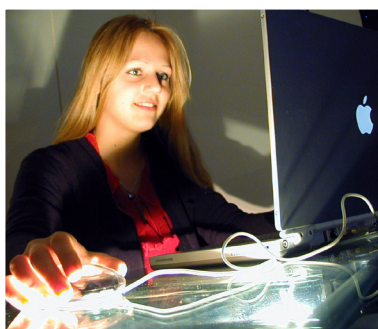


Worker Remittances in an International Scope



Manuel Orozco
Inter-American Dialogue
February 28th, 2003

Worker Remittances in an International Scope

By Manuel Orozco

*Working Paper commissioned by the Multilateral Investment Fund
of the Inter-American Development Bank*



INTER-AMERICAN
DIALOGUE

Research Series

REMITTANCES
PROJECT

Introduction

Millions of migrant workers send remittances to their families and communities of origin. Worldwide, annual remittances may amount to more than one hundred billion dollars, primarily sent from the industrial to the developing world.

This study looked at the impact of remittances on nine countries in Southern Europe, Asia, and Africa, and at the cost of transferring money from six major sending countries. It also compared these costs with sending remittances to Latin America. The report is based on interviews with experts and businesses, a review of the literature on remittances, and data gathering and analysis of pricing, sending methods, and technologies employed by more than fifty money transfer businesses including banks, ethnic stores, and international money transfer corporations.

Three findings are reported. First, Latin America is the region receiving the most remittances. Second, transfer costs are lowest when remittances are sent through regulated financial institutions, such as banks and credit unions. Significantly, when financial institutions offer these services to immigrants, they also sell other products. Third, the costs of sending remittances to these nine countries are significantly lower than sending remittances to Latin America. This is mainly due to the involvement of banks in conducting money transfers for those countries.

1. Global trends in family remittances

Conservative estimates indicate that around 200 million people migrate annually (Harris

2002). In many countries, the demand for foreign labor has increased. Moreover, migration flows are not unidirectional, from the South to the North. For example, Greeks migrate to Germany and the United States, while Albanians migrate to Greece. South Africans move to Australia and England, while Malawians, Mozambiqueans, and Zimbabweans work in South African mines and the service industry.

Global migration flows may be greater than those estimates. Both skilled and unskilled workers emigrate. As Held, McGrew, Goldblatt and Perraton (2000) stress “there has been a steady movement of highly skilled, highly trained professionals, that is, elite migration” (304).

The benefits of migration are significant for both sending and receiving countries. Remittances are one important benefit for immigrant-sending countries. Total remittance flows continue to increase over time, nearly doubling in a period of ten years, “with an annual average in the previous decade of US\$700 to 1000 per worker” (Harris 2002, 87). Estimates of remittances vary significantly.

Data, however, is incomplete and represents only an estimate of the total flow. First, in some cases, IMF and World Bank figures are smaller than the official figures offered by central banks. For example, the World Bank reports fewer than two billion dollars in remittances to the Philippines, but the Philippines’ central bank reports over six billion (BSP 2002). Second, remittances are often not reported at all. In Guyana, for

(continued on page 3)

This is the first in a series of research papers on remittances to Latin America that the Inter-American Dialogue plans to publish over the coming months.



INTER-AMERICAN DIALOGUE

The Inter-American Dialogue is the premier center for policy analysis and exchange on Western Hemisphere affairs. The Dialogue's select membership of 100 distinguished private citizens from throughout the Americas includes political, business, academic, media, and other nongovernmental leaders. Nine Dialogue members served as presidents of their countries and more than a dozen have served at the cabinet level.

The Dialogue works to improve the quality of debate and decisionmaking on hemispheric problems, advance opportunities for regional economic and political cooperation, and bring fresh, practical proposals for action to governments, international institutions, and nongovernmental organizations. Since 1982—through successive Republican and Democratic administrations and many changes of leadership in Latin America, the Caribbean, and Canada—the Dialogue has helped shape the agenda of issues and choices on inter-American relations.

1211 Connecticut Avenue, NW,
Suite 510
Washington, DC 20036

PHONE: 202-822-9002

FAX: 202-822-9553

EMAIL: iad@thedialogue.org

WEB SITE: www.thedialogue.org

Foreword

This Inter-American Dialogue research series on remittances focuses attention on expanding links between migrants and their countries of origin. These ties (involving both household and business sectors) have taken on a growing economic importance. Family and worker remittances and, although to a lesser extent, the donations of migrant associations, are making crucial contributions to subsistence and economic growth in many countries. They exceed aid flows in Central America and the Caribbean, are often larger than import earnings, and in some countries, surpass the value of all government spending on social services.

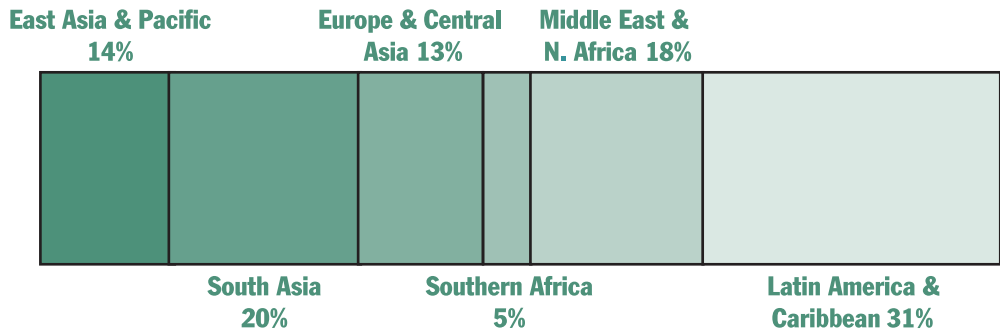
The series addresses remittances in a comparative context, and emphasizes the policy issues posed by these flows—for the governments of Latin America, the Caribbean, and the United States, as well for businesses and donor agencies. A continuing concern is how to reduce the costs of sending remittances and make them more valuable to individuals, families, communities, and nations.

This paper was initially presented on February 28, 2003, at the Inter-American Development Bank. We are grateful to the Bank's Multilateral Investment Fund for its support in carrying out the research on this paper.

Peter Hakim
President

Manuel Orozco
Director, Central America Program

Figure1. Worldwide flows of worker remittances by region, 2002



(continued from page 1)

example, whose diaspora is almost as large as its country's population (there are 700,000 Guyanese in Guyana and over half a million abroad), remittances represent at least 10 percent of the country's GDP. However, this data is not available anywhere. Third, there is significant underreporting. In most cases, central bank accounts do not necessarily account for transfers in the informal sector, which for South Asian countries represent a significant share of the total market. Fourth, many immigrants make direct deposits into accounts in their home countries. Central banks do not register these transfers as remittances, even though immediate relatives are the main beneficiaries of those accounts. These shortcomings largely reflect government neglect of emigrants and their economic contributions. The IMF and World Bank, for example, only report on eighty countries receiving a total of nearly eighty billion dollars. Despite the lack of significant data, these figures offer a preliminary map of remittances (see Figure 1).

As Figure 1 shows, Latin America is the main remittance recipient area in the world, receiving about 31 percent of the flows. Following Latin America are South Asia, Europe & Central Asia, and East Asia & Pacific with 20, 13 and 14 percent of the flow, respectively. One interesting feature of the data is that one or two countries comprise over 50 percent of the total flow in each region. For example,

India, the world's largest remittance recipient country, accounts for 73 percent of the flow to South Asia. Mexico represents 34 percent of Latin America and the Philippines 43 percent of East Asia and the Pacific. It is also worth noting that sixteen countries share three quarters of the total flows (see Table 1).

Table 1: Remittances to Major Remittance Recipient Countries (2000)

Country in region	Share	
	Region	Worldwide
India ^a	73%	15%
Mexico ^a	34%	8%
Philippines ^a	43%	8%
China ^b	43%	8%
Turkey ^a	27%	6%
Egypt ^a	35%	5%
Spain ^a	20%	4%
Portugal ^a	19%	4%
Morocco ^a	20%	3%
Bangladesh ^b	12%	2%
Jordan ^b	17%	2%
El Salvador ^a	9%	2%
Dominican Rep. ^a	9%	2%
Greece ^a	10%	2%
Nigeria ^b	65%	2%
Yemen ^b	12%	2%
Main countries		75.00%
Source: ^a Central banks of each country.		
^b World bank, World Development Indicators 2002		

“ Latin America is the main remittance recipient area in the world ”

Table 2: Immigrants and the places where they migrate (Most recent year available)

Country	Egypt (2000) ^a	Greece (1992) ^c	India (1995) ^{a, b}	Pakistan (1998) ^a	Philippines (1999) ^a	Portugal (1992) ^c	Turkey (1996) ^a	Mozambique ^g	Zimbabwe ^g
Saudi Arabia	923,000		269,600	1,552,350 ^d					
UAE			77,100						
Oman			29,100						
Kuwait	190,000		27,000						
Jordan	226,000								
Iraq	65,000								
Libya	332,000								
Bahrain							120,000		
Arabia									
Germany		345,902		934,068 ^e	7,411	101,600	2,107,426		
France						798,840	274,747		
Netherlands							284,902		
Austria							142,231		
Sweden		20,000							
Switzerland						142,950			
Belgium		25,000				23,000			
UK						52,000			
Spain									
Holland						699			
US ^f	98,158	144,432	1,109,061	265,884	1,337,357	207,748			
Canada		300,000			133,187	523,000			
Australia		400,000			77,160	65,000			
Japan					44,291				
South Africa						600,000		91,228	63,561
Sources and Notes: ^a International Labour Organization, "International Labour Migration" http://www.ilo.org/public/english/protection/migrant/ilmdb/index.htm									
^b Yearly outflow of employed nationals, i.e. temporary workers, instead of total number of nationals abroad.									
^c Karafolas, Simeon. 1998. "Migrant Remittances in Greece and Portugal: Distribution by Country of Provenance and the Role of the Banking Presence," International Migration 36, no. 3, pp. 357-381.									
^d Number of Pakistani nationals in entire Middle East.									
^e Number of Pakistani nationals in all of Europe.									
^f All figures for the US—except Turkey, Zimbabwe, and Mozambique—reflect the place of birth of the foreign born population in the US according to the 2000 United States Census.									
^g McDonald, David A., Ed. On Borders: Perspectives on International Migration in Southern Africa. New York: St. Martin's Press, 2000									

In most cases, with the exception of Latin America, remittances are not sent from a single country, but rather from a combination of areas. For example, immigrants from India, Pakistan, Egypt and Turkey who work in the Arab oil-producing region send money from at least eight different countries. Table 2

shows some of the major remittance recipient countries (excluding Latin America) and the countries where migrants find work.

International worker migration represents 3 percent of the global population of six billion, an insignificant figure at first glance.

Most migration is in fact internal; rural to rural and rural to urban. Migration often progresses from rural to urban and then to international. Rural migration predominates in many countries, including India and China, which together comprise 25 percent of the world's rural population. However, international migration gains greater relevance in light of the significant volume of remittances worldwide.

Although there is no direct relationship between remittances and human development, they have an important impact on the economies of receiving countries. Migration and remittances do not necessarily relate to the level of development in a country (not only the poor migrate, nor is migration only from poorer to wealthier countries). Countries receiving remittances come from low, medium and even high human development cohorts. The connection of remittances to development is related rather to a) the receiving country's regional economic position and its relationship to a more economically salient country and b) the macroeconomic impact remittances have on the receiving country.

The flow of remittances raises important questions about transfer methods. Specifically, what are the most common sending practices to traditional remittance recipient countries like India, Greece, Portugal, Turkey, Egypt, Mozambique, Pakistan or the Philippines?

2. Global trends: payment systems, distribution networks and costs

When deciding how much and how often to remit, senders must consider available mechanisms and costs. Prevailing infrastructures, information about the market, cultural practices, educational and income status of the recipient and sender, level of competitiveness, and level of government intervention influence the choice of transfer method. Costs and methods have remained largely undressed by business, academic research and

policy studies. Therefore, little information exists on the impact of transfer methods on senders, recipients and economies. This issue is important, as research on Latin America has shown that benefits to economies and households vary depending on transfer method (Orozco 2002b). This section analyzes sending methods and costs.

Types of payment systems

How do people remit? What methods do they employ? Immigrants utilize a wide array of mechanisms to send remittances: banks, credit unions, small and large money transmitter companies (such as MoneyGram and Western Union), postal services, hand delivery by the actual sender or by a third party (*encomendero*, *mula*, or *viajero*), and lesser regulated mechanisms like hawala or hundi.

The oldest and most traditional method of sending remittances is hand-delivery through a courier. In Africa and among the poorest nations of the developing world, this method persists. In Asia, in addition to the entrepreneurial traveler, many countries use traditional money transfer mechanisms. These systems are known as *hawala* in Pakistan and Bangladesh or *hundi* in India. Hawala is a kind of transaction in which money is not physically or electronically transferred. The hawala system is an "operation that consists of making a financial transfer between principals located in countries A and B, using intermediaries, hawaladars (HA) and (HB), who operate in the informal sector . . . HA receives funds in one (hard) currency and asks HB to advance the equivalent of the paid amount to a designated beneficiary in the local currency" (El-Qorchi, Maimbo, and Wilson 2002, 6). The main feature of hawala is that, although the remittance is immediately transferred, the intermediaries settle their debt through various mechanisms of compensation that occur at different moments and do not necessarily involve direct payment between the two hawaladars. This system is popular because it is relatively inexpensive (less than 2 percent

“Remittances have an important impact on the economies of receiving countries”

“ Ethnic stores
could account
for 30 percent
of the market ”

the value of the principal), well-organized on the receiving end, and because senders do not need to provide identification.

In contrast to the relative informality of couriers and hawaladers, international money transfer companies are licensed regional or global businesses. Money transfer companies are authorized to engage in activities that do not involve the receipt of money on current accounts subject to withdrawal by checks. Western Union has the largest worldwide presence in the money transfer industry. Other companies like Thomas Cook and MoneyGram also operate globally, though with a lesser presence than Western Union. Western Union is said to have one-quarter of the global market.

In addition to these global companies, regional and country specific businesses and post offices in some countries offer competition. On the sending side, competitors are known as ethnic stores. They tend to transfer smaller amounts, but in combination could account for 30 percent or more of the total sent. U.S.-based ethnic stores transmitting remittances to Pakistan, India or Bangladesh complain, however, of unfair treatment and competition from the informal sector. They are unable to compete against the hawala system (which operates outside the U.S. regulatory environment) when their companies have to comply with regulations in order to operate legally. They also have to compete with major companies like Western Union, which have a far greater ability to shape market conditions. Analysts estimate that these types of informal businesses are gradually declining, with a loss in global market share from 50 percent in 1996 to 45 percent in 2001 (Bezard 2002, 10).

Post offices are also involved in money transfers. The U.S. Post Office has its own transfer system, Dinero Seguro, that has been in place for more than five years. In Europe, Euro-Giro system operates in direct cooperation with European postal systems in international

money transfers to more than 30 countries including China, Israel and Brazil.

The global marketplace for remittances is significantly diffuse; market shares differ in each region and among the sending countries. In some regions, such as Southern Europe, the most important players are banking institutions. In other places, like the Philippines and El Salvador, the main competitors are banks that operate as money transfer agencies and ethnic stores.

Worldwide costs and distribution mechanisms

This study looked at an array of licensed businesses including banks and national money transfer companies, as well as large international money transfer businesses like Western Union.

The costs varied from country to country and also among type of institution. They reflected the level of involvement of the banking industry and other businesses and the extent to which government involvement facilitated less expensive transfers. Table 3 shows the sending and receiving countries and the number of companies covered per country. A database was created consisting of information about fees, exchange rate applied, sending method, and type of currency delivered (retention of sending currency or conversion to local country currency). The study considered the costs of sending \$200.

Because of the difficulty in obtaining information about market shares within countries, only unweighted mean values are reported in the analysis. The costs of sending \$200 are shown in Table 4. The data reflects information about costs to send money to the recipient countries from the main country of emigration. Costs incurred reflect two charges: fees and the commission charged to convert the remittance into local currency. As the table shows, sending money through banks was the least expensive method. For comparative purposes, data was

Table 3: Countries and Companies Studied

Receiving country	Remittance sent from	Number of companies reviewed			All businesses
		Banks	MTO*	Other	
Philippines	United States	5	14	5	24
Egypt	United States		2		2
Greece	Germany & U.S.	4	2		6
India	Saudi Arabia, U.S., U.K.	7	11		18
Pakistan	Saudi Arabia, U.S., U.K.	7	1		8
Portugal	France, U.S.	3	2		5
Turkey	Germany, U.S.	3	2		5
Mozambique	South Africa, U.S.	1			1
Zimbabwe	South Africa, U.S.		7		7
Bangladesh	U.K.	1	3		4
Ghana	U.K.		7		7
*Money Transfer Operators (MTOs)					

calculated when information existed for at least three countries.

The mean value of sending through banks was 7 percent, compared to 12 percent for businesses like Thomas Cook or Western Union. Notably, charges declined significantly when sending \$300.

These averages do not, of course, demonstrate specific trends. Notice, for example, in Table 5 that for European countries the costs were significantly lower. They were also lower for countries like Pakistan. In the case of Mozambique and Swaziland, the low cost results from services offered by Theba Bank, a miners' bank that transfers remittances from South Africa to migrants' families who have bank accounts in the recipient countries. For all recipient countries studied, major MTOs were on average the most expensive method and banks the least expensive. There are exceptions, such as India, which has a higher mean cost because banks offer both SWIFT, which costs \$40, and a three-day remittance service at a low \$10 cost.

Banks in some countries have identified the significance of remittances and migrant capital. In addition to offering lower fees to transfer remittances, banks may offer special deposit, investment, and loan programs to

emigrants. The entrance of these banks into the remittance market results from a combination of factors, including government restriction of money transfer businesses (as in the German case), government incentives to banks to join the money transfer business, and

Table 4: Average costs of sending money to selected Non-Latin American countries

\$200			
Type	FX %	Fee %	Total %
Bank	1.0%	6.5%	7.0%
Major MTO	1.7%	10.9%	12.0%
Source: data compiled by the author.			

Table 5: Charges to Send \$200 to Selected Countries by Type of Business

Country	Ethnic Store/Exchange House		Major MTO
	Bank		
Egypt			13.8%
Philippines	8.0%	10.1%	10.3%
India	6.0%	2.5%	13.8%
Greece	6.8%		9.5%
Pakistan ¹	0.4%	3.0%	13.0%
Portugal	3.4%		12.3%
Turkey	3.1%		9.5%
Mozambique	1.0%		
Mean	7.0%	6.0%	12.0%
Source: data compiled by the author.			

“Sending money through banks is the least expensive method”

¹In the case of Pakistan, the majority of remittances go through the hawala system. Formal money transfer businesses struggle to compete with the traditional hawaladers.

“**Deposits from emigrants during the 1990s represented 20 percent of total deposits in the Portuguese banking system**”

private sector banks becoming interested in the transfer market themselves. It is important to note also that banking operations are more common in countries with a longer history of exporting migrant labor, which translates into a more established process of remitting.

Banks offer at least four money transfer services: wire transfer via SWIFT, credit to a specific recipient's bank account of the same institution, credit to a different bank, or credit to an account and cash pick up.

When money is deposited into an account in the same bank, charges decline to 5 percent. In some cases, banks charge even less for intrabank transfers or if the customer picks up the money at the bank.

In the Indian case, state and private banks offer special programs to Indian customers abroad. In 1998, the government announced that in conjunction with the State Bank of India (SBI), it would allow foreign banks to sell Resurgent India Bonds to Non-Resident Indians (NRIs), encouraging Indians living in the United States and elsewhere to invest in their home country. The SBI has allowed foreign banks to sell the bonds, assuming that they are better located to tap into the Indian diaspora (India Abroad 1998).

The SBI, with branches in the United States, also issues SBI credit cards to the Indian diaspora. State banks and private banks of Indian origin also offer NRI accounts. These accounts are only open to Indian citizens currently residing outside of India, and they offer incentives to expatriates to keep their money within the Indian banking system. The NRI accounts offer higher interest rates than normal bank accounts, as well as tax exemptions on portions of interest earned. They can be denominated in foreign currency and NRI account holders can designate beneficiaries within India (Central Bank of India).

Portuguese banks have also tailored several services to the Portuguese diaspora. Special

Table 6: Bank charges to transfer remittances to home countries

Receiving Country	Credit to account specific bank 200	Credit to bank pick up account or cash 200
Philippines	7.7%	7.7%
Greece	3.5%	7.5%
Pakistan		0.4%
India	4.9%	
Portugal	3.0%	3.0%
Turkey	7.5%	2.6%
Mozambique	1.0%	

accounts are designated for Portuguese nationals residing abroad. These accounts are backed by government legislation that declares special rights for Portuguese nationals who establish themselves overseas for certain periods of time (Karafolas 1998). These accounts offer numerous benefits such as lower tax rates, holdings in various foreign currencies, lower interest loan packages, and programs specifically attracting emigrants to take out loans to build or buy homes in Portugal. According to some analysts, deposits from emigrants during the 1990s represented almost 20 percent of total deposits in the Portuguese banking system. In addition, while annual remittances to Portugal neared \$3 billion, emigrants' deposits by the end of the 1990s had reached \$14 billion (Pedro Bello).

Examples of banks offering special programs for non-resident Portuguese citizens are Caixa Geral de Depositos, Credito Predial Portugues, Banco Portugues do Atlantico. The Caixa Geral offers two types of accounts, one in Euros and one in foreign currencies. Each account has reduced tax rates on the interest earned. They also offer investment schemes in national and foreign capital markets that are targeted at emigrants. Credito Predial Portugues, on the other hand, offers three different types of loans for Portuguese living overseas. Finally, Banco Portugues do Atlantico offers special financing programs for Portuguese citizens abroad to build or buy

homes in Portugal.

Pakistani banks also offer accounts in foreign currency to emigrants. The Overseas Pakistanis Foundation, a government agency, has launched the “Remittance Book” program, an official government program to provide incentives to remit through financial banking channels. Under this program, non-resident Pakistanis receive a gold card if they remit \$10,000 or more and a silver card if they receive \$2,500 or more. The cards offer the sender specific benefits, such as special lounges at airports, free issuance and renewal of passports on an urgent basis, exemption from import duties, special quotas to be reserved in public colleges and universities for relatives of remitters, and public housing at attractive prices (Arab News, August 2001; Overseas Pakistanis Foundation).

Another interesting case is Morocco. According to some analysts, at least 60 percent of remittances go through Groupe Banques Populaires (BP) (Iskander 2002). BP is a majority state-owned bank which has branches and agents in several European countries.

Moroccans in Europe can open joint checking accounts at the local BP branch for themselves and for family members in Morocco. The Moroccan living abroad deposits funds that a relative can withdraw at no cost to either party. In addition to checking accounts, BP offers emigrants a number of ways to wire money to Morocco. For example, they can wire money to a BP account, where the account holder in Morocco can withdraw at a fee of 0.1 percent of the amount transferred, provided it is over \$100. They can also wire money to a person in Morocco, to be picked up at any BP branch for a fixed fee of 90 Moroccan dirhams—about \$9—regardless of the amount wired (BP).

BP also provides subsidized credit for real estate and entrepreneurial investments in Morocco. In addition, BP offers a variety of insurance options specifically for emigrants,

covering everything from repatriation of one’s body after death, to airplane fare in the case of a family emergency. BP has even created a foundation to meet some of the cultural and educational needs of emigrants and their families, establishing, for example, special schools for the children of returning emigrants in Tangier and Agadir, and organizing competitions for cultural presentations (Iskander 2002).

4. Transfers from the United States to main recipient countries

The United States is the major recipient of international migrants. Over thirty million immigrants reside in the United States and the majority of them send remittances to their home countries. Amounts sent vary depending on income level and degree of commitment to the home country household. Latin Americans, for example, tend to send between \$200 and \$250 a month, except for Mexicans who send at least \$300. Immigrants from other regions exhibit different sending patterns, with those from Pakistan and India sending, on average, three times those amounts.² (See Table 7.)

Immigrant remittances from the United States

The United States is the largest sending country in the world and many companies compete in this market. Nevertheless, the costs of sending from the United States are higher than from any one of the countries studied here. This is principally because few foreign or domestic banks in the United States offer money transfers. The few foreign banks transferring remittances, like the State Bank of India, Espiritu Santo of Portugal or the Bank of the Philippine Islands, offer a range of options. One is direct deposit in an account in the home country, at a cost below 5 percent. The Philippines has one of the most competitive markets for remittances with significant participation of Philippine banks. Overseas bank branches and remittance centers operated by Filipino

“The costs of sending remittances from the U.S. are higher than from any country studied here”

²The frequency of sending varies among regions and countries. For Latin America, immigrants send seven times a year. For other regions, the frequency is lower but amounts larger.

“Bank transfers are always cheaper to the nine countries studied than to Latin America”

Table 7: Remittance Averages Sent by Immigrants in the U.S. (US\$, selected countries)

Country	January–December
Bangladesh	562
Egypt	307
India	1104
Pakistan	790
Philippines	397
Mexico	385
Dom. Rep.	203
El Salvador	280
Source: NMTA, January 2003.	

banks include the Philippine National Bank (PNB), PNB Remittance Centers, Rizal Commercial Banking Corp. (RCBC Tele-money), Bank of the Philippine Islands, Metrobank, LBC, Far East Bank and Trust (Speedcash), and Philippine Commerical International Bank (Padala Express). Table 8 shows that costs are significantly lower to send from banks than from money transfer companies, and somewhat lower to send from ethnic stores.

In general, foreign banks operating in the United States have limited options for transferring remittances. Germany and France are exceptions, as several banks offer transfers to Greece, Turkey and Portugal. This difference is partly due to the stiff regulations restricting foreign banks from opening branches in the United States. Other factors, however, explain these variations. One is that the United States is not the principal country of destination for the groups studied. Therefore, there is a smaller demand for and volume of transfers, which tends to increase costs.

Foreign currency conversion costs must also be considered. Companies use foreign exchange differentials to increase revenue and share commissions. Except in the Philippine case, where there is significant competition, foreign exchange differentials are relatively

high for the other countries studied.

Why Latin America is costlier than other regions

The cost of sending money from the primary remitting countries to the nine countries studied was compared to the cost of remitting from the United States to Latin America. An interesting point emerging is that bank transfers are always cheaper to the nine countries studied than to Latin America.

Until recently, Latin American and U.S. banks were not involved in the transfer of remittances. Latin American banks (primarily from El Salvador, Guatemala, Honduras, the Dominican Republic and Mexico) opened U.S. branches, but only to operate as money transfer agencies. On average, these banks offer the most competitive rates. U.S. banks have only become involved in the money transfer process very recently, within the past two years. By November 2002, more than fifty U.S. banks offered transfers to Mexico, some issuing ATM cards to recipients at low costs. However, these are early developments and their costs are still high (Orozco 2003). When compared to the options offered by banks in Europe to India and Pakistan for example, costs from the United States to Latin America are significantly higher (compare with Table 8). Table 9 shows the costs of sending money to the fourteen major

Table 8: Cost of Sending \$200 from the U.S.

US to:	Bank	Ethnic Store/ Exchange House	Major MTO
Philippines	8.0%	10.1%	10.3%
Greece			13.8%
India	7.0%	8.3%	12.2%
Pakistan	0.2%	16.8%	14.0%
Portugal	0.8%		13.8%
Turkey			13.1%
Zimbabwe			11.9%
Bangladesh	8.0%	9.2%	
Ghana		7.5%	

**Table 9: Average Charges to Send \$200 from the U.S. to Latin America
(in dollars and as %)**

Charges	Nov-01	Percent	Nov-02	Percent
Total charge	17.46	8.77%	16.02	8.01
FX charge	4.73	2.44%	2.97	1.48
Fee charge	15.33	7.66%	14.05	7.02
Source: Orozco, Manuel, 2003.				

recipient countries in Latin America. Costs of sending range from 6 to 12 percent. These charges are higher than those offered by European banks to Portugal, Pakistan, or India.

In contrast, however, money transfer organizations charge less to remit from the United States to Latin America in other parts of the world. It is more expensive to send from the United States to non-Latin American countries than from the United States to Latin America. Likewise, sending from the United States to Latin America is also cheaper than remitting from other countries of immigration to countries of origin. Increased competition among companies targeting the Latin American market has probably driven prices down faster than in other regions. Costs to Latin America have declined in the past three years and continue to do so among most companies, large or small. Data compiled in November 2001 for over 70 companies showed that the average cost of sending \$200 to Latin America was \$17.46 (Orozco 2002a). Moreover, pricing data gathered in November 2002 showed that during this period there was a slight but significant decline in costs. Average charges fell to \$16—a 9 percent decline from the previous year (Orozco 2003) (see Table 9).

Interest among U.S. banks in attracting new customers is increasing. Banks have realized that the pool of remittance money leaving the United States for Latin America and the rest of the world is not negligible. They have also recognized that a significant number of senders could be potential clients of their institutions, either because they are

unbanked or because banks and credit unions could better serve them.

Perspectives on the global context

Remittances are likely to increase on the global level. As globalization deepens, so does the movement of people. Trade, transportation, telecommunication, transfer of remittances, tourism and nostalgic trade intensify the links between migrants and their home countries. Remittances have become a part of the human face of globalization.

The marketplace for remittances reflects certain tendencies. First, Latin America receives a significant proportion of the worldwide total. Second, flows of remittances and the market for them varies across regions depending on the involvement of private banking institutions, government outreach to immigrants, informality of transfers, and competition among money transfer businesses. These variations show that the marketplace is diffuse. Second, those countries with a longer history of migration tend to rely on banking institutions. This suggests that governments and banks learn to capitalize on the benefits of migration by extending financial links between diasporas and their home country relatives. Third, these links significantly reduce transaction costs and increase benefits to senders and recipients. Fourth, countries with a more recent remittance sending pattern undergo a process of maturation as the market grows more competitive. This competition is reflected in a relationship between price decline and a reduction in the number of intermediaries.

“Remittances
are a part of the
human face of
globalization”

New experiments take place every day. Banks are becoming interested in money transfer and governments are exploring policies to address these trends. From a policy perspective, alliances between governments, civil society and private sector institutions must be formed in order to share best practices and coordinate strategies to improve the flow of transfers.

Bibliography-References

Belo, Pedro. "Perspectives from Formal Financial Institutions," Speech given at "Remittances as a Development Tool: A Regional Conference," May 2001, hosted by Multilateral Investment Fund.

Bezard, Gwenn. "Global Money Transfers: Exploring the Remittance Gold Mine," *Celent Communications*, August 2002.

Economist Intelligence Unit. Various Country Reports, 2001.

El-Qorchi, Mohammed; Maimbo, Samuel M.; Wilson, John F. "The Hawala Informal Funds Transfer System: An Economic and Regulatory Analysis," Washington, DC: IMF 2002 (Unpublished).

Faist, Thomas. *The Volume and Dynamics of International Migration and Transnational Social Spaces*. New York: Oxford University Press, 2000.

Harris, Nigel. *Thinking the Unthinkable: The Immigration Myth Exposed*. New York: I.B. Tauris & Co., 2002.

Held, David; McGrew, Anthony; Goldblatt, David; and Perraton, Jonathan. *Global Transformations: Politics, Economics and Culture*. Oxford: Polity Press, 2000.

International Labour Organization. International Labour Migration Database: <http://www.ilo.org/public/english/protection/migrant/ilmdb/index.htm>.

Iskander, Natasha, *Remittances and Morocco's Banques Populaires* unpublished manuscript, 2002.

Karafolas, Simeon. "Migrant Remittances in Greece and Portugal: Distribution by Country of Provenance and the Role of the Banking Presence," *International Migration* 36, no. 3 (1998), 357-381.

"Le Role de l' Emigration dans l' Internationalisation des Banques (Quatre Cas: Espagne, Grece, Italie, Portugal)," Universite de Lyon, 1995.

McDonald, David A., ed. *On Borders: Perspectives on International Migration in Southern Africa*. New York: St. Martin's Press, 2000.

Orozco, Manuel. "Attracting Remittances: Market, Money and Reduced Costs," Washington, DC: Inter-American Dialogue Working Paper, January 2002a.

———, "Changes in the Atmosphere? Increase of Remittances, Price Decline But New Challenges," Washington, DC: Inter-American Dialogue Working Paper, March 2003.

"Remittances and Markets: New Players and Practices," in *Sending Money Home: Hispanic Remittances and Community Development*, Ed. Rodolfo O. de la Garza and Briant Lindsay Lowell. Lanham, Md.: Rowman and Littlefield Publishers, 2002b.

Van Hear, Nicholas. *New Diasporas: The Mass Exodus, Dispersal and Regrouping of Migrant Communities*. Seattle: University of Washington Press, 1998.

World Bank. World Development Indicators 2002 CD-ROM.

Newspaper and magazine articles

"Gold, Silver Cards Facility for Non-Residents Soon," *Arab News* August 6, 2001.



INTER-AMERICAN DEVELOPMENT BANK

1300 New York Avenue, N.W.
Washington, D.C. 20577, USA
Tel: (202) 623 - 1000
www.iadb.org