

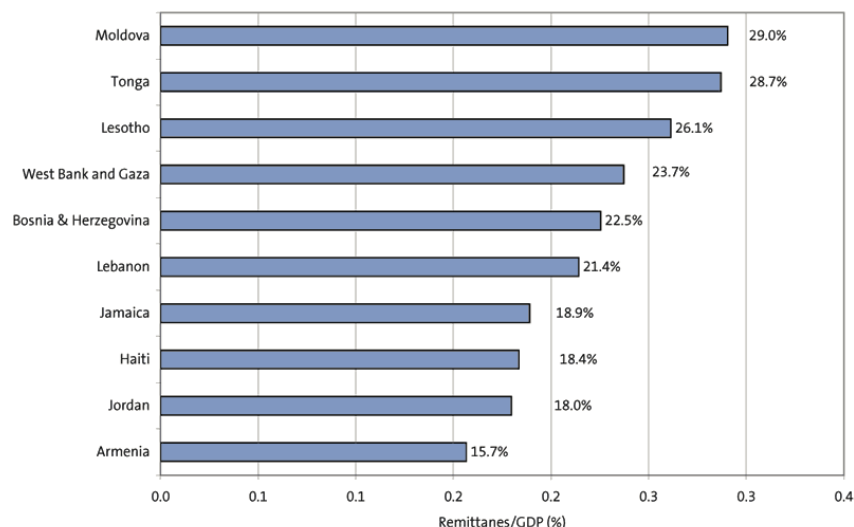
The Importance of Remittances

A **remittance** is an amount of money sent by a migrant to family members living in the migrant's homeland. Remittances are surprisingly important to the economies of many countries. Perhaps the most studied example of remittances is that of workers from the Philippines. In 1974, the Philippine government established the Overseas Employment Program to tackle chronic unemployment within the country and the need to bring in scarce foreign currencies. In 1975, the program sent 36,000 workers to other countries; by 2007 more than one million Filipinos were working outside the country. These workers sent more than US\$12 billion home in 2007, an amount equal to more than 10 percent of the Philippine's annual GDP. Remittances are even more important to many smaller countries.

In 2006, official remittances to all developing countries amounted to a remarkable US\$221 billion. To put this figure in context, the total amount of official development assistance (foreign aid) from all 30 members of the OECD to the developing world in 2006 was US\$105.3 billion. In reality, total remittances may be much higher since this figure does not include money brought home in person by migrant workers. Also, it might underestimate remittances from illegal workers, who are less inclined to use official monetary transfer mechanisms such as banks and companies like Western Union.

Remittances play several important roles in the economies of the countries receiving the money. First, the remittances help alleviate the poverty faced by the migrant worker's family. Second, the money spent by the family helps stimulate the local economy and provides a much-needed source of investment capital. For example, El Salvador's remittances are almost seven times greater than the amount of foreign direct investment. Third, remittances are earned in a variety of foreign currencies that are usually exchanged for the local currency. This exchange helps to increase the value of the currency in the countries receiving the remittances. People receiving the remittances are able to buy imported goods that are generally more expensive than they could afford.

**Figure 3: Top 10 Remittance Receiving Countries in 2004
(percentage of GDP)¹²**



Source: IMF 2005, the Central Bank of India and World Development Indicators 2005.