

FAMILY REMITTANCES IN 2021

Is Double-Digit Growth the
New Normal?

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INTRODUCTION

This report provides a synthesis of a review of trends in remittance transfer growth. It points to a wide range of issues associated with the flow of family remittances during the pandemic. The report indicates that growth was due to a combination of factors that include increased migration, migrants prolonging their stay in the United States, use of digital transfers, among others. It also introduces some projections based on future migration and remittance sender changes in 2022.

FAMILY REMITTANCES AND CONTINUED GROWTH

While remittances registered strong growth throughout the world, in Latin America and the Caribbean growth was exceptionally strong, due to the economic recovery in the United States. Additional factors related to the increase of remittances include continued migration and migrants' responses to natural disasters in their home countries.

Despite a severe continued deterioration of health conditions among Latin American and Caribbean countries in 2020, and a slower than expected economic recovery in 2021, migrant remittance transfers will grow 24 percent relative to 2020, which had already increased 9 percent from 2019. Some countries demonstrated a substantial increase of up to 30 percent. Most of that change is associated with trends in the US economy.

This upward trend comes at a time when Latin American and Caribbean countries are still struggling to recover. In turn, these family remittances are responding positively to macroeconomic growth and having an impact on their contribution to national income. Remittances in 2021 will be more than 5 percent of the entire region's GDP, and over 20 percent for many of the smaller countries already affected by the pandemic and subsequent recovery.

SOME DETERMINANTS OF GROWTH

A look at flows in remittance transfers points to several important indicators that show that growth is not driven by one specific indicator but by a mix of trends. These include sending strength from the US and dynamics within the remittance marketplace. Specifically:

- a. The pool of senders increased: the average length of stay of migrants in the United States [who are 50 percent of all migrants but who transfer 75 percent of all flows] has increased to 20 years (from an average

FIGURE 1: FAMILY REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN

Source: Central Banks of each country

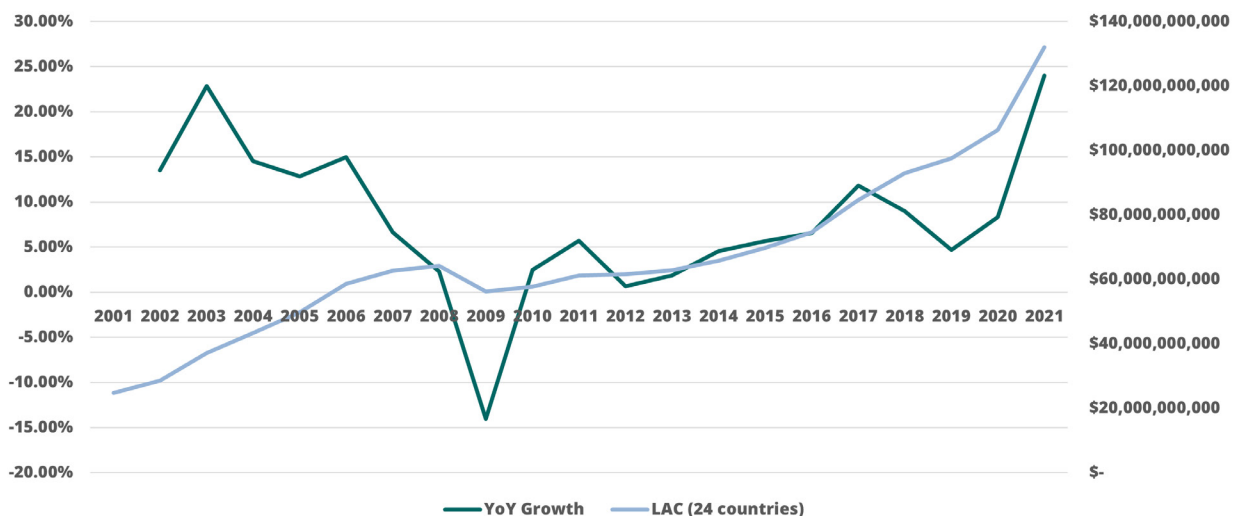


TABLE 1: REMITTANCE GROWTH IN 2021

Source: Central Bank of each country; share of migrants, UNDESA

Country Name	2021	Growth 2020-2021	Share of migrants in the US
Colombia	\$ 8,597,245,700.57	24%	45%
Dominican Republic	\$ 10,402,469,200.28	27%	65%
Ecuador	\$ 4,362,384,908.26	31%	45%
El Salvador	\$ 7,517,140,000.00	27%	90%
Guatemala	\$ 15,295,685,200.00	35%	90%
Haiti	\$ 3,655,760,564.00	13%	46%
Honduras	\$ 7,376,400,000.00	32%	90%
Jamaica	\$ 3,497,096,556.63	20%	65%
Mexico	\$ 51,471,290,547.00	27%	89%
Nicaragua	\$ 2,146,900,000.00	16%	43%
Peru	\$ 3,558,000,000.00	17%	35%
Venezuela	\$ 2,916,482,597.73	17%	10%
Rest	\$ 13,604,720,055.85	16%	45%
LAC	\$ 134,401,575,330.32	26%	62%

of 16 years living in the United States and returning back home), and in turn the percentage of senders increased from 80 percent to 85 percent or more.

- b. New migration patterns: new migratory waves since 2012 have expanded the size of migration. In 2021 alone, more than 30 percent made it through and a large percentage sent money the same year they arrived. Moreover, intra-regionally, migration has continued to countries like Chile, Colombia, Costa Rica, Panama, the Dominican Republic, and even Mexico. In turn, in 2021 the intra-regional transfer marketplace has increased significantly, with more transfers and more money sent. Haitians sending money to Haiti from Chile provides one significant example of over 50 percent growth.
- c. Shifts in sending methods in the US to Latin America and Caribbean marketplace:
- The percentage of people sending Cash to Cash (C2C) has dropped from 90 percent in 2016 to 75 percent in 2021.

- An increase in originated digital money transfers to over 10 million transactions a month, and transactions deposited in accounts also increased to nearly 20 percent for the main receiving corridors.

- d. The principal amount remitted has increased by at least 7 percent due in part to increases in disposable income among migrants. An illustrative case is that of Central American remitters. Their economic condition actually improved during this term and so they were able to remit greater amounts.

TABLE 2: INCOME PROFILE OF REMITTANCE SENDERS

Source: Orozco, Manuel. 2021. A Commitment to Family: Remittances and the Covid-19 Pandemic

Migrant Nationality	Average Personal Income	Stock of Savings (2020)	Percentage of People Saving
El Salvador	\$30,000	\$6,419	48.30%
Guatemala	\$28,000	\$7,610	49.30%
Honduras	\$26,000	\$1,650	28.10%
Nicaragua	\$28,000	\$2,000	40%

- e. Cross-border bill payment has achieved a level of traction among migrants, with more than 25 percent performing this activity regularly.

Combined, the total number of senders increased by at least 7 percent, along with an increase in the principal sent by 7 percent, and finally the increase in intraregional flows together explain the significant 20 percent growth.

The percentage of people sending Cash to Cash has dropped from 90 percent in 2016 to 75 percent in 2021

REGIONAL AND COUNTRY TRENDS AND THE MACROECONOMIC EFFECT OF REMITTANCES

The remittance trends have been most pronounced in Mexico and Central America. As this section shows, a great deal of this increase can be attributed to migration.

MEXICO

A look at survey data shows that Mexican immigrants in the United States have been staying longer, rather than returning. As they continue sending money, the increased share staying longer naturally leads to an increase in the number of transfers and total volume.

Moreover, migration to the United States also explains the growth in remittance flows. Since 2019, the number of encounters at the US border of Mexicans attempting to enter the country has doubled, nearing the number of apprehensions in 2010. It is important however, to point out that the 'migrant recidivism' rate among Mexicans was the highest, with a rate of 30 percent, compared to 26

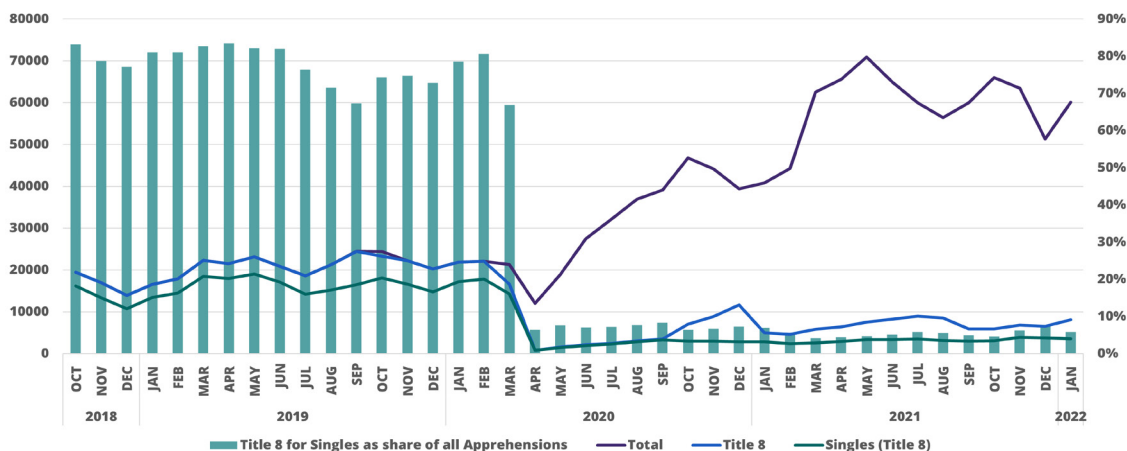
TABLE 3: CHARACTERISTICS OF MEXICAN IMMIGRANTS IN THE UNITED STATES AND MEXICAN MIGRATION TO THE UNITED STATES, 2010-2021

Source: UNDESA, DHS, Orozco, Manuel. On the Cusp of Change, 2016. A Commitment to Family: Remittances and Covid-19, June 2021. *Note: According to DHS, 37% of apprehensions are migrants attempting to enter more than once. **This column considers irregular entries as those who cross the border undetected, and adults apprehended but released under Title 8.

Year	Immigrants in the United States			Irregular Migration		Non-Immigrant Visas		Legal Migration
	Total	Avg Yrs in US	Share 20+ yrs living in US	Border Apprehensions*	Irregular Entries**	H1-B, H1-B2	H2-A, H2-B	
2010	12,168,662	12	30%	632,034	94,805			66,956
2015	11,643,298	16		267,885	233,060			82,323
2018	11,500,000	17	40%	252,267	219,472	962,888	242,582	79,678
2019	11,489,684	19	44%	254,595	219,591	1,042,961	261,097	54,780
2020	11,489,684	20	48%	297,711	154,246	625,726	244,109	29,242
2021	11,600,000	20	48%	706,000	194,494			30,000

FIGURE 2: MEXICAN APPREHENSIONS AT THE US BORDER

Source: DHS, <https://www.cbp.gov/newsroom/stats/nationwide-encounters>



Because a majority of migrants start sending money the same year they arrive, new remittance senders explain the increase in transfers and there were nearly one million of them in 2021.

TABLE 4: REMITTANCES TO MEXICO: SENDERS, AMOUNT, AND VOLUME

Source: Central Bank of Mexico; survey data from Orozco, Manuel. A Commitment to Family: Remittances and the Covid-19 Pandemic...2021. Also, Orozco, Manuel and Mariellen Jewers, Complex migration trends, Washington, DC, 2021.

Indicators	Mexico
Migrant senders (2020)	7,399,547
From United States	90%
US Transfers (2020)	7,621,533
US New senders (2021)	786,086
Of which...New migrants arriving in 2021 (65% remit same year)	328,794
Of which...Overstay migrants who otherwise would have returned or not sent money	457,292
New senders as share of all senders	10%
Share of new migrants relative to all new senders	42%
US Senders (2021)	8,407,619
Migrant sender growth	6%
Annual sender amount sent (2020)	\$4,764
Annual sender amount sent (2021)	\$6,080
Principal growth	28%
US Volume	\$51,118,321,023
Total remittance volume	\$ 52,218,080,000
US Share of total flows	98%

TABLE 5: GROWTH IN REMITTANCES, BY MEXICAN STATE, 2020-2021

Source: Central Bank of Mexico, Dec. 2021.

State	Remittance Growth 2020-2021
Tabasco, Mexico City, Coahuila, and Zacatecas	Over 9%
Durango, Yucatan, Sonora, Aguascalientes, Quintana Roo, Nuevo Leon and Guanajuato	2% to 8%
Chiapas, Colima, Hidalgo (30% of all migrants)	1% growth
Tamaulipas, Jalisco, Campeche, Oaxaca	No growth
Morelos, Tlaxcala, Veracruz, Querétaro, Nayarit, Estado de México, San Luis Potosí, Baja California, Chihuahua, Baja California Sur, Michoacán, Sinaloa, Puebla (42% of all migrants)	Negative growth, remittance decline between -1 and -4%, Puebla -14%

percent in 2020 and 15 percent in 2019¹. Moreover, Title 8 Apprehensions for single adults and groups was 194,494 and importantly, the majority of this population send money in their first year of arrival.

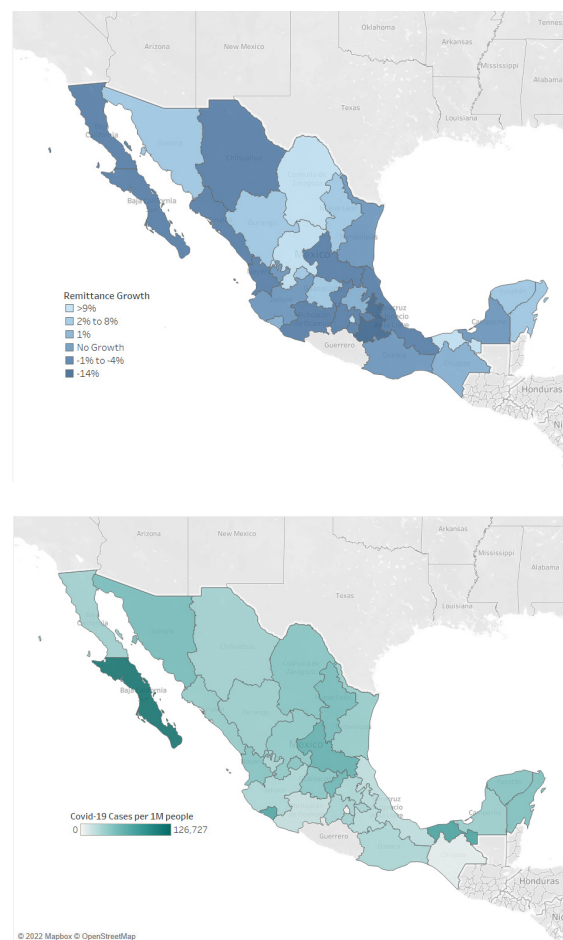
Because a majority of migrants² start sending money the same year they arrive, new remittance senders explain the increase in transfers and there were nearly one million of them in 2021. Moreover, with more senders there was an increase in the total annual amount sent, whether through increases in principal or frequency of transfers. Table 4 points to the differences in flows between 2020 and 2021.

Central Bank data on remittances offer important insights about where the flow of money is distributed and where there have been deviations in the pattern from previous years—especially that the flow is not going to the same states as in previous years. From 2020 to 2021, remittance flows grew more than 9 percent to the states of Tabasco, Mexico City, Coahuila and Zacatecas. Meanwhile, states like Durango, Yucatan, Sonora, Aguascalientes, Quintana Roo, Nuevo Leon and Guanajuato saw growth in transfers between 2 percent and 4 percent.

It is difficult to discern what may explain these shifts in Mexican outmigration. In examining the relationship between key indicators (e.g. Covid-19 cases, state GDP, formal job creation, homicides, and size of the informal economy), the growth in remittance flows corresponds positively largely to Covid-19 cases per state, as opposed to job performance or productivity.

FIGURE 3: REMITTANCE GROWTH AND COVID-19 CASES PER 1 MILLION PEOPLE, BY STATE

Source: JHU CSSE COVID-19 Data and Our World in Data



CENTRAL AMERICA

The growth in remittances to Central America is largely the result of an increased migration flow. The year 2021 saw the region experience a large outpouring of Central Americans leaving their home countries. In total, the number of Central Americans who may have left the region was just over one million, including nearly 900 thousand attempting to enter the United States across the US-

Mexico border. Migration in 2021 occupied the attention of many and for a wide range of reasons. For several countries, this meant the intention to migrate increased in large numbers. For El Salvadorans it increased to 34 percent, for Honduran remittance recipients to over 40 percent, and for Nicaraguans to 56 percent.³

Overall, the migration wave, which was just as large as in 2019, when intention to migrate ranged from 14 percent (Guatemalans) to 33 percent (Hondurans), explains the increase in remittances. Table 6 points to the two main sources of increases in the number of senders. One is new migration and the second is migrants who extended their stay in the destination country, as is observed in the number of years living in the United States.

The migratory waves led to more remittance sending and even those Central Americans who just arrived sent money to their relatives in the first year.

The growth in remittances to Central America is largely the result of an increased migration flow.

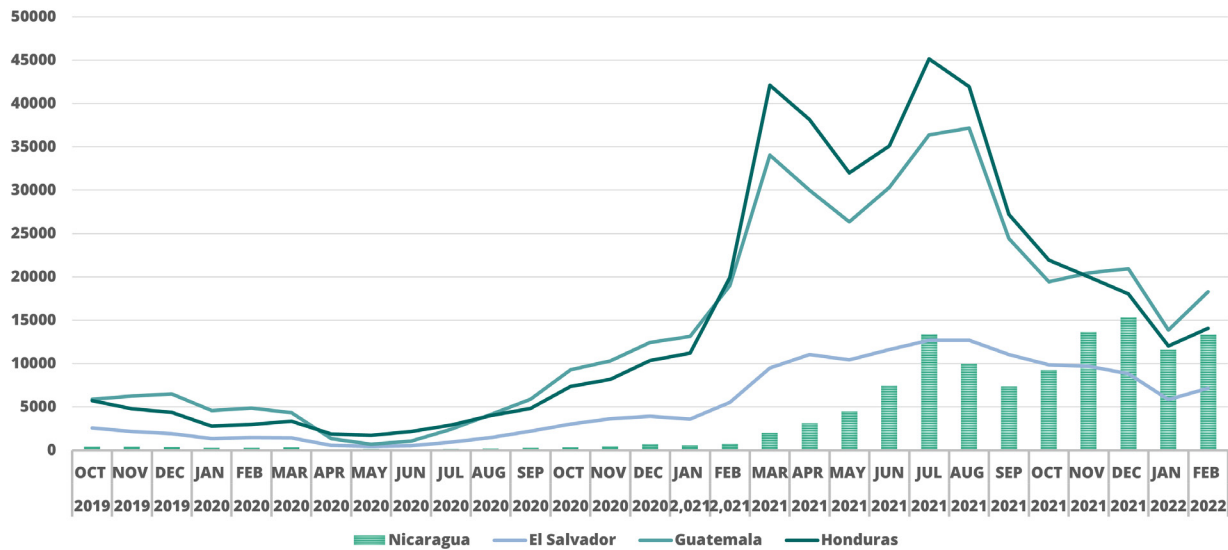
TABLE 6: REMITTANCES TO CENTRAL AMERICA

Source: Author estimates. New migrant arrival computes the number of legal resident admissions, visa overstayers, and unauthorized border entry with those admitted from migrant encounters. On the latter, DHS metrics are used for Title 8 Non-impactable Single and Adults in Family Units plus the Irregular Entry Success Rate. https://www.dhs.gov/sites/default/files/publications/immigration-statistics/BSMR/ndaa_border_security_metrics_report_fy_2019_0.pdf

Indicators	El Salvador	Guatemala	Honduras	Nicaragua
Migrant senders (2020)	1,088,503	1,500,000	755,556	750,000
From USA	90%	90%	80%	42%
US Senders in 2020	979,652	1,350,000	680,000	315,000
US New Senders (2021)	71,088	130,287	180,306	81,033
New migrants arriving in 2021 (65% remitting)	38,433	85,287	157,639	58,533
Overstay migrants who otherwise would have returned or not send money	32,655	45,000	22,667	22,500
New senders as share of all senders	7%	10%	27%	26%
Share of new migrants relative to all new senders	54%	65%	87%	72%
US Senders in 2021	1,050,740	1,480,287	860,306	396,033
Migrant sender growth	7%	10%	18%	11%
Annual amount sent (2020)	\$5,417	\$7,468	\$6,606	\$3,100
Annual amount sent (2021)	\$5,940	\$8,100	\$6,650	\$3,240
Principal growth	10%	8%	1%	5%
US Volume	\$6,865,536,271	\$13,668,972,374	\$6,750,820,240	\$1,283,147,633
Total Remittance Volume	\$7,397,060,000	\$15,183,500,000	\$7,376,400,000	\$2,076,300,000
US Share of total flows	93%	90%	92%	62%

FIGURE 4: CENTRAL AMERICAN APPREHENSIONS

Source: DHS, <https://www.cbp.gov/newsroom/stats/nationwide-encounters>



In total, the number of Central Americans who may have left the region [in 2021] was just over one million, including nearly 900 thousand attempting to enter the United States across the US-Mexico border.

SOUTH-SOUTH MIGRATION: NICARAGUANS IN COSTA RICA

An example of South-South migration is Nicaraguans who are living in Costa Rica and have been sending money regularly as part of their family commitments. According to a recent survey carried out in February 2022, 75 percent of these migrants send money (this is 5 percent less than what it was prior to the 2018 economic recession in Costa Rica). The average amount remitted varies from groups depending on years or legal status in Costa Rica. But overall, migrants are sending 20 percent of their income.

Looking at these numbers and using Central Bank data pointing to US\$273 million received from Costa Rica in 2021, we find that there were over 200,000 senders.⁴ These numbers are suggesting a total migrant population of just over 400,000, after including minors and non-remitters.

TABLE 8: REMITTANCE SENDING METHOD

Source: Survey of Nicaraguans in Costa Rica, 2022.

	Mean	%
Bank	1572	14.40%
Remittance agent	1697	83.80%
Travelers	625	0.20%
Mobile app	2694	0.90%
Internet	1488	0.70%

Although remittances from Costa Rica did not dramatically increase, as did the flows from the United States, due to economic challenges in the country, migration did increase by 100,000 people since the political crisis exploded in Nicaragua.

TABLE 7: REMITTANCE SENDING FROM COSTA RICA, BY YEARS LIVING IN THE COUNTRY

Source: Survey of Nicaraguans in Costa Rica, 2022.

	Less than 1 year	1 to 3 years	4 to 6	7 to 10	Over ten years
Adult senders as share of its cohort	64.70%	73.50%	75.80%	74.10%	57.70%
Adults sending money over time	9.30%	17.10%	15.80%	11.20%	46.30%
Average amount sent (US\$)	1161.9	1373.15	2137.33	1453.47	1460.79
Senders	32,384	59,545	55,018	39,000	161,224

FIGURE 5: NICARAGUAN REMITTERS FROM THE UNITED STATES, COSTA RICA, AND THE REST OF THE WORLD

Source: Author's calculations based on Central Bank and remittance company data

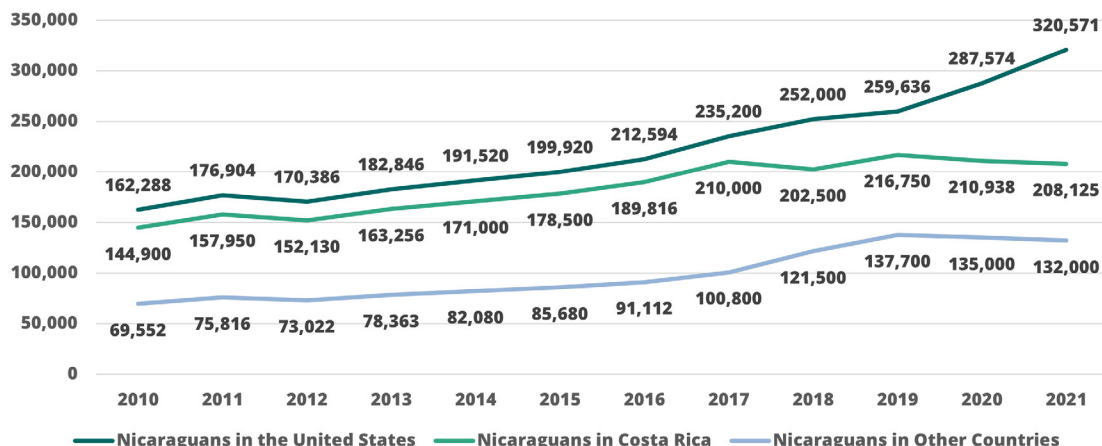
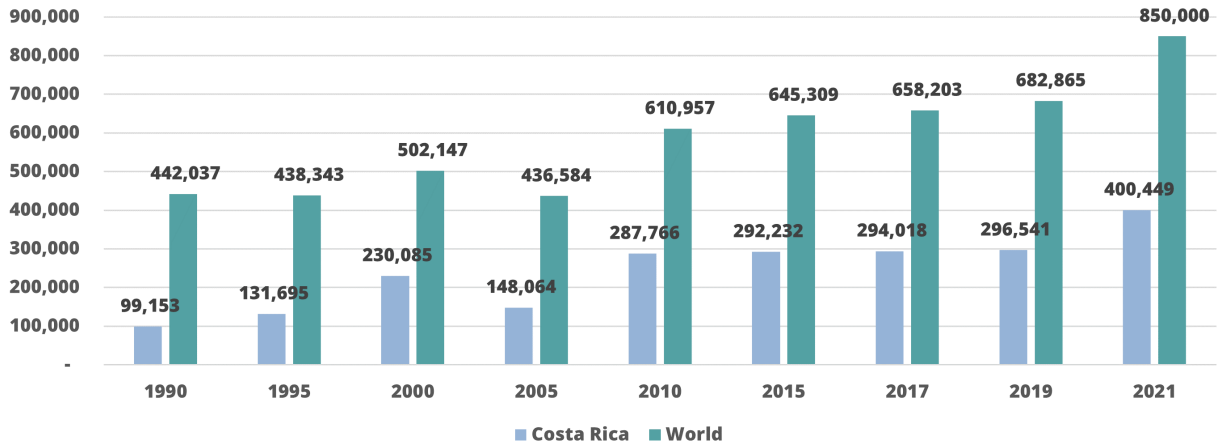


FIGURE 6: NICARAGUAN MIGRATION TO COSTA RICA

Source: UNDESA (global migration flows until 2017); Author's calculations based on February 2022 survey of Nicaraguans in Costa Rica



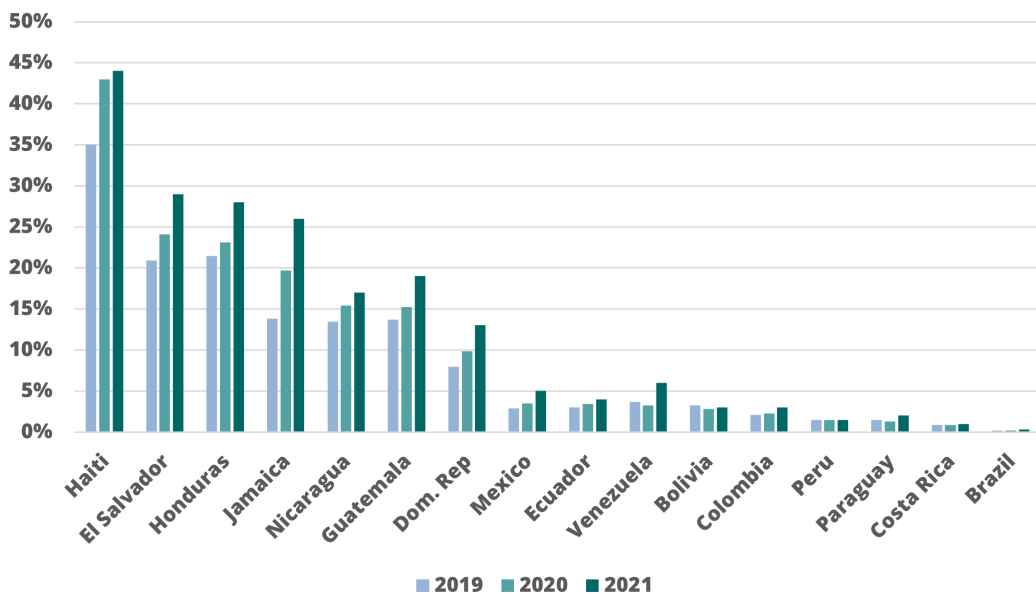
MACROECONOMIC IMPACT

These increases occurred at a time when economic growth was not as strong in Central America as had been hoped. Remittances in turn became a major relief for the economies of these countries, given the context of an economic recovery that has been a lengthier process than expected. As a result, remittances as a share of national income has increased for most countries in the region.

Remittances as a share of national income has increased for most countries in the region.

FIGURE 7: REMITTANCES AS SHARE OF GDP, 2019-2021

Source: Central Banks of each country



REMITTANCE TRANSFER MARKETS AND COMPETITION

One related feature to the growth of remittances is a gradual shift in sending methods to a greater reliance on online-based [also known as digital] transfers.⁵ Largely due to the need for social distancing during the Covid-19 pandemic and innovations in financial technology to meet peoples' new needs, the remittance transfer industry extended new services. However, among both origin and destination intermediaries, as well as those providing technical back-end support, all digital, as well as cash-based transactions [also commonly referred to as retail or 'offline' transfers], increased overall.

A GRADUAL SHIFT INTO DIGITAL TRANSACTIONS

First, the immediacy of addressing social distancing created a shift in the demand among migrants in the United States for money transfers to Latin America and the Caribbean. The shift was observed in diversifying cash originated transfers with digital, causing a shift of cash transfers from 89 percent in 2016, to 80 percent in 2020 and the first quarter of 2021. The remittance industry overall responded rapidly to a demand for money transfers, offering 'digital' transfer methods, while agents also adapted to the changing circumstances. The changes responded to the critical factors that migrants are sensitive to when it comes to choosing a provider: cost, reputation, value added, and convenience. The digital transaction offered convenience under social distancing

The changes responded to the critical factors that migrants are sensitive to when it comes to choosing a provider: cost, reputation, value added, and convenience

needs, value added as the transaction is directly withdrawn from an account, and a slightly lower cost. Therefore according to migrants, there is an increase of digital from 8 to 16 percent for that period. Similarly, money transfer companies and their agents adapted by expanding their presence nearer to their clients. Importantly, agent originated transfers continue to prevail as the main choice for remittance senders.

In addition, the changes in method did not signal a shift in provider, but did significantly increase the number of transactions and principal amount sent. Remittance transfers from the United States grew 22 percent between 2020 and 2021. Many migrants may have seen the use of mobile devices and online portals as an incentive to

TABLE 9: MIGRANT REMITTANCE SENDING METHOD

Source: Orozco, Manuel & Julia Yansura. 2017. On the Cusp of change. Migrants' Use of the Internet for Remittance Transfer; Orozco, Manuel. 2021. A Commitment to Family: Remittances and the Covid-19 Pandemic.

Sending method	2016	2020	2021
Remittance agency or shop	90%	79.6%	80.3%
Web page, Mobile app, account transfer	8%	16.4%	16.6%
Travelers	1%	3%	3%

send more money to families. In turn, all money transfer operators have continued to grow, albeit to different degrees and with different levels of momentum. However, for these operators, growth can be seen in both digital and traditional segments, as can be seen in the following figures. Note the difference between what senders report and the estimated transaction volume as gathered from service providers. These differences between the two may be due to factors like individual senders remitting more than 1.2 times a year and a certain percentage of transactions that are not person to person, among other reasons.

TABLE 10: AVERAGE REMITTANCE SENT PER MIGRANT

Source: Orozco, Manuel & Julia Yansura. 2017. On the Cusp of change. Migrants' Use of the Internet for Remittance Transfer; Orozco, Manuel. 2021. A Commitment to Family: Remittances and the Covid-19 Pandemic.

	Remittance agency or shop	Digital (webpage, mobile app)	Travelers
Annual	3749	4667	2324
Monthly	292	347	262
Frequency	13	14	9
Cost	8.94	8.08	9.11

Changes in method did not signal a shift in provider, but did significantly increase the number of transactions and principal amount sent.

FIGURE 8: CASH AND DIGITAL TRANSFERS, BY TRANSACTIONS

Source: Survey data and RSP transaction numbers. Note that senders and transactions represent different numbers. There were just around 20 million senders from the United States to Latin America and the Caribbean, but more than 30 million monthly transactions, reflecting that a migrant sends more than 14 times a year, and some transfers are not person to person, but person to business transactions, for example.

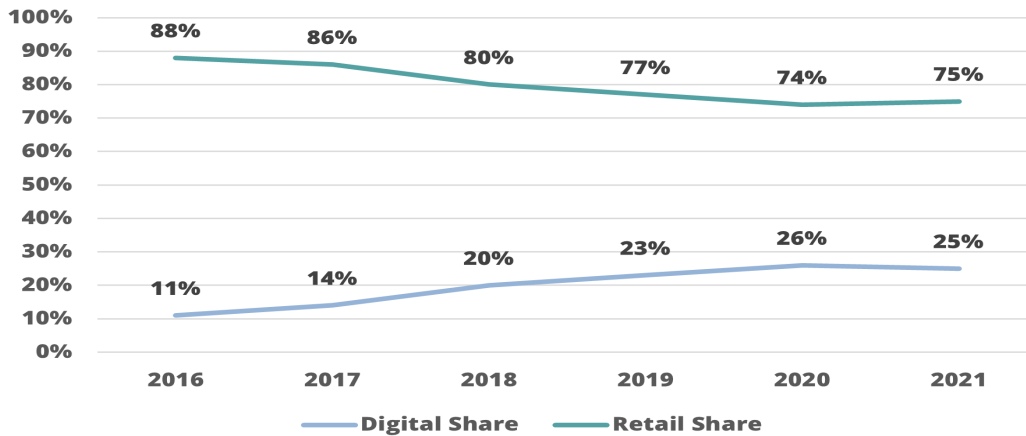


TABLE 11: REMITTANCE ACCOUNT PAYMENT INBOUND MARKET SHARE

Source: Payer Institution Information

Country	2019	2021
Colombia	40%	65%
Dom. Republic	10%	20%
El Salvador	20%	25%
Guatemala	15%	20%
Honduras	15%	20%
Mexico	27%	40%

Many remittance payers in the region began to experience an increase in transfers deposited into bank accounts

One of the major shifts in digital growth occurred in the United States-Dominican Republic corridor, where the use of digital vehicles increased over 300 percent within 2 years. In turn, online based transactions accounted for nearly half of all transfers originated in the United States. Notably, Dominican migrants have had higher financial access than other nationalities, however, they were still choosing to use retail or agents to send money. The pandemic pushed them rapidly to switch sending methods.

The shift is also observed in the payout, but to a lesser extent. Many remittance payers in the region began to experience an increase in transfers deposited into bank accounts and it was more evidenced in places like Guatemala, Mexico, and Colombia. The increase in bank payment penetration is observed mostly in situations where the online payment vehicles were operationally ready in both the origin and remittance destination.

One of the most successful cases is that of Bancolombia's deposits from online or digital remittance sending providers, showing more than 70 percent of transactions going into accounts. In 2019, an Inter-American Dialogue study pointed to less than 10 percent of account deposits or transfers into a digitally owned account (bank account, mobile bank, mobile wallet).

FIGURE 9: DIGITAL MARKET SHARE (2021)

Source: Author's estimates based on proprietary data from RSPs as per transaction trends

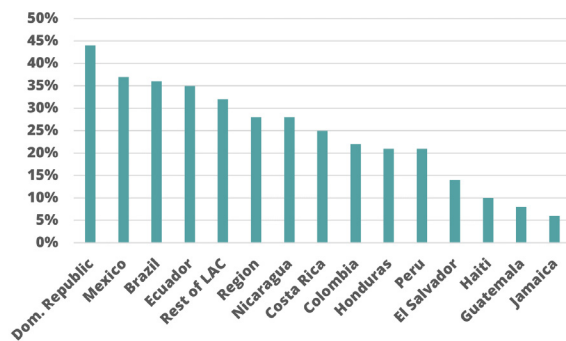
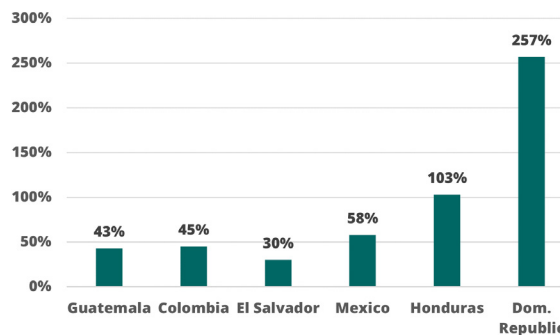


FIGURE 10: DIGITAL TRANSFER GROWTH 2019-2021

Source: Author's estimates based on proprietary data from RSPs as per transaction trends



INDUSTRY PERFORMANCE

Looking at some remittance industry leaders, these trends can be seen playing out in the reported financial data over the last two years. As detailed in Figure 11, total money transfer revenue dropped from Quarter 1 of 2020 to Quarter 2 in the first few months of the Covid-19 pandemic. However, it rebounded in Q3 and Q4 before generally trending upward through 2021. While money transfer revenues were down year-on-year for Western Union throughout 2020, MoneyGram actually saw positive growth year-on-year starting in the third quarter of 2020, and extending into 2021. Looking at revenue figures for Remitly, which was founded as a digital financial services provider and went public late last year, there is slow growth throughout both 2020 and 2021 (albeit with a smaller market share). Similarly Intermex, which is mostly an agent-based company, registered significant revenue growth during the same period, signaling an even demand of remittance transfer services by migrants in both retail and online.

TRANSACTION FIGURES

In terms of transactions data reported directly by industry leaders, Western Union experienced negative transaction growth for the first two quarters of 2020 before rebounding toward the end of the year into 2021. MoneyGram maintained positive transaction growth throughout all quarters for which data were available. As can be seen in Figure 12, any positive transaction growth maintained by the remittance providers was driven specifically by very high growth in digital transactions.

The digital shift points to Western Union and MoneyGram reporting higher digital revenue growth and online customers. MoneyGram saw over 100% growth in year-on-year digital transactions during the middle quarters of 2020, as the pandemic forced clients to adjust their habits. Western Union also had high digital transaction growth and an increase in digital as a percentage of total revenue and transactions. Both companies reported heavy new traffic to their apps and digital platforms, which will be further discussed later. Meanwhile, revenue for digitally-based Remitly grew rapidly and consistently at an average yearly rate of 85 percent per quarter in 2021, in the lead-up to their public offering in September.

FIGURE 11: MONEY TRANSFER REVENUE, BY QUARTER

Source: Quarterly Financial Reports⁶

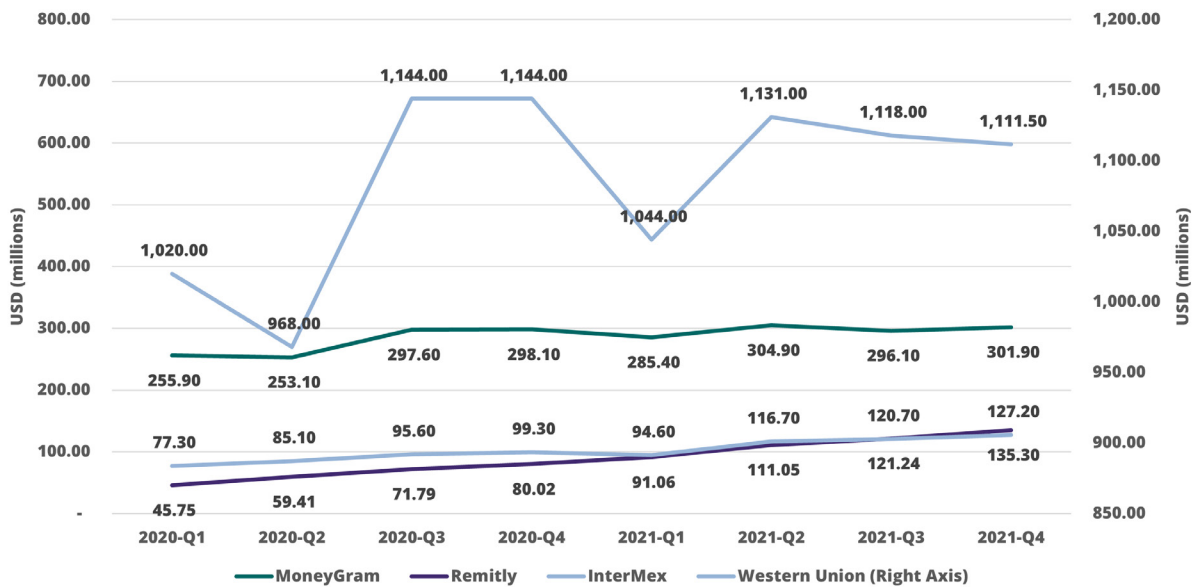
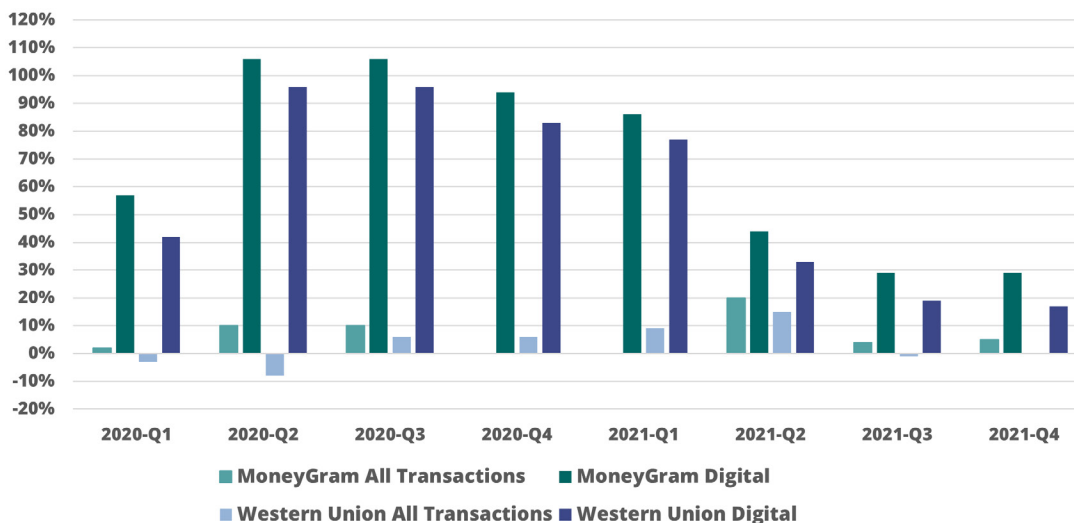


FIGURE 12: TRANSACTION GROWTH

Source: Quarterly Financial Reports⁷



PERFORMANCE AND GROWTH FACTORS WITHIN THE REMITTANCE INDUSTRY

Looking at leading companies, the main factors currently contributing to performance and growth in the remittance industry are:

- Challenging Macroeconomic Context:** The Covid-19 pandemic presented a significant global challenge to most sectors of the economy with large effects on migrant employment but also specifically affecting the remittance industry, which was forced to rely on its agility and good management practices to maintain growth. Though macroeconomic conditions affected both growth and performance, the rebound from such an unprecedented economic shock was surprisingly quick for some in the remittance industry, underway before 2020 was even over.

It is worth noting that the pandemic impacted performance for different channels in opposing ways. Transactions originating in Europe, the United States, and Asia Pacific declined sharply in the beginning of 2020 but began to recover in June and July. Meanwhile, domestic money transfers held strong until experiencing a delayed decline toward the end of 2020. Initial gains heralded a recovery that would end up being slower than hoped, but remittance industry leaders predict continued growth even in a difficult macroeconomic context.

- Growth in the Demand for Digital:** The remittance industry is seeing continued demand for digital innovation and many players are rapidly expanding their digital businesses in order to keep up. This has been especially marked in the direct-to-consumer digital channel, which has shown capacity for profitable growth. Both MoneyGram and Western Union are experiencing vigorous user growth including 229 percent for Q3 between 2019 and 2021 for MoneyGram Online.

In Q2 of 2021, MoneyGram set a new record for the number of online customers and transactions and Western Union set a new high for digital revenue growth in Q3 of 2020 to then remain stable. For Remitly, which relies on purely digital services, demand has increased throughout the Covid-19 pandemic and regular customers are sending more recurring payments. Remittance industry firms overall are adding a digital strategy in response to client needs and contextual factors. Digital platforms are being seen as the foundation for the future and the expectation is that the market share of transactions done digitally will continue to increase.

- Continuous Growth in Retail:** The growth in the industry was not uneven as retail and cash-based originated transactions (also referred to as offline

or agent retail transactions) demonstrated an important rebound in their revenue after Q3 of 2020. Moving forward in 2021, many companies exhibited transaction and revenue growth over 20 percent reflecting that on the demand side, migrants continue to use retail stores to make money transfers.

- Hyper-Focus on Client Needs:** Another factor driving growth in the remittance industry is a focus on meeting clients where they are and tailoring services to their needs. This is in part a continuation of existing strategy, but is also hastened by restrictions being placed on consumers due to the pandemic. The challenging times demand a focus on high customer retention rates in order to meet performance metrics, leading to more customer-specific retention strategies. New customer acquisition is also increasingly being seen as requiring flexible, adaptable platforms that can reach consumers in many different ways.

Given these factors, continued growth will be contingent on the ability of remittance service providers to remain agile in uncertain economic conditions, but also be prepared to exploit improved macroeconomic conditions in the future.

INDUSTRY EXPANSION

Since the early 2000's, the trend has consisted of an expansion in the number of Remittance Service Providers accompanied by subsequent consolidation, increases in payment networks, and a widening range of financial products available to both senders and recipients of remittances, with a focus on cash-to-cash transfers.

Increasing competition in the money transfer marketplace means more RSPs are looking to innovate and multiply the mechanisms they have to engage with clients and meet their needs. They've done this by expanding their networks to new corridors and opening up more locations in the US and around the world. They have also sought to develop new platforms to engage clients with newer financial technology and have pushed for more account-to-cash capability to augment cash-to-cash options. Although not at the 2020 pace, expansion in the future will move even further into the online or mobile-based payment universe.

Over the last couple of years, the focus on expansion has centered on reaching new consumers in new countries in order to overcome the pandemic slowdown. In order to do this, providers have invested in improving their digital capabilities and expanding their offerings of platforms in order to meet the evolving needs of the people. In 2020,

MoneyGram announced the launch of new services with banks in the Middle East and an expansion of their retail distribution in India. They're relying on their new API-driven infrastructure to create growth opportunities. Remitly has plans to launch new send and receive corridors, as well as grow to include a broader suite of products. Other providers are exploring new collaborations in cryptocurrency and other innovative financial technologies. There is a focus on giving clients multiple options for engagement, knowing that needs can change and clients want integration with other aspects of their financial lives.

These changes include what could be horizontal growth in the field of cross border payment and virtual currency payments.

One case study is that of El Salvador. In a recent survey carried out in September 2021, 24 percent of respondents said they carried out other non-family remittance transfers (such as paying cable, electricity, water), internet, mobile recharges, and other debts like health insurance or loans. With regards to the oft-mentioned remittance transfers through Bitcoin the jury is still out. For example, 61 percent of survey respondents were aware of Bitcoin, but only 20 percent had used it. Only 7 percent had tried sending remittances in Bitcoin, but the experience was negative for all of those who responded. Only 4 percent of the sample were aware of a company that offers remittances using Bitcoin. More importantly, only 13 percent of Salvadorans would like to have a different option to send remittances, preferably a direct deposit, and less than 3 percent considered Bitcoin as an option. Central bank data from El Salvador still shows slow use of bitcoin and the Chivo wallet for money transfers. In Q4 of 2021 when the currency and wallet went into effect, the country received US\$57 million in Chivo wallet transactions (not all Bitcoin based), and only US\$10 million in January 2022.

Although not at the 2020 pace, expansion in the future will move even further into the online or mobile-based payment universe.

FUTURE REMITTANCE GROWTH?

Is the growth in 2021 the new normal? Remittances may continue to see modest growth, relative to 2021, in some countries and negative growth in others, due to the fact that some of the factors explaining the increase were associated with one-time developments (sustained savings, people staying longer, near exhaustion of the pool of all migrant adults as potential remitters) and the possibility of reduced migration levels, though still higher than they were in 2018.

Looking at Southwest border encounters in the month of January 2019-2022, there is still an increasing trend. That increase is more pronounced among non-traditional countries, including Cuba, Haiti, Ecuador. Nonetheless, the increase is spread among all nationalities.

It is important to recognize that among Central American remitters, an increase in migrants will result in an increase of total money sent but the share of remittance senders

TABLE 12: SOUTHWEST BORDER ENCOUNTERS IN JANUARY

Source: Southwest Border Encounters, DHS, 2022

January Encounters	2019	2020	2021	2022
Mexico and Northern Triangle (El Salvador, Guatemala, Honduras, Nicaragua)	52,971	30,560	68,742	91,260
Other	5,526	6,025	9,672	62,681
Total	58,317	36,585	78,414	153,941

TABLE 13: REMITTANCE PRINCIPAL SENT TO CENTRAL AMERICA

Source: Money transfer companies; Survey data; Projections based on DHS data and visa entries

	2019	2020	2021	2022	
Average remitted	Principal Sent USD			New Migrants	
El Salvador	312	329	349	350	44,928
Guatemala	421	449	476	480	111,464
Honduras	281	311	330	335	128,930
Nicaragua	246	277	293	300	39,468

TABLE 14: MIGRANT REMITTERS FOR CENTRAL AMERICA AND MEXICO

Source: DHS and author estimates. New migrant remitters compose 65% of all migrants arriving in the same year. The number accounts for legal resident admissions, visa overstayers, successful unauthorized border entry, and those admitted from migrant encounters at the Southwest border. For the latter two, the report used DHS metrics for Irregular Entry Success Rate, Title 8 Non-impactable Single Aliens, and Adults in Family Units.

New Migrant Remitters	2018	2019	2020	2021	2022 est.
El Salvador	27,827.27	41,121.00	10,139.21	38,433.08	30,079
Guatemala	61,783.05	79,306.77	20,074.67	85,287.24	73,829
Honduras	42,225.92	78,999.50	18,298.77	157,639.20	84,143
Nicaragua	3,061.57	7,629.67	1,964.91	58,533.22	25,756
Mexico	362,578.14	359,375.29	284,730.25	328,793.59	342,491

will not increase any more, because it is already reaching 90 percent.

New migrants entering the country will contribute to the increase, as they will equal 8 percent of all migrants, amounting to 300,000 people, and at least two thirds of them will send money. However, the increase in principal amount may remain low because they will send based on their home countries' needs.

Although US demand for labor will remain stable and unemployment will stay low (among migrants it may drop to 5 percent from 6 percent in 2021), it is important to consider certain potential risks, specifically those that will signal a lower growth rate than 2021:

- The share of senders may return to previous years, to 80-85 percent, thus dropping transactions by at least 100,000.
- New migrants may struggle to find jobs because of shifting trends in labor demand, delaying their capacity to remit.
- Net migration will decrease due to:

- Migration restrictions under the MPPs in place, minimizing entry
- An increased demand of skilled labor making finding jobs difficult
- Deportations that exceed new migrant entry
- Economic recovery in their home countries may reduce the need to send as much as before, normalizing sending in non-crisis periods.

Given these issues, a minimum estimate of growth for Mexico and Central America points to small increases in most countries. The table below points to three scenarios, assuming migration in 2022 will be 70 percent as much from last year, that the principal amount may remain the same or average between 2020 and 2021, and a third scenario with migration at the same level as 2021. For El Salvador, Guatemala and Honduras, remittances from the United States may show slowest growth. While time will tell whether 2021 represents a new normal, migration and remittances will continue to be salient issues. Both represent key policy priorities to address development in the global digital economy.

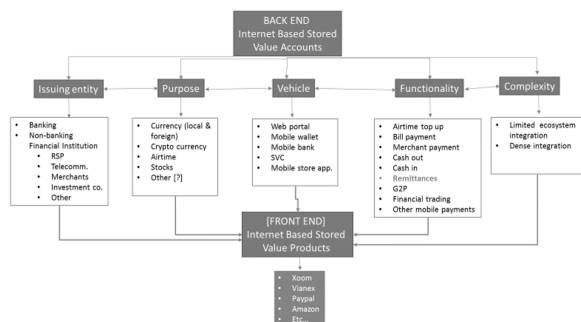
TABLE 15: INCREASE OF REMITTANCES IN 2022 FOR MEXICO AND CENTRAL AMERICA

Source: Author's Estimates

Indicators	El Salvador	Guatemala	Honduras	Nicaragua	Mexico
New migrants arriving in 2022 (65% remit same yr)	30,079	73,829	84,143	25,756	342,491
Overstay migrants sending	31,522	44,409	25,809	11,881	252,229
Total new senders	61,602	118,237	109,952	37,637	594,720
Remittance sender 2022	1,112,342	1,598,524	970,258	433,670	9,002,338
Average Volume	5,679	7,784	6,628	3,170	6,000
Volume 1 (70% migration from 2021, transaction principal declines 10%)	6,948,075,397	13,687,206,138	7,073,959,337	1,374,734,060	54,014,029,810
Growth 1	1%	0%	5%	7%	6%
Volume 2 (70% migration from 2021, same transaction principal)	7,268,040,478	14,242,853,252.23	7,097,439,588	1,405,090,963	54,734,216,874
Growth 2	6%	4%	5%	10%	7%
Volume 3 (same migration pattern and same transaction principal)	7,322,624,123	14,344,949,404	7,635,062,356	1,662,418,646.22	54,734,216,874.05
Growth 3	7%	5%	13%	30%	7%

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- 1 The recidivism rate may be associated with the pandemic event and border closures. <https://www.wola.org/2021/06/weekly-border-update-cbp-data-points-to-a-rise-in-migrants-from-other-countries/>
- 2 Our research suggests that at least 60 percent of migrants who arrived started to send money in the same year.
- 3 Nicaragua, CID/Gallup December 2021 Survey; El Salvador, Orozco, Manuel; Honduras, Survey of Remittance Recipients, 2021.
- 4 Central Bank of Nicaragua
- 5 Although terminology matters, the concept of digital has been used to what was referred to as online transfers in the early part of 2010 and electronic payments in the early 2000s. The critical issue is that digital, online, or electronic transactions refer to the use of these mechanisms where the purpose, vehicle, authorized entity and complexity altogether or in combination of some - rely on digital operations. See visualization below:



- 6 MoneyGram (2021). Quarterly Earnings. <https://ir.moneygram.com/news-and-events/quarterly-earnings>; Western Union (2021). Quarterly Results. <https://ir.westernunion.com/investor-relations/financial-information/quarterly-results/default.aspx>; Remitly (2021). Quarterly Results. <https://ir.remitly.com/financial-information/quarterly-results>; Intermex (2021). Quarterly Results. <https://investors.intermexonline.com/financials/quarterly-results>
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