

# MIGRANT Remittances

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## From the Editors

Dear Readers,

This is our first edition of 2010 but the last in the current format. We are currently exploring a move to a new web space that will expand newsletter coverage and interaction with the remittance community. Keep an eye out for an announcement later in the year.

In this issue we find a 6 percent decline in global flows, mixed with uneven trends, mirroring the impact of the recession in both home and host countries. This impact shows differences within and between regions, whereby growth and decline was part of a parallel pattern. Moreover, the year starts with the dramatic impact of the earthquake in Haiti, which raises questions about the relevance of remittances and Haitian migrant involvement in the reconstruction of their nation.

This briefing also highlights that the remittance marketplace and industry continue to trend toward greater innovation. More companies are exploring products and technology vehicles that meet the demands of migrant remittance senders. These include mobile transfer technologies but also expanding operations. Moreover, governments are continuing efforts to enable competition for groups other than banks, such as in Japan, as well as promote cooperative efforts to leverage remittances for development, such as a new initiative by the African Development Bank. Brazil's country profile is presented in this issue, which is considered to be the second largest recipient in remittances to Latin America and the Caribbean.

*Manuel Orozco*

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## Worldwide Trends in International Flows

**The tragic earthquake that struck Haiti in January demonstrated the importance of the \$1.2 billion in migrant remittances the Caribbean nation receives.** With talks of Haiti's reconstruction, many people consider the role of the Haitian diaspora as a key development player. In 2008, an estimated one million Haitians around the world sent home almost US\$1.2 billion. The volume of remittances sent dropped by 12 percent in 2009 due to the recession. Some money transfer companies lowered their fees after the quake, reinstated them in February, and then lowered them again in March at the urging of U.S. lawmakers. Besides sending remittances, some 300 Haitian hometown associations in the United States and Canada donated US\$10,000 each to their communities for social projects.

**Developing countries around the world saw remittance inflows fall significantly in 2009 compared to the previous year** (see Chart 2). The World Bank reported in November that remittances dropped 6.1 percent to US\$317 billion, a slightly lower drop than their previous estimate of 7.3 percent. Flows to Latin America and the Caribbean and the Middle East and North Africa regions fell more than expected (remittances to Mexico fell 13.4 percent in the first nine months of the year compared to the same period in 2008). But while most countries experienced declines, a notable exception was South Asia, where remittance volumes grew in the first three quarters of 2009 in Pakistan (24 percent), Bangladesh (16 percent), and Nepal (13 percent). These countries receive significant portions of their remittances from oil-rich Gulf states, which continue to have high demand for migrant labor. India received 27 percent of its remittances from the Gulf last year, according to the Reserve Bank of India. Globally, remittances are expected to make a shallow recovery in 2010 and 2011.

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**CHART 1: AVERAGE AMOUNT (US\$) REMITTED EACH MONTH BY U.S. IMMIGRANTS TO LATIN AMERICA AND THE CARIBBEAN**



Source: ECO, March 2010.

The Inter-American Development Bank reported that migrant remittances to the Latin America and Caribbean region dropped 15 percent in 2009 to US\$58.8 billion. The IDB's Multilateral Investment Fund said it was the first ever drop since it began tracking remittance flows in 2000. The bank said flows began to stabilize in the fourth quarter of 2009 and employment data from traditional sending countries like the United States and Spain, led them to predict a bottoming-out of the decline. See publications.

Migrants continue to feel the effects of the global economic crisis, sending lower average amounts of remittances, according to recent surveys conducted by the Inter-American Dialogue. There are important differences among remittance corridors. In the United States, immigrants from Latin America sent 6 percent less in January 2010 than in January 2009 (see Chart 1 on the next page). Migrants in Russia remitting to Azerbaijan and Georgia demonstrated different trends: Azeri households saw a 25 percent drop in remittances received, compared to an 11 percent drop among Georgian recipients. In Spain, migrants continue to struggle amid the economic crisis, according to a March survey. Only 5 percent of migrants reported they are sending more money than last year, while 29 percent are sending the same amount, and 64 percent are sending less. The average transfer amount is 10 percent lower than last year (€211 compared to €249). Moroccan and Romanian migrants are having a hard time recovering from the crisis, with 81 and 85 percent of migrants sending less money than last year, respectively, compared to 56 percent of Latin American migrants in Spain.

### 2009-2010 Remittance Trends

Several companies have launched cell phone payment systems for end-users in the United States in the last year. In 2010, MasterCard's cellular telephone-based payment platform opened its platform to other banks so customers can use their cell phone to send money to another person. MasterCard, which uses technology from California-based Obopay, first launched the service exclusively with Wilmington, Delaware-based Bankcorp Bank in May 2009. According to Bankrate.com,

CashEdge launched a service called POPmoney, which allows clients at five participating banks to send money to an email address, mobile phone, or bank account. Amazon.com launched TextPayMe, which can be used to make purchases or send gift cards or payments with a cell phone using a debit card, credit card, or bank account linked to the sender's Amazon online account. Twitter launched Twitpay, in which customers can send money with a cell phone using a linked PayPal account.

San Francisco-based online money transfer provider Xoom Corp. raised \$33.2 million in March from two large unidentified public equity firms, two smaller firms, and insiders, the *San Francisco Business Times* reported. The latest round of funding brings the nine-year-old remittance company's total funding to almost \$90 million.

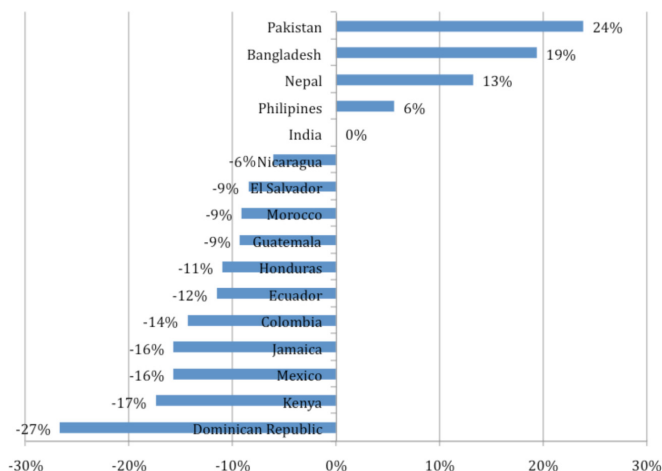
Western Union's annual revenue fell 4 percent to \$5.1 billion in 2009 compared to the previous year. In the fourth quarter last year, the company's earnings fell 6.6 percent to \$223.7 million, compared to the fourth quarter of 2008. The money transfer company said revenue in the customer-to-customer segment rose 1.7 percent, but fell about 2 percent in constant currencies. Transactions increased 5 percent and revenue from global payments grew 4 percent.

MoneyGram's 2009 full-year revenue increased from \$927.1 million in 2008 to \$1.17 billion in 2009. In the fourth quarter, the company posted a 7.6 percent drop in fourth quarter revenue to \$296.4 million, compared to the same period in 2008.

### Regulatory Issues around the World

Wachovia Bank agreed to pay US\$160 million to settle a case in which U.S. authorities accused it of laundering money connected to Mexican drug traffickers. In the agreement, the bank, now a unit of Wells Fargo & Co, will forfeit \$110 million, which represents proceeds of illegal drug sales that were

**CHART 2: ANNUAL REMITTANCES GROWTH IN SELECTED COUNTRIES (2008-2009)**



Source: World Bank and central banks.

laundered through Wachovia, according to the U.S. attorney's office for the Southern District of Florida. In addition, the bank must pay a \$50 million fine to the U.S. Treasury. Before the settlement was announced, Wachovia said it was "committed to maintaining compliant and effective anti-money laundering policies and practices and a strong compliance and risk management culture."

**In Japan, companies other than banks will be able to offer intermediary services for remittances starting on April 1, 2010, the country's Financial Services Authority reported in February.** The "funds settlement law," which passed in the Diet in June 2009, could make room for competition in online channels, as well as lowering prices in existing corridors. Under the law, remittance service providers must register with the finance ministry's local bureaus, their transactions are capped at 1 million yen, and they are required to maintain certain levels of reserves to cover transfers.

**Italy is starting to enforce legislation that requires money transfer operators to report undocumented migrants who use their services.** The so called "pacchetto sicurezza" bill states that companies must make a photocopy of their customers' residence permit and keep it on file for ten years.

**The European Union's Payment Services Directive, which intends to simplify and quicken money transfers by standardizing payments processing throughout Europe, as well as introduce consumer protections, came into force in November 2009.** The directive applies to any non-cash payments and establishes a new category of "payment services" firms. It is expected to improve transparency of costs, enable new market players, and increase competition. Already, a host of nonbank payment services providers have entered the market as a result of the directive, Banking Technology reported. For financial institutions, the rules could be burdensome and costly as many banks need to adapt legacy technology to meet the new requirements.

**The United Arab Emirates' "Wages Protection System," which requires employers to pay workers through direct deposit to accounts at authorized banks, foreign exchange bureaus, and other financial institutions, went into force in September 2009.** Some remittance service providers, such as FX bureaus, see the new system as a competitive challenge that will enable banks to tap into their huge market of underbanked migrant workers, while others see an opportunity to create card- or account-based money transfer services, CPI Financial reported. The deadline for employers to comply is based on company size, with the final group (firms with less than 15 employees) required to comply by May 31, 2010. To date, 53 banks and 22 foreign exchange houses have been authorized to participate, according to The Financial Express of India.

## International Cooperation and New Projects

**In March 2010, a multi-donor committee led by the International Fund for Agricultural Development (IFAD) announced a call for proposals for a US\$18 million funding facility** aimed at reducing rural poverty and promoting development through innovative remittance-related projects. Institutions can receive up to US\$250,000 over a two year period. Proposals that involve mobile banking or mobile transfers are eligible to receive up to US\$500,000. The deadline to submit concept proposals online is June 7, 2010. For more information, go to: <http://www.ifad.org/remittances/proposals.htm>

**The African Development Bank, with support from the Government of France and IFAD, is establishing a Migration and Development Fund to support initiatives on Africa.** Eligible projects include those that address the following: improving available knowledge on remittances; reforming regulatory frameworks; upgrading the operators engaged in the remittance transfer market; developing new financial products for remittance-senders and recipients; supporting productive investment of the diaspora; or, supporting local development in Africa. The call for proposals is expected to be launched in June 2010.

**The International Organization for Migration in November 2009 launched the website [www.mandaisoldiacasa.it](http://www.mandaisoldiacasa.it),** which allows migrants in Italy to compare options to send remittances. Several other price comparison tools exist, such as the [www.mondato.com](http://www.mondato.com) global search portal and the World Bank's <http://remittanceprices.worldbank.org> database.

**The European Commission-United Nations Joint Migration and Development Initiative (JMIDI) announced a new project in March 2009 to provide technical assistance** to carry out a diagnostic study in Ecuador about the needs of migrant families and to conduct a feasibility study for establishing a network to sell agricultural products in the Cotacachi region. The project is part of the Redes-cap project coordinated by the Association of Labor Cooperatives of Madrid (UCMTA) and the Ecuadoran migrant group Rumiñahui.

**The UK's Financial Services Authority published a brochure for migrants on February 10 called "Sending Money Safely" as part of their MoneyMadedclear financial literacy program.** International Development Minister Gareth Thomas said about one-third of remittances sent from the UK go through informal channels. The guidance booklet will help people make an informed choice on which companies to send money through and how to make complaints if things go wrong.

## COUNTRY PROFILE: BRAZIL<sup>1</sup>

**Population:** With almost 193 million people,<sup>2</sup> Brazil has the fifth-largest population in the world and the largest in Latin America. It is growing at 1.2 percent annually with a fertility rate of 1.9 births per woman and a life expectancy of 72 years.<sup>3</sup> GDP per capita (PPP) is US\$10,296,<sup>4</sup> with a GDP growth rate of 5.5 percent.<sup>5</sup> Six major groups make up the Brazilian population: Portuguese; Africans; other European; Middle Eastern; Japanese, and other Asian immigrant groups; and, indigenous Tupi and Guarani peoples.<sup>6</sup> The population is concentrated in urban areas (81 percent in 2005), especially in the south-central industrial cities of Sao Paulo, Rio de Janeiro, and Belo Horizonte.

**History of Migration:** In the late 1980s, many Brazilians immigrated in search of economic opportunity, as economic woes meant even educated Brazilians could make more money doing low-skilled work abroad. Japan is one of the most important destinations for Brazilians. For example, many native-born Brazilians of Japanese descent migrated to Japan. In the 1990s, Brazil also received significant inward migration flows from South Korea, Bolivia, and Peru. According to the country's 2000 census, South and Central American migrants constituted 46.5 percent of the total international flows to Brazil between 1990 and 2000, following by Europe (23.4 percent), Asia (15.5 percent), and North America (9.7 percent).

**Estimated Remittances Flows:** According to the Inter American Development Bank, remittance flows to Brazil amounted to US\$4.7 billion in 2009, accounting for 0.29 percent of GDP.<sup>7</sup> The Banco Central do Brasil reported inbound remittances of US\$2.2 billion in 2009. Outward remittance flows are also significant, amounting to US\$690 million in 2006, or 0.1 percent of GDP.<sup>8</sup>

**Host Countries:** According to the World Bank, an estimated 1.1 million Brazilian migrants were living abroad in 2005, representing 0.6 percent of the population.<sup>9</sup> Women made up 46 percent of this group.<sup>10</sup> Emigration has increased by about 20 percent per year since 1987, when approximately 300,000 Brazilians lived abroad. The Federal University of Minas Gerais reports a much higher number of migrants, suggesting that 2.5 million Brazilians were living abroad by 1995. In the United States there are some 600,000 and 700,000 migrants, mostly concentrated in Massachusetts, Florida, New York and New Jersey.<sup>11</sup> Other top destination countries are Japan, Paraguay, Spain, Portugal, Germany, Italy, Argentina, France and Bolivia. Immigrants living in Brazil, by comparison, numbered 641,474 in 2005, or 0.3 percent of the population.

**Financial Sector Regulation:** The central bank allows only institutions that are authorized to operate in the foreign exchange market to pay out remittances (multiple banks, commercial banks, savings banks, investment banks, development banks, foreign exchange banks, credit, financing and investment societies, securities and stocks brokerage



societies, securities and stocks dealers' societies and foreign exchange brokerage societies).<sup>12</sup> They can pay out up to US\$50,000 per transaction. Other companies, such as non-banking financial institutions, credit unions, foreign exchange bureaus and microfinance institutions, can pay out remittances only as sub-agents of authorized payers and are limited to US\$3,000 per transaction. Residents and non-residents can hold accounts in foreign currency for personal or business purposes, but only institutions authorized to operate in the foreign exchange market can offer such accounts.

**Brazil's Payment Network:** There are 16,830 remittance payment points in Brazil, paying out transfers for nine money transfer operators. Banks dominate the payment network with almost 84 percent of operators paying through bank locations, followed by foreign exchange bureaus (2 percent). Uno Money Transfers is the largest operator with 26 percent of the payment locations, followed by Western Union (23 percent) and MoneyGram (21 percent).

**Sao Paulo state has the largest** concentration of payment points at 15 percent, followed by the states of Minas Gerais (7 percent), Rio de Janeiro (6 percent) and Santa Catarina (5 percent). A recent survey found that the average cost of sending US\$200 in remittances from the US to Brazil is 7 percent, higher than the Latin American average of 6 percent.

<sup>12</sup> Law 9.613, March 13th, 1998.

<sup>1</sup> Map: [http://www.lib.utexas.edu/maps/middle\\_east\\_and\\_asia/indonesia\\_pol\\_2002.jpg](http://www.lib.utexas.edu/maps/middle_east_and_asia/indonesia_pol_2002.jpg)

<sup>2</sup> Instituto Brasileiro de Geografia e Estatística, 2010 estimate.

<sup>3</sup> World Bank -World Development Indicators, 2008 data.

<sup>4</sup> World Bank -World Development Indicators, 2008 data.

<sup>5</sup> World Bank -World Development Indicators, 2008 data.

<sup>6</sup> <http://www.state.gov/r/pa/ei/bgn/35640.htm>

<sup>7</sup> Inter American Development Bank - 2008 data "Remittances in times of Financial Instability"

<sup>8</sup> World Bank Migration and Remittances Factbook, 2008 data.

<sup>9</sup> World Bank Migration and Remittances Factbook, 2005.

<sup>10</sup> United Nations Population Division. World Migrant Stock: The 2005 Revision Population Database, 2005.

<sup>11</sup> Orozco, Manuel, Alvaro Lima and Eugenia Garcia-Zanello. Brazilians in the United States: a look at migrants and transnationalism.

## Events (April – December 2010)

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- May 6-7, 2010. Remesamericas 2010: Remittances for the Future. Inter-American Development Bank, Mexico City. <http://www.iadb.org/mif/events.cfm?lang=en>
- June 9-11, 2010. Fifth Annual Underbanked Financial Services Forum. Center for Financial Services Innovation. Miami, Florida. <http://cfsinnovation.com/events/article/330636>
- September 10-11, 2010. Call for papers: Third International Conference on Migration and Development. Paris School of Economics, World Bank and French Development Agency Research Department. Paris, France. <http://www.parisschoolofeconomics.eu/spip.php?article957&clang=en>
- November 8-11, 2010. Global Forum on Migration and Development. Puerto Vallarta, Mexico <http://gfmnd.org/media-gallery/mexico-2010/mexico-2010-news.html>
- June 23-24, 2010. Money Transfer & Migrant Remittances 2010. Barcelona, Spain.
- October 12-22, 2010. Call for papers: What migration for which development in Africa? Applied Economic Research Center for Development, Social Economics & Human Development Division, CREAD, University of Bouzaréah, Tamanrasset, Algeria.

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