed, remittance operations are kept separate from other bank operations—sometimes even physically separate from the teller line available to account holders. By contrast, cooperatives, credit unions, popular banks, and microfinance institutions have a better record of channeling remittances into accounts—although there is still significant room for improvement. As a result, there continues to be a missed opportunity to put millions of LAC families on a pathway to credit.

In effect, banks are essentially acting as bodegas, neighborhood stores. Month after month across LAC, about 10 million families pick up their remittances at a bank branch office, where generally insufficient effort is made to convert these remittance clients into deposit account holders. This is due to a perceived lack of profitability of these clients, a deficiency of products, legal and regulatory obstacles, a poor commitment by management to serve the region's majority, and cultural assumptions about the poor.

It does not have to be this way. In those instances where a concerted effort has been made to turn remittance customers into deposit holders, programs report a 30 percent success rate. If banks seriously developed the remittance recipient market, and conversion programs were implemented regionwide, such an effort could easily result in more than 3 million new clients and $1 billion in deposits year after year.

The challenge, going forward, is for institutions to make a commitment to the remittance deposit market. The demand is there. When the legal, regulatory, and cultural obstacles are overcome and remittance recipients are offered the right products and courted by financial institutions, they can be excellent clients. Indeed, when offered the opportunity, remittance recipients are more likely to open a deposit account than non-recipients.

In order to reach these clients, attitudes toward banking the "poor" will have to change all the way from upper management to the teller line, and appropriate products must be created.

INVESTMENT POTENTIAL

In contrast with surveys and studies conducted earlier in this decade, a greater number of migrants in the latest study expressed interest in investing in Latin America and the Caribbean. A majority (52 percent) are now very interested in the economic future of their home country.

Owning a family home and opening a small business in their country are the two most common investment aspirations. One-third of those asked said they have made such investments, mainly in real estate. This represents a significant increase compared with five years ago, when only five percent of migrants said they had made investments in their homelands.

Migrants also expressed a genuine feeling of pride and affection for their home countries while simultaneously having a negative opinion about their economic management. The great majority also expressed satisfaction with their economic condition in the United States.

While the incomes of migrant remittance senders are low by U.S. standards—64 percent of them have an annual household income of less than $30,000—most say the economic situation of their families in the United States is good (58 percent) or excellent (10 percent), and they are confident about making more progress.

The analysis provided by focus groups in nine countries found substantial agreement between the remittance senders and the recipients on the purposes to which the money transfers were being applied. The study identified the major usages in order of importance as follows: food, health, utilities, education, clothing, housing and business.

FINANCIAL PRODUCTS

If more migrants were to have access to remittance-linked investment products, which ones would they choose? The study identified insurance and banking products as the most attractive, for both senders and recipients. Housing and education investment products were also of great interest.

The following is a brief description of how these financial products may be acquired and applied in the remittance process:

INSURANCE—Immigrants living in the United States purchase life or health insurance for their family member(s) in Latin America and the Caribbean.

BANKING—Remittances are deposited into a bank account in the name of the remittance recipient and an agreed portion of each remittance is assigned to a savings account.

HOUSING—The remittance history of a recipient serves as collateral for a home mortgage or a home construction loan.

EDUCATION—Immigrants living in the United States make direct payments to a university or private school attended by their family member(s) in Latin America and the Caribbean.

MICROFINANCE LOANS—Remittances are deposited into the account of a microfinance institution. Recipients are eligible for small business loans based on their remittance records.

DIRECT PAYMENTS—Immigrants living in the United States make payments directly to vendors in Latin America and the Caribbean to cover basic household bills of their family member(s).

AGRICULTURAL LOANS—Remittances are deposited into a microfinance institution account. Remittance recipients are eligible for agricultural loans or agricultural “bridge” loans based on their remittance records.

GENERAL TRENDS

The structure and flow of remittances sent by migrants in the United States to Latin America and the Caribbean have changed significantly in recent years. While the volume and number of remittances have increased sharply, there have also been more gradual changes in the method of resource transfers and the destination of the funds. Although food, health, and utilities top the list as the items intended to be purchased for the families of the remittance senders, there is a growing interest in investments in the home country, especially housing. There is significant untapped potential for remittances to be applied to economic and financial sectors where their impact could be multiplied—sectors such as insurance, mortgages, private education, banking and finance, especially microfinance and rural credit. More and more remittance senders are using the formal financial system, although the vast majority of remittance senders continue to rely on money transfer companies.

If the cost of remittances continues to fall and more options are given to remittance senders and receivers for remittance transfer and investment products, millions of families in Latin America and the Caribbean will benefit and so will national and local economies.

Distrust and lack of access to the financial system remain. There is also a lack of knowledge about the importance of building a credit history on the part of remittance senders and receivers. Governments, financial institutions, and civil society can all play a major role in creating more awareness among migrants and their families about the possibilities of obtaining a greater return on the resources they send home, while contributing more to the economies of their countries of origin.

For more detailed information see *Public Opinion Research Study of Latin American Remittance Senders in the United States 2006.*

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