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Migrant Workers and Remittances to Latin America and the Caribbean in 2020

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A positive shift in money transfers to Latin America and the Caribbean points to a silver lining in both the pandemic and the economic crisis, offering development opportunities that can help prevent further deterioration of the economies. The decline in remittances (at -3%) will unlikely be as drastic as other external sources of income for families; therefore, the flows provide sustenance and potential for continued economic activity.

Conditions are ripe for introducing economic development initiatives on financial inclusion and the digital economy in terms of money transfers and could result in a mitigation of the worst effects of the economic downturn in 2021.

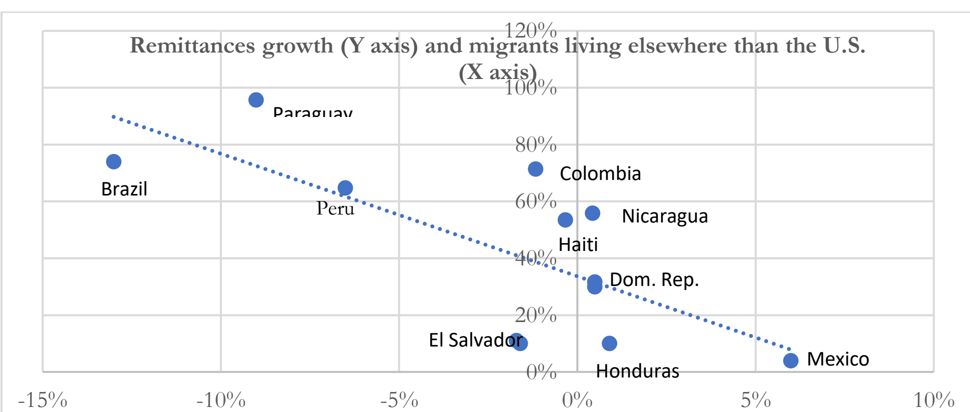
- Remittances are estimated to drop -3% instead of the forecasted -20%[2]
- Countries most affected are those with migrants in Latin America and the Caribbean and Europe
- Nearly 2 million households, equivalent to $3 billion, will not receive remittances
- Total volume transferred will be $103 billion
- Conditions in the pandemic caused a shift in remittance behavior toward more digital transactions with Mexico: 45% of remitters used online or digital money transfer systems
- The less severe drop in flows will provide a much-needed income during a difficult economic time in the region, presenting the opportunity further expand online and digital economic activities.

Growth of remittances in 2020

Between January and July of 2020, remittances dropped -6.6% across Latin America and the Caribbean. Families in Brazil, Colombia, Peru, Paraguay and El Salvador experienced higher declines in remittances flows. Other countries like Mexico, Haiti, and Nicaragua actually grew 10%, 5%, and 3% respectively.

The decline seems to be mostly associated with the effect of unemployment in the migrant host country. Europe and Latin America have been hardest hit because many migrants were already economically vulnerable, and the economic impact of COVID-19 has exacerbated their situation.

First, Central Bank data show that remittances have declined in countries where the corresponding migrant population in Europe and Latin America is higher.



[1] Manuel Orozco. Center for Migration and Economic Stabilization, Creative Associates International. August 24, 2020

[2] As per the World Bank reports. https://www.worldbank.org/en/news/press-release/2020/04/22/world-bank-predicts-sharpest-decline-of-remittances-in-recent-history

Second, for migrants who primarily are based in the United States, the decline corresponds to a variety of factors, including the obligations with relatives in the home and host country, as well as the propensity to remit under unemployment conditions.

Sending money to Mexico

The 10% in volume growth to Mexico as reported by the Central Bank appears astronomically high insofar as it reflects an increase at a time where most countries have experienced negative growth.

The reasons for the increase are twofold. First, 6% more of Mexican migrants sent money, increasing the number of people-to-person transactions to 7.9 million (up from 7.5). Second, there is a slight increase of 4% in the average remitted from $320 to $340.[3] These increases relate to shifts in the use of online money transfers during the Covid-19 crisis. For one, most of online remittance service providers reported growth in their transactions of over 100%, while after six months cash-to-cash money transfer operators registered grow under 5%. The market share of digital or online remittance companies increased from 37% to 45% during this period. Moreover, these companies typically have migrants sending a higher amount than other service providers.[4]

In addition, unlike other nationalities, a smaller share of (60%-70%) Mexican migrants have traditionally remitted; however, as they have stayed longer, the number of remitters increased showing progressive growth since 2005. The COVID-19 crisis heighted the number to reach 80% of all Mexican migrants.

Furthermore, other cross border migrant workers who stayed on the US side performed cash transfers to their families instead of returning with money themselves.

Sending money to Central America

Each Central American country has shown disparate transfers, with El Salvador having a higher decline and Guatemala and Nicaragua modest increases. There are no strong explanations, though it is important to understand historical context. Many Salvadorans in the US have been there for over 20 years and thus have more obligations in the US than in their homeland. As their ties with their homeland have declined, so too has migration, Among Hondurans, the decline relates to the fact that a higher population is undocumented and more vulnerable to job losses. The increase in remittances to Nicaragua appears counterintuitive given the economic crisis in Costa Rica; however, growth is largely resulting from senders in the United States, unlike a 7% growth as resulting from 2019, migrants are at least trying to maintain their transfers steady.

What to expect moving forward?

This trend will continue, showing a different pattern to what was projected before.

In July, migrants in the US registered a 12% unemployment rate. The second semester will likely show a further increase.[5] However, there is an element of resilience that distinguishes migrants today from the 2009 recession. For example, in a recent study 34% of the unemployed say they will not be able to remit, and nearly half of those with jobs may send 10% less. In 2009, in contrast, 75% of the migrant unemployed stopped remitting. Part of the reason stems from the fact that migrants this time were somewhat better

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[3] Bank of Mexico, https://www.banxico.org.mx/SieInternet/consultarDirectorioInternetAction.do?accion=consultarCuadro&idCuadro=CE81&locale=es

[4] Orozco, Manuel. *Remittances to Latin America and the Caribbean 2018*. Washington, DC 2019. And Orozco, Manuel. *The Remittance Marketplace in 2019: The Growing Role of Digital Payments*, 2020.

[5] For a previous discussion see, Manuel Orozco and Mariellen Jewers, *Migrants, Remittances, and Covid-19: Remittance Behavior and Economic and Health Vulnerabilities*.

prepared with more savings and the experience of surviving the recession. Migrants in the Latin American region, however, will experience greater hardship, most notably Venezuelan migrants in Colombia, Panama or Chile.

By the end of 2020, remittances to Latin America and the Caribbean will decline but not in the larger two-digit amounts reported by international institutions. The decline may be -3% growth, a contribution that is still significant given the large economic decline of the region's economy due to drops in trade and tourism.

These numbers are important considering that transfers of remittances go to at least 30 million households. Mexico alone has at least 7 million recipient households in a country of over 30 million households. El Salvador with 2.5 million households has nearly half of the population dependent on remittances. Therefore, remittances are more than a lifeline, but a source of economic resilience that can boost investment in the short term.

The table blow points to a less drastic drop in global flows, affecting countries with migration in Latin America and the Caribbean or Europe.

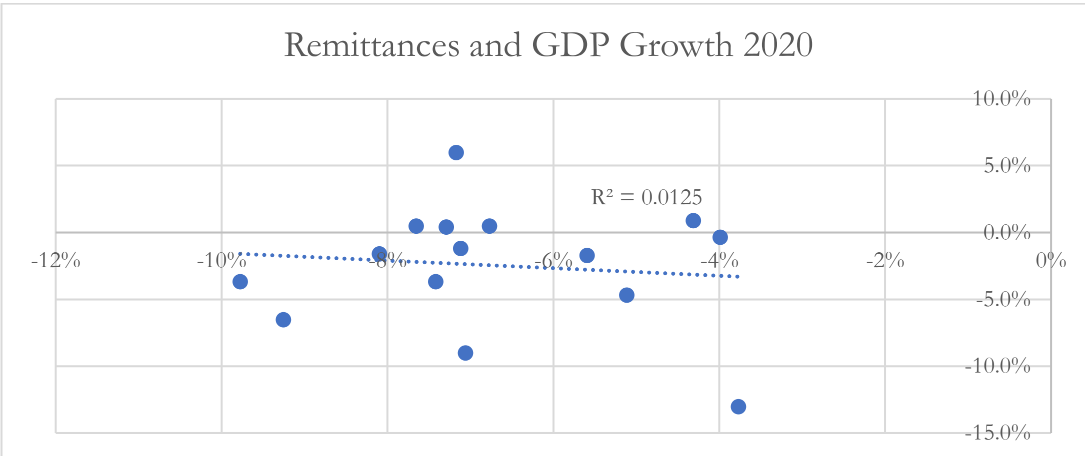
Remittances to Latin America and the Caribbean, selected countries (2020 estimates)

Receiving countries	*Remittances sent in 2019*	*Expected volume in 2020*	*Growth first half of 2020*	*YoY growth*	*Loss of family remittance income*	*Households not receiving*
Bolivia	$1,318,220,000	1,257,301,297		-4.6%	(60,918,703.13)	34,935
Brazil	$ 7,962,000,000	6,926,233,452	-28%	-13.0%	(1,035,766,547.88)	61,703
Colombia	$ 6,772,510,000	6,692,990,438	-5%	-1.2%	(79,519,561.62)	175,585
Costa Rica	$ 518,197,025	480,999,195		-7.2%	(37,197,830.33)	5,100
Dom. Rep	$ 7,103,181,292	7,138,066,862	1%	0.5%	34,885,570.15	48,840
Ecuador	$ 3,250,250,092	3,049,574,711		-6.2%	(200,675,381.07)	41,726
El Salvador	$ 5,650,270,000	5,529,992,137	-8%	-2.1%	(120,277,862.52)	56,613
Guatemala	$ 10,508,307,400	10,603,083,926	1%	0.9%	94,776,526.10	81,600
Haiti	$ 3,346,270,000	3,299,696,614	5%	-1.4%	(46,573,385.86)	107,826
Honduras	$ 5,424,037,908	5,071,475,444	-4%	-6.5%	(352,562,464.02)	46,240
Jamaica	$ 2,376,130,000	2,387,799,792	-1%	0.5%	11,669,792.22	49,716
Mexico	$ 36,045,524,000	38,205,056,760	10%	6.0%	2,159,532,760.20	402,535
Nicaragua	$ 1,700,000,000	1,699,816,400	3%	0.0%	(183,600)	43,350
Paraguay	$ 568,430,000	517,220,858	-20%	-9.0%	(51,209,142.48)	37,934
Peru	$ 3,325,920,000	3,109,440,058	-15%	-6.5%	(216,479,942.14)	65,842
Venezuela	$ 3,115,900,211	2,590,884,286		-16.8%	(525,015,925.43)	192,780
Other nationalities	$ 7,380,979,556	6,886,911,263		-10.6%	(814,387,344.48)	280,121
All LAC	$106,366,127,484	105,446,543,494	-6.6%	-1.2%	(1,239,903,042.27)	1,732,447

Source: Orozco, Manuel. Remittances to Latin American and the Caribbean in 2019: Emerging Challenges and author estimates for 2020 based on Central Bank data, interviews with migrants and money transfer companies.

What should be done in the current pandemic?

The shifts in remittance trends offer opportunities to bolster the flow as a means to prevent further deterioration and leverage the flows looking to the future. The flows will have a lesser effect on growth decline in most countries.



A focus should look at least three issues:

a) money management tools for financial resilience;

b) differentiated approaches to main social sectors, including remittance recipient, women head of households, students, and entrepreneurs; and

c) financial access in the digital economy.

Remittance recipients typically have a comparatively strong purchasing power. With financial advice, recipients can learn to stretch the durability of their income using economic resilience tools, budget re-evaluation, savings administration, and the use of mobile wallets as efficient budgeting vehicles.

The differentiated approach to women headed households, which typically represent half of all recipient households, is particularly important because they tend to face uncertainty of the durability of their income, further economic losses, and diminished social capital. Financial tools that can help smooth some of their economic obligations, while exploring alternative modes of income-generating activity.

The reality is that 60% of the labor force in the region is informal. At least two in every ten people are entrepreneurs, the majority of whom are also informal entrepreneurs, vendors, and traders for both the formal and informal sectors.

Providing these sectors with tools to integrate their business into the digital economy is essential.[6] The importance of the digital economy rests on that its functioning increases productivity, maximizes reach, economies of scale as well as reduces transaction costs.[7]

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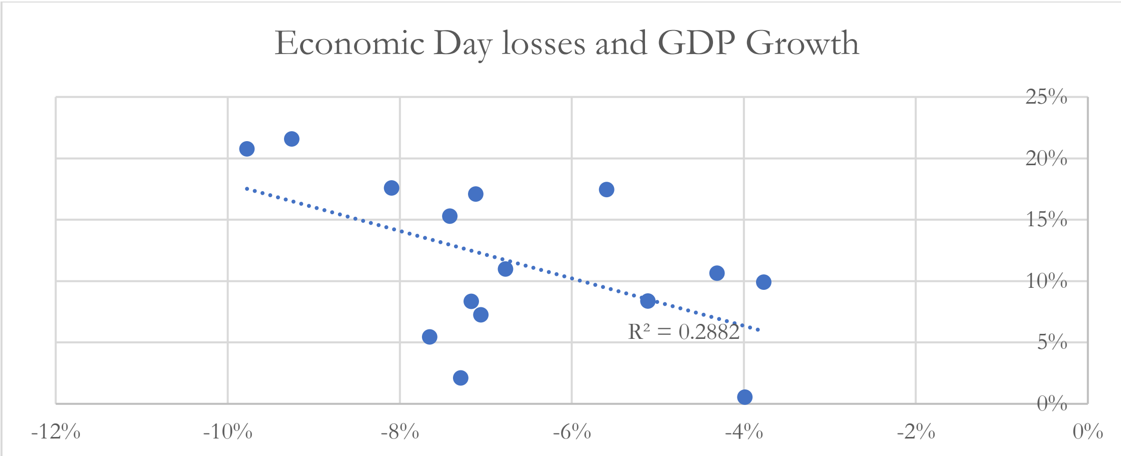
[6] The digital economy is the integration of production factors through activities that are primarily subordinated by digital performances (internet-based data storing and processing) across all economic sectors and intermediaries (such as money, information, or connectivity). For a discussion, see, Tim Jordan, *The Digital Economy*, Polity Press2020.
[7] See for example, the *World Development Report 2016: Digital Dividends* and *Digital Economies at Global Margins* (International Development Research Centre) 2019.



Moreover, one in ten remittance recipients are youth under 30 who are studying, and their income dependence on remittances is greater.

Therefore, while their financial budget is less complex than with women heads of households or entrepreneurs, they also need to have tools to cope with future expenditures in education, adapting to new technologies, and future employment prospects. Exercising these practices will also mitigate an intention to migrate. Finally, empowering recipients with digital financial vehicles will contribute to savings, household budgeting, and, crucial during this pandemic, reduce the risk of contagion.