

REMITTANCES TO LATIN AMERICA
AND THE CARIBBEAN IN 2013:

STILL BELOW PRE-CRISIS LEVELS



Multilateral Investment Fund
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REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN IN 2013:

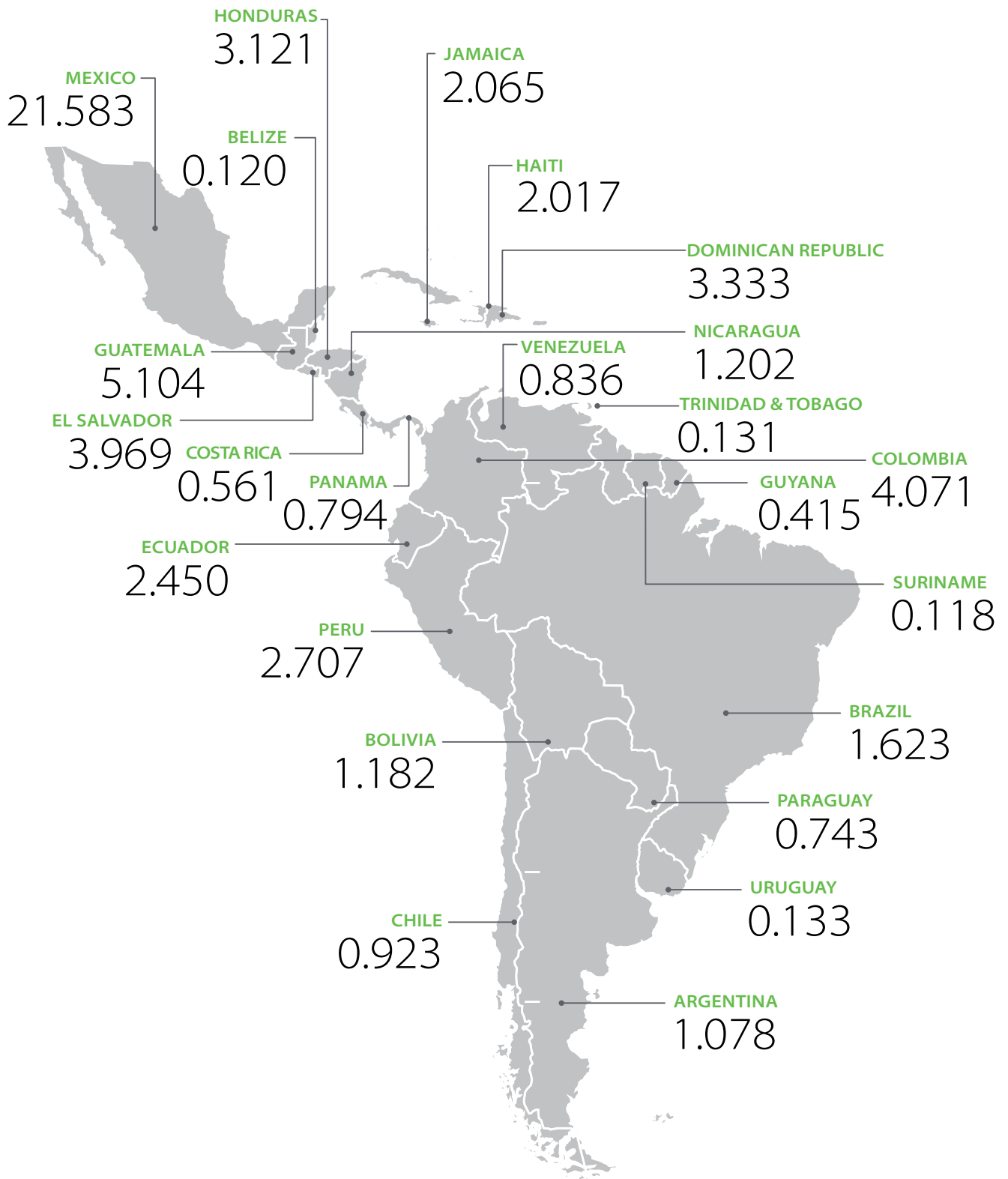
STILL BELOW PRE-CRISIS LEVELS



TOTAL:

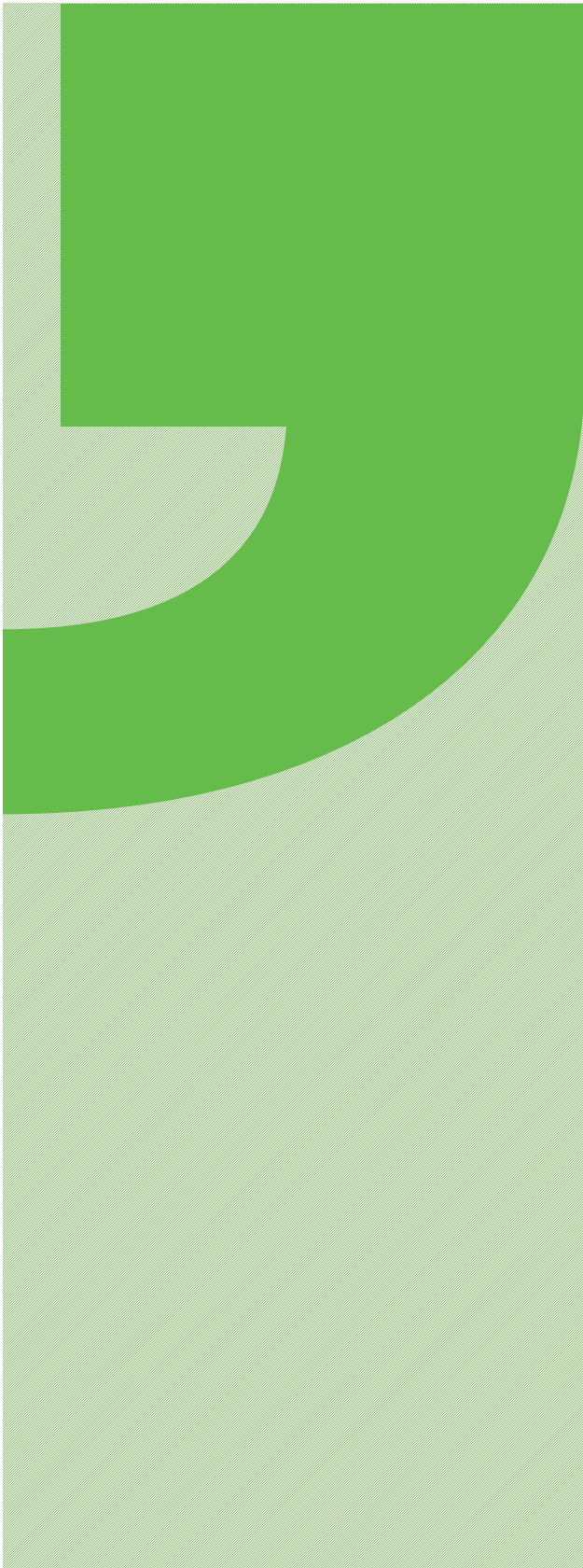
US\$61.251 billion





TOTAL AMOUNT OF REMITTANCES RECEIVED IN 2013

By country in billions US\$



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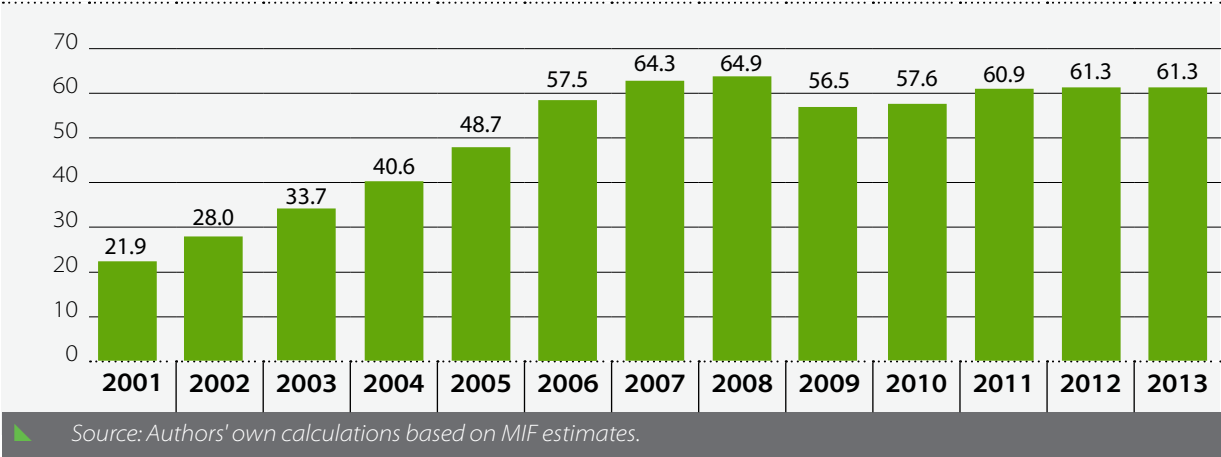
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PART ONE

REMITTANCES IN 2013

During 2013, the total amount of remittances received by Latin America and the Caribbean (LAC) was similar to the previous year, so the annual rate at the regional level barely varied. After the drop in these flows in 2009, resulting from the international financial crisis, remittance flows to LAC recovered slightly in 2010-2011, and then started to stabilize in 2011. In 2013, the inflow of remittances from outside the region reached US\$61.251 billion. This total reflects the positive variations in remittance growth rates in Central America and the Caribbean, compensating for the negative rates in Mexico and South American countries.

FIGURE 1: REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN (2001-2013) (US\$ BILLIONS)



Note: Data on remittances in 2012 reflect adjustments made to previous estimates for Panama and Costa Rica.

Prior to the international financial crisis, remittance flows into LAC countries had reached average annual growth rates of 17%. However, the 2008-2009 economic crisis provoked a major change in the trends observed up until then.¹ First, remittance levels fell more than 10% in 2009, followed by a modest rise of 6% in 2011, and then a leveling off at the regional level. Stabilization of these aggregated flows disguises the widely varying tendencies in different countries and subregions, as will be shown in this study.

¹ Maldonado, R., Bajuk, N., and Hayem, M. "Remittances to Latin America and the Caribbean in 2011: Regaining growth." Multilateral Investment Fund, Inter-American Development Bank. Washington D.C., 2012.

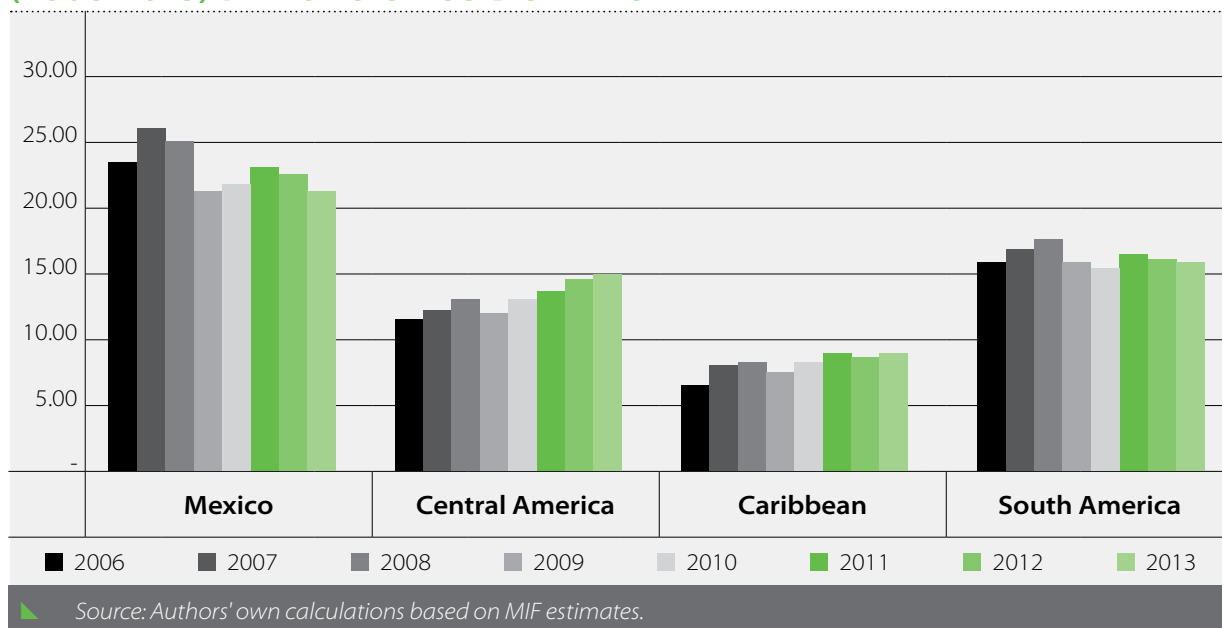
FIGURE 2: REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN (2006-2013) YOY GROWTH



The evolution of remittance income received by all LAC countries in 2013 varied during the year; levels fell in the first half of the year and grew in the second half. In the first and second quarters, the total flow showed negative annual growth rates of -5.6% and -3.3%, respectively, a continuation of the downward trend observed in the second half of 2012. From June 2013 onward, however, the trend reversed and remittance income to LAC countries grew by 3.5% and 4.8% in the third and fourth quarters, respectively.

Since the remittance flows into LAC countries present heterogeneous behavior in virtue of the migratory flows and economic conditions of each country's migrants, a more in-depth study at the subregional level is needed. Therefore, for the purpose of this analysis, the LAC region is divided into four blocks: Mexico, Central America, the Caribbean, and South America.

FIGURE 3: REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN (2006-2013) BILLIONS OF US DOLLARS



Almost all remittances received by **Mexico** are sent from the United States. Therefore, the 2008-2009 economic crisis in the United States provoked a significant drop in remittances sent to Mexico. Later, a brief recovery period was observed, with certain seasonal highs and lows associated with shifts in the peso/dollar exchange rate. In 2012, however, especially during the second half of the year, remittance levels presented a negative annual growth rate, a trend that continued during the first seven months of 2013. In the first and second quarters of 2013, remittance levels dropped 10.5% and 9.1%, respectively, while in the third and fourth quarters, the levels grew (2.5% and 3.0%, respectively). This growth was insufficient to reverse the negative growth in the first half of the year, so 2013's overall growth rate was -3.8%.

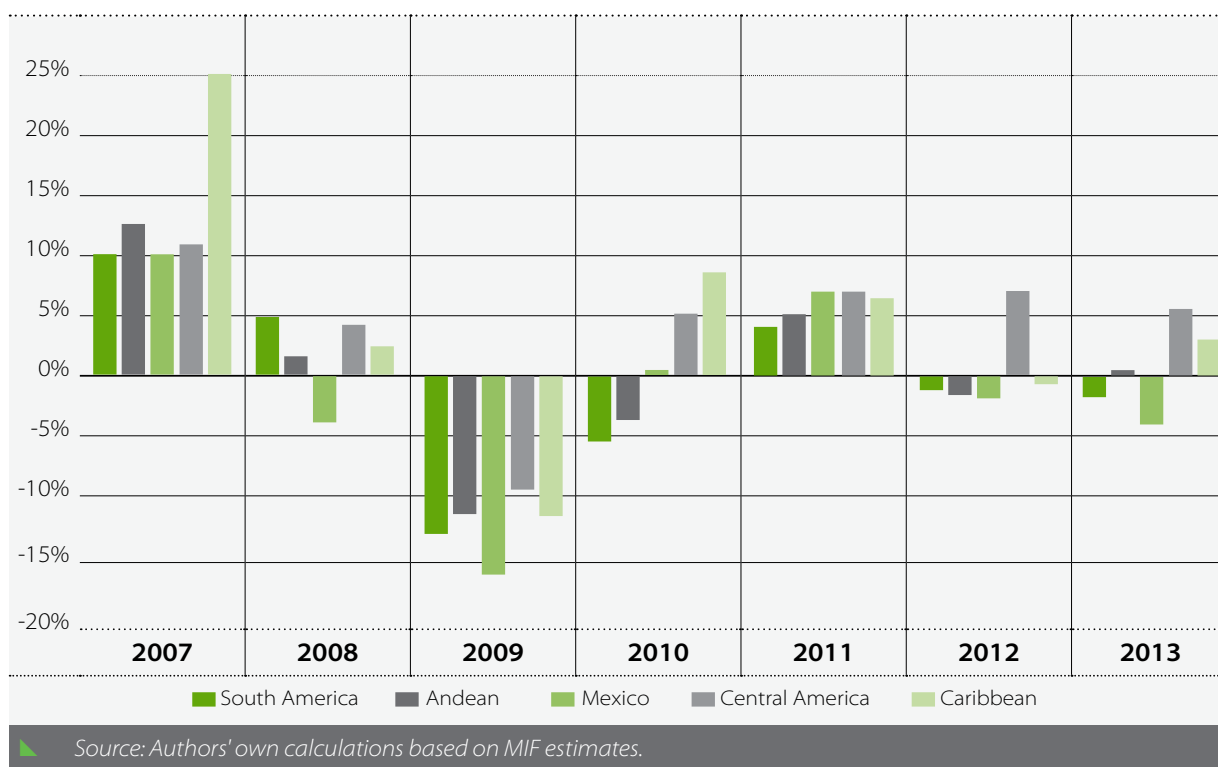
It is important to note that the drop in remittance flows to Mexico immediately after the crisis was consistent with the reduction in Mexican workers migrating to the United States. After this drop, however, the population of Mexican migrants in the United States has remained relatively constant. From 2012 to 2013, the number of Mexican migrants in the United States fell only 0.8%.

The levels of remittances flowing into the countries of **Central America** were the first to show signs of recovery after the international financial crisis. These countries continue to experience higher remittance rates than countries in the other LAC subregions. In 2013, the average annual growth rate for Central America was 5.4%, similar to previous years. Levels in this subregion dropped only 9% in 2009, but later, annual growth rates returned to levels similar to those observed before the crisis, which was also true last year. As such, the levels of remittances sent to these countries in 2013 surpassed even the highest pre-crisis levels.

Remittances sent to Central American countries originate almost entirely in the United States, but unlike Mexico, the migratory flows from these countries to the United States remain positive. Remittance trends in Central America in 2013 differed from the rest of the region, showing increases in all four quarters, with a 0.5% growth rate in the first quarter and 5.6% and 6.5% in the second and third quarters, respectively. In the fourth quarter of 2013, the rate spiked to 8.7%. This jump reflects the increase in remittances received in 2013 by countries such as Honduras and Guatemala, which experienced annual growth rates of 7.8% and 6.7%, respectively.

The countries of the **Caribbean**, after they were affected by the crisis, enjoyed an accelerated recovery of remittance flows due to the extraordinary amounts sent to Haiti in response to the 2010 earthquake. In 2012, the total volume of remittances sent to that region showed practically zero annual growth rate. During 2013, remittance trends in these countries were similar to those observed in the rest of the LAC region, with the exception of Central America. In the first and second quarters of 2013, remittance levels in Caribbean countries fell 1.8% and 0.6%. In the third and fourth quarters, rates rose by 4.1% and 10%, respectively; total annual growth in the Caribbean was 3%. The Caribbean country leading this growth was the Dominican Republic, with an annual growth of 5.5%, while the levels of remittances being sent to the other Caribbean countries included in this study grew only 1.3% to 1.6% during the year.

FIGURE 4: REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN (2007-2013)² ANNUAL PERCENTAGE VARIATION



Post-crisis recovery of remittance levels has been slow in the countries of **South America**, which have also presented more varied growth rates than in the other subregions, in part due to the diverse origins of these flows. Remittances sent to this subregion originate in the United States, Europe (mainly Spain), as well as several Asian countries (mainly Japan, in the cases of Brazil and Peru) and countries in the LAC region (for example, remittances flow from Argentina and Brazil to Bolivia and from Venezuela to Colombia). The severity of the international financial crisis and subsequent degree of recovery in these sending countries (especially the United States and Spain) affect the amount of remittances sent to the different South American countries.

² For the purpose of this report, the category of Andean countries (Bolivia, Colombia, Ecuador, Peru and Venezuela) represents a subset of the 12 South American countries.

Despite this situation, in 2013 the overall general trend in South America was similar to that of Mexico and the Caribbean, presenting drops in the first half of the year and spikes in the second half. Levels dropped 6.0% and 3.2% in the first and second quarters, respectively, leaving a (negative) annual growth rate in this subregion of -1.5%. In this context, if remittances received by Brazil are excluded from the total remittance flow into South America, it can be observed that in the post-crisis years, annual growth rates have been close to those reported in 2007, although varying more widely and still not attaining 2007 levels.

The weakening of remittance flows into Brazil is tied to the economic improvement the country has enjoyed in recent years, in addition to the weak economies in the host countries of Brazilian migrants, causing a growing number of Brazilian migrants to decide to return to their home country.³ As a result, in 2011, the volume of remittances fell 4.9%, followed by a modest 0.8% increase in 2012 and a sharp drop of 18.4% in 2013.

Remittances received by Andean countries also showed a post-crisis recovery. However, due to the difficult economic situation persisting in Spain, this trend reversed. In 2013, the remittances received in the Andean region showed a slight positive annual increase of 0.4%, and the total volumes already attained the same levels reported immediately after the crisis. This reflects a deliberate effort on the part of Andean migrants in Spain to continue sending remittances home in amounts similar to what they had been sending before the crisis.

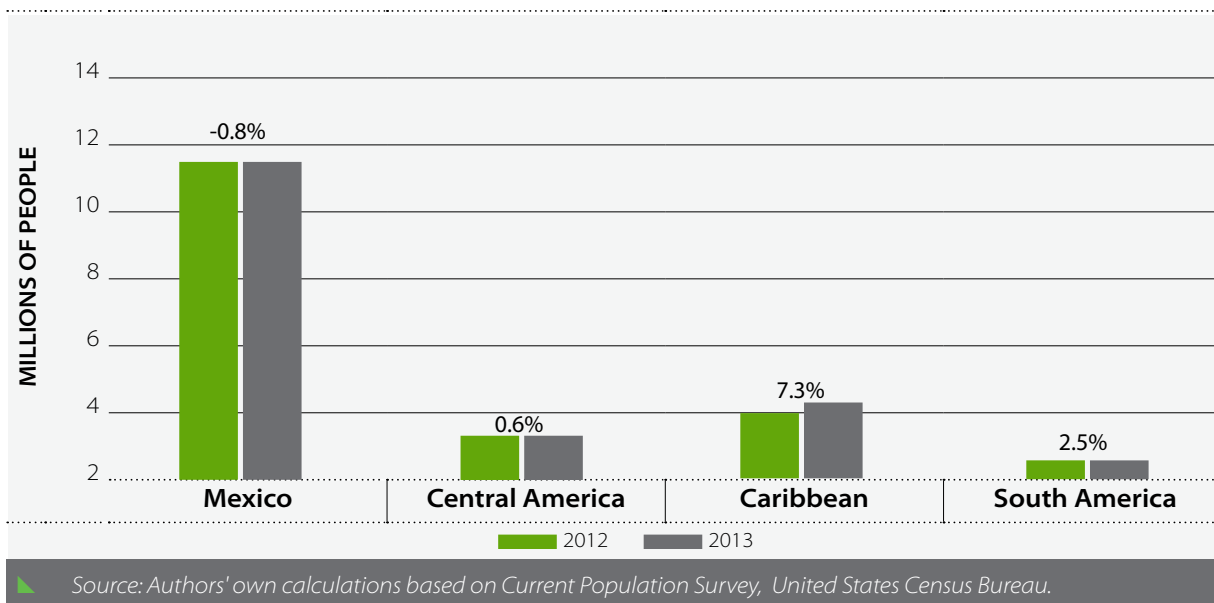
3 It is estimated that in recent years at least 20% of Brazilian migrants have returned to Brazil, participating in programs such as the “Plan de Retorno” sponsored by the Japanese government in 2009 and 2010, as well as those who returned voluntarily. Data from the Japanese Ministry of Labor show that 92.5% of the migrants participating in the “Plan de Retorno” to return their countries of origin were Brazilian, 4.2% were Peruvian, and 3.3% were from other LAC countries.

PART TWO

THE EFFECT OF
THE ECONOMIC
SITUATION
IN SENDING
COUNTRIES ON
REMITTANCE
FLOWS

The LAC region receives approximately three-quarters of its total remittances from the United States. Of the estimated 21 million LAC migrants residing in the United States at the end of 2013, 54.2% were from Mexico (0.8% less than in 2012), and 14.4% from Central America (0.6% more than the previous year). In addition, 19.4% were from the Caribbean and 12.0% from South America. The Caribbean migrant population was the fastest-growing group in 2013, with an increase of 7.3%. The South American population grew 2.5%.⁴

**FIGURE 5: MIGRANT POPULATION IN THE UNITED STATES
ORIGINALLY FROM LATIN AMERICA AND THE CARIBBEAN (2012-2013)**
MILLIONS OF PEOPLE AND ANNUAL GROWTH RATES



With respect to the gender of LAC migrants in the United States, it was estimated at the end of 2013 that there were 10.5 million men, 1.8% more than the previous year, and 10.5 million women, 0.7% more than in 2012, indicating that the ratio between men and women was similar to the previous year.⁵

After the United States, Spain is the second most important country of origin of remittances being sent to LAC, especially to the Andean countries. In absolute terms, several years ago the remittances sent from Spain to Bolivia, Ecuador and Colombia were as important as those from the United States. But these flows weakened due to Spain's fractured job market, which has been a problem ever since the onset of the crisis. In 2013, this trend continued and remittances sent from Spain to these countries fell 4%, but this was compensated for with an increase of approximately 1% of intra-regional remittance income,⁶ and 2% from the United States. The latter is consistent with the positive migratory flow of South Americans into the United States in 2013.

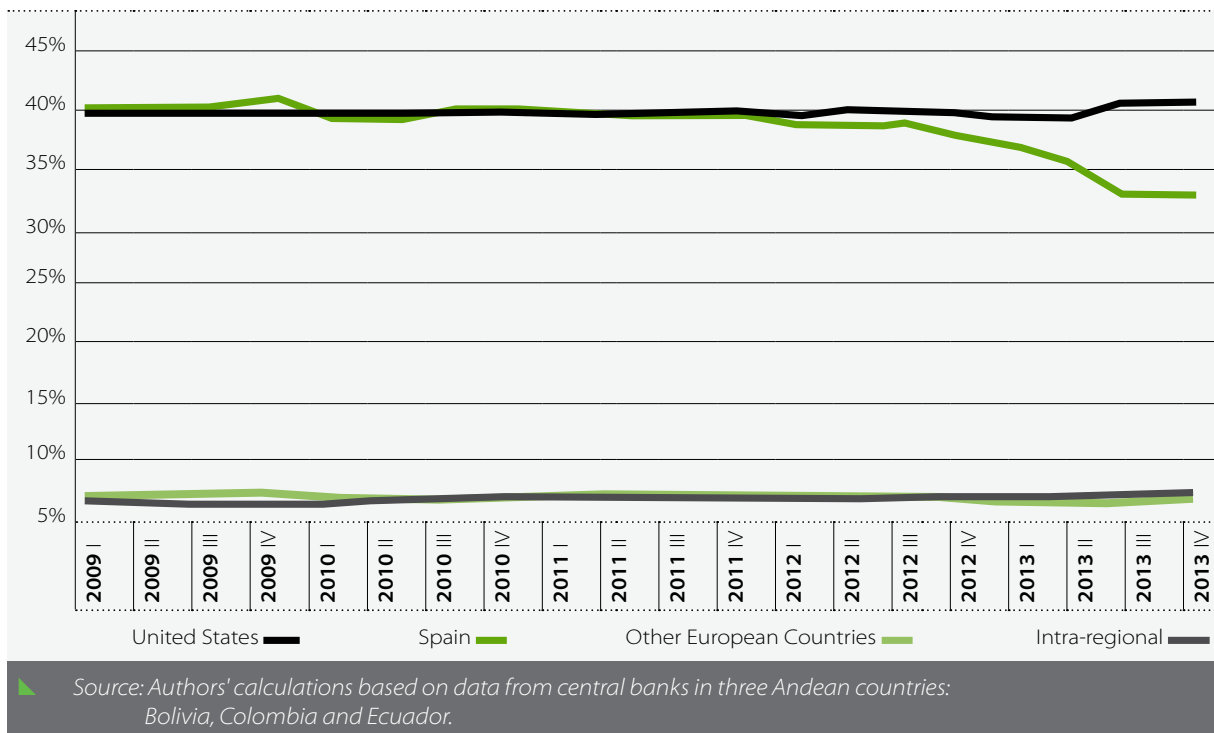
⁴ Data from the Current Population Survey of the United States Census Bureau.

⁵ Ibid.

⁶ For example, remittances sent from Brazil and Argentina to Bolivia, from Venezuela to Colombia, and from Brazil and Argentina to Paraguay, etc.

The shrinking volume of remittances from Spain is also consistent with the dwindling migration from LAC to Spain, where the most significant drops were reported in population of migrants coming from Mexico, the Dominican Republic, El Salvador, Brazil, Costa Rica, and Guatemala; each country reported decreases in migration flows of more than 20%. Despite these reductions, in 2013 the countries with the largest populations of LAC migrants in Spain were: Colombia (11.8%); the Dominican Republic (9.8%); Ecuador (8.3%); Venezuela, Argentina, and Peru, each with approximately 7.5%; and Brazil, Honduras, Paraguay, and Bolivia with 5% to 7% each.

FIGURE 6: SHARE OF REMITTANCE FLOWS BY COUNTRY OF ORIGIN TO SELECTED COUNTRIES IN SOUTH AMERICA⁷ (2009-2013)



Other European countries constitute an important source of remittances for Caribbean countries, especially those countries that share significant economic and cultural ties (for example, the United Kingdom with Trinidad and Tobago, Jamaica, Belize, and Barbados; and the Netherlands with Suriname, Aruba, and Curacao). However, this flow is small compared with the volume of remittances originating from the United States and Spain. It is noteworthy that in the Andean countries, remittances from other European countries account for 8.4%, which is almost as significant as those being sent from other LAC countries (see Figure 5).

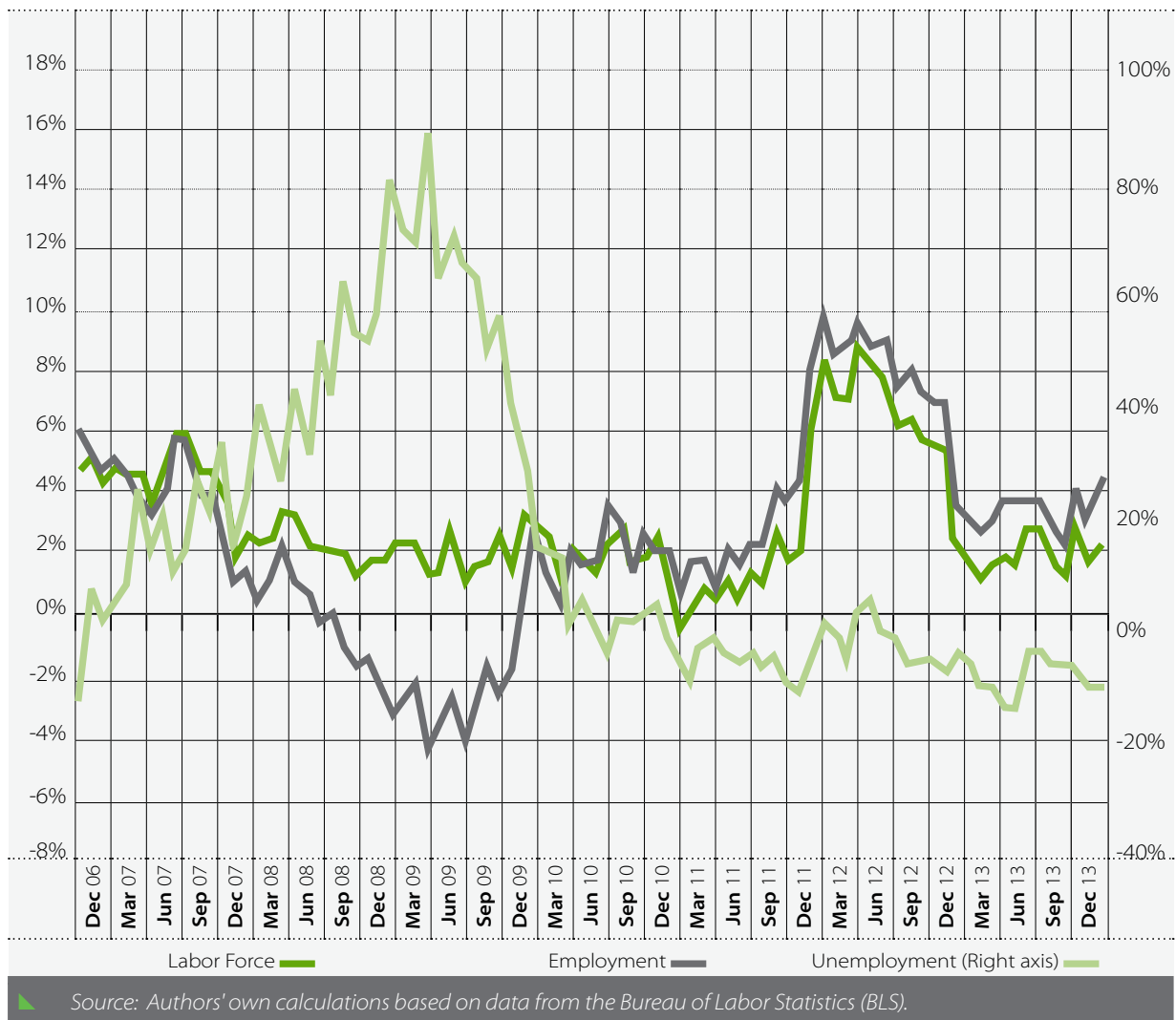
The total volume of remittances being sent to LAC each year is subject to the economic situations in the host countries where LAC migrants reside, which affect their possibilities of obtaining employment and generating income. The employment and unemployment rates in the two main host countries will be examined here, as well as migrants' wages in those economies. These two indicators, to a great extent, determine the remittance trends in the region.

⁷ The remittance-receiving countries analyzed are Bolivia, Colombia, and Ecuador.

United States. The economic crisis of 2008-2009 caused a decreased demand in the United States for LAC migrant workers, mainly in the construction and manufacturing sectors.⁸ Starting in 2010, a slight recovery in demand for labor was observed, which gained strength in 2012⁹ and continued in 2013, but less vigorously. The average annual employment rate grew by 2.9%, less than that in the previous year. For 2013, it was estimated that the total labor force of LAC migrants in the United States reached 13.8 million (90.9% were employed and 9.1% were unemployed).¹⁰

With respect to the number of unemployed LAC migrants in the United States, the average annual unemployment rate in 2013 fell 10.2% with respect to the previous year, revealing an improvement in this host country's job market.

FIGURE 7: EMPLOYMENT AND LABOR FORCE FROM LAC IN THE UNITED STATES (2007-2013) ANNUAL PERCENTAGE VARIATIONS



⁸ "The Latino Labor Force at a Glance," United States Department of Labor, Washington, D.C., 2012.

⁹ According to the report "The Latino Labor Force at a Glance" by the United States Department of Labor, sectors that contributed to improving demand for Latino labor in the United States during this period included retail trade and professional services businesses, both of which are large employers of this population.

¹⁰ Data from the Current Population Survey of the United States Census Bureau.

In general, prior to the economic crisis in the United States, the trends in employment and the LAC migrant labor force (working-age population, both employed and unemployed) followed a similar pattern; migratory flows responded to the demand for labor in the host country. However, in 2008-2009 (the most severe years of the economic crisis), the interactive relationship between employment in the United States and labor force of LAC migrants fell apart, as unemployment spiked up in this migratory group while the size of the labor force remained relatively unchanged amid hope that the economy would recover. Starting in 2010, the relationship between employment and LAC migrant workers began to reestablish itself, albeit less intensively, since increased employment opportunities surpassed the increases in the labor force, enabling absorption of many of the previously unemployed migrants.

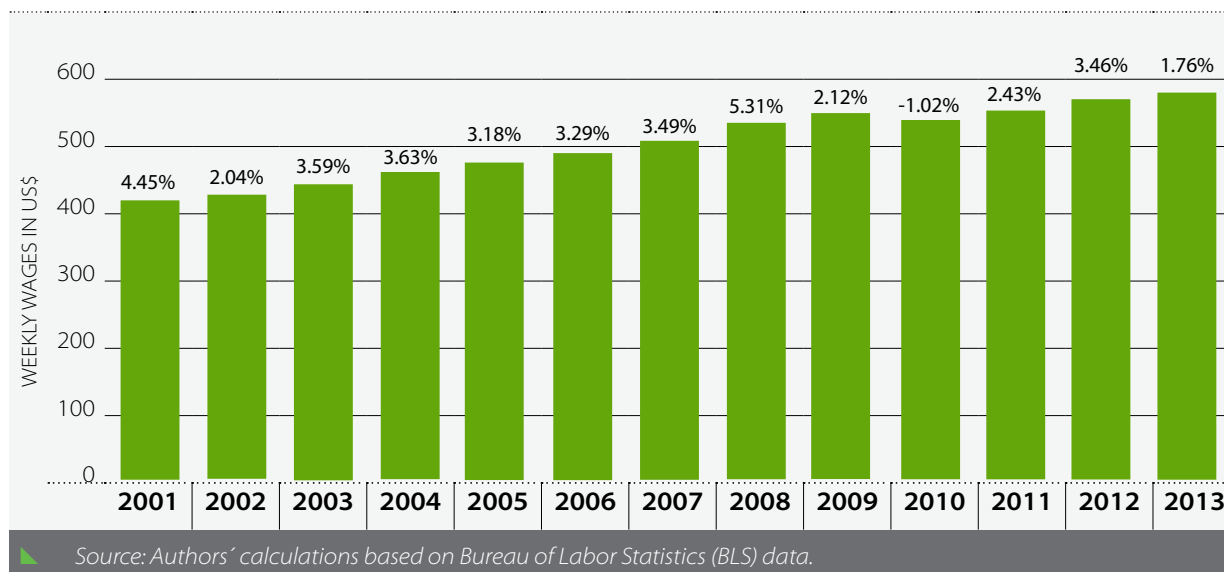
Employment levels of LAC migrants in the United States improved in 2013. However, when examining which LAC subregion the migrants came from, the improvement was greatest for Central American and Caribbean migrant workers (with annual increases of 8.0% and 8.9%, respectively), which may in part be tied to the greater migratory flows from Central America and the Caribbean. In 2013, migrant flows into the United States from Central America and the Caribbean increased 0.6% and 7.3%, respectively.

For the third consecutive year, average wages for LAC workers in the United States tended to rise; by the end of 2013, the average wage was US\$578 per week. However, the annual average increased only 1.8%, less than that observed in the previous two years.

In 2013, the slight improvement in average wage in the United States, along with the positive migratory flow from Central America and the Caribbean, explain the increased volumes of remittances sent to these subregions. Meanwhile, despite the slight improvement in wages, the negative migratory flow from Mexico was a major factor in explaining the decline in remittances received by Mexican families that year.

FIGURE 8: AVERAGE WEEKLY WAGES OF LAC MIGRANT WORKERS IN THE UNITED STATES (2001-2013)

TOTAL AMOUNTS IN U.S. DOLLARS AND ANNUAL PERCENTAGE VARIATIONS

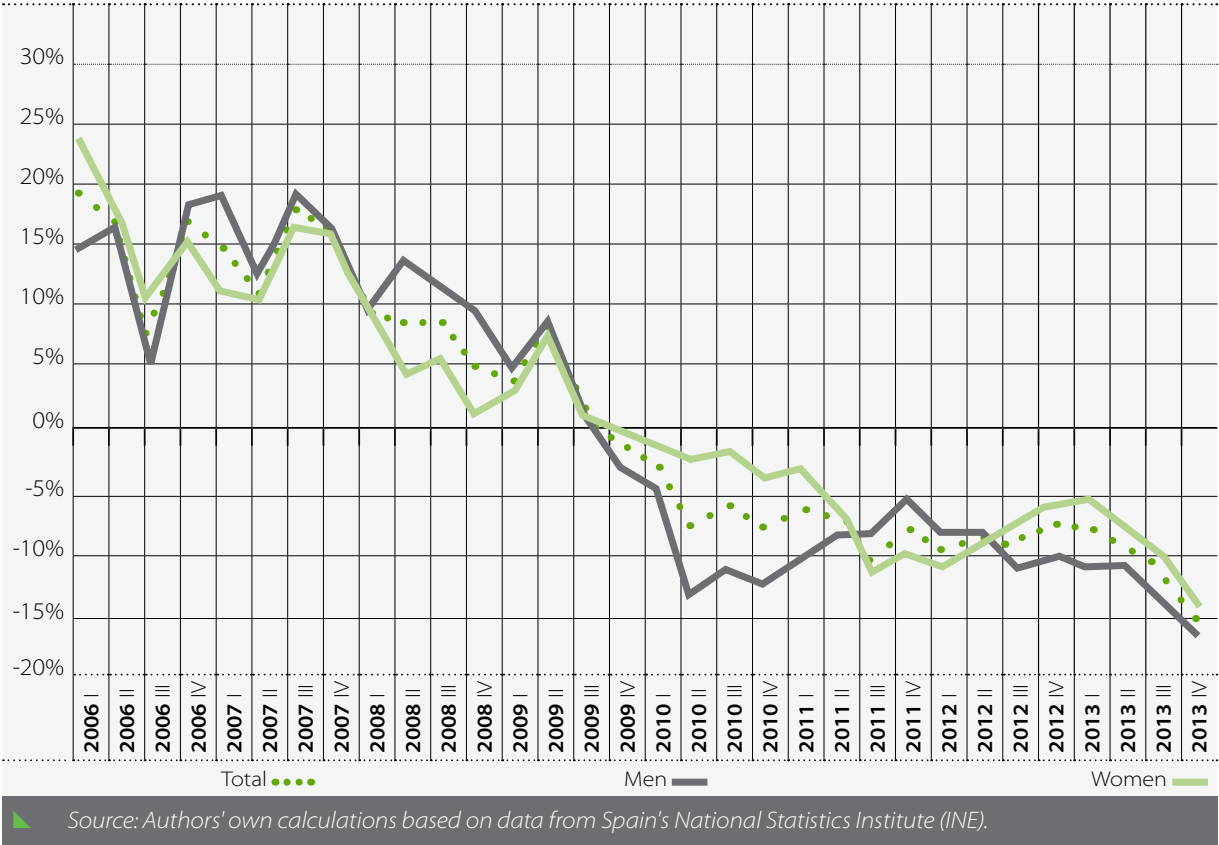


The information already available for the first two months of 2014 on trends in LAC migrant workers' employment and wages in the United States suggests that the volume of remittances sent this year to Mexico will increase moderately', and the countries of Central America and the Caribbean will see even greater increases.

Spain. Despite Spain's dire economic situation in recent years (which finally began to turn around toward the end of 2013), the country remains the second most important source of remittances sent to LAC, in particular to the Andean countries. For 2013, the total labor force of LAC migrants in Spain was estimated at 985,000, 64.7% of whom were employed, and the remaining 35.5% unemployed.¹¹

Since mid-2009, annual variations in Spain's LAC migrant population have been negative, and in 2013 this trend accentuated to reach an annual rate of -11%, surpassing the 2009 rate of -9%. In 2013 the rate was higher in the case of men (-12.9%) than women (-9.5%). However, this decline cannot be solely due to the return of migrants; another important factor to consider is the increase in cases in which migrants have obtained Spanish nationality and are no longer considered to be foreigners in Spain's migratory statistics, as indicated in Figure 9.

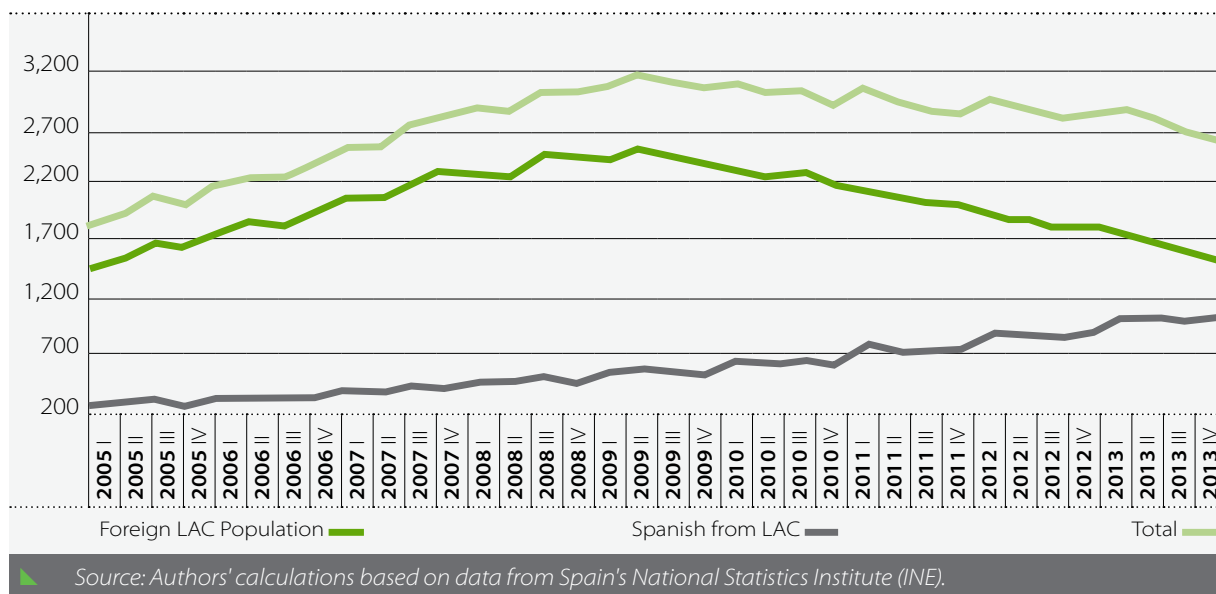
FIGURE 9: LATIN AMERICAN AND CARIBBEAN POPULATION IN SPAIN (2006-2013) YOY GROWTH



¹¹ Data from Spain's National Statistics Institute (INE).

Data on LAC workers who have migrated to Spain, including those who have become naturalized citizens, indicate that ever since the crisis in 2009, migrants have sought to accelerate the naturalization process, most likely for the purpose of ensuring their stay in the country and improving their income. Despite the fact that 2013 statistics in Spain show a negative annual migratory flow of LAC workers (-11%), the same period showed an annual growth rate of 11.5% of LAC migrants naturalizing and becoming Spanish citizens. It can therefore be concluded that the net drop in the migratory flow was only -3.9% in 2013, greater than that observed the previous year (-2.0%).

FIGURE 10: POPULATION OF LATIN AMERICAN AND CARIBBEAN ORIGIN IN SPAIN (2005-2013) (THOUSANDS OF PEOPLE)



As previously mentioned, migratory flows respond in part to the host country's economic status and circumstances in the labor market. As such, migration from LAC to Spain is closely linked to labor market conditions, especially in sectors that provide the primary source of employment for the greatest numbers of migrants: the construction sector (for men) and the services sector (for women).

Since 2008, the employment rate in the construction sector has declined each year. In 2013, it fell by 14%, slightly less than in 2012. The reduced demand for manual labor in the sector presented a disincentive for men from LAC to migrate to Spain in 2013. With reduced migration, the rate at which the unemployment rate had been rising slowed, but it still presented positive rates that were on average 6.6% during the year. In the last month of 2013 and the first two months of 2014, unemployment rates fell, which could be indicative of a recovery process in this sector.

FIGURE 11: EMPLOYMENT IN SPAIN BY ECONOMIC SECTOR (2007-2013)
 YOY GROWTH

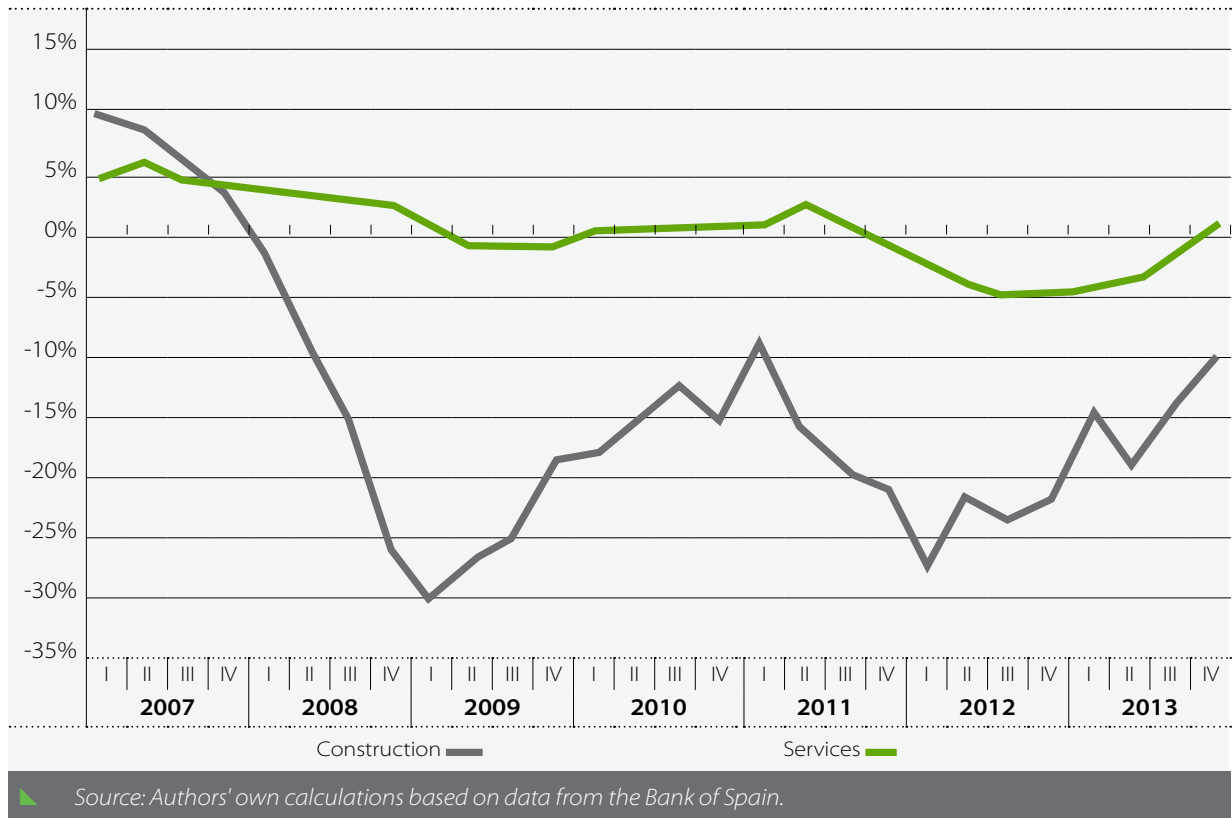
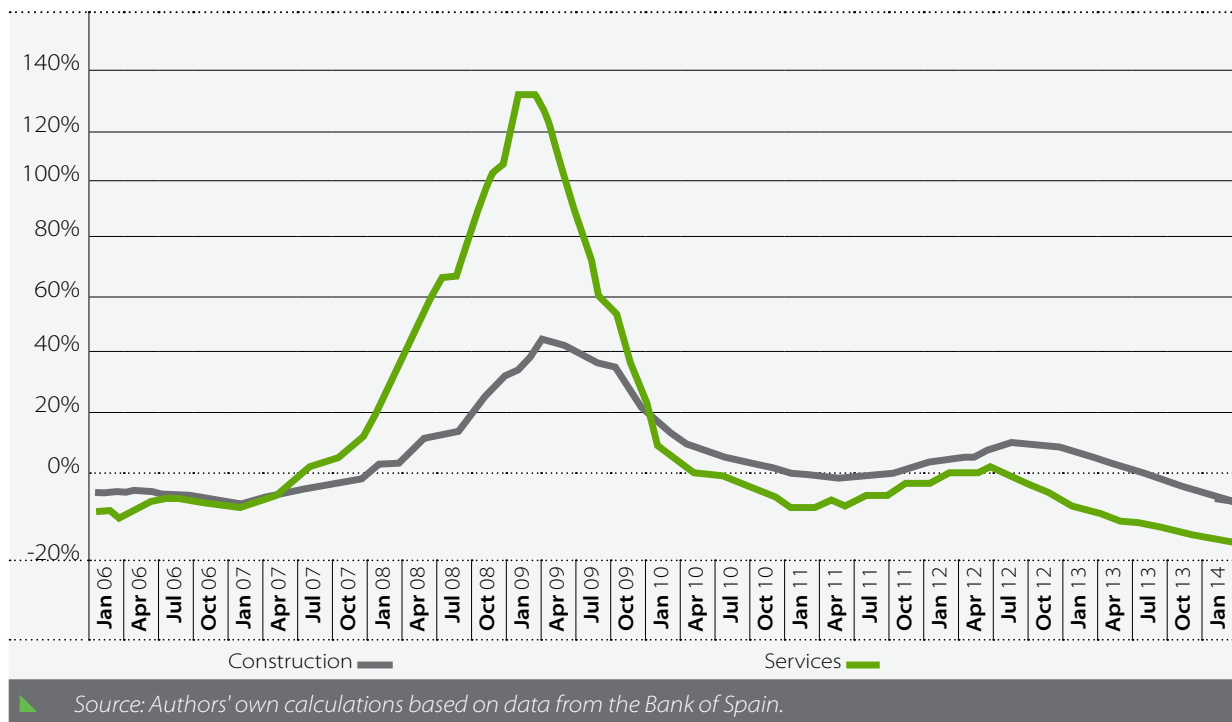


FIGURE 12: UNEMPLOYMENT IN SPAIN BY ECONOMIC SECTOR (2006-2014)
 YOY GROWTH



The services sector appears to be more stable; the employment rate in this sector fell only 2.7% in 2013, significantly less than that observed in the construction sector. It was also observed that as the year progressed, the rate of decline steadily slowed, until by the end of the year, the rate was close to zero. All this contributed to a smaller reduction in the annual variation of the number of female workers migrating from LAC to Spain than male workers. Improvement was also observed in the negative unemployment rate (-9.6%) for 2013, confirming the more rapid recovery of the services sector compared with other sectors such as the construction sector.

FIGURE 13: MONTHLY WAGES IN SPAIN BY ECONOMIC SECTOR (2006-2013) (EUROS PER MONTH)



Monthly wages in Spain's construction sector and services sector held steady from 2012 to 2013. As a result, the drop in remittances sent from Spain to LAC countries (especially Andean countries) could be attributed to the decline in the number of workers migrating to this host country; this migratory flow appears to show signs of stabilizing in the next year.

PART THREE

THE EFFECT OF
THE ECONOMIC
SITUATION
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COUNTRIES ON
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While the economic situation in sending countries is a determinant in establishing the income, and therefore, the migrants' possibilities of sending remittances to their countries of origin, other factors also contribute to defining the amount of remittances they will send to their families back home. Among these, one of the most important is the value of the remittance received, which in real terms determines the purchasing capacity of the families receiving these resources. Other factors, such as the economic growth in the remittance-receiving countries, also influence the amount sent, since these resources are generally sent to help cover or make up for shortages in income of the families receiving them.

Value of remittances received. The resources that migrants periodically send home are mainly used to cover their families' basic expenses. Therefore, it is important for them to at least conserve the value of the remittance to sustain its purchasing power. Factors that can affect the value of remittances received include the exchange rate (between the currency in the sending country and the local currency) and changes in the costs of products and services that the remittance-receiving family needs to acquire with these resources; that is, the level of inflation.

During 2013, local currencies in LAC countries generally lost value against the dollar, for a regional average of approximately -2%,¹² a smaller loss than that observed the previous year. Disaggregating the region into blocks, it can be seen that not only countries in Central America, but also in the Caribbean and South America suffered currency depreciation. Mexico's peso, to the contrary, appreciated by 2.9%. The general depreciation observed in the region enables remittance receivers in the majority of LAC countries to exchange the remittances received for a larger amount of local currency, which improved their purchasing power and was reflected in an increase of 2.1% in total remittance flows to LAC in terms of local currency. However, countries such as Mexico, Costa Rica and Bolivia, where the local currency appreciated, presented losses in the value of the resources received.

The gains in the value of remittances in local currencies, resulting from the depreciation experienced by a majority of LAC countries, were partially compensated for by the losses in value due to inflation. Even so, in real terms, remittance beneficiaries' purchasing power was strengthened in almost all countries. South America gained 3.0% in purchasing power in the remittance flows received; the Andean region: 0.8%; Central America: 3.3%; and the Caribbean: 3.3%. Only in the case of Mexico can it be observed that appreciation of the peso, coupled with inflation, even further affected the decrease in remittance flows, leaving a loss in remittances' purchasing power in local currency in 2013 of -10.1%. Given the importance of remittances received by Mexico in the total flows sent to the region, the regional results for 2013 saw a loss of value of -1.5%.

¹² Calculated by weighting the variations in the value of remittances in local currency in each country, proportionate to the country's share in overall remittance flows at the regional and sub-regional levels.



TABLE 1: EFFECT OF EXCHANGE RATES AND INFLATION ON REMITTANCES (2012-2013) (BILLIONS OF DOLLARS) AND ANNUAL GROWTH RATES

	REMITTANCES IN 2013 (BILLIONS OF US\$)	ANNUAL GROWTH RATE: 2012-2013 (1)		
		REMITTANCES IN US\$	IN LOCAL	IN LOCAL CURRENCY AND ADJUSTED FOR INFLATION
SOUTH AMERICA	16.278	-1.5%	5.1%	3.0%
ARGENTINA	1.078	8.8%	31.2%	18.2%
BOLIVIA	1.182	8.0%	7.6%	1.7%
BRAZIL	1.623	-18.4%	-5.8%	15.4%
CHILE	0.923	2.3%	5.0%	3.2%
COLOMBIA	4.071	0.0%	4.4%	2.3%
ECUADOR	2.450	-0.1%	-0.1%	-2.7%
GUYANA	0.415	2.5%	3.7%	1.9%
PARAGUAY	0.743	-7.6%	-10.2%	-12.5%
PERU	2.707	-2.6%	0.5%	-2.2%
SURINAME	0.118	4.4%	4.4%	4.4%
URUGUAY	0.133	8.1%	9.3%	0.6%
VENEZUELA	0.836	4.1%	46.8%	10.4%
CENTRAL AMERICA (2)	14.871	5.4%	7.1%	3.3%
BELIZE	0.120	7.1%	11.5%	11.2%
COSTA RICA	0.561	6.5%	6.0%	0.7%
EL SALVADOR	3.969	1.5%	1.5%	0.7%
GUATEMALA	5.104	6.7%	7.7%	3.2%
HONDURAS	3.121	7.8%	12.4%	6.9%
NICARAGUA	1.202	4.3%	9.2%	2.0%
PANAMA	0.794	9.2%	9.2%	5.1%
CARIBBEAN (3)	8.519	3.0%	8.9%	3.3%
DOMINICAN REPUBLIC	3.333	5.5%	12.3%	7.2%
HAITI	2.017	1.5%	1.5%	-4.0%
JAMAICA	2.065	1.3%	14.7%	5.3%
TRINIDAD AND TOBAGO	0.131	1.6%	1.7%	1.7%
MEXICO	21.583	-3.8%	-6.7%	-10.1%
MEXICO	21.583	-3.8%	-6.7%	-10.1%
LAC	61.251	0.0%	1.9%	-1.5%

Source: Authors' calculations based on central bank data and MIF estimates.

Notes:

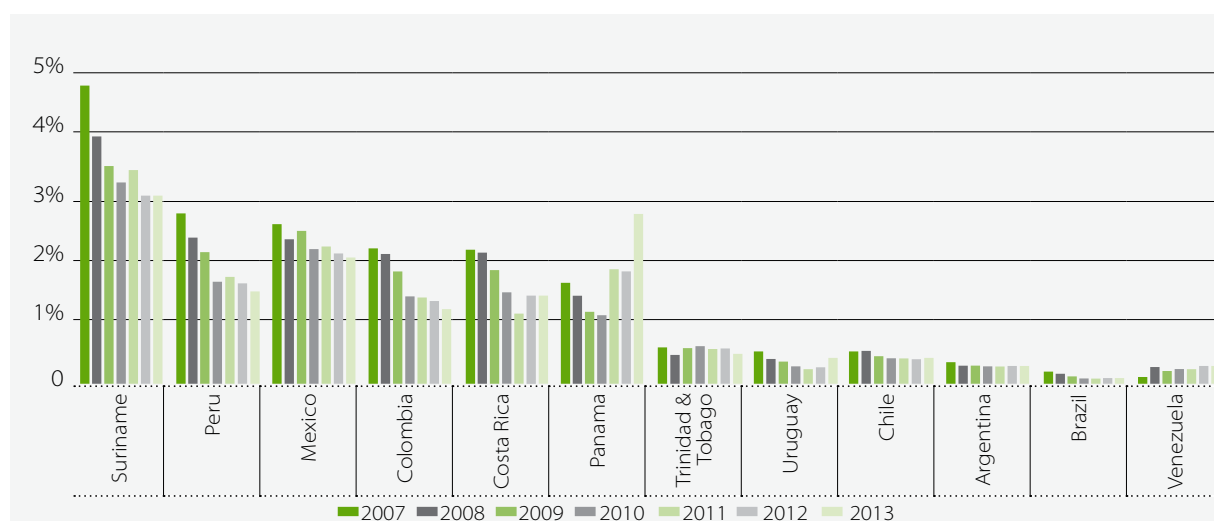
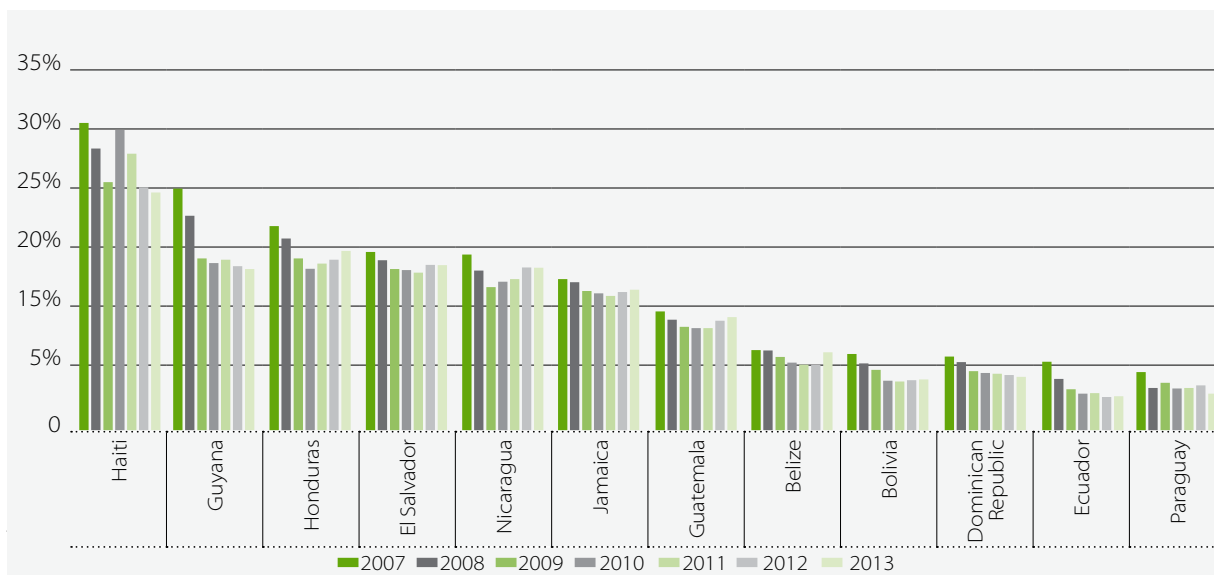
- (1) Data aggregated at the sub-regional level is calculated by weighting individual variations proportionate to the country's share in overall remittance flows at the sub-regional level.
- (2) The 2012 data for Panama and Costa Rica reflect adjustments to previous estimates.
- (3) The total for the Caribbean subregion also includes amounts from other countries in this geographical area.

Economic growth in receiving countries. An important factor in migration is the economic growth in migrants' countries of origin and resulting work opportunities. To the extent that conditions in remittance-receiving countries improve, inhabitants have less incentive to migrate and, if the conditions become very good, incentives can arise for migrants to return.

Since 2010, rising employment rates in countries such as Mexico and Brazil have, among other factors, led to a significant number of migrants deciding to return home, which to a certain degree explains the decline in remittances received by these countries since the crisis.

After the crisis, several Central American countries (including El Salvador, Honduras, and Guatemala) also showed a modest recovery in GDP growth. However, this did not provide sufficient incentive for migrants to decide to return to their country of origin, which is consistent with the smaller reduction in remittances received in Central America and the speedier recovery rate in subsequent years. In addition, remittance flows have grown more in Central American countries than in other LAC countries. As can be seen in Figure 13, in recent years these flows have been growing more important as compared with the GDP of these countries.

FIGURE 14: REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN (2007–2013) PERCENTAGE OF GDP



Source: Authors' own calculations based on MIF estimates, data from central banks and statistics from the International Monetary Fund (IMF).

Although remittance flows at the regional level have not yet recovered their pre-crisis levels, in countries such as Haiti, Guyana, Honduras, El Salvador, Nicaragua, Jamaica and Guatemala, these flows still account for more than 10% of GDP, and more than 5% in half of the LAC countries, which demonstrates their economic importance in the region.

At the microeconomic level, these flows represent an important source of income for millions of receiving families, including in those economies with higher GDPs. Remittance income has enabled many families to attain a higher standard of living, through financing the costs of consumer goods, education, health, housing, and, in some cases, investment in small family businesses. Such progress can be seen in the study conducted in the Nicaragua-Costa Rica border area; without this regular flow of resources, many receiving families would fall below the poverty line.¹³

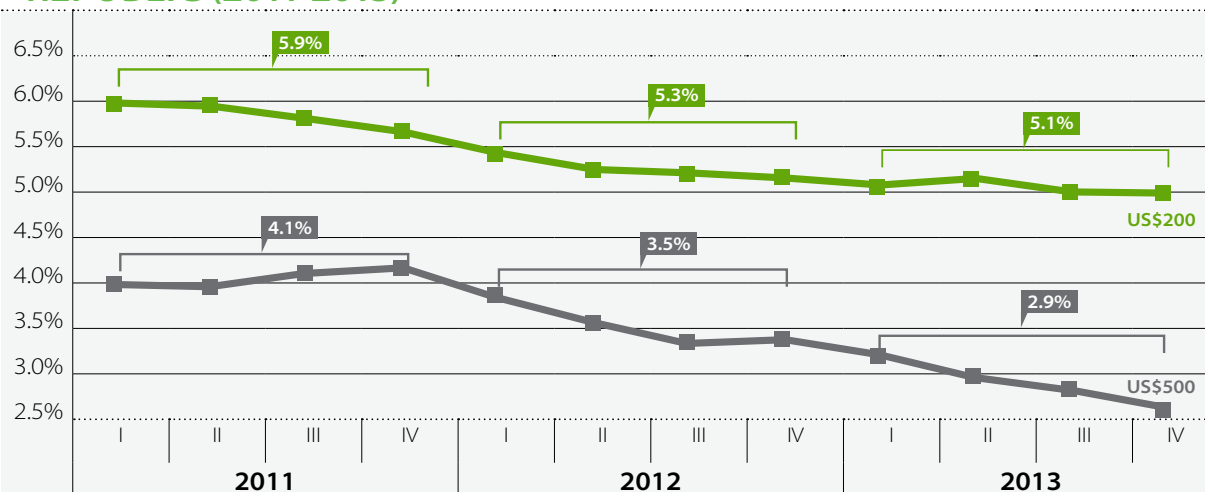
¹³ Monge-González, R.; Céspedes-Torres, O.; and Vargas-Aguilar, J. "South-South Remittances: the Costa Rica-Nicaragua Corridor." 2009.

EVOLUTION OF REMITTANCE MARKETS

A. COSTS

In studying the evolution of the costs of sending remittances in the corridor between the United States and the countries of Central America and the Dominican Republic and between Costa Rica and Nicaragua, using the Envía Centroamérica database,¹⁴ it can be observed that costs of sending remittances in 2013 continued to fall compared with the previous year. Transfer costs of smaller remittances (US\$200) fell 3.9% compared with the previous year, and on average were US\$10.14, representing 5.1% of US\$200 sent.

AVERAGE PERCENTAGE COSTS OF SENDING REMITTANCES FROM THE UNITED STATES TO CENTRAL AMERICA AND THE DOMINICAN REPUBLIC (2011-2013)



Source: Authors' own calculations based on data from the Envía Centroamérica database.

Transfer costs of a medium value remittance (US\$500) showed an even greater drop (17.8% less than in 2012). According to data collected by Envía Centroamérica, the reduction in cost of sending remittances of average value responds, among other factors, to changes in the stratification of costs on the part of different operators, who in recent years have included a new segment of costs¹⁵ for remittances between US\$201 and US\$500, which led to a reduction in costs for the majority of remittances sent to these countries, whose average values are around US\$300. Given the above-mentioned reduction, the transfer cost for sending US\$500 was on average US\$14.50, representing 2.9% of US\$500 sent.

¹⁴ Envía Centroamérica is a consulting tool on the costs of remittances, developed and administered by the Center for Latin American Monetary Studies (CEMLA) with co-financing from the MIF and collaboration from the World Bank. See: <http://www.enviacentroamerica.org>.

¹⁵ Prior to this change, many operators in the remittances market worked with segmented costs: one for remittances under US\$200 and another for US\$201 to US\$1,000.

B. MARKET OPERATORS

Using the partial information available to date from several central banks in the region,¹⁶ it can be observed that the primary payers of remittances in the destination countries are generally financial institutions, including non-bank institutions, and money-transfer companies. Participation of these payers varies in each country and is influenced, among other factors, by the mechanisms used in the sending country.

In the remittance-paying market in the subregions in which most remittances come from the United States, it can be observed that there are more money-transfer companies, while those countries in which remittances are also sent from Europe (as is the case of the Andean countries), more banks participate as payers.

Information on types of operators in the remittance capture/payment market is crucial for the design and implementation of appropriate business policies and strategies to enable greater benefits of these flows, including greater financial inclusion of the remitters and receivers. To date, however, only some of the central banks in the region collect such information, and even fewer make such information public.

C. PAYMENT INSTRUMENTS

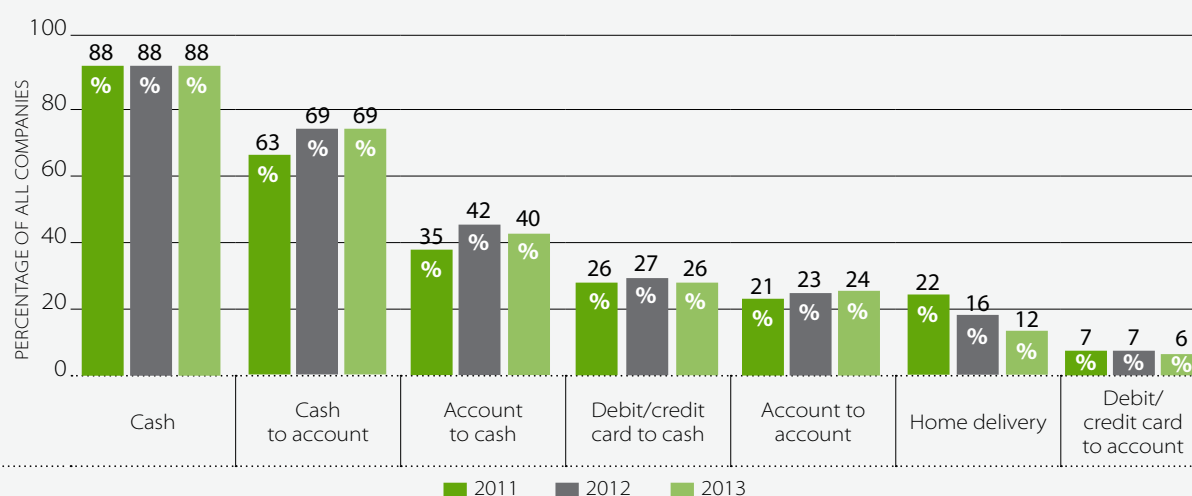
As the remittances services sector has evolved, options have increased for sending and receiving these amounts of money; among these the most common include the sending of remittances in cash, through transfers from a bank account, or using credit cards, debit cards, and prepaid cards, to be received in similar instruments.

Using the information available from Envía Centroamérica's database, which can help reveal trends in the region, it can be observed that almost all operators in the market offer cash-to-cash services.¹⁷ Some operators in the sending country conduct remittance operations only for their own clients, and therefore only provide account-to-cash services or account-to-other-modality services. In other cases, some payers in the receiving country deliver remittances only as deposits in accounts, independently of the way in which the funds were captured. In these cases, which are rather uncommon (14%), the operators do not provide cash-to-cash service.

¹⁶ Information shared by five countries in Latin America and the Caribbean.

¹⁷ This is consistent with the use of payment instruments in remittance-receiving countries such as Colombia, where, according to the Bank of the Republic in 2013, 76.11% of remittances were paid through cash pickup and 23.88% were deposited directly in checking and savings accounts.

SUPPLY OF REMITTANCE SERVICE COMPANIES FOR TRANSFERS FROM THE UNITED STATES TO CENTRAL AMERICA AND THE DOMINICAN REPUBLIC (PERCENTAGE OF TOTAL COMPANIES) (2011-2013)



Source: Authors' own calculations based on data from the Envía Centroamérica database.

The funds-capturing services provided through use of credit or debit cards have not changed much in recent years, and continue to be offered at similar levels. The most common are services that capture funds through credit or debit cards and pay out in cash, rather than those that are deposited in the beneficiary's account. One type of service that has grown in recent years involves capture in an account and subsequent transfer to the beneficiary's bank account. The growing use of this type of service provides major opportunities for remittance emitters and receivers to accumulate assets and access other financial services and products, enabling families who send and receive these flows to make investments and respond to unforeseen situations in the future.

Finally, home-delivery service, a method used mainly in the Dominican Republic, has dwindled in recent years, especially due to the risks and costs involved, and so such services have become increasingly less attractive for market providers.

To complement this analysis, it is important to understand and quantify the payment instruments used by clients. However, the data currently collected by compilers of this information in the region make it practically impossible to determine the type of instrument used for payments. This is due, among other factors, to a lack of consensus on classification of payment instruments since each country uses its own classification system, which impedes international comparison of such data.

In addition, remittance data reported by payment companies do not necessarily detail how payments were made, or whether deposited in an account or through a credit card, debit card, or prepaid card. The information reported is collected from the remittance payment systems applied by each payer, which are not always fully integrated with their other systems. Similarly, in many cases when the remittance is to be paid through deposit in an account or a card, payers often conduct two operations: one records the payment and the other sets up the deposit to the account or card, so the relation between these two operations is lost.

CONCLUSIONS AND PROSPECTS FOR 2014

Despite the falling rates of sending remittances observed in the first two quarters of 2013 for Mexico, the Caribbean and South America, total remittance flows to LAC that year remained the same as those reported in 2012. This total is consistent with the tendency toward stabilization of these flows observed since 2011 and the recovery of the economies of host countries, especially the United States.

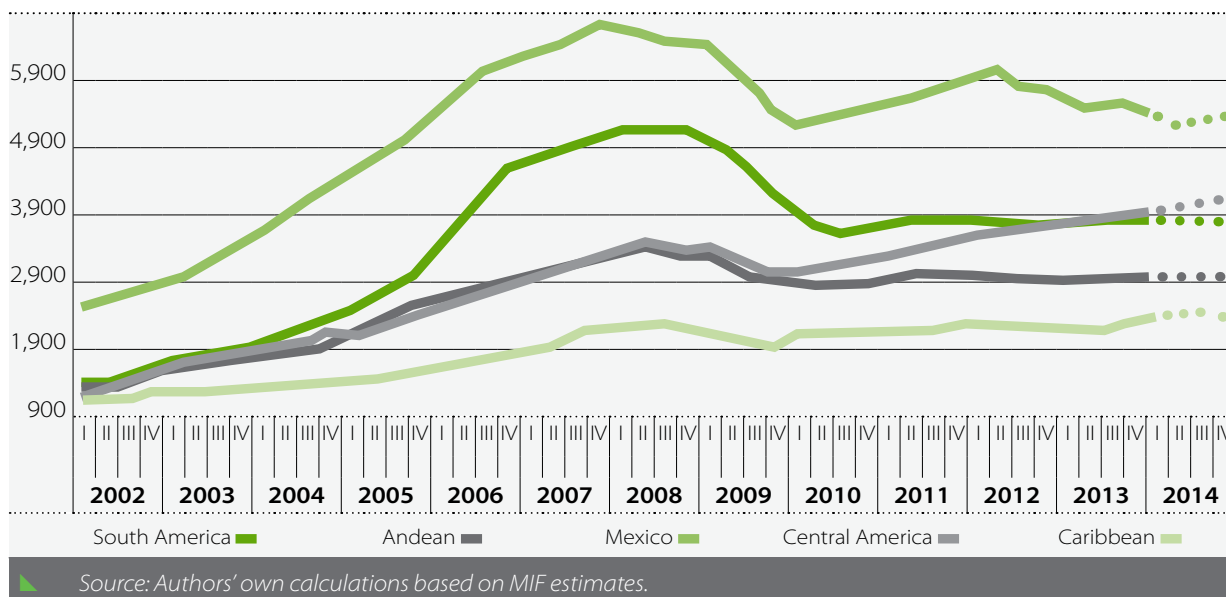
At the subregional level, the income from abroad increased for Central America and the Caribbean and decreased for Mexico and South America. These trends reflect economic and labor conditions in the remittance-emitting countries, as well as the migratory flows from LAC.

Macroeconomic projections for 2014 show an encouraging landscape at the global level, and it is predicted that the U.S. economy will continue its path to recovery, as will European countries, although at a slower pace.¹⁸ Employment data on LAC migrants, in both the United States and Spain, also show a recovery process enabling the prediction of growth in remittances sent from both countries.

For Mexico, it is estimated that in 2014, remittances will increase with respect to the previous year. In fact, this increase began to be seen in the final months of 2013 and first months of 2014. It is hoped that this growing volume, originating from greater economic activity in the United States, could lead to higher wages and employment levels, especially in those sectors that employ Mexican migrant workers. However, the expected improvement in the volume of remittances that will be sent to Mexico in 2014 are still not enough for total flows to reach their pre-crisis levels.

For Central American and Caribbean countries (which, like Mexico, receive the vast majority of their remittances from the United States), it is estimated that in 2014 there will again be annual increases that would originate, among other factors, from increased employment levels in the United States as well as in additional gains in the respective nominal wages.

FIGURE 15: TRENDS IN REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN (2002-2014) (US\$ THOUSANDS)



¹⁸ 2014 Latin America and Caribbean Macroeconomic Report, Inter-American Development Bank, March 2014.

Given the improved performance expected in 2014 for the U.S. economy as well as the European economy (including Spain), a full recovery of total remittance flows received by South American countries is expected, although not significant given the importance of flows from Spain to this subregion.

During 2014, growth of intra-regional remittances is not likely, especially in South America, since it can be seen that some of those economies, which are sources for the sending of these transfers, could experience less growth than that observed in 2013. This would adversely impact the employment and income levels of migrants in their neighboring countries, which could lead to a stagnation of remittances.


Considering migration and labor trends observed in 2013 and macroeconomic projections for the current year, it is likely that remittances received in LAC will reach an annual growth rate of between 5% and 7% in 2014.

Although in recent years significant improvements have been seen in the measurement and transparency of remittance flows, work remains to be done in order to better understand the evolving trends in remittance markets, including transfer costs, participation in different operations on the sending and receiving sides, as well as modes of transfer and payment instruments. It is important that authorities in both the public and private sectors, as well as relevant stakeholders, make coordinated efforts to continue improving the data available to the public so that it can benefit the consumers of these services, including access to quality financial products and services that enable the accumulation of assets and future investments.

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