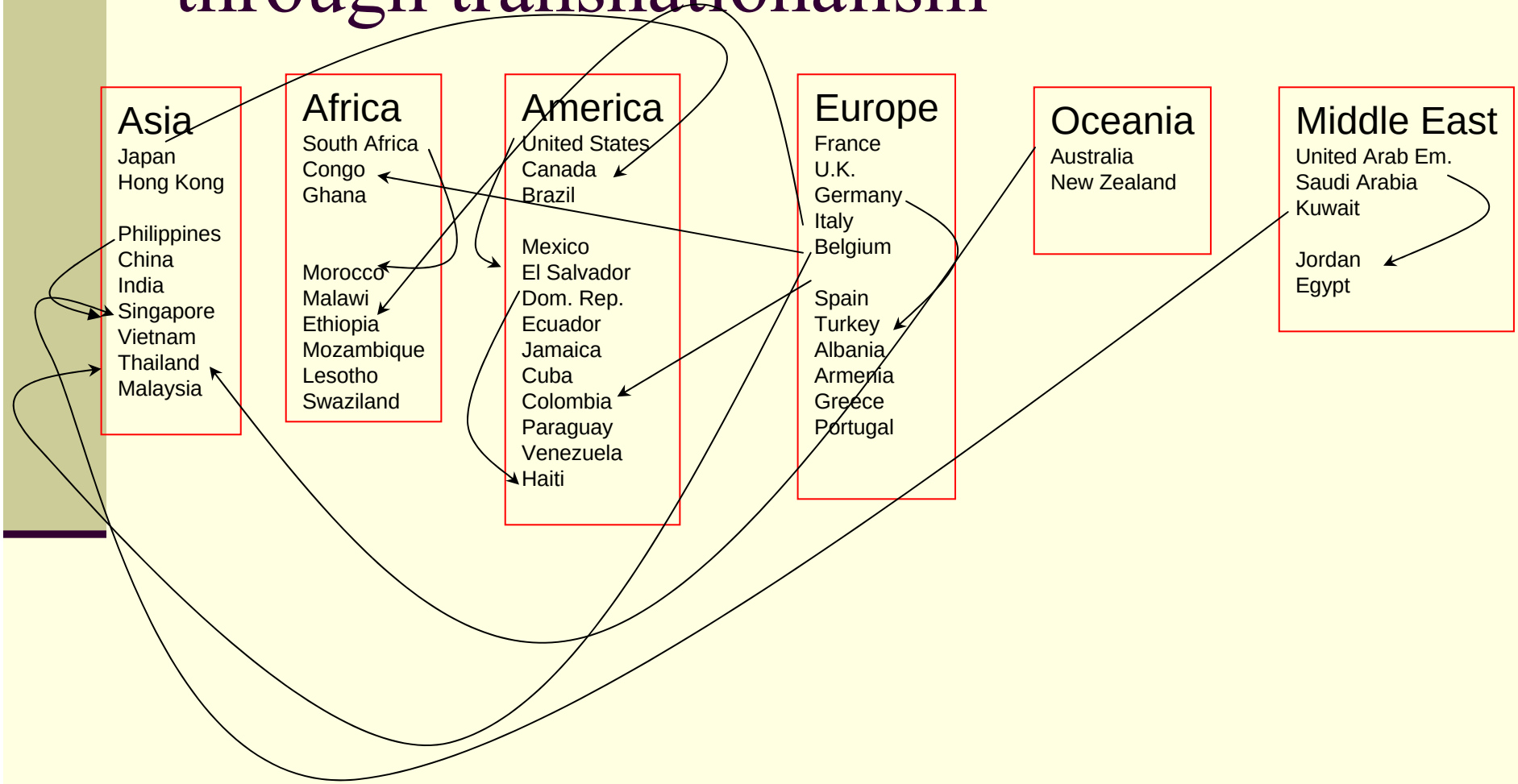
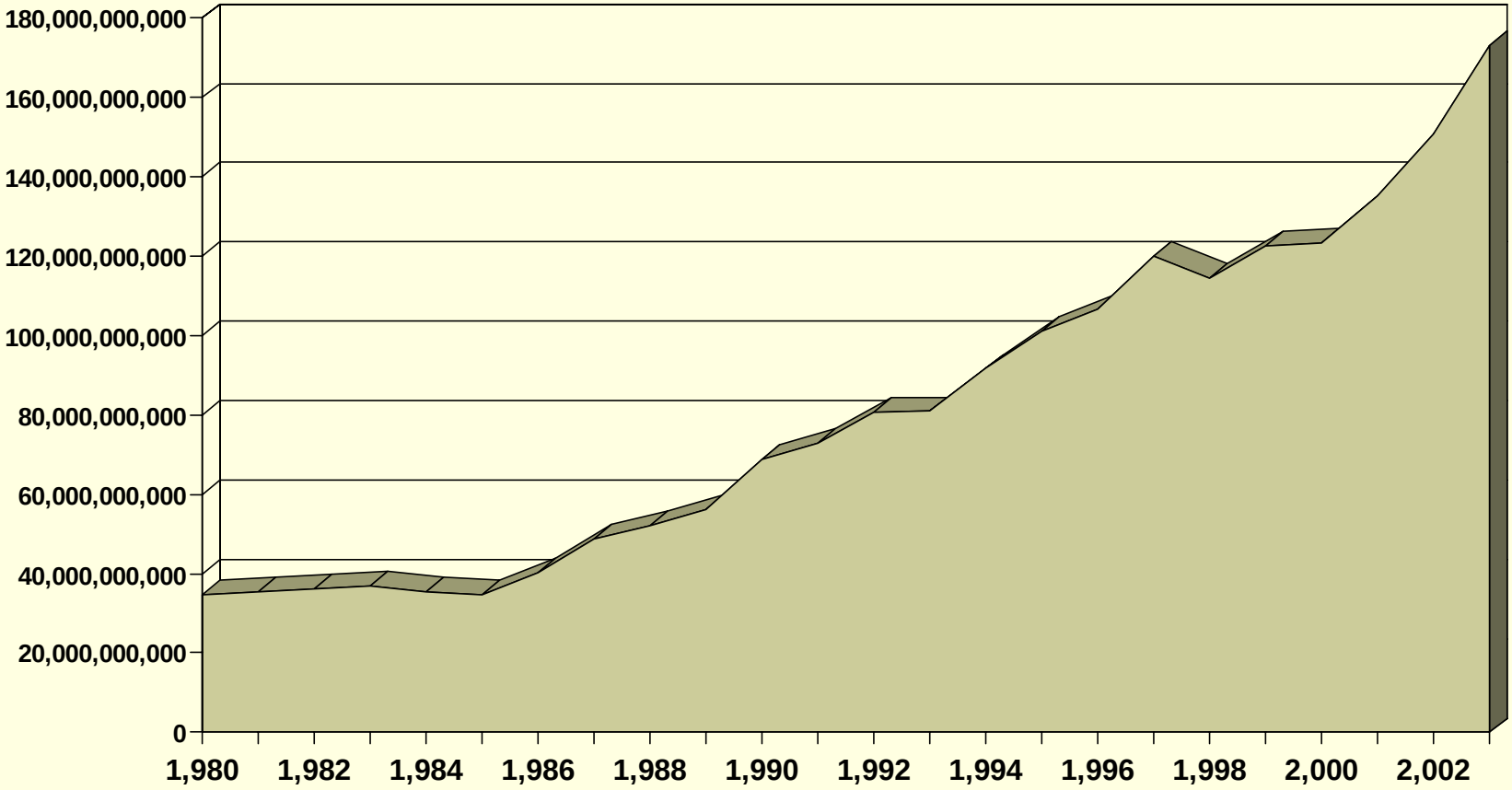
Remittances in the global economy

Manuel Orozco
Inter-American Dialogue
January 24, 2006

The Geography of migration and remittances: distant proximities through transnationalism



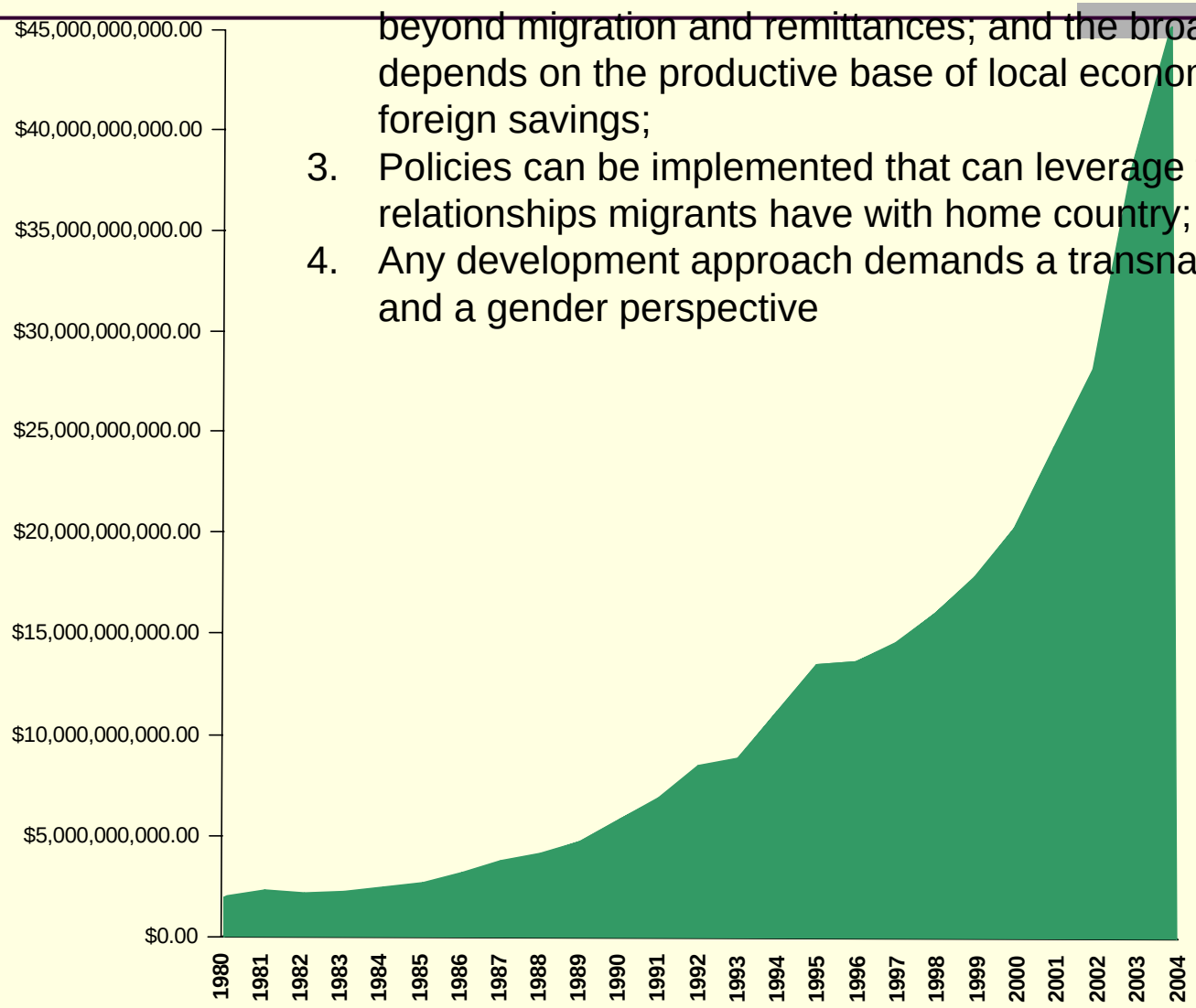
Global remittance flows



Remittances to Latin America and the Caribbean

Premises:

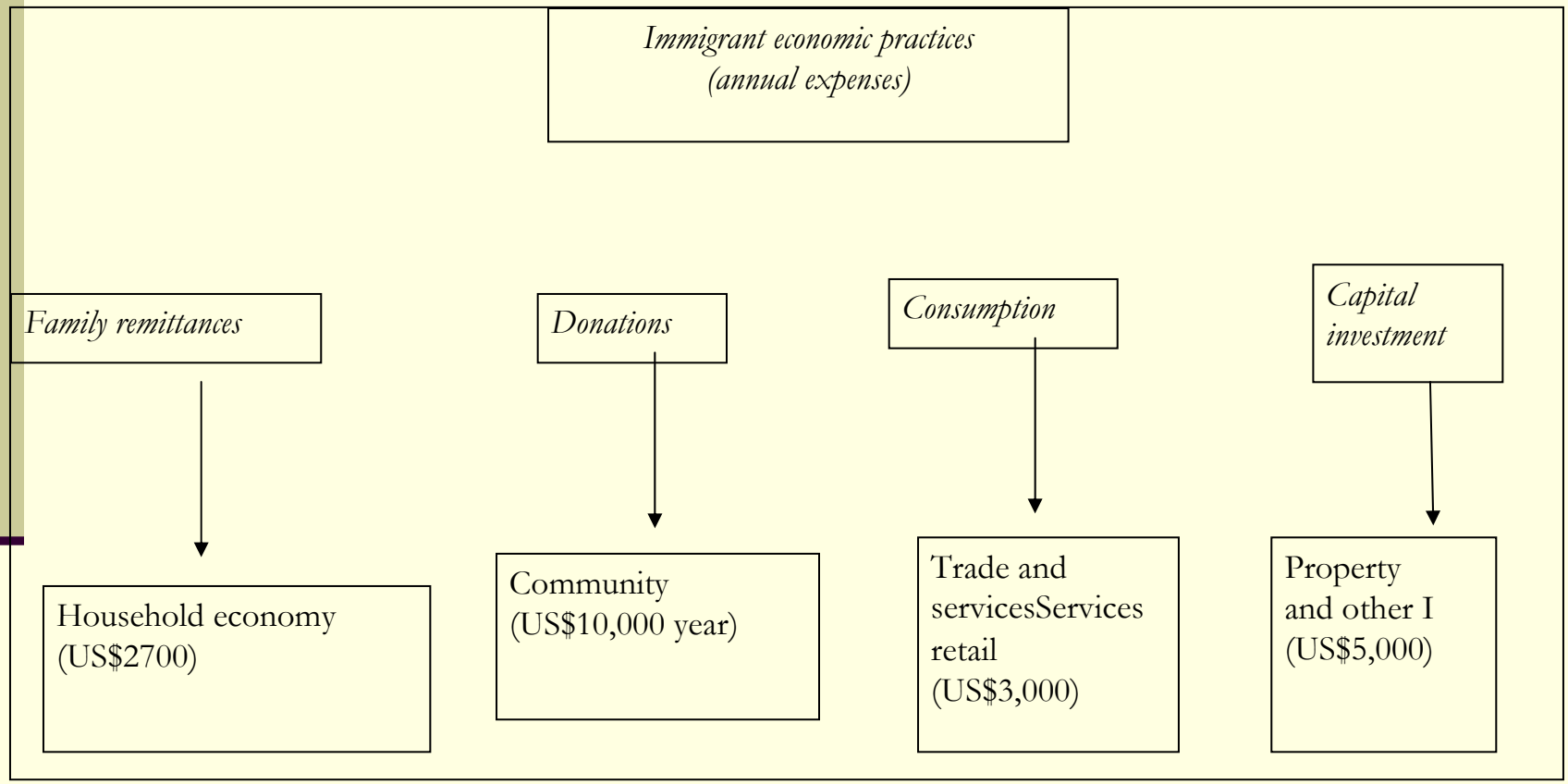
1. Impact of remittances is significant
2. The impact however is not a solution to the challenges of development: Structural problems of poverty and inequality are beyond migration and remittances; and the broader effect depends on the productive base of local economy to absorb foreign savings;
3. Policies can be implemented that can leverage the economic relationships migrants have with home country;
4. Any development approach demands a transnational outlook and a gender perspective

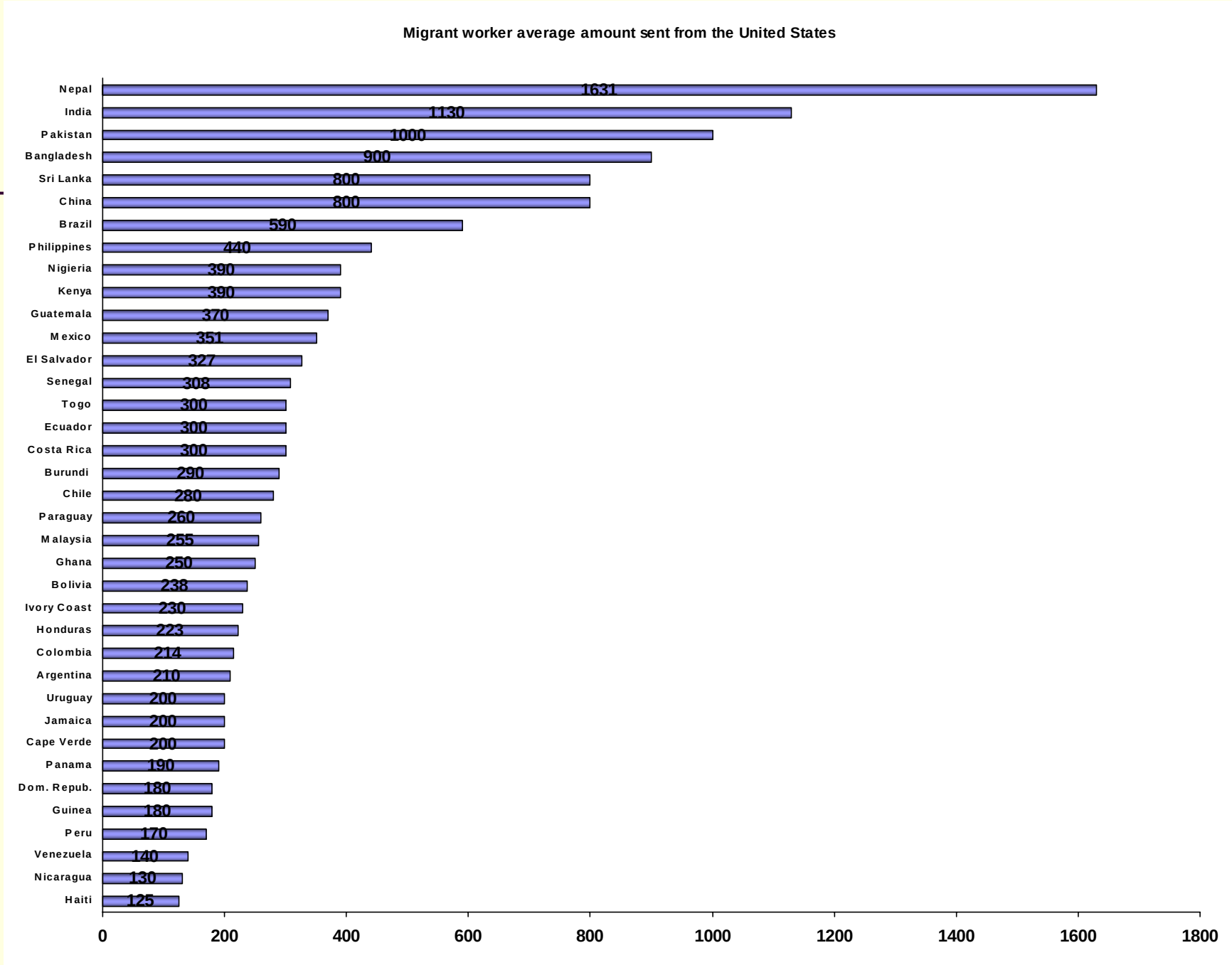


Macro and Micro-Economic Dynamics of remittances

1. Benefit to households
2. **Distributive nature**
    1. Rural Sector
    2. Country
3. **Macro-economico Impact**
    1. Foreign Currency source
    2. Counter-cyclical role
    3. Macro-economic determinants
    4. Multiplying effect
    5. Effect on economic growth
4. Tied to finance: savings, credit, investment
5. Part of a broader process: The 5Ts

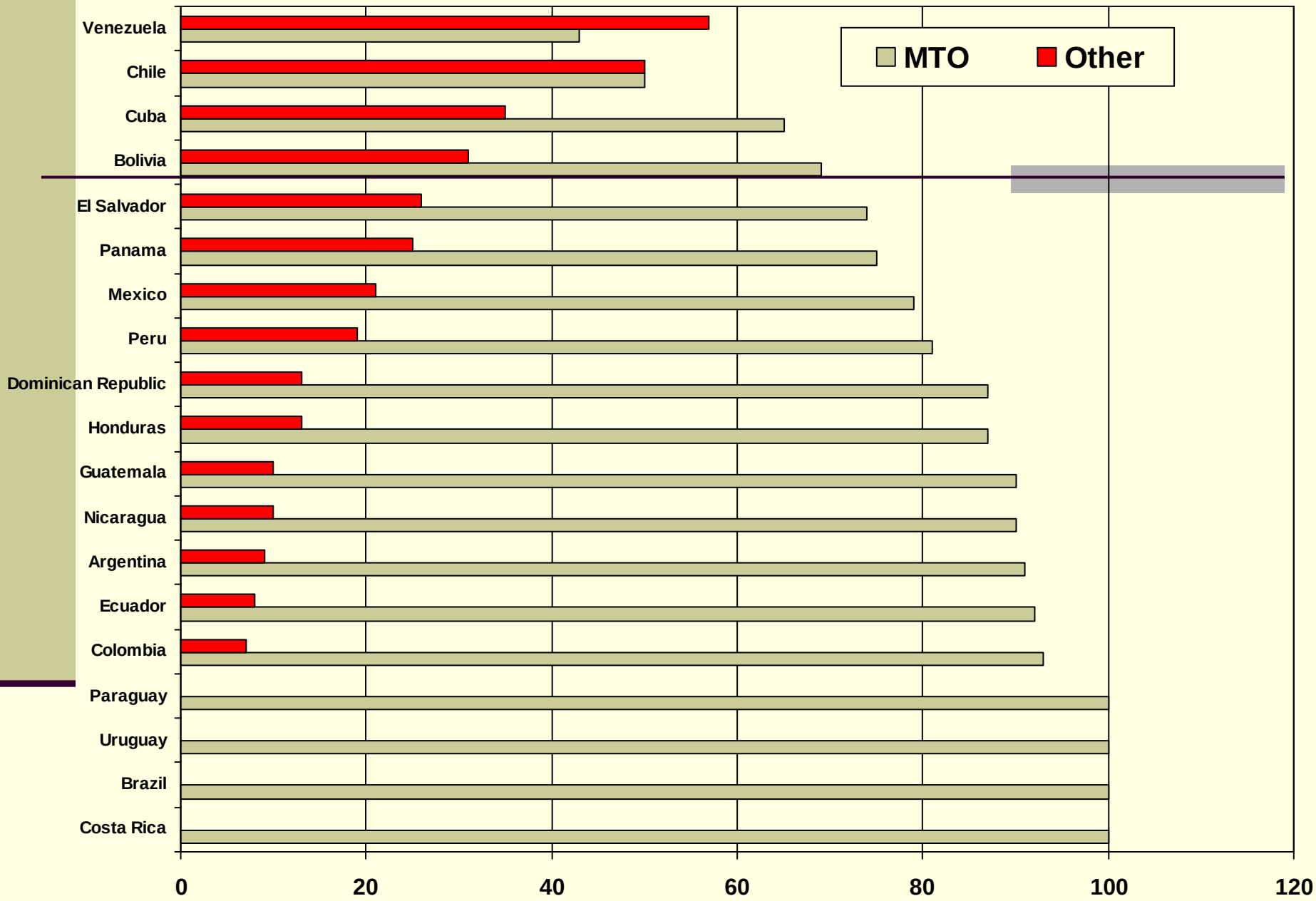
Economic dimensions of transnational migrants




Migrant worker average amount sent from the United States
Nepal 1631
India 1130
Pakistan 1000
Bangladesh 900
Sri Lanka 800
China 800
Brazil 590
Philippines 440
Nigieria 390
Kenya 390
Guatemala 370
Mexico 351
El Salvador 327
Senegal 308
Togo 300
Ecuador 300
Costa Rica 300
Burundi 290
Chile 280
Paraguay 260
Malaysia 255
Ghana 250
Bolivia 238
Ivory Coast 230
Honduras 223
Colombia 214
Argentina 210
Uruguay 200
Jamaica 200
Cape Verde 200
Panama 190
Dom. Repub. 180
Guinea 180
Peru 170
Venezuela 140
Nicaragua 130
Haiti 125
0
200
400
600
800
1000
1200
1400
1600
1800

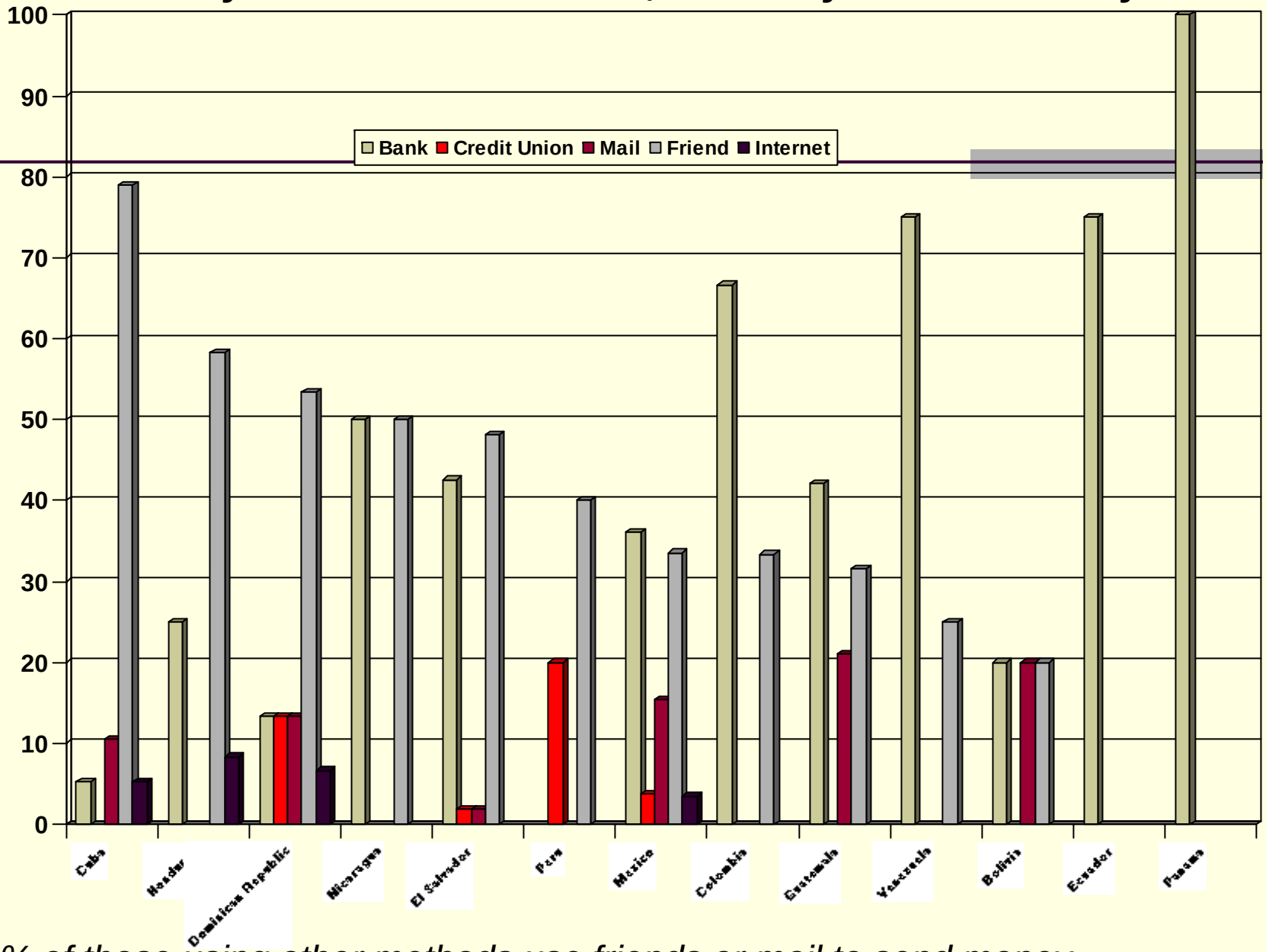
Marketplace and Supply of Remittance Intermediation

LAC immigrant sender: Do you use a MTO to send money to your family?



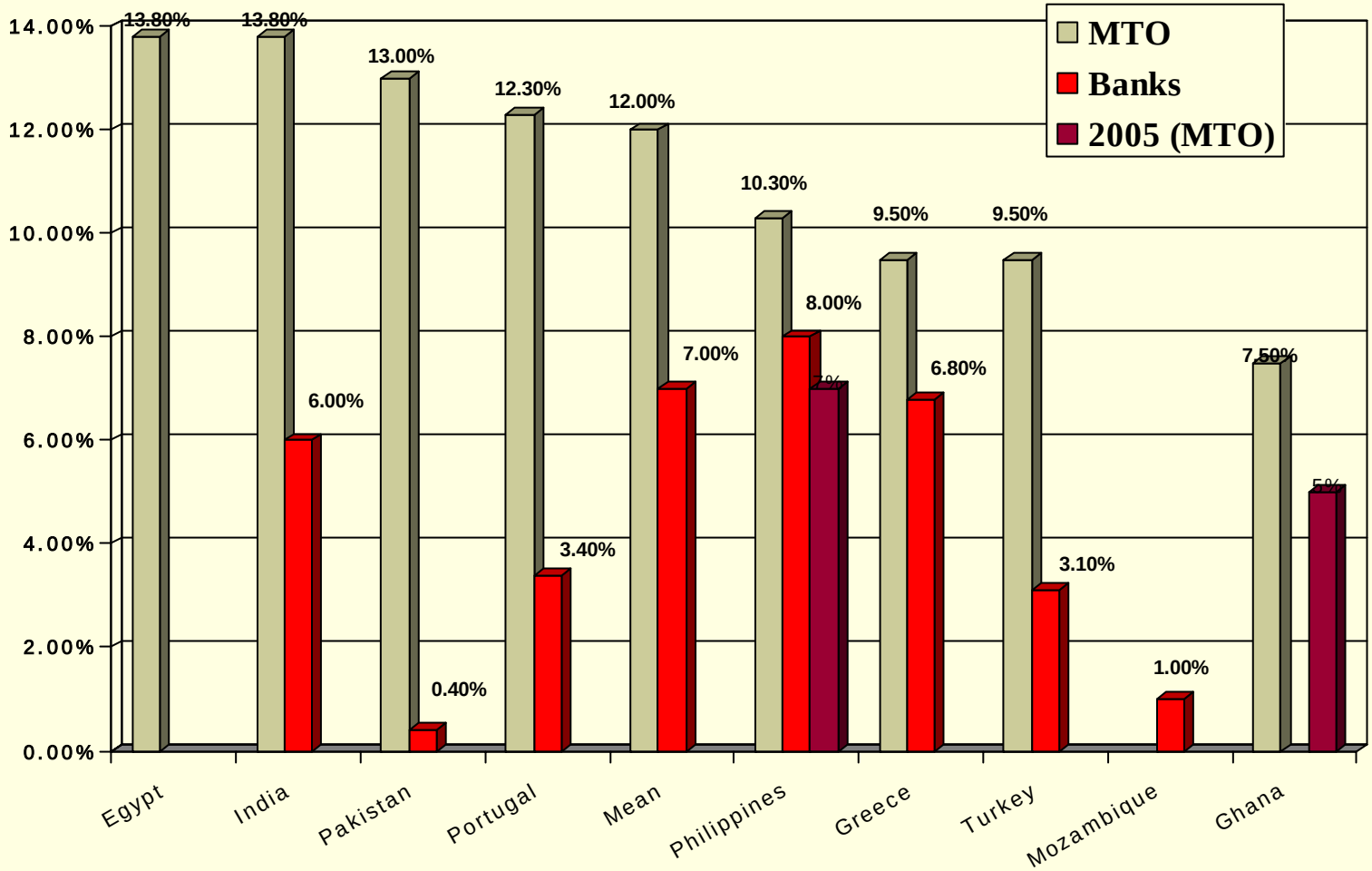
17% average among Latinos say they use other methods . . .

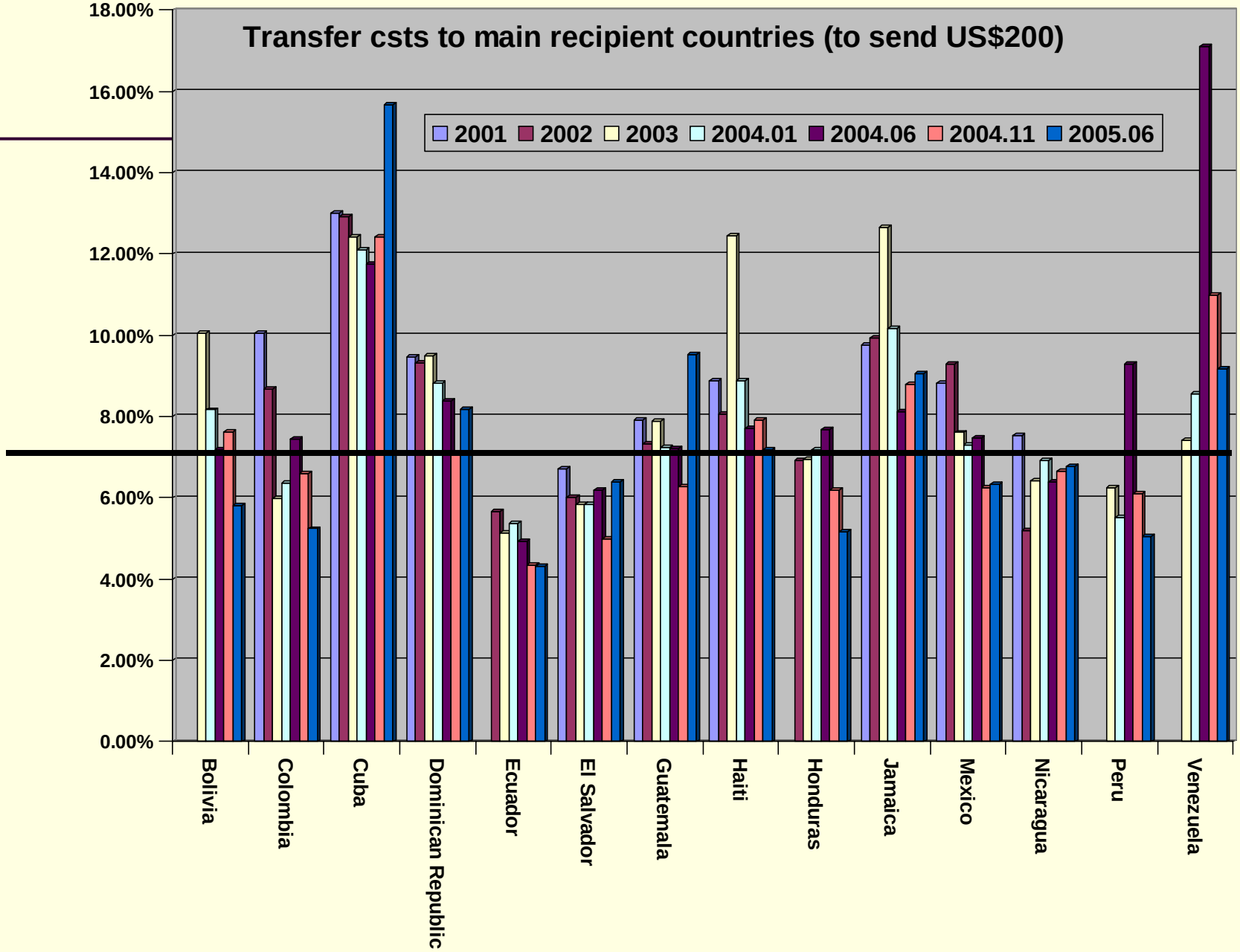
Sender: If you do not use a MTO, how do you send money?



40% of those using other methods use friends or mail to send money

Charges to send $200 to selected countries (2003)




Transfer csts to main recipient countries (to send US$200)
2001
2002
2003
2004.01
2004.06
2004.11
2005.06
18.00%
16.00%
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
Bolivia
Colombia
Cuba
Dominican Republic
Ecuador
El Salvador
Guatemala
Haiti
Honduras
Jamaica
Mexico
Nicaragua
Peru
Venezuela

The Macroeconomic picture of remittances

Income and the new parameters of growth (2002)

Sector	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica	D.R.
Remittances	1775	1995	735	600	206	2044
Merchandise Exports (not including maquiladora)	2960	3287	1344	582	5352	719
Maquiladora	373.8[a]	543	546	102.2[a]	1221.8[a]	1875
Official Development Assistance[b]	225	234	677	928	2.15	105
International Tourism	606	254	251	157	936	2609
GDP	22476	14598	6683	2498	16652	21000
R+X+A+T/GDP	26%	43%	53%	95%	46%	35%

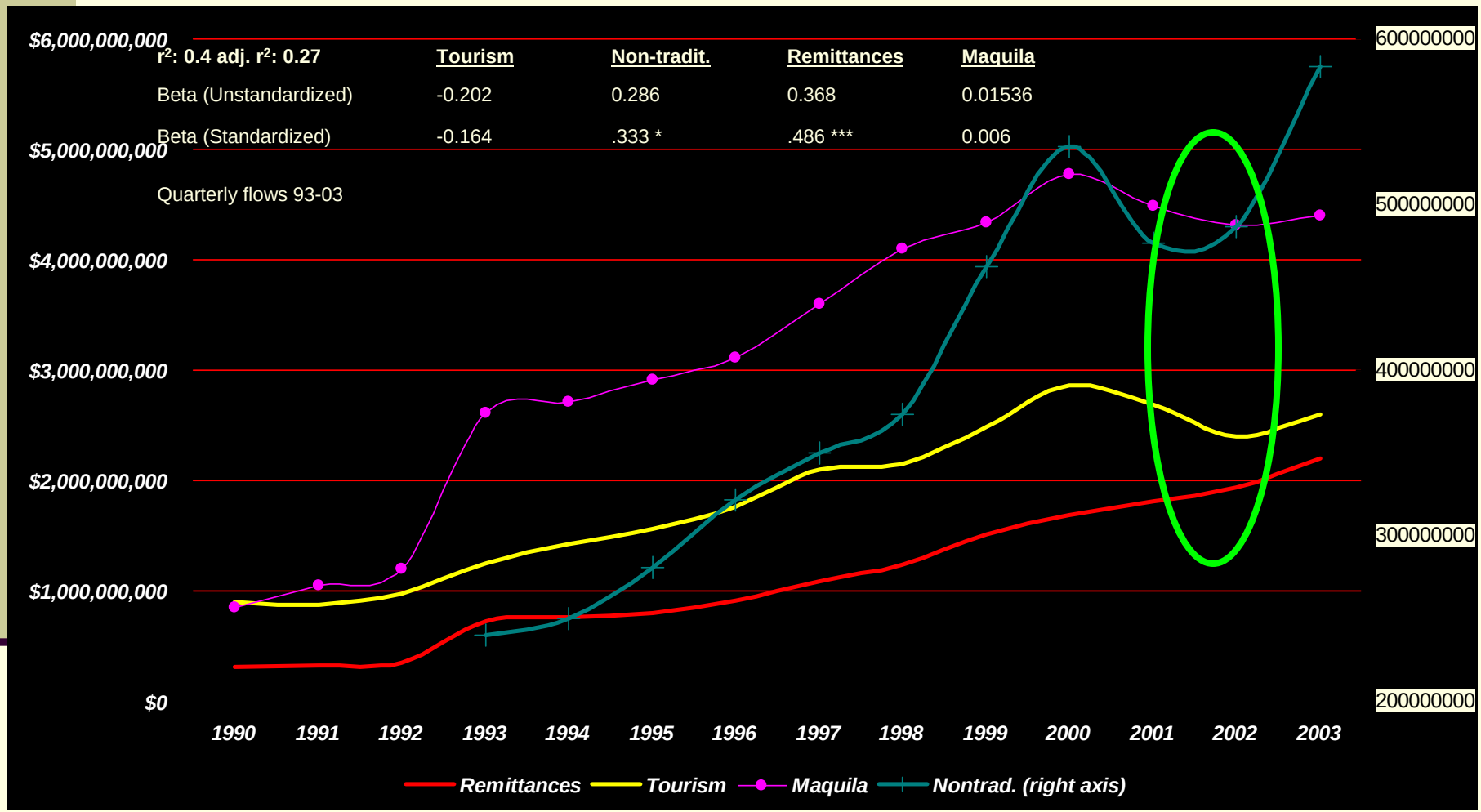
$$GDP_{cadr} = Remit_{cadr} + Tourism_{cadr} + Maquila_{cadr} + Aid_{cadr}$$

(+) (+) (+) (+)

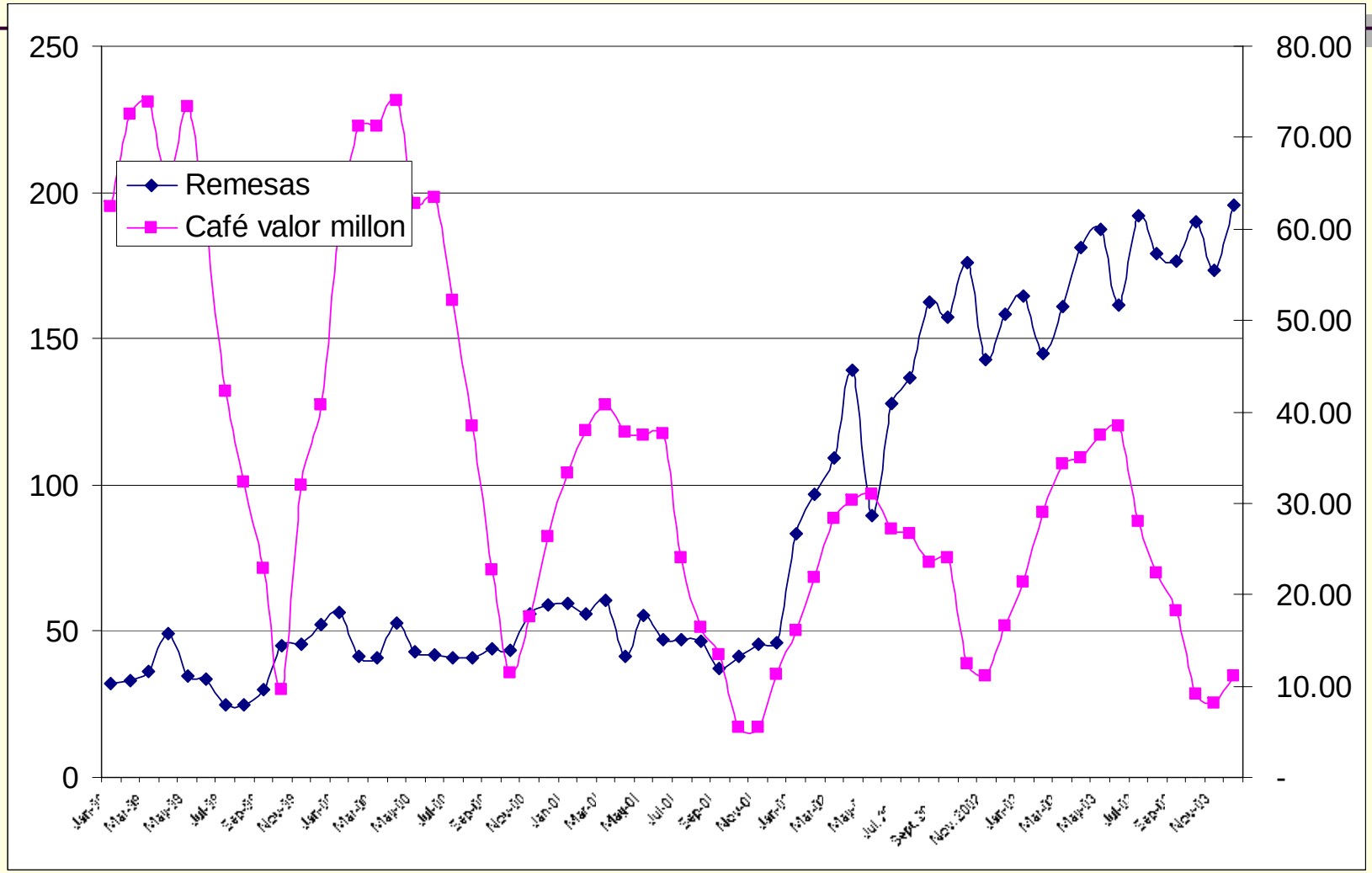
(0.43) (0.53) (0.44) (-0.36)

R^2=0.8, statistically significant at 1% level. Period under analysis: 1980-2002

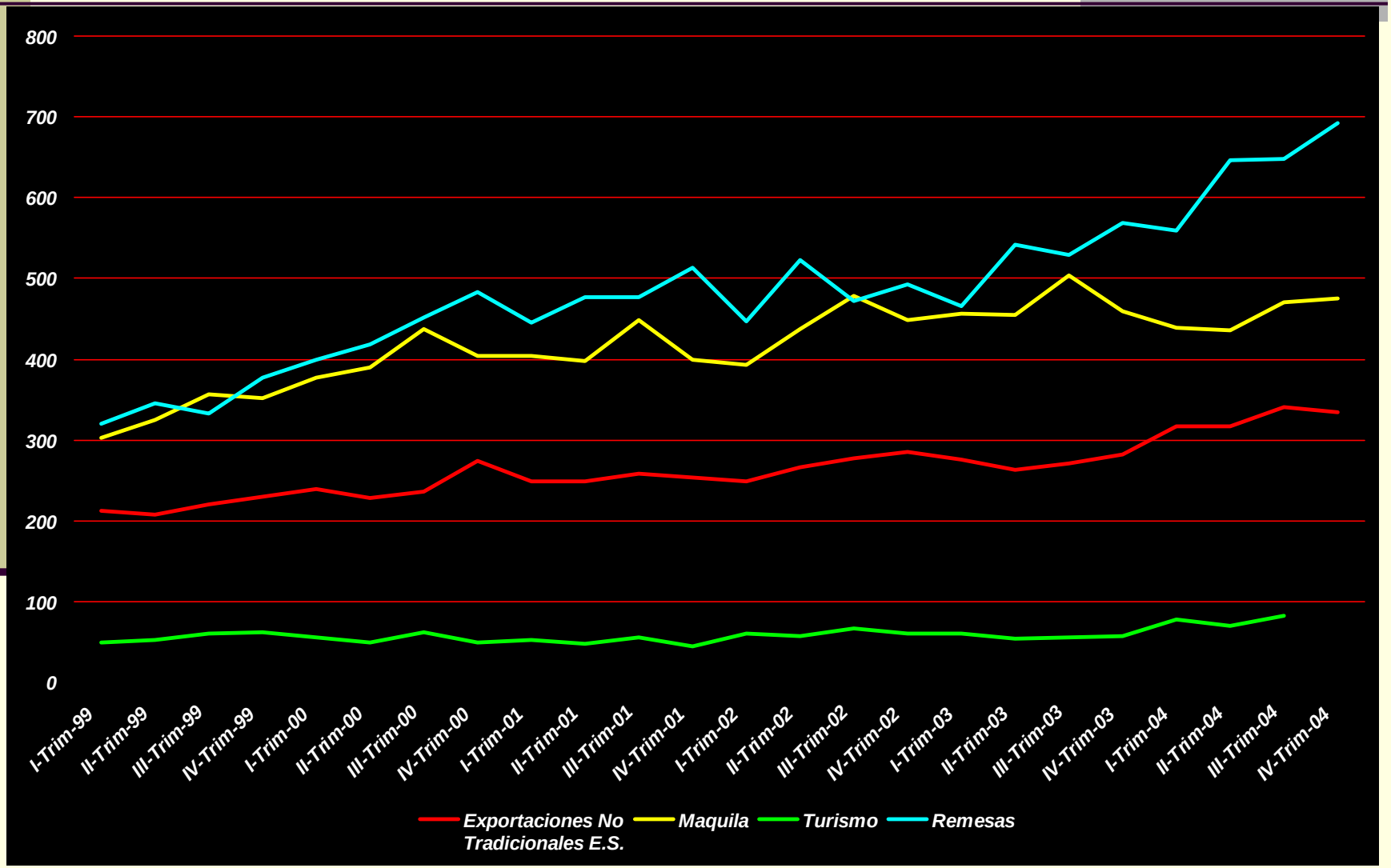
Dominican Republic: Remittances, non-trad exports, tourism, and maquila



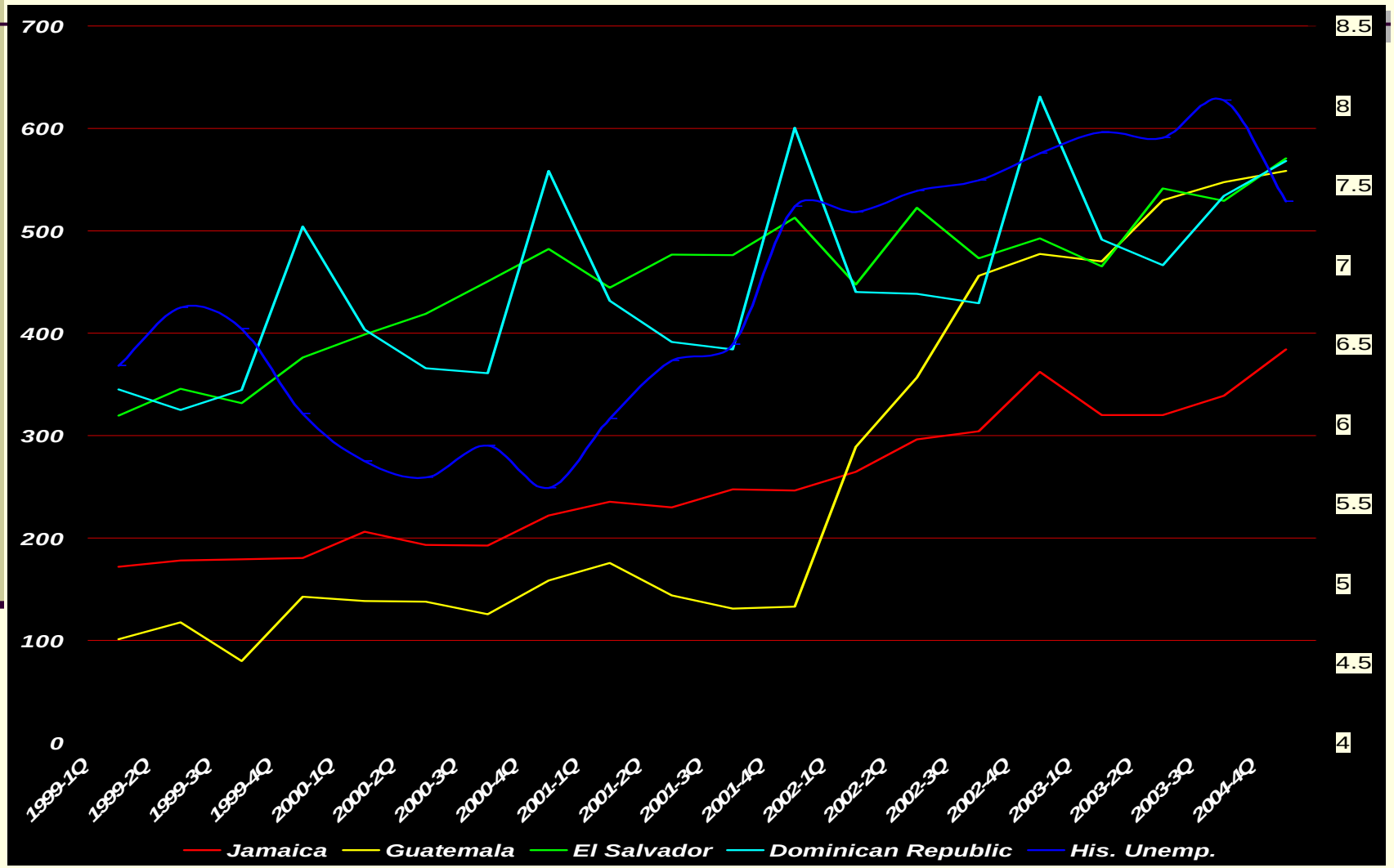
Guatemala and the coffee crisis



El Salvador: Remittances, Tourism, Maquila and Non-Traditional Exports



Counter-cyclical nature:
Quarterly flows to selected Latin American countries



Macroeconomic determinants

- *Do remittances respond to economic shifts?*
- *How do remittances respond in the D.R.?*
- *Inflation*: an increase in prices affects a household cost of living and thus prompt immigrants to increase their support to relatives at home;
- *Interest rates* (lending): as lending rates decline, investment increases;
- *Foreign exchange*: an increase in the supply of foreign currency may appreciate local currency.
- *Unemployment*$_{DR}$: downward shifts in employment cause adjustment measures and new forms of income;
- *Unemployment*$_{USA}$: same as above

$$R_{DR\ t-1} = CPI_{DR} + HispUn_{US} + FX_{DR} + IR_{DR}$$

(+) (-) (?) (-) [Expected sign in the statistical relationship]

Where,

R DR t-1 = Monthly remittance transfers to the D.R. (lagged values)

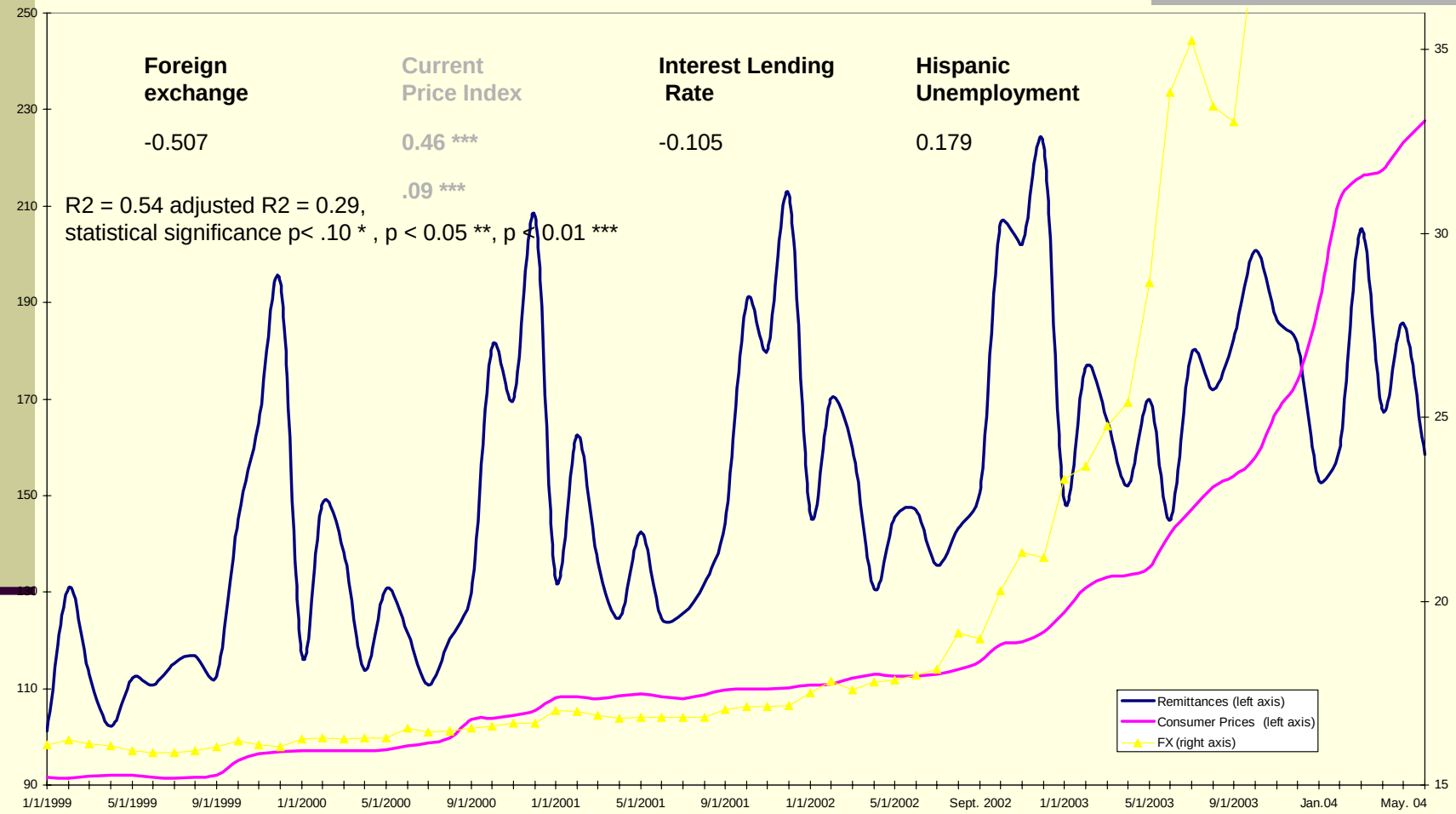
$HispUn_{US}$ = Monthly unemployment in the U.S. among Latino immigrants

CPI_{DR} = Consumer price index in the D.R.

FX_{DR} = Foreign exchange (nominal) in the D.R.

IR_{DR} = Interest lending rate in the D.R.

Dominican Republic: Remittances, prices, interest and exchange rates



Significance: basic support, women, age, income

- Home country variations in exchange rates and unemployment in the U.S. among Latinos does not have an effect on transfers.
- ~~Market of transfers occur independently from exchange rate variations:~~ under the economic crisis affecting devaluation, remittance transfers, and the control of its volume by companies, were not related to exchange rates.
- There is also correspondence between microeconomic and macroeconomic determinants: family commitment will increase with need and number of beneficiaries, and commitment.

Administration of remittances

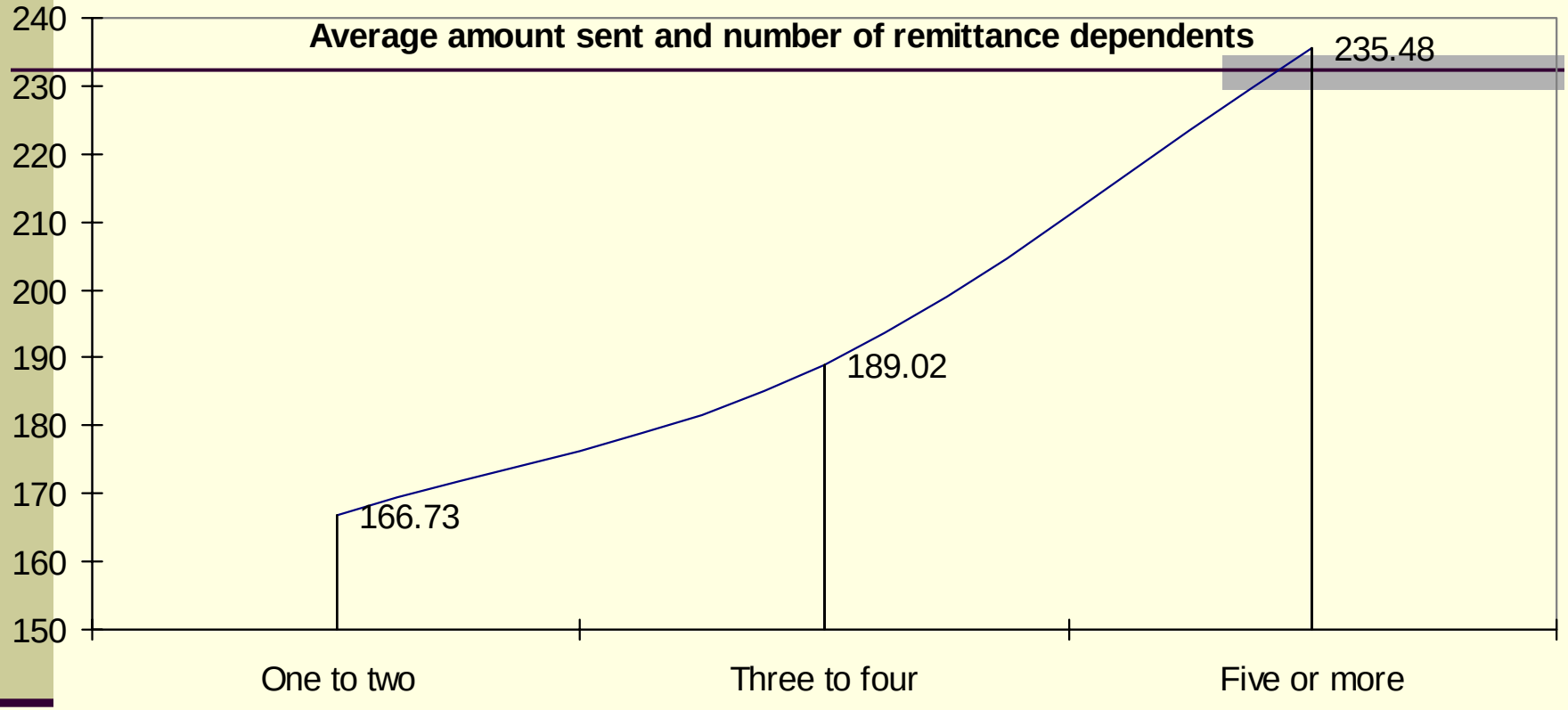
	Domincan Rep.
Food	80%
Clothing	25.3%
Education	21.3%
Housing	32.7%
Business	4.0%
Savings	8.0%
Other	14.0%
Unknown/NR	2.7

OLS Regression on amount remitted

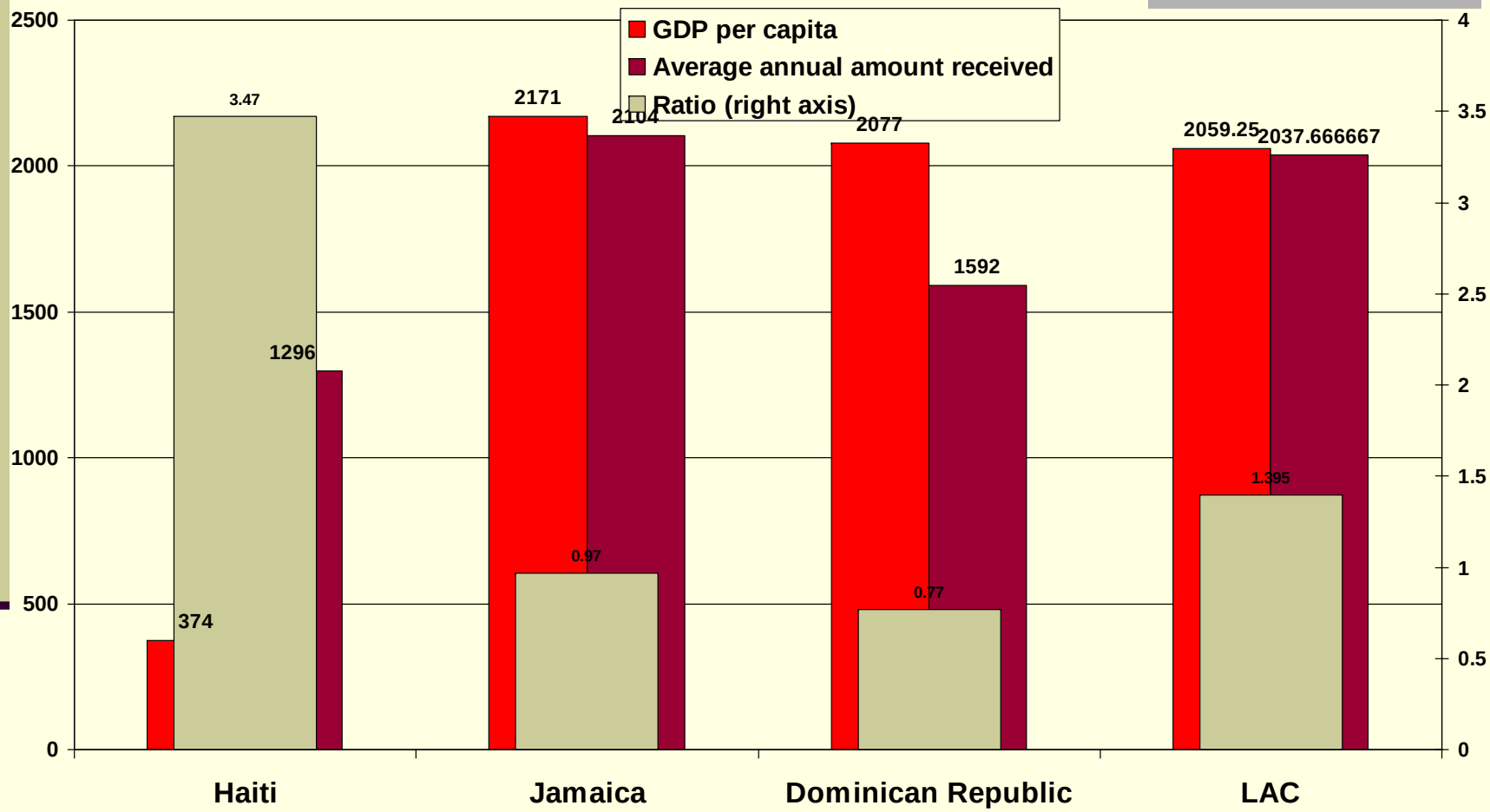
	B	Beta
Having bank account	-22.584	-.056
Schooling	-10.038	-.086
Number of beneficiaries	**12.994**	**.168 *****
Sex	6.745	.019
Income	25.964	.128
Length of time receiving remittances	**13.042**	**.135 ****
House caretaker	-.925	-.003

Source: Orozco, Manuel. Survey conducted by the author.

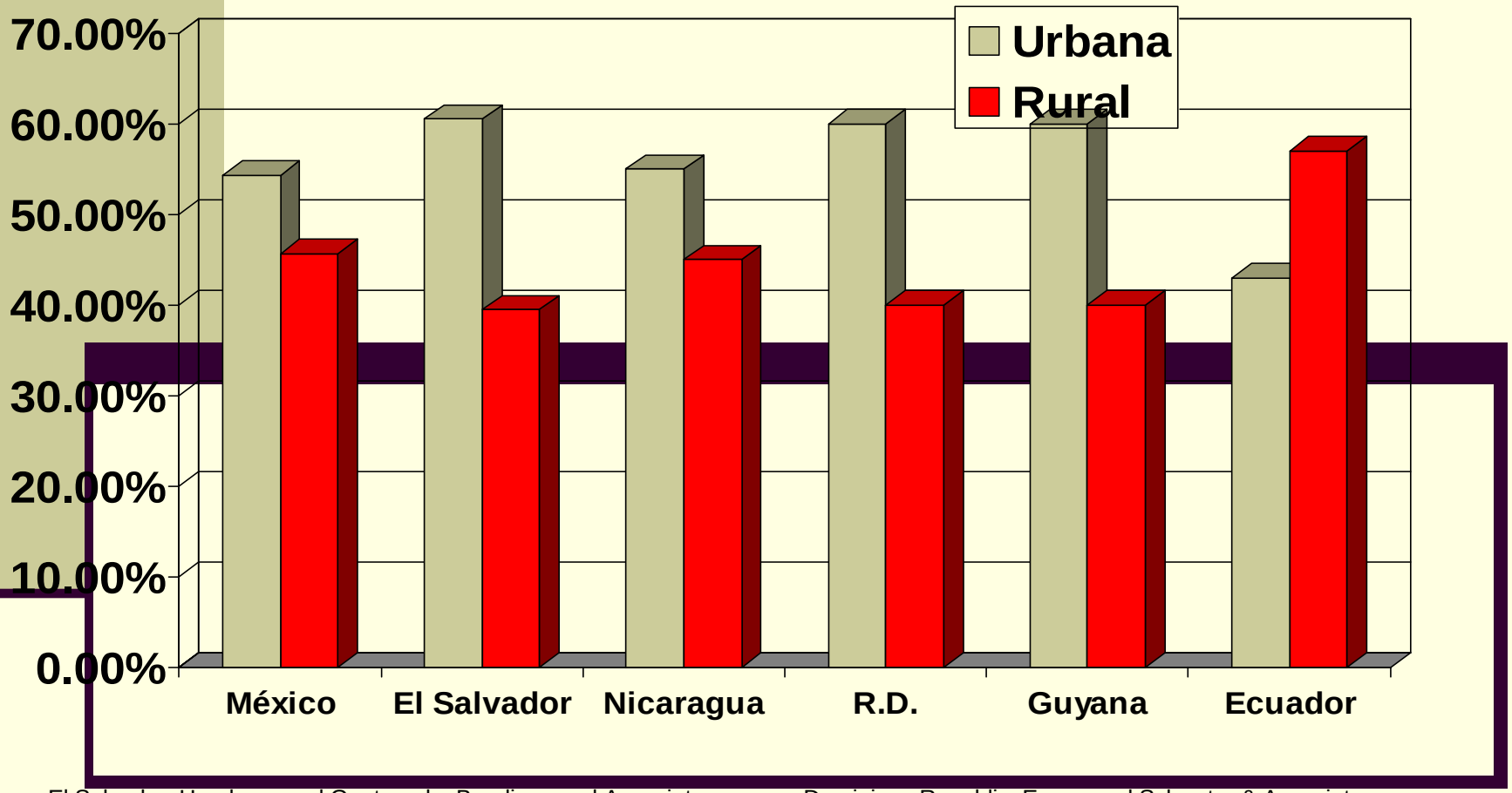
Commitment to families . . .



Distributive effect of remittances

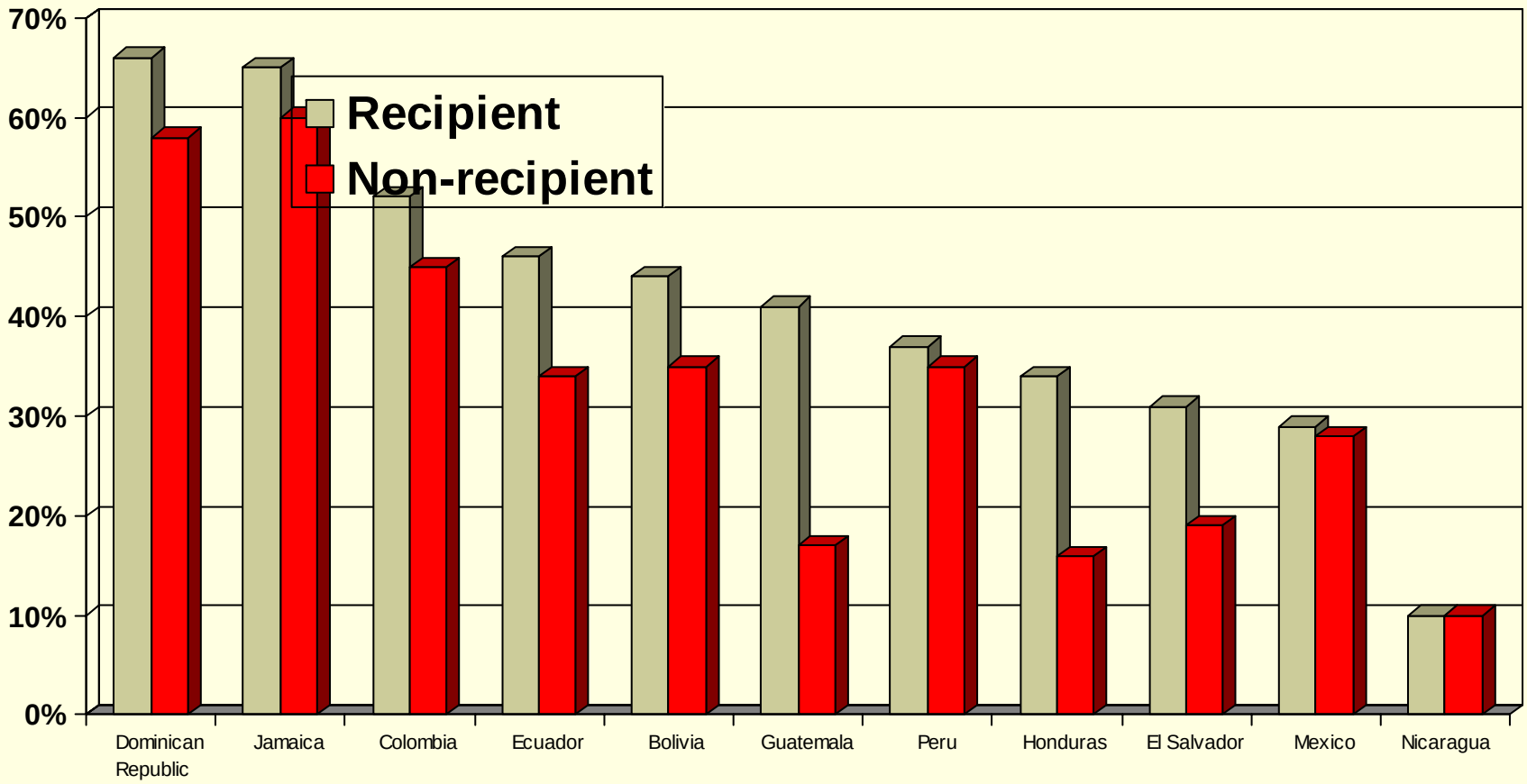


Remittance recipient households



Source: El Salvador, Honduras and Guatemala: Bendixen and Associates survey; Dominican Republic: Emmanuel Sylvestre & Associates survey (commissioned out by the author); Guyana: Laparkan Trading survey (commissioned out by the author); Ecuador: Mauricio Orbe (PulsoEcuador); Mexico: El Colegio de la Frontera Norte. "Problemas y Perspectivas de las Remesas de los Mexicanos y Centroamericanos en Estados Unidos," El Colegio de la Frontera Norte: Departamento de Estudios Económicos. Mexico: 2002, p. 30.

People with bank accounts (remittance recipients and non-recipients)

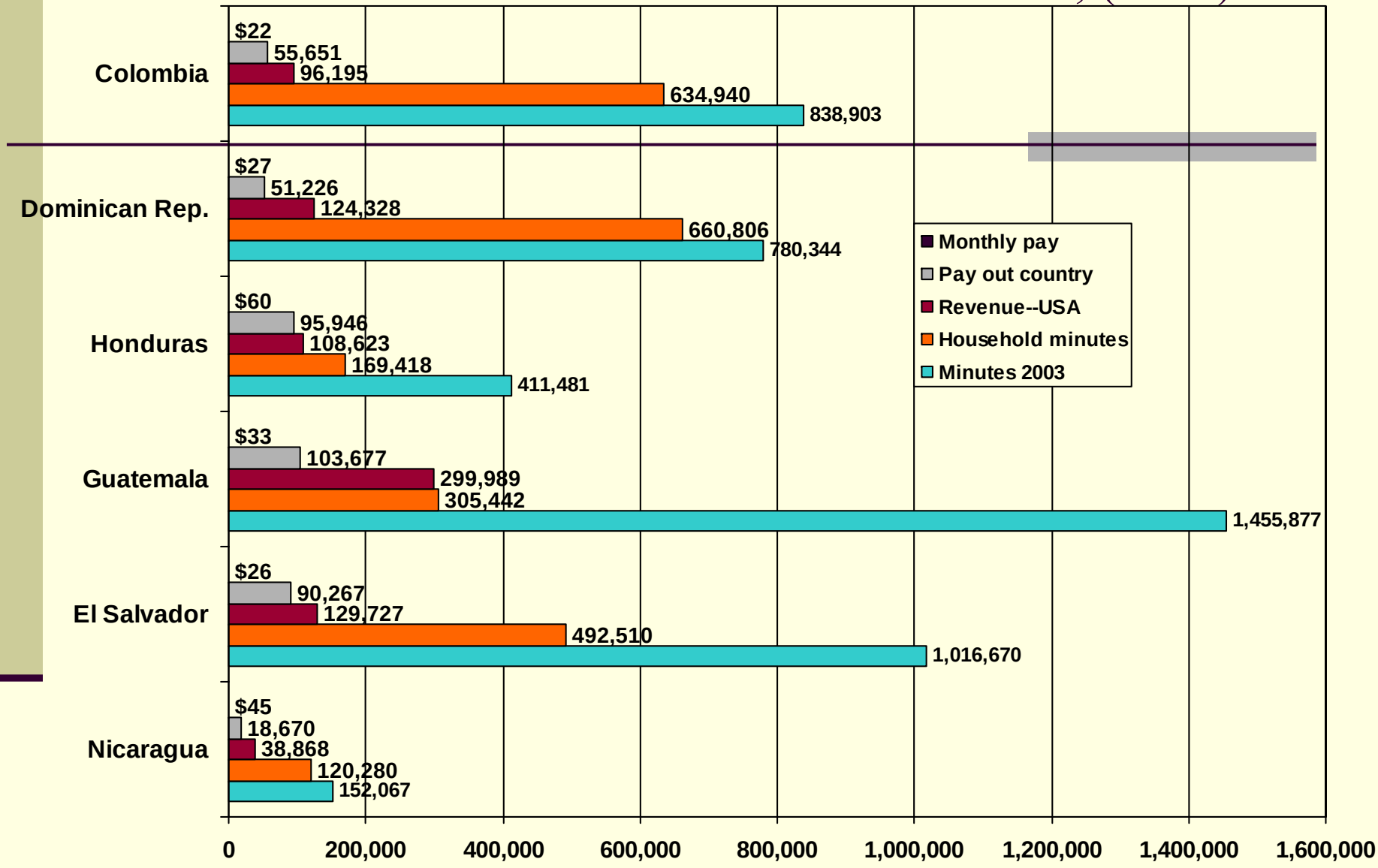


Source: Multilateral Investment Fund-Inter-American Development Bank, Receptores de Remesas en Mexico, Octubre 2003; Receptores de remesas en Guatemala, El Salvador y Honduras, Septiembre 2003; Receptores de Remesas en Ecuador, Mayo 2003. Washington, DC: MIF-IADB/FOMIN-BID.

Transnational engagement

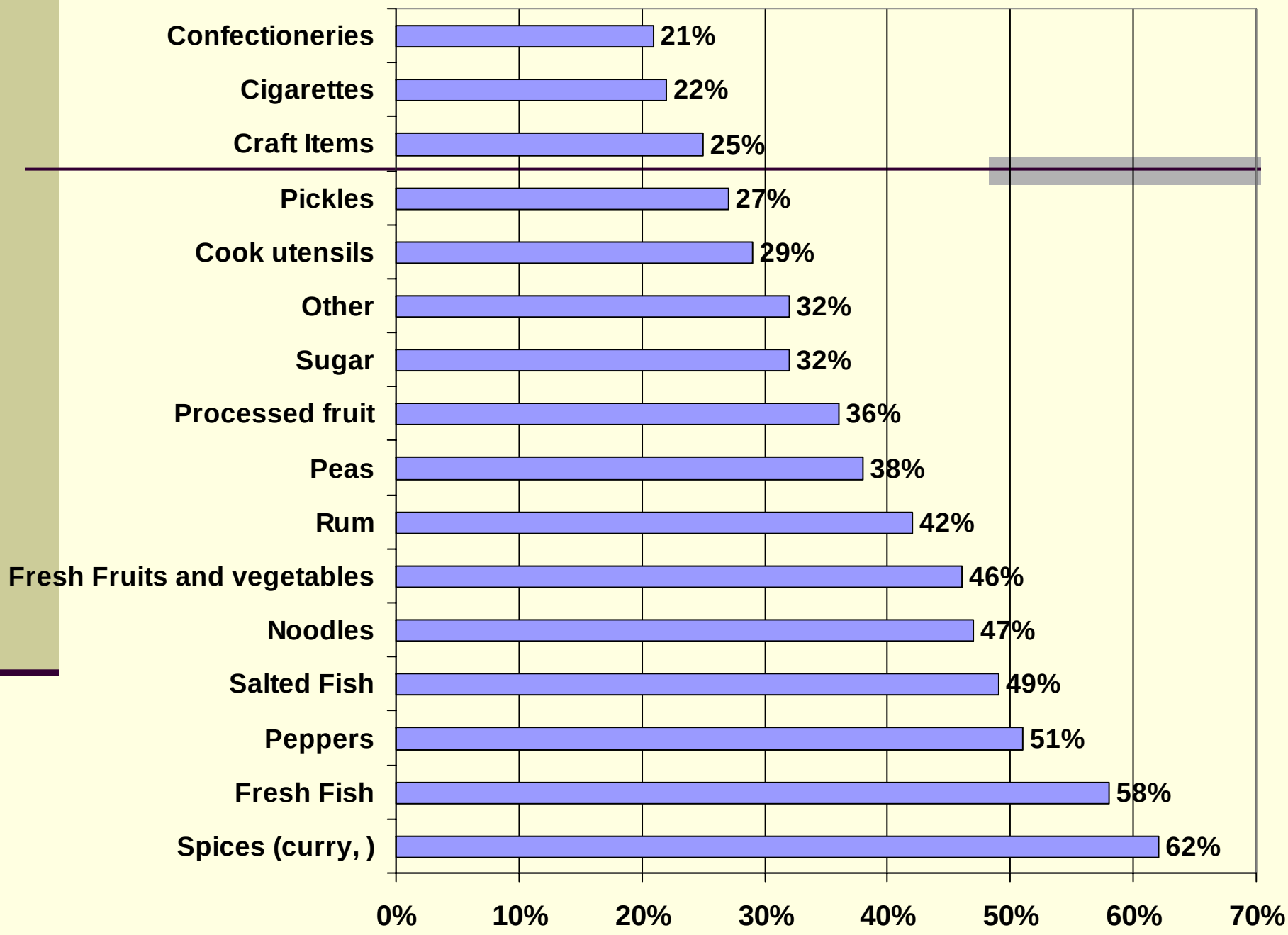
Country	COL	CUB	ECU	ELS	GUA	GUY	HON	MEX	NIC	DR	BOL	JAM	LAC
Calls once a week	**80**	**48**	**98**	**41**	**56**	**42**	**57**	**66**	**70**	**77**	**33**	**75**	**61**
Sends over $300	**27**	**15**	**33**	**32**	**43**	**33**	**8**	**46**	**13**	**17**	**21**	**42**	**31**
Buys HCG	**88**	**29**	**95**	**66**	**50**	**84**	**74**	**86**	**83**	**65**	**70**	**64**	**73**
Has a saving account.	**39**	**2**	**55**	**16**	**19**	**48**	**16**	**21**	**5**	**29**	**10**	**58**	**27**
Travels once a year	**34**	**13**	**51**	**24**	**9**	**45**	**12**	**23**	**19**	**69**	**13**	**69**	**32**
(& Spends over US$1,000)	(61	50	90	61	48	54	43	70	26	64	91	58	60)
Has a mortgage. Loan	12	2	14	13	4	18	12	3	6	6	36	15	10
Owns a small bus.	5	2	1	3	2	8	4	2	3	3	4	2	3
Helps. Family w/ mort.	21	1	24	13	1	21	8	5	7	13	31	16	12
Belongs to HTA	6		10	2	3	29	7	2	4	3	1	16	6

Phone calls to selected Latin American countries, (x000)

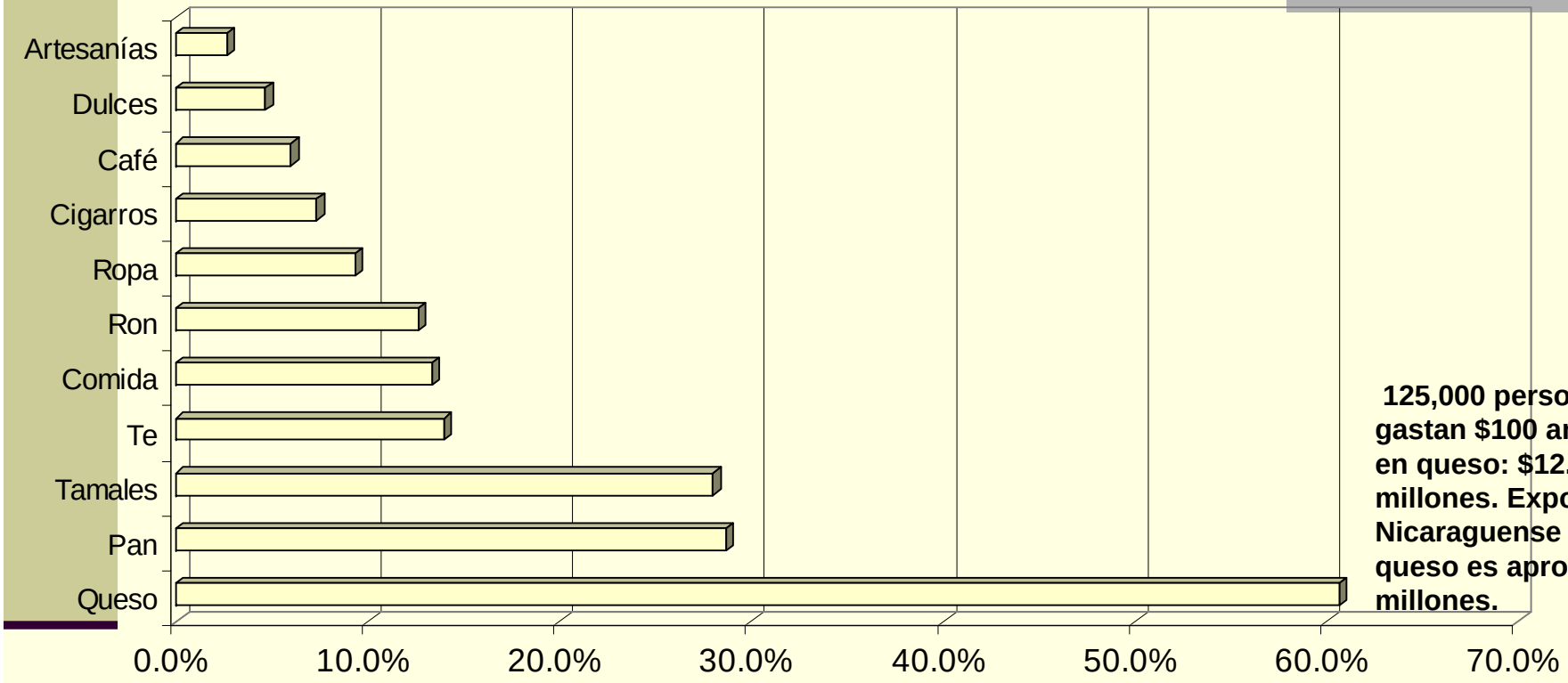


Source: Encuesta de inmigrantes en New York; US Census Bureau; *2000* and *2001 International Telecommunications Data,* Linda Blake and Jim Lande. Washington, FCC, December 2001, and January 2003. * calculo basedo en un promedio de 4 llamadas al mes por 5, 8, 15, 25 y 30 minutos por llamada Formula utilizada es $\sum$ de llamadas = minutos anuales * Porciento que llama * Porcentaje inmigrantes que remiten (Censo 2000 de pobl.)

Goods bought by Guyanese diaspora

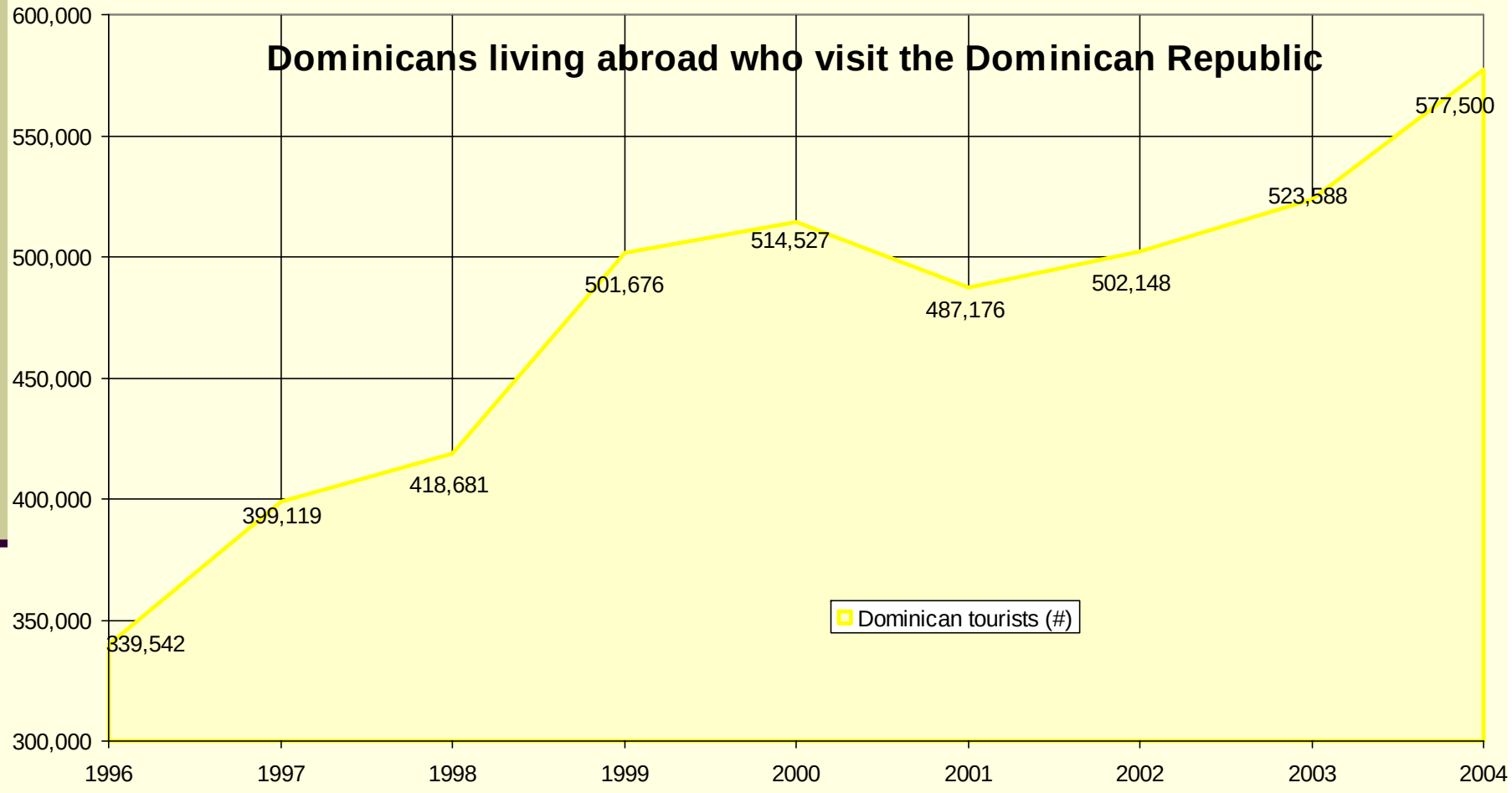


Productos nostálgicos adquiridos por Nicaraguenses



125,000 personas que gastan $100 anuales en queso: $12.5 millones. Exportación Nicaraguense de queso es aprox. $30 millones.

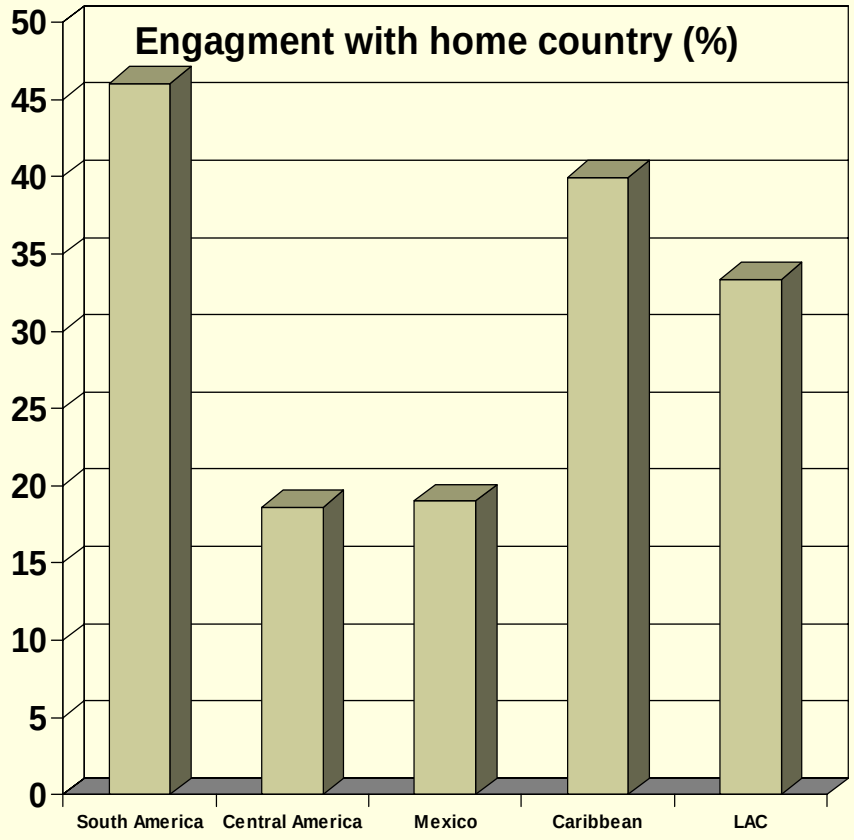
Tourism: one of the 5Ts. . .



Level of engagement

- ***Index for extent of engagement***

1. At least traveling once a year;
2. At least calling once a week;
3. Buying home country goods;
4. Helping family with other economic obligations;
5. Has bank account in home country;
6. Has a mortgage loan in home country;
7. Sends over US$350



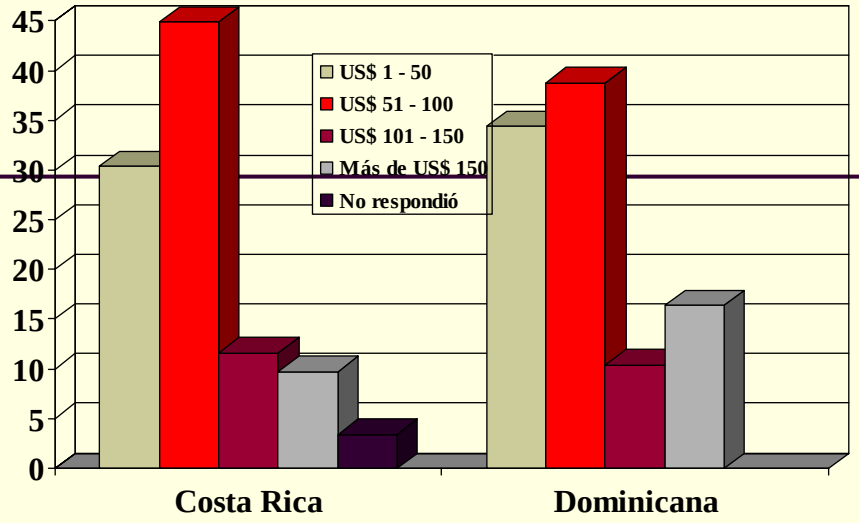
Level of transnational engagement for Ghanaians in

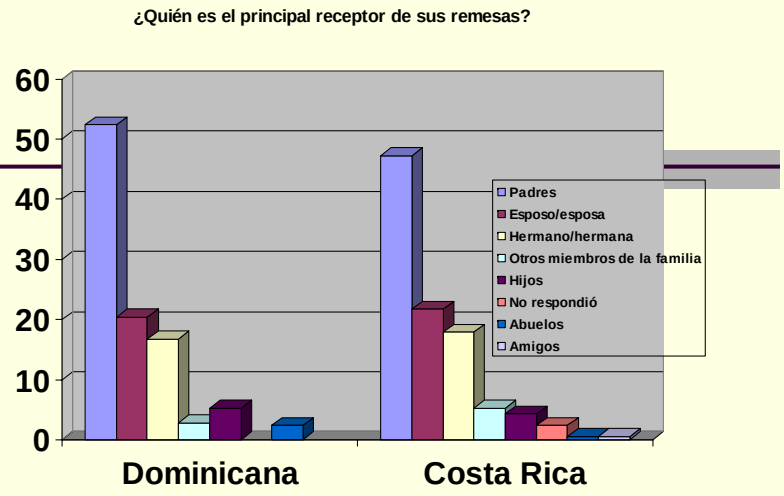
Country	Germany	U.K	U.S.A.
Calls once a week	43	83	67
Sends over $300	100	100	80
Buys HCG	88	83	99
Travels once a year	49	65	63
(& Spends over US$1,000)	78	52	87
Belongs to HTA	37	28	21

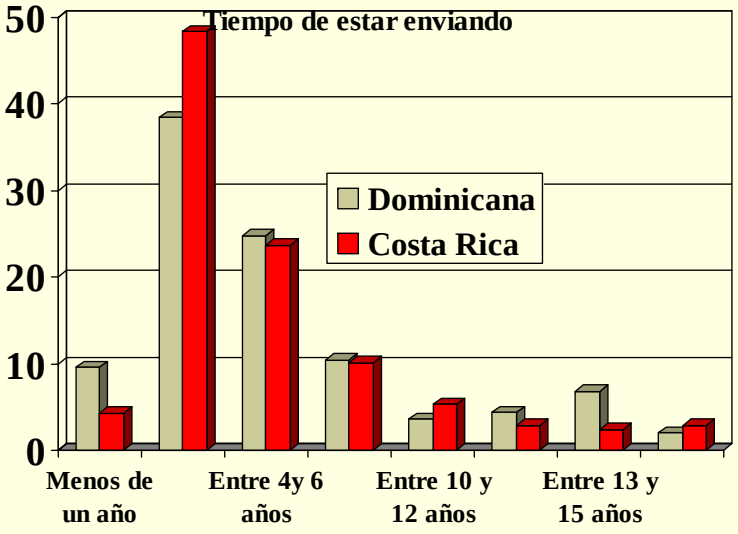
Intra-regional context

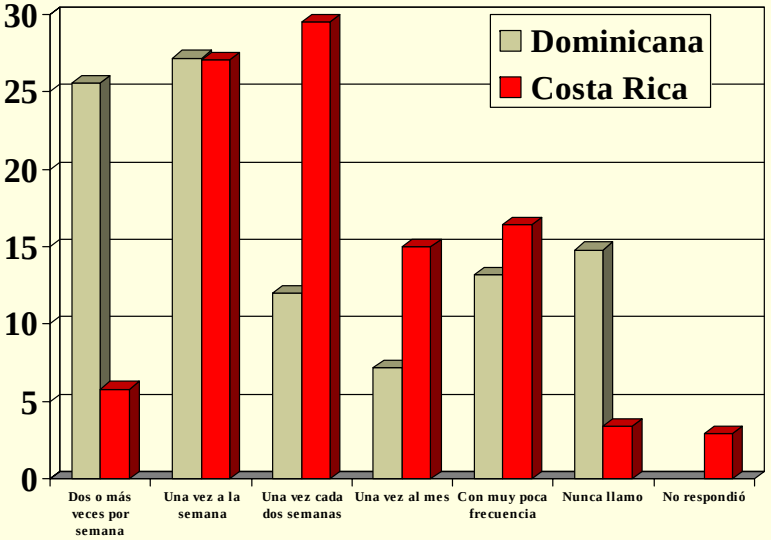
Bolivians in Brazil
Peruvians in Chile
Haitians in the D.R.
Colombians in Venezuela
Nicaraguans in Costa Rica
Guyanese in Trinidad and Tobago
Bolivians and Paraguayans in Argentina

Remittances from Costa Rica and the D.R.









Peruanos en el mundo . . .

País	Población	(%)	Promedio de envío	Volumen
EEUU	878,501	50.68%	**200**	$ 1,254,499,428
Argentina	125,880	7.26%	65	$ 38,947,272
Venezuela	117,460	6.78%	100	$ 55,910,960
Spain	112,331	6.48%	350	$ 280,715,169
Italia	86,410	4.98%	300	$ 185,090,220
Chile	81,270	4.69%	65	$ 25,144,938
Bolivia	69,755	4.02%	65	$ 21,582,197
Japan	56,442	3.26%	350	$ 141,048,558
Ecuador	41,600	2.40%	65	$ 12,871,040
Brazil	25,023	1.44%	65	$ 7,742,116.20
Canada	21,057	1.21%	200	$ 30,069,396
Others	117,810	6.80%	65	$ 36,450,414
Total	1,733,539	100.00%	--	$ 2,090,071,708.20

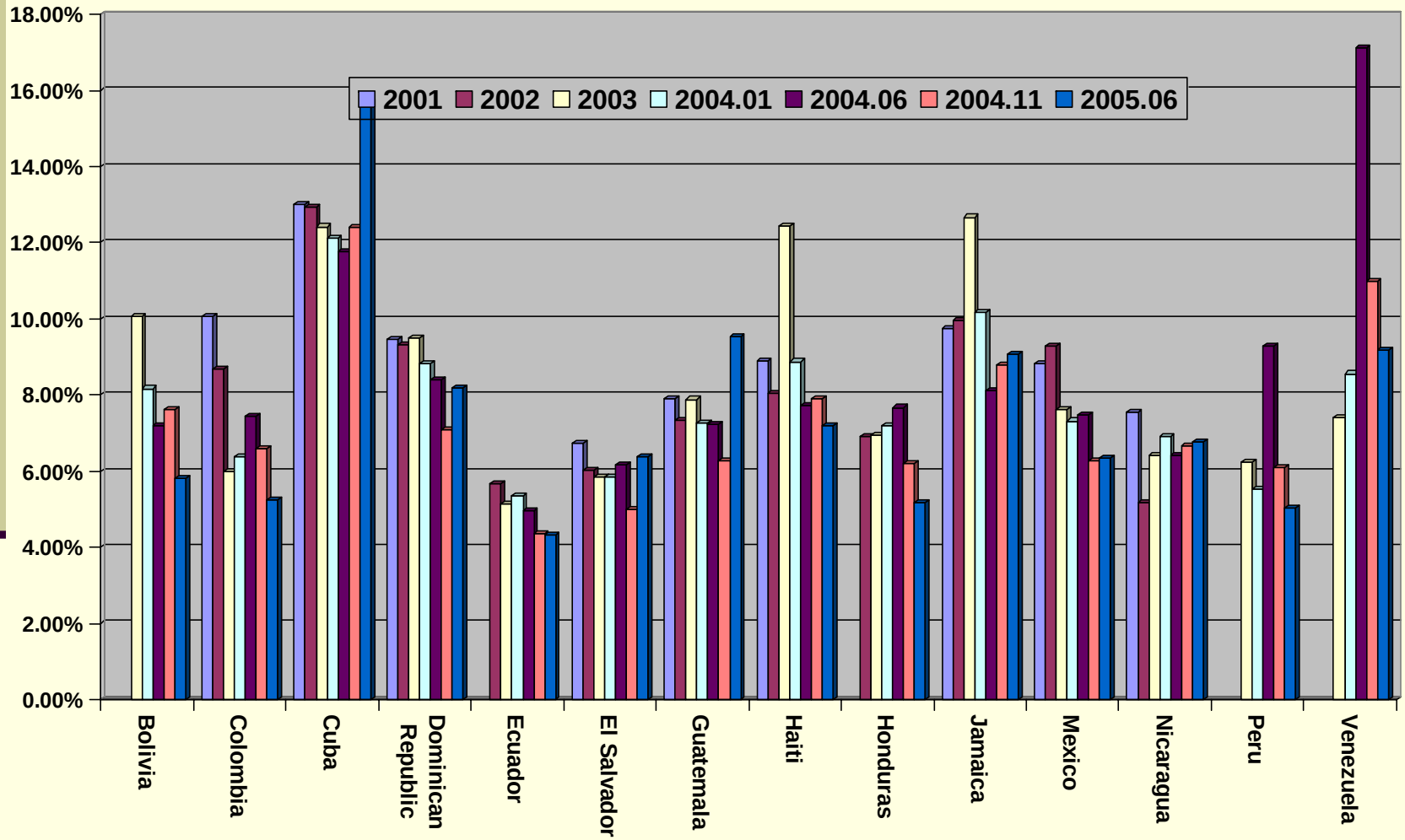
Outbound flows: migrants in Argentina

País	Migrantes	Total sent
Peru	150000	$ 38,947,272
Bolivia	300,000	$ 147,000,000
Paraguay	400,000	$ 196,000,000
Otros	100,000	$ 49,000,000

Opportunities for development

i. Reduce Costs
ii. Savings, Credit and Banking
iii. Link with hometown associations
iv. Promote nostalgic markets and tourism
v. Create institutional ties with the diaspora
vi. Link remittances and technology

Transfer costs to main recipient countries (to send US$200)



Costs of Calling to Selected Latin American and Caribbean Countries

Country	Global Cell	AT&T	MCI
Guyana	0.90	0.88	0.87
Haiti	0.56	0.51	0.49
Jamaica	0.46	0.47	0.45
Guatemala	0.44	0.31	0.29
El Salvador	0.32	0.31	0.29
Trinidad & Tobago	0.30	0.37	0.35
Colombia	0.26	0.31	0.29
Mexico	0.20	0.21	0.25
Dominican Rep.	0.20	0.31	0.29

Source: Global Cell, AT&T, MCI rates.

Strategy II: Savings, Credit and Remittances

a. Monitoring transfers, especially the exchange rate
b. Motivate savings and credit institutions to attract remittance senders and recipients
c. Bring low cost banking centers where there is a high concentration of families who receive remittances
d. Offer incentives to households that receive remittances;
e. Allow micro-finance and credit unions to become agents of remittances and savings institutions

Challenges to achieve financial democracy…

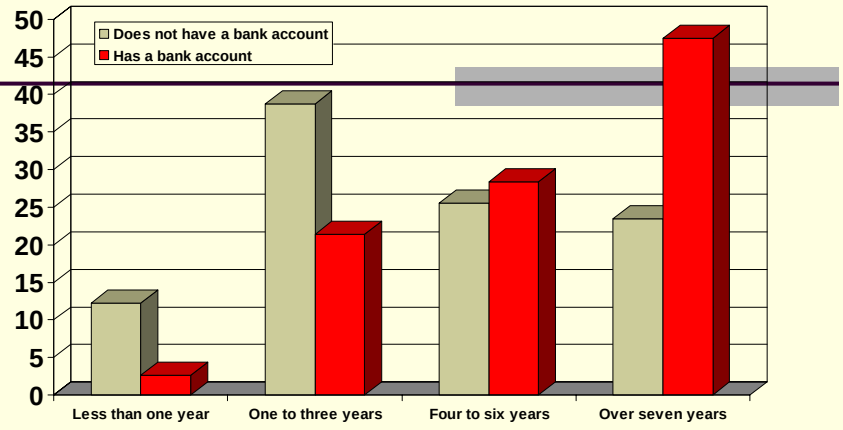
i. *Assimilation* efforts by government institutions and the private sector are inadequate. In thinking about access to these institutions, is important to distinguish between endogenous and exogenous factors affecting access.

ii. *Remittances as commodity*: immigrants see remittances as a good, a commodity which is a valuable in itself and not a financial instrument that can create value as asset. This issue is particularly important when considering technology applications and marketing techniques that can be attractive to immigrants and gradually educate and transform them into bank clients.

iii. *Market segmentation*: remittance senders are not a monolithic group with similar economic and financial preferences.

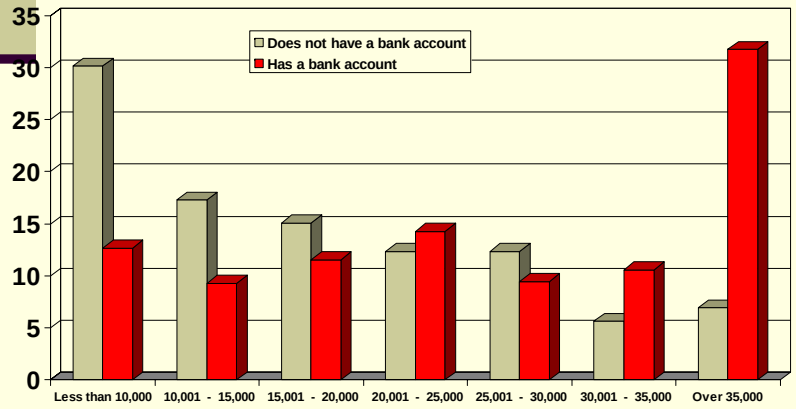
iv. Unleashing the potential of the inelasticity of remittances . . .

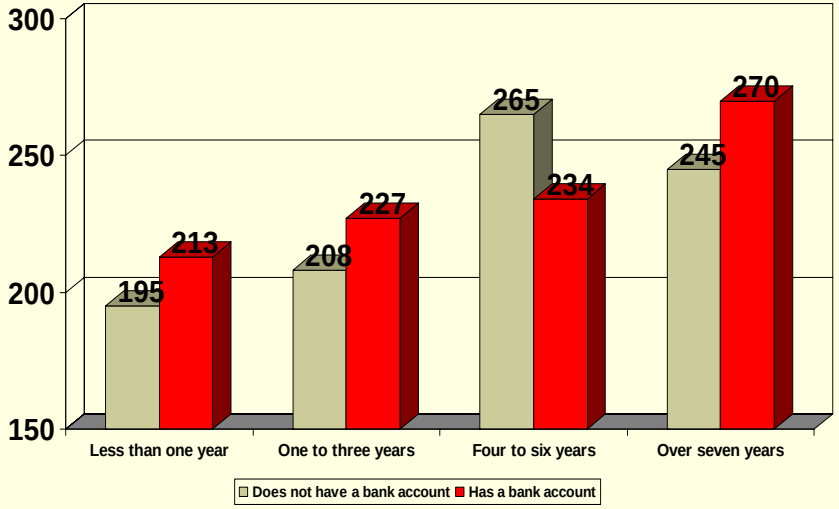
2. Senders who have been longer are more likely to have bank accounts…



3. There seems to be a relative inelastic trend in remittance sending, regardless of income, holding bank account or length of time in the U.S.

1. Remittance senders with greater income are more likely to hold a bank account. . .





Number of accounts opened among remittance recipient households

Institución	Nuevas cuentas	Transf. mensuales	Conversión
Salcaja	500	1000	50%
Red de la Gente	2500	25000	10%
Banco Solidario	4000	5000	80%
Fedecaces	4375	22000	20%
Guayacan	533	5426	10%
Coosadeco	529	4780	11%
Acacu	3000	2703	110%
Acocomet	800	2383	34%
El Comercio	80	800	10%

Strategy III: Alliances with Home Town Associations

- Seek communication and dialogue with HTAs;
- Social development
  - Donor technical assistance for project identification;
  - Support of a transnational community radio;
  - Donor support on governance and democratic participation;
  - Donor partnerships in social (health and education) and infrastructural projects
- Economic development
  - Government incentives to attract private sector involvement;
  - Government support in investment feasibility analysis;
- Financial infrastructure
  - Support education on financial services;
  - Support to link technology to education, communication and remittances in the rural areas.

Definition of four criteria for evaluating development potential

Ownership	Correspondence	Sustainability	Replicability
Community members participate in decision making; community members participate in implementation; and community members have control of project after completion.	Project meets basic needs; needs met are a development priority; and implementation occurs in association or coordination with other institutions.	Project enables development goals; does not constitute a burden or entail added costs; and has a long life cycle.	Resources for the project are easily available in other communities; and institutional environment facilitating implementation is available in other communities.

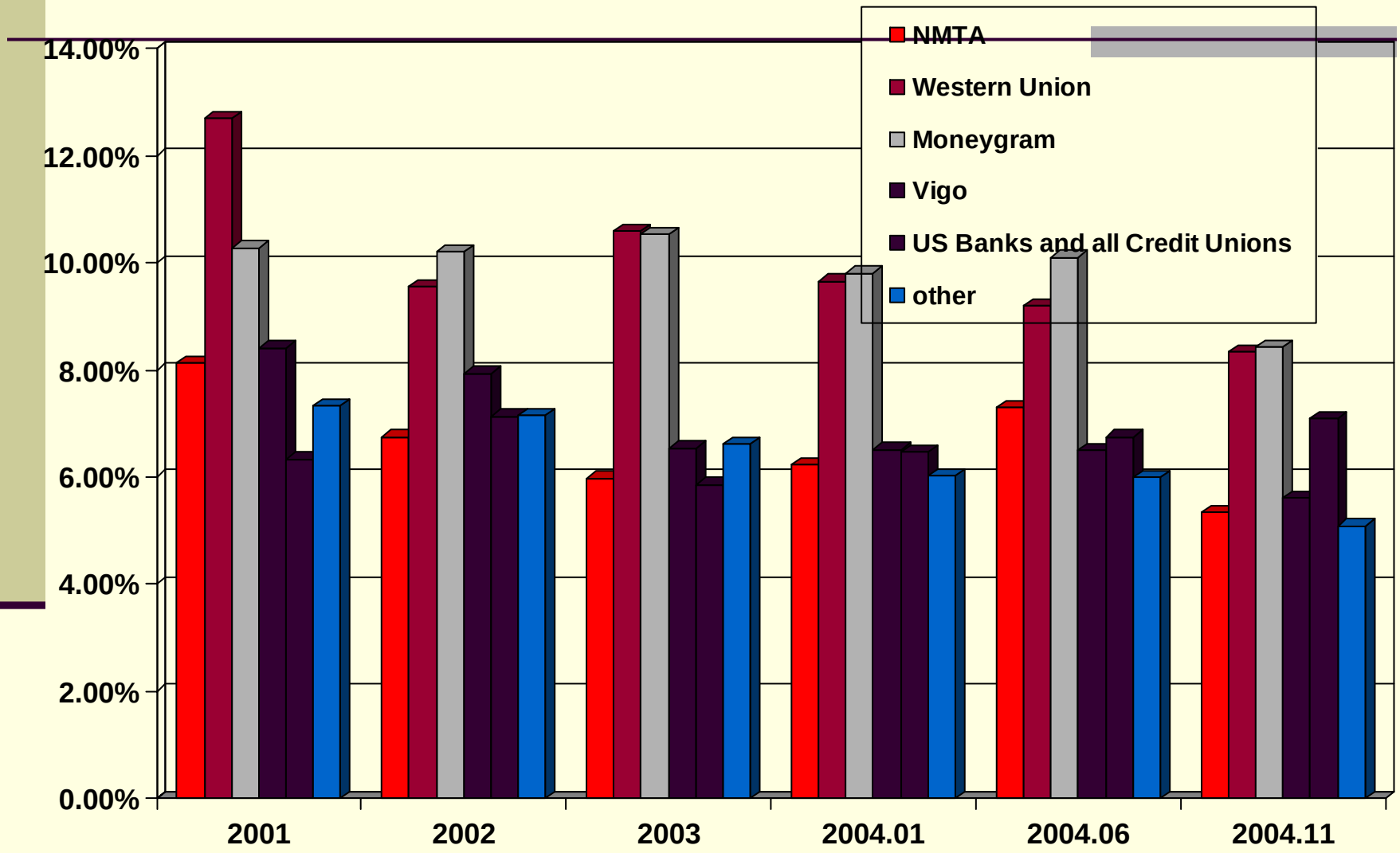
Three-for-One Program projects and communities in Jerez, Zacatecas

Type of project	Specific activity	Community	Three-for-One contribution (US$ as of 2003)	Population
Educational infrastructure	School renovation	San Juan del Centro	68,000	419
Microenterprise	Sewing workshop	Jomulquillo	7,224	305
Public infrastructure	Potable water	Sauz de los Garcia	175,263	138
Business investment	Lamb raising project	El Briseño	19,200	91

Source: SNIM n.d.; SEPLADER 2004.

Country	and GDP	Per capita	Cost	R/gdppc	Average transfer	Annual volume
Mexico	2.3%	162	6.88%	0.73	351.00	16,613,000,000
Brazil	0.6%	34	8.13%	1.85	541.00	5,928,000,000
Colombia	3.9%	87	7.45%	1.31	220.00	3,857,000,000
Guatemala	8.7%	218	7.22%	2.60	363.00	2,681,000,000
El Salvador	14.3%	390	6.18%	1.91	339.00	2,548,000,000
Dominican Republic	14.1%	279	10.39%	0.87	176.00	2,438,000,000
Ecuador	5.7%	134	4.94%	2.57	293.00	1,740,000,000
Jamaica	17.2%	566	8.11%	0.79	209.00	1,497,000,000
Peru	1.4%	50	6.48%	0.95	169.00	1,360,000,000
Honduras	12.4%	163	7.67%	2.91	225.00	1,134,000,000
Haiti	27.8%	122	7.72%	3.17	123.00	1,026,000,000
Argentina	0.8%	21	9.02%	0.36	225.00	700,000,000
Nicaragua	10.8%	146	6.93%	2.07	133.00	800,000,000
Paraguay	3.7%	89	9.11%	2.24	263.00	500,000,000
Bolivia	1.6%	48	7.19%	2.77	235.00	422,000,000
Costa Rica	1.8%	80	9.46%	0.82	301.00	320,000,000
Panama	0.7%	77	10.50%	0.56	196.00	231,000,000
Guyana	8.6%	186	10.14%	2.27	179.00	143,000,000
Barbados	4.3%	418	11.66%	0.29	220.00	113,000,000
Trinidad and Tobago	0.8%	30	10.41%	0.45	200.00	100,000,000
Uruguay	0.3%	71	11.28%	0.22	198.00	93,000,000
Belize	1.7%	281	8.78%	0.73	220.00	77,000,000
Suriname	2.1%	114	10.17%	1.17	220.00	50,000,000
Grenada	5.2%	220	ND	0.6838	220.00	23,000,000

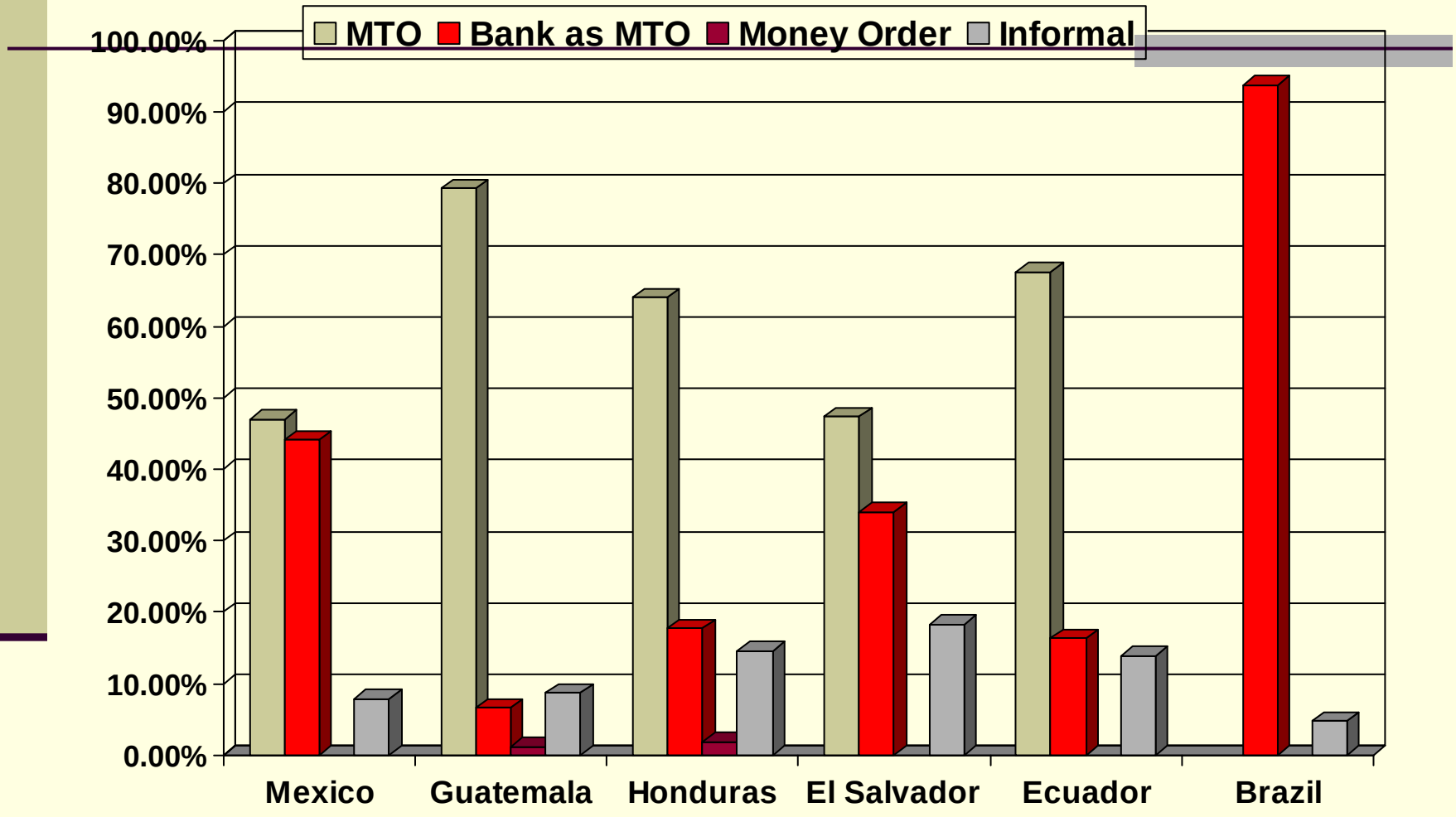
Total cost of remittance transfer by industry sector



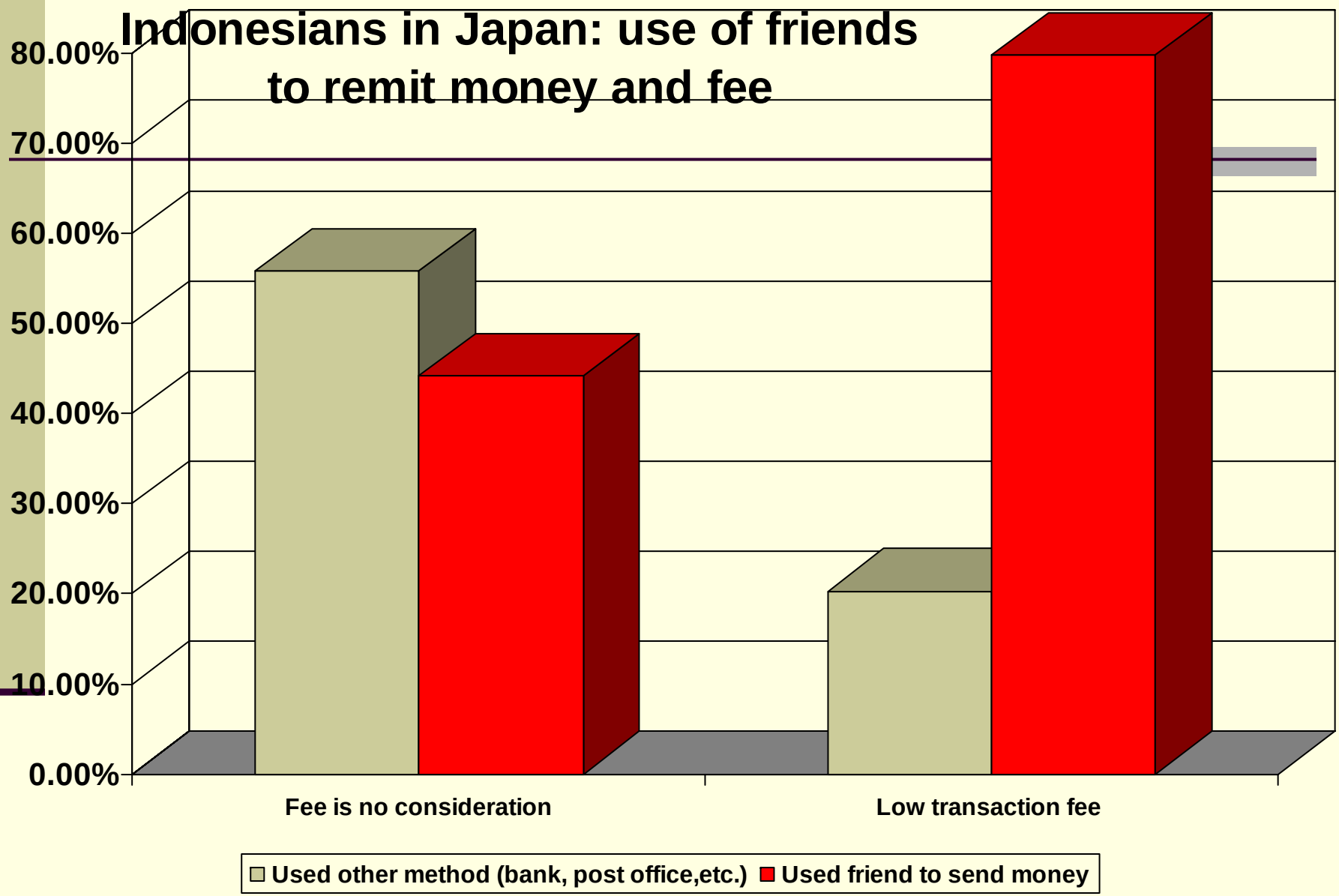
Principal migrant sending method in SE Asia

Sending country / Migrant country of origin	Japan	Hong Kong, China	Singapore	Malaysia
Philippines	Bank (70%)	Bank (75%)	MTO (45%), Bank (44%)	Bank (50%) Other (35%)
Indonesia	Friend (67%)	Bank (66%)	MTO (54%)	Others (45%)
Malaysia	Bank (57%)	NA	MTO (55%)	

LAC Recipient: How do you normally receive money from your relative?



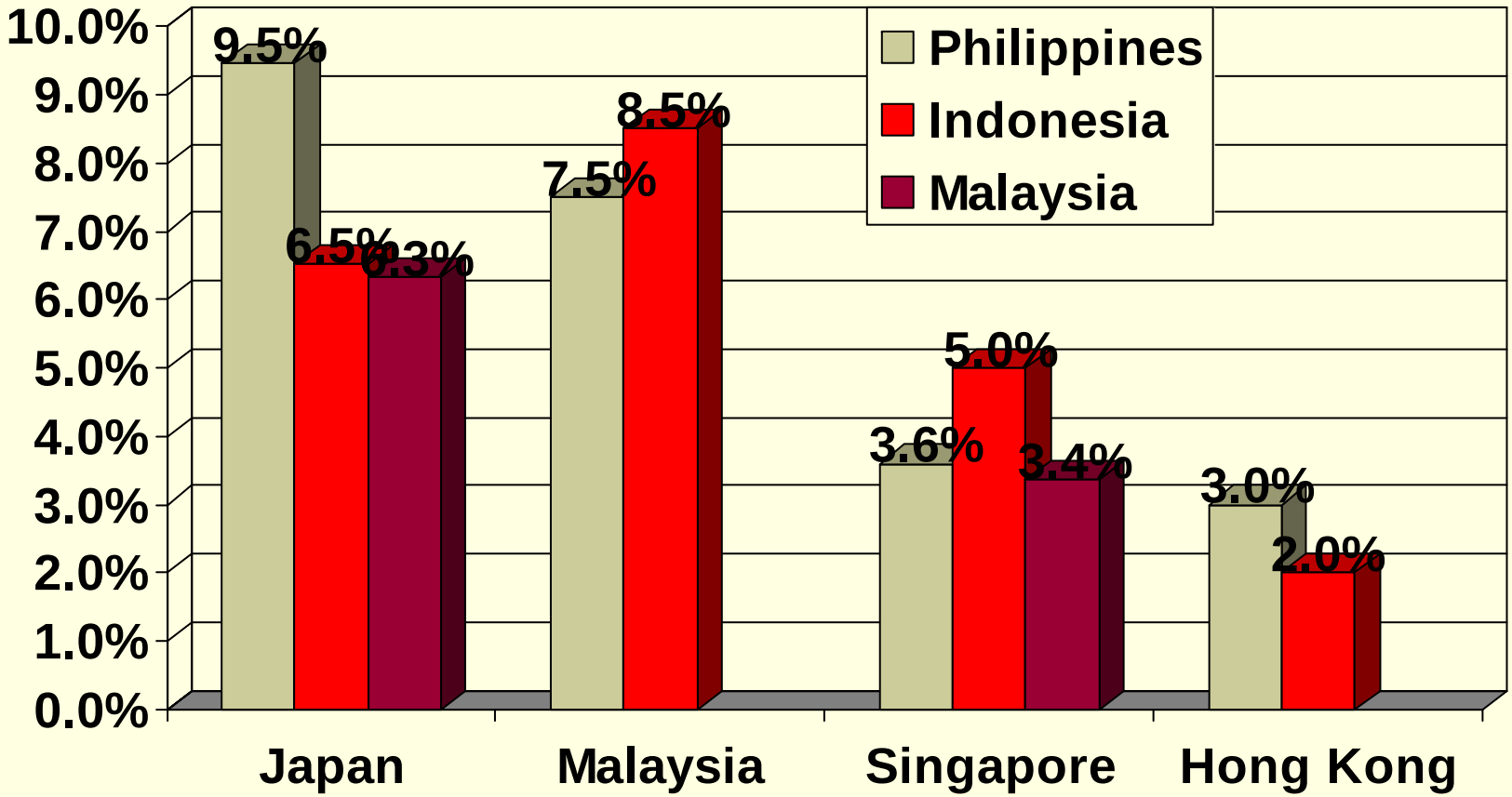
12% average, Cuba, Haiti, Guyana and Nicaragua may have higher informal networks above 30%


Indonesians in Japan: use of friends to remit money and fee
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
Fee is no consideration
Low transaction fee
Used other method (bank, post office,etc.)
Used friend to send money

Factors influencing use of informal flows

	Score	Sig.
Length of time sending	1.207	.272
Age	.302	.582
Gender	5.249	.022
Education	.063	.802
Income	.389	.533
Time sending money	.006	.940
Traveling back home	.273	.601
Fee of transaction	9.540	.002
Recommendation of business	.260	.610
Reputation of business	2.334	.127
Speed of sending	2.646	.104
Exchange rate	3.757	.053
Convenience	.001	.971
Customer support	.234	.628
Other reasons	1.782	.182

Transaction cost to send average amount to selected SE Asian countries



Transfer cost of sending remittances to Ghana from the U.K. and the U.S. (a competitive industry)

United States	MTO	$300	(%)	$500	Exchange rate*	FX commission
	Western Union	$24.00	8%	$39.00	8,989.00	0.67%
	Vigo	$12.00	4%	$22.00	9,004.00	0.51%
	MoneyGram	$9.99	3%	$9.99	8,995.87	0.60%
	Ría Envía	$15.00	5%	$25.00	8,990.00	0.66%
United Kingdom	**MTO**	**£100**	**(%)**		**Exchange rate***	**FX commission**
	Express Funds	3	3%		15961	0.0%
	Western Union	14	14%		15864.14	0.28%
	MoneyGram	4.99	5%		15370.39	3.39%

Impact of Remittances		
Strong (3)	Medium (2)	Low (1)
Guatemala, Ecuador, Nicaragua, El Salvador, Haiti, Honduras, Bolivia, Guyana, Jamaica, Mexico	Paraguay, Colombia Peru, Dominican Republic, Brazil, Suriname, Costa Rica, Belize, Grenada, Barbados	Argentina, Panama, Antigua and Barbuda, Trinidad and Tobago, Venezuela, RB

Ratio of remittances: 1: < .66; 2:0.67-1.5; 3: > 1.51; Remittances as % of GDP:1: < 1%; 2: 1 to 4%; 3:>4%;
Remittances per capita: 1<36; 2: 37-100; >100; Remittances cost: 1: > 7.5; 2: 7.6-9.5; 3: <9.5.