# Immigrant Remittances:
# Trends and Impacts, Here and Abroad

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# Global remittances are at record levels

- Globally remittances are estimated to be as high as $140 to $200 billion annually. Many of the biggest remitting flows are undercounted.

- About $70 billion of remittances are included in national accounts.

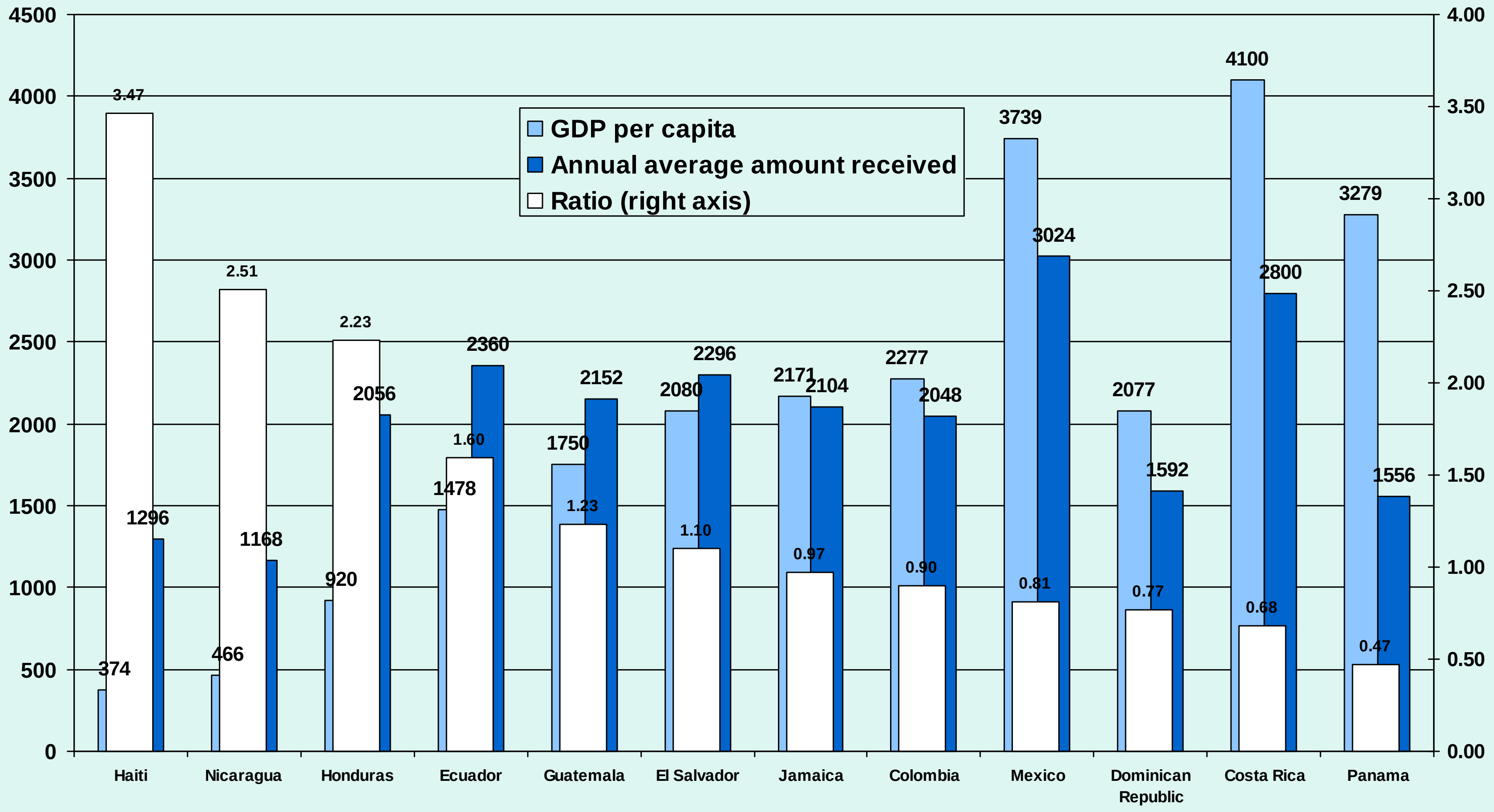
- The biggest receiving regions are:

  - 23% Latin America
  - 22% South Asia,
  - 21% Europe & Central Asia,
  - 18% East Asia & Pacific

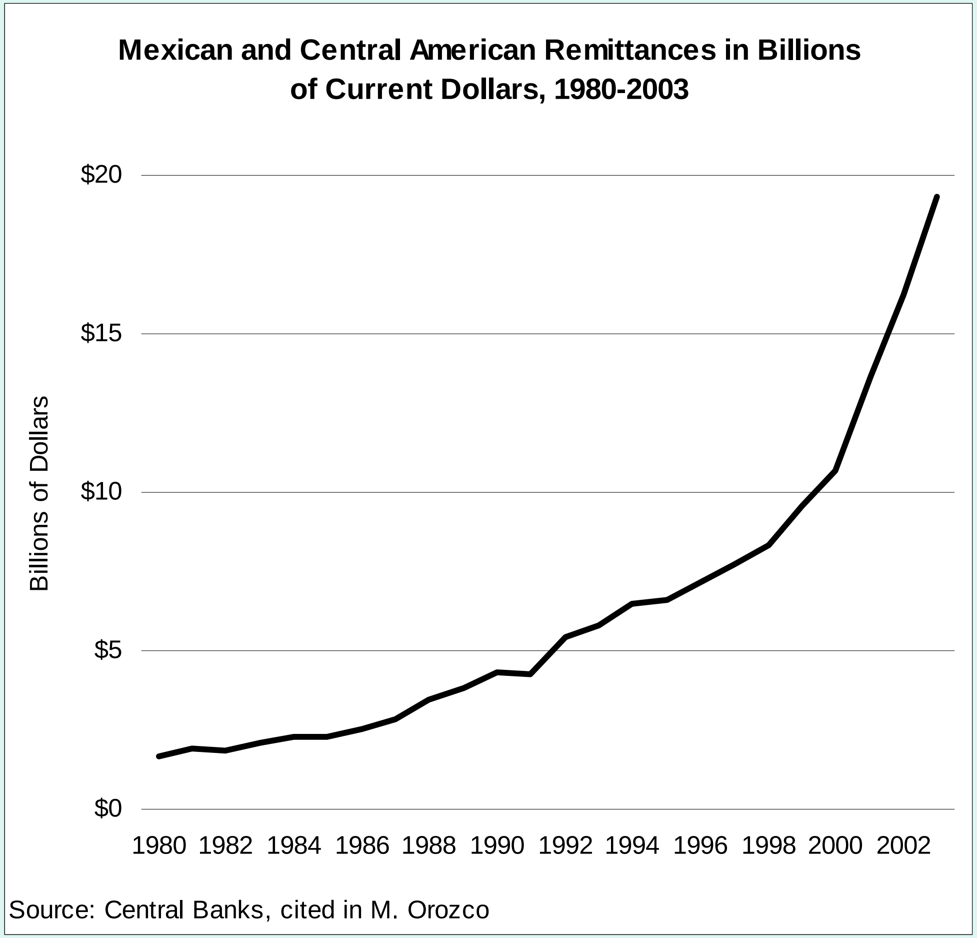
- Flows with  region are very concentrated:

  - India, comprises 73% of the flows to South Asia.
  - Mexico represents 38% of Latin America and the
  - Philippines represents 43% for East Asia and the Pacific.

**Remittances are significant sources of national income** and are typically more than foreign aid.



**Most remittances sent from the United States tend to go to Mexico and Central America, $19.3 million in 2003**, followed by the Caribbean and the rest of Latin America. The amount of monies being sent has grown at a phenomenal rate in the past decade and has continued to do so right through the recession of 2001 and the recovery thus far.



**New Actors in the remittance game** include transfer companies, hometown associations, and governments in sending and receiving countries.

More and different types of transfer businesses have entered the marketplace in the past decade. As the cost of transferring remittances has gone down, the amount of monies remitted has increased. It is possible to lower costs further which will arguably increase the benefits of remittances as more money will end up in consumers pockets.

Hometown Associations are collections of immigrants who desire to improve their sending communities. Their “collective” remittances, although a small portion of the overall flow, are typically spent on productive investments such as schools, roads, water pumps, as well as church improvement and sporting arenas.

Mexican state governments have matched collective remittances that are spent on community projects. The USA and other countries also want to leverage remittances, the USAID is seeking Hometown Associations as partners for projects to improve education and built infrastructure.

## **The impact of remittances on economic development in the sending countries tend to be positive,** but there is some controversy over the nature and extent of impacts.

A large body of research in sending countries around the globe through the early 1990s found that remittances:

- Increase inequality of households both in rural and especially in urban areas
- Are spent on “non-productive” consumption, i.e., consumer goods.

New economic models and theory in the early 1990s, and since, find a “multiplier effect”:

- $1 dollar of remittances typically boosts national GDP between $2 - $3; and
- Inequality effects can be real, but depend on the nature of the local economy and the history (extent) of migration from a community.

## **There may be limits to policymakers' desire to leverage remittances** for economic development in sending countries.

Remittances are personal expenditure and are not easily regulated by governments:

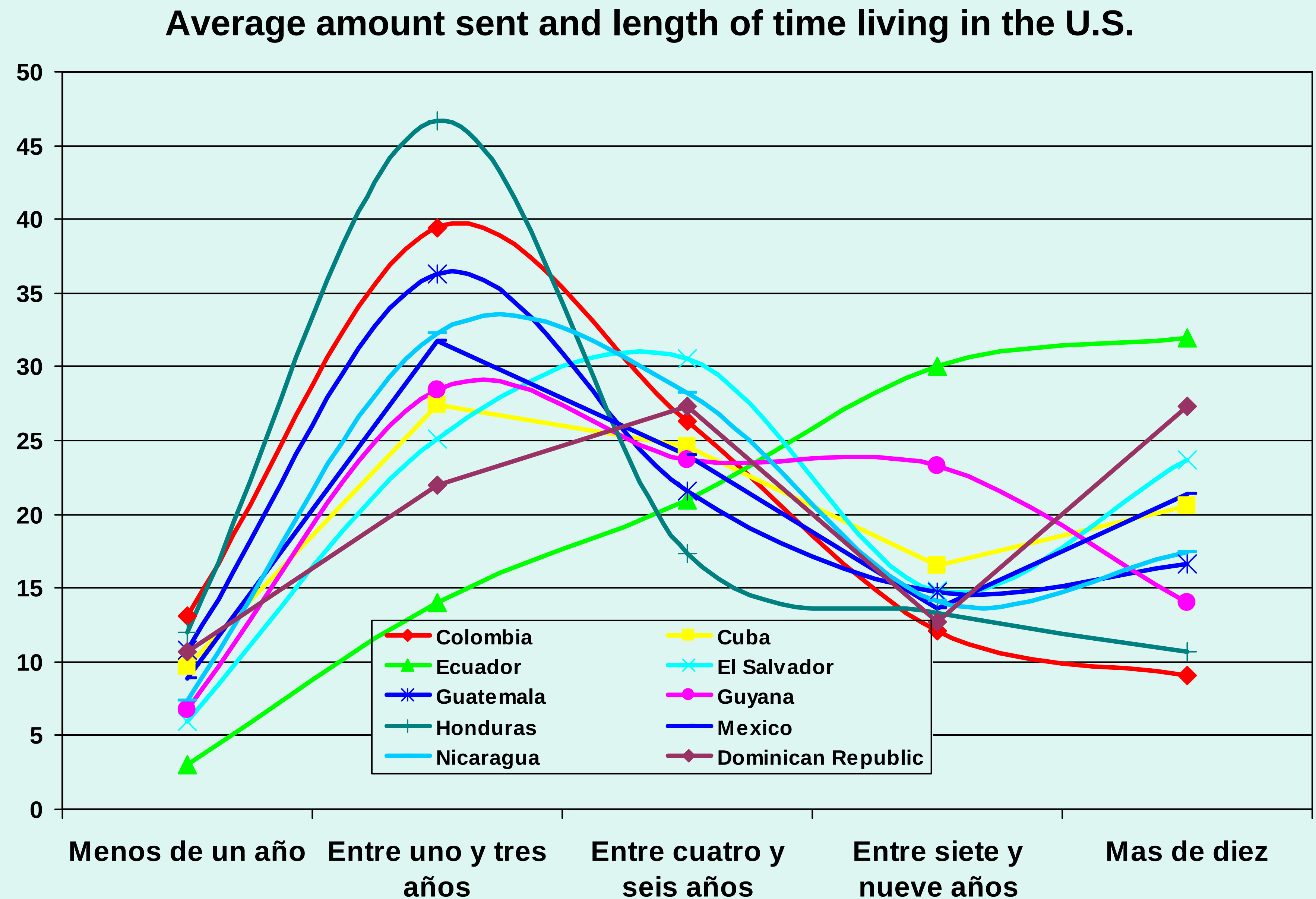
- About 75 percent of remittances are spent on household expenditures or basic needs such as food, medicines, or clothing.
- Perhaps 7 percent of remittances are put into savings and another 7 percent into investments.
- Depending on the country, perhaps no more than one third of remittance receivers have a bank account, so to date remittances have done little to ease "liquidity constraints" on emigrant households.
- Remittances can offset poverty in sending countries, but there is always the risk that a break in the flow will harm remittance-dependent households.
- Hometown Associations are informal and their organization is fluid, procuring their assistance is a challenge.

## **Little is known about how the outflow** of remittances impacts U.S. immigrant communities.

- Remittances are one of the primary reasons that most immigrants come to the United States, and that has been the case for most of the past century.
- Sill, immigrant households are often poor, yet among households that remit, the yearly amount remitted runs between 10 to 15 percent of their yearly income.
- Do remittances make poor immigrant families even poorer? Are they a “non-negotiable” expenditure that is sent regardless of cost?
- Do immigrants send remittances through transfer agencies rather than using banks because they remittances are seen strictly as a short-term household income?

## **Research on US immigrants and remitting supports an “integration effect”** that reduces remittances over time.

- Faster, cheaper transportation and communications have created a new “transnationalism.” Will strong connections mean that immigrants continue sending remittances as long as they stay in the United States?
- Empirical research supports the expectation that integration reduces remittances:
  - Remitting decreases with time spent in the United States; and as
  - family members join US working spouses, parents, and children,
  - Immigrants naturalize and align with US politics.
  - More educated immigrants tend to move with their families and to integrate faster, so they tend to stop remitting sooner than less-skilled immigrants.



Average amount sent and length of time living in the U.S.
50
45
40
35
30
25
20
15
10
5
0
Colombia
Cuba
Ecuador
El Salvador
Guatemala
Guyana
Honduras
Mexico
Nicaragua
Dominican Republic
Menos de un año
Entre uno y tres años
Entre cuatro y seis años
Entre siete y nueve años
Mas de diez

## **Immigrant households are judicious** about how much they remit, balancing remittances against income.

Research finds that:

- Immigrant households appear to remit in line with their ability to do so:
  - Poor immigrant households are more likely to remit, but
  - the amount remitted increases with individual income; conversely poorer households remit few dollars so there is no minimum they meet that saps their resources.
- US taxpayers are not subsidizing remittances:
  - Households that receive US means-tested welfare payments remit significantly less than households that do not; conversely households receiving non-means tested (or earned transfer payments) do remit a little more.

## **Remittance senders tend not to be "banked,"** but they may be good prospects for banking services and mortgages.

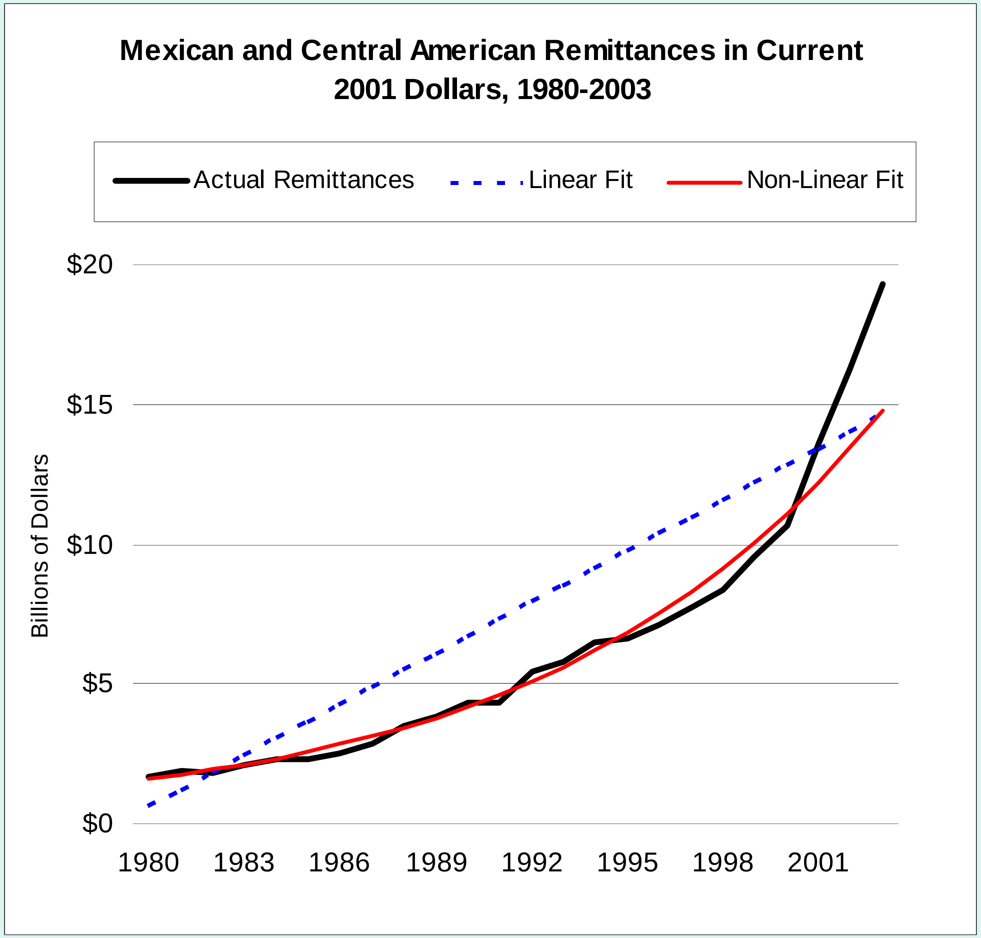
- On average, only about half of Latino immigrants who remit also have bank accounts. But there is notable variation by country of birth:

  - 25 % of Mexican remitters are banked.
  - 29% of Honduran remitters are banked.
  - 62% of Dominican remitters are banked.
  - 65% of Ecuadorians remitters are banked.

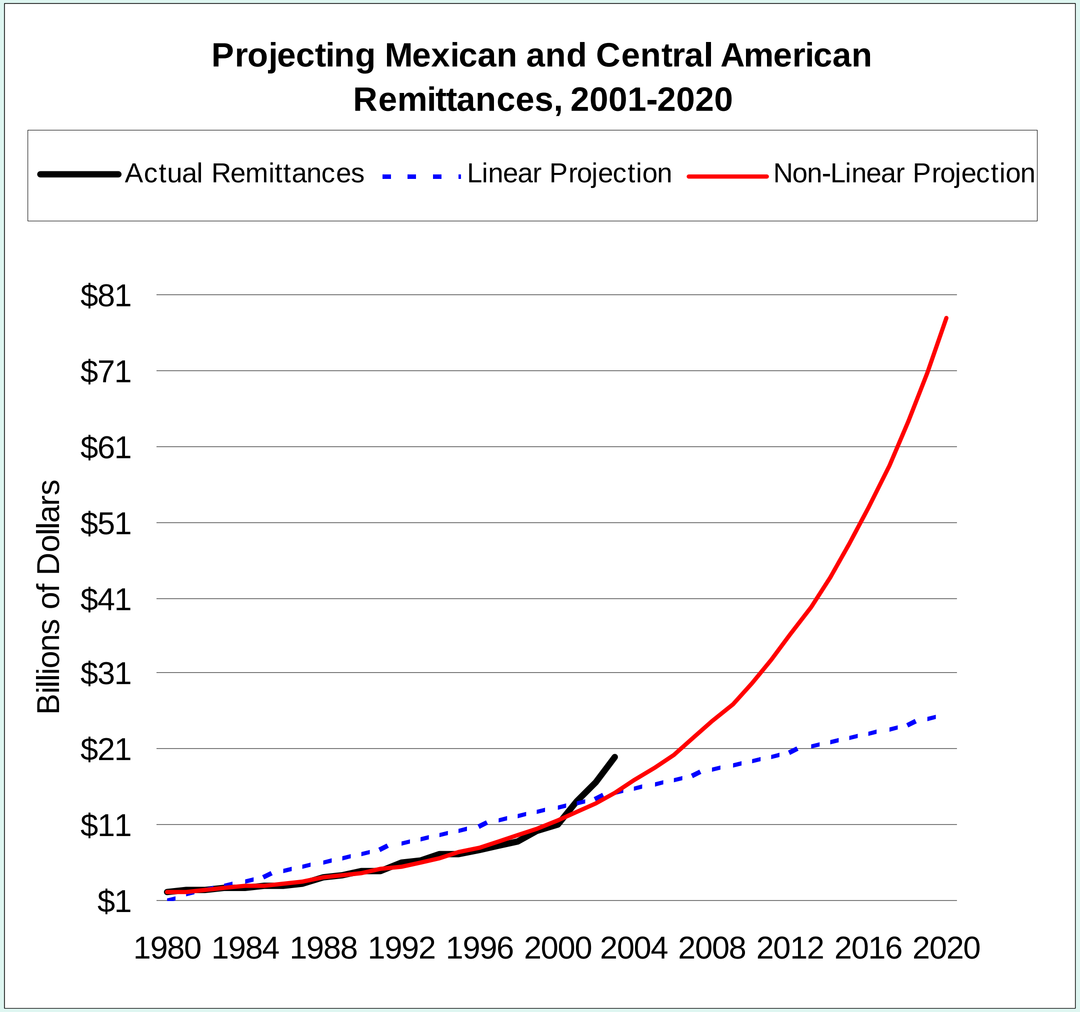
- Best banking practices show that low-income immigrants without bank accounts can establish credit worthiness by non-traditional means; often qualifying for loans and mortgages.

- Research finds that immigrants who own their homes are more likely to remit than renters, even though they do not necessarily remit more dollars. So remittances do not appear to banking or a tradeoff to credit worthiness

There is intense interest in the international flow of remittances, but **will the amount of remittances continue to grow in line with expectations?**



**A linear projection of future remittances looks to low** in the next two decades, but a non-linear projection looks wildly too high. Just how long can the marketplace rely on double digit growth; what will the future volume be?



## Factors driving the rapid increase in remittances: Migration

- Significant increase in the population of newly arriving immigrants in the United States.

- The pattern of increase really booms in the mid-1990s along with the “New Economy” that also:

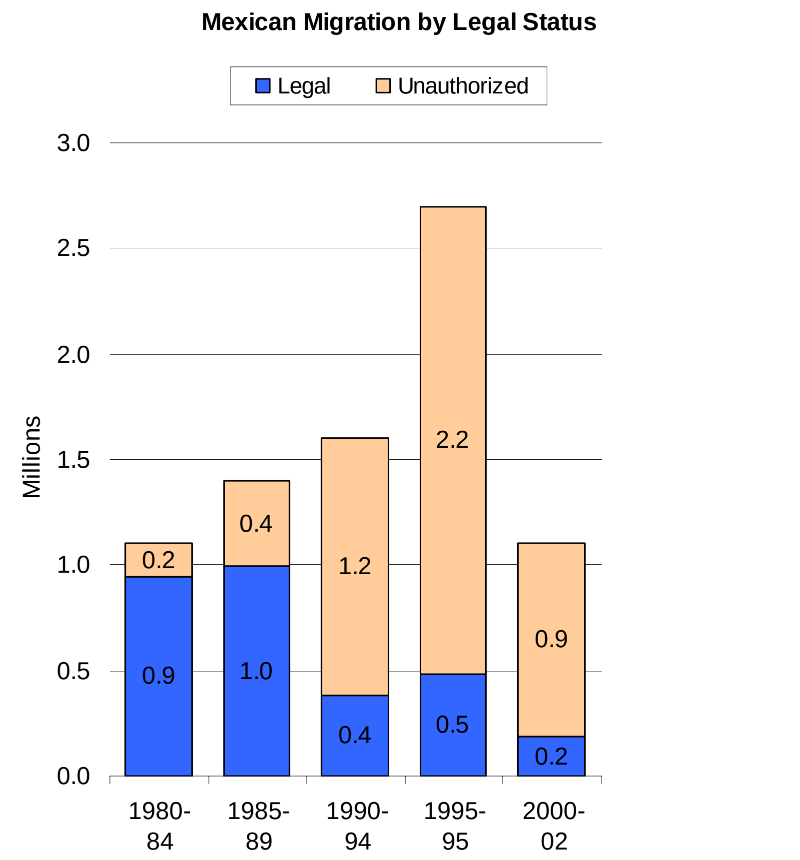
  - Increased the share of immigrants who worked, and

  - Drove an historic increase in the wages of newly arrived Latino and Asian immigrants: about 30% between 1994 and 2000, or twice that of African American and three times the wage growth of Anglos.

  - The average amount remitted has increased in the past several years.

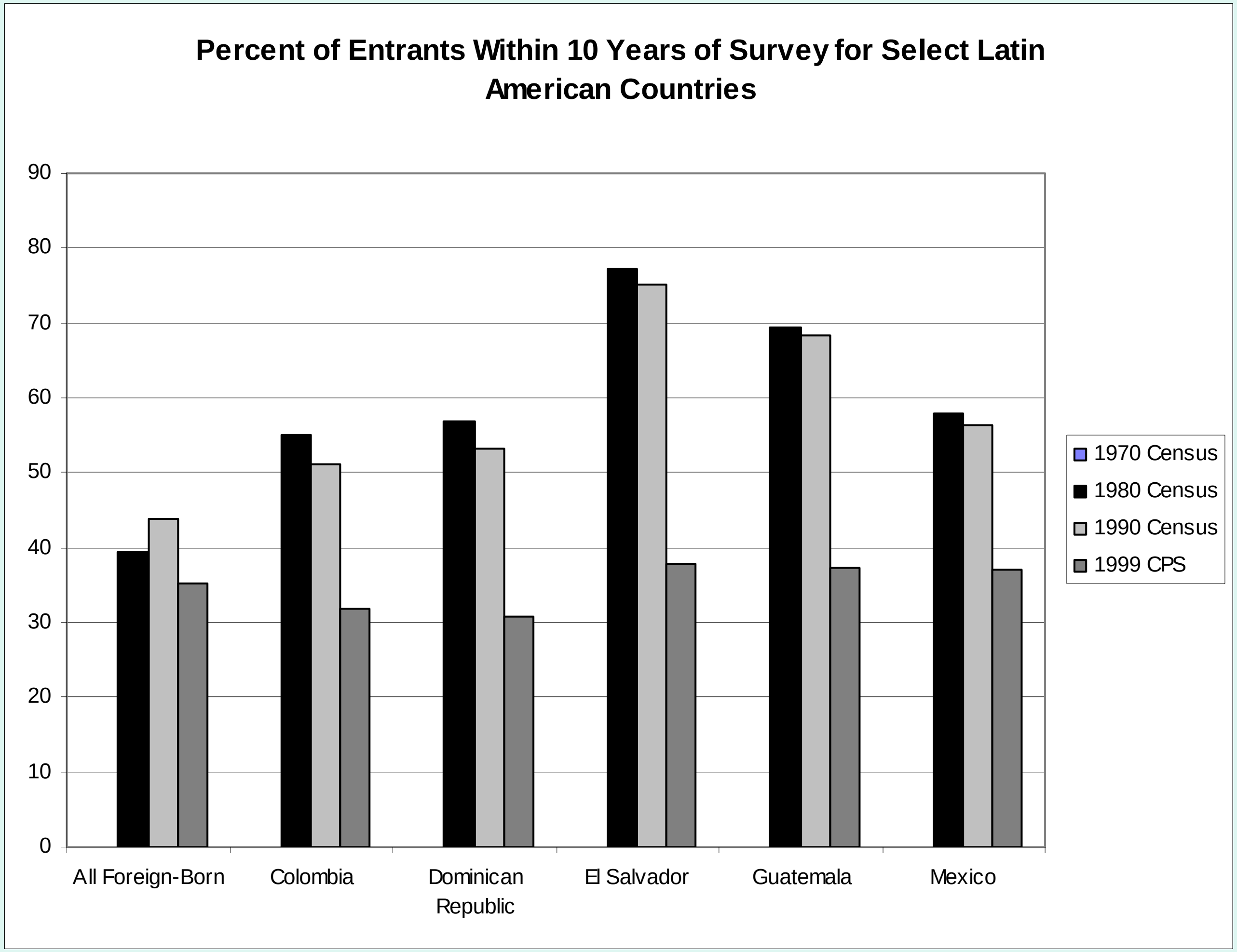
## **Latin American immigration to the United States reached an historic high** in the 1990s, Mexican migration in particular marked new highs in legal and unauthorized migration.

- The number of new immigrants entering the United States in the 1990 was a record high.
- Mexican migration in particular increased at a rapid rate, the number of immigrants arriving during the 1990s decade was 1.7 times the volume entering in the 1980s.
- Declining population growth rates and increased economic growth could reduce migration pressures.
- The current US Census Bureau forecasts are for declining immigration after 2010.



Source: Passel, 2003.

**Recently arrived immigrants send the most home**, but the proportion of immigrants who have been in the country less then 10 years is a decreasing share of all immigrants.



**Other factors driving the increase in remittances:** lower costs & better measurement. Non-Migration factors boosted the rapid increase in the level of remittances, but those factors may no longer boost growth to the same degree.

- Better “measurement” of remittances has increased the apparent flow, but to some extent this simply moved unmeasured into measured amounts of remittances:
  - Central banks have made efforts to better count the flow of money.
- Lower costs of remitting induce remitters to:
  - possibly remit more (apparently so on average); and
  - shift from informal transfers (carrying money, etc.) and other means of sending money into more easily tracked electronic transfers.
- If migrants are more permanent in the United States, and some observers believe circulatory migration has decreased, then more monies are remitted rather than carried back by workers as foreign earnings.

## Optimism and Caution

- Remittances are growing rapidly and may play a significant role in boosting economic development abroad, while providing new opportunities here.
  - remittance senders are a largely untapped source of consumers of various financial services:
  - remittances monies may be a source of dollars that banks and other financial institutions can leverage to provide services.
  - bringing remitters into the financial mainstream holds promise for the financial industry, as well as for the financial well being and integration of immigrants
- Remitting is ultimately an altruistic act for the benefit of individual families and is not a behavior that is easily “leveraged” by governments or financial institutions.
  - The current rate of growth of remittances may not hold into the future, strategies for capturing market share should carefully weigh that.
  - There are significant differences between immigrant groups in their remitting and financial behaviors.