

# Remittances: A Canadian Perspective

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## Introduction

Emerging as the most reliable source of foreign money and capital for developing countries, remittances are of increasing interest to government, foundations, multilateral institutions, researchers and banks. With estimates, in 2002, of US \$80 billion, remittances to developing countries are a crucial source of foreign exchange. By definition, remittances are generally held to be money and goods that migrants earn while working and living abroad and send back to families in their home or ancestral countries.

A country of immigration, Canada's diversity and varied diaspora lends itself to remitting. For Canadian citizens, permanent residents or temporary migrant workers, ties – whether they are familial, cultural or economic – prompt the remittance of money and goods back to ancestral homelands. From the perspective of the Canadian government, the amounts are negligible but for the receiving countries they are of extreme importance, in particular where remittances represent large proportions of Gross Domestic Product (GDP), exceed levels of Official Development Assistance (ODA) or outweigh export earnings.

For source countries, such as Canada, the increasing significance of remittances leads to a need for a better understanding of their development impacts on receiving countries. Recipient country governments seek ever greater levels of hard foreign currencies and remitting individuals have a need for high quality, accessible and inexpensive transfer services. The commercial banks and remitting companies desire to maximise profit from the global exchange of goods and funds.

As such, the Canadian federal government decided to begin a crucial, albeit exploratory, first look into remitting behaviours from Canada. The direction, work, and its conclusions, were conducted through an intra-departmental working group composed of the Department of Foreign Affairs and International Trade (DFAIT), the Canadian International Development Agency<sup>1</sup> (CIDA) and Citizenship and Immigration (CIC)<sup>2</sup>. A summary of this preliminary first study is presented below.

## The Task

The first step was the creation of an intra-departmental working group, chaired by CIC and including CIDA and DFAIT, on remittances. The group's parameters were broad with a primary goal of looking at what the issue of remittances, from the perspective of Canadian sources, is about. The end aim was to see whether or not Canadian government policies can be enhanced in this regard and further act positively on development assistance and programs.

For the purposes of a first look at remittances, the working group chose the following source countries: El Salvador, Guatemala, Honduras, Mexico, Haiti, Jamaica and Guyana. The decision to focus on the Caribbean and Central American countries was prompted by the issue of remittances featuring prominently in the January 2004 Summit of Americas discussions and

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<sup>1</sup> CIDA is responsible for Canada's Official Development Assistance programme. 25% of the assistance is committed to meeting basic human needs.

<sup>2</sup> CIC manages Canada's immigration program which admits immigrants, foreign students, visitors and temporary workers. It also aids newcomers to integrate into Canadian society and to become Canadian citizens.

membership of some of these countries in the Regional Conference on Migration or the Puebla Process.

Inter-departmental meetings and discussions led to several key realisations. First, for Canada, the remitting communities themselves, especially in comparison with the United States, are very small. Second, obtaining statistical information posed a difficulty since remittance figures are very small in the context of total financial transactions and are generally reported and transmitted in US currency. Third, the usage of informal transmitting mechanisms makes estimates even more problematic.

As such, it was decided to begin research by determining the population sample from Canada that would be potentially remitting to the target countries. The next step was to describe the money transfer process through Canadian banks and remitting companies. Finally, the goal was to draw some conclusions and policy implications and with an aim to perhaps guide future research.

It is clear, however, that this research is exploratory in nature. To obtain a more accurate estimate of Canadian remittances more in-depth work, in the form of a house hold surveys, is needed.

### **The Population Sample**

For the purposes of the remittances study, the Strategic Research and Statistics division of CIC generated immigration statistics, using the 2001 Census figures, for the seven target countries of the project and several others in the Americas for purposes of comparison.

A review of the numbers should keep in mind Canada's total population which stands at just under 32 million persons. In addition, from 1980 to 2001, Canada became home to 3.9 million immigrants<sup>3</sup>, or 12% of the total population, with an annual average of 180,000 arriving yearly. For 2002, the figure totaled 229,091 persons. Between 1991 and 2001, 58% of Canadian immigrants came from Asia and the Middle East, 20% from Central and Eastern Europe, 11% from Latin America and the Caribbean, 8% from Africa and 3% from the United States.

The source countries examined, on the basis of last permanent residence, not citizenship, were El Salvador, Guatemala, Honduras, Nicaragua, Jamaica, Trinidad & Tobago, Barbados, Grenada, Cuba, Dominican Republic, Haiti, Mexico, Guyana and Colombia. Between 1980 and 2001, immigrant flows including refugees, from these 14 countries totaled 369,641 persons. The top five source countries, in order, were Jamaica, Guyana, Haiti, El Salvador, and Trinidad & Tobago. If one includes Guyana as part of the Caribbean, regional totals were 253,992 from the Caribbean and 79,166 from Central America.

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<sup>3</sup>Immigrants refers to persons who are members of the family, economic and refugee classes. Family class immigration refers to foreign nationals selected for permanent residence to Canada on the basis of their relationship as the spouse, common-law partner, child, parent or other prescribed family member of a Canadian citizen or permanent resident. Economic class members are foreign nationals selected on the basis of their ability to become economically established in Canada. Refugees are persons determined to be Convention refugees or persons in similar circumstances taking into account Canada's humanitarian tradition with respect to the displaced and persecuted.

In general, for Central America, numbers as a whole are decreasing and have moved from refugee flows to family class. In 2001, 72% of Jamaican, 79% of Guyanese, 57% of Salvadorans and 63% of immigrants from Trinidad & Tobago belonged to the family class category. For Haiti, numbers were divided fairly equally between the family (46%) and economic (51%) classes, respectively.

Of interest is the fact that the majority of Jamaican, Barbadian and Grenadan immigrants, including in the economic class, are now female, with women also forming a majority among those from Guyana, Trinidad & Tobago, Haiti and the Dominican Republic.

2001 Census statistics by ethnic origin provide further information on Canadian residents with backgrounds from the target countries. Roughly 211,000 people identify themselves as Jamaican, 82,000 as Haitian, 60,000 as West Indian, 52,000 as Guyanese, 50,000 as Trinidadian & Tobagonian, 37,000 as Mexican, 27,000 as Salvadoran, 9,500 as Guatemalan and 3,000 as Honduran.

As with all immigrant populations, those from target countries are overwhelmingly found in Toronto, Vancouver and Montreal. However, smaller Ontario cities, such as Ottawa, Hamilton and Kitchener, have significant numbers as well.

The Canadian Seasonal Agricultural Worker's Program (SAWP) is a program for temporary contract employment for Commonwealth Caribbean and Mexican workers to meet Canadian demand for a core and reliable workforce during peak planting and harvesting periods. The vast majority of SAWP are repeat participants but, cumulatively, between 1974 and 2002, approximately 268,500 persons of Caribbean and Mexican origin participated in the agricultural labour force. In 2002, over 15,000 persons were employed in the program with a majority of 85% working in rural Ontario.

In 2002, Canada saw 74,073 persons enter as temporary foreign workers. This was a decrease over figures in 2001 and 2000 which numbered 82,410 and 89,723 persons respectively. Comparisons of overall country statistics, from 1998 to 2002, indicate Mexico and Jamaica (principal partners in the SWAP) as consistently among the top five source countries overall. In 2002, Mexican origin temporary workers numbered 11,393 persons (ranking it second) and Jamaican origin temporary workers numbered 5,519 persons (ranking it fifth). During this period, Trinidad & Tobago ranked 10<sup>th</sup> or 11<sup>th</sup>. Men made up 95% and 98% of the temporary foreign workers from Mexico and Jamaica, respectively.

### **Transfer Process and Data**

The Canadian International Development Agency was responsible for obtaining information and conducting research on the transfer process. What follows is a summary of a research paper, prepared by Barnabé Ndarishikanye, and presented at the first Canadian governmental seminar on remitting. It focuses primarily on Haiti, Jamaica and Guyana.

The money transfer market to Haiti, Jamaica and Guyana is dominated by remitting companies with Canadian banks playing a minor role in the industry. Informal transfer mechanisms, including cash remitted through families and friends, accounts for an unknown share of remittances. The latter can only be estimated by a thorough household survey.

Six companies are principally involved in the transfer of money from Canada to Haiti. The leader in the market is CAM Transfert, followed by Unitransfer and Bobby Express. The three other companies, SOCA Transfert, Meli Melo Transfert and Western Union Money Transfer are minor players.

Discussions with managers of four of the above companies revealed the following.

Company	Number of transactions per month	Average Amount per transaction	Number of transactions per month, peak season	Average Amount per transaction per month peak season	Number of transactions per year	Amount serviced per year
CAM Transfert	4,000	\$150	8,000	\$300	38,400	\$12,600,000
Bobby Express	500	\$150	1,000	\$300	7,500	\$1,575,000
SOCA Transfert	250	\$75	400	\$150	3,450	\$348,750
Meli Melo Transfert	300	\$150	500	\$200	4,200	\$705,000
					53,550	\$15,228,750

Note: Peak seasons are December, Easter and August and figures are in Canadian \$.

Of interest, three companies, CAM Transfert, Bobby Express and SOCA Transfert are also involved in transfers of remittances in goods. The goods are stored in Haiti and the company either sells directly to remitters or acts as an intermediary between the remitter and participating stores. Thus, instead of receiving money, receivers receive goods. CAM Transfert and Bobby Express deals in staple goods such as rice, peas, sugar, milk powder, smoked meat, fish, oil or flour. SOCA Transfert deals mainly in home furnishings.

In Jamaica, aside from Western Union and Money Gram, there have been three major funds transfer companies in Canada. These include Rapid Remittances, Jamaica National Building Society (JNBS) and the Victoria Mutual Building Society (VMBS). Discussions with managers revealed the following.

Company	Transactions per month	Average Amount per Transaction per month	Transactions per month in peak season	Average Amount per Transaction per month in peak season	Total Transactions per year	Total Amount serviced per year
JNBS	400	\$250	800	\$800	6,000	\$2,820,000
VMBS	75	\$250	200	\$400	1,275	\$408,750
Figures are in Canadian \$.					7,275	\$3,228,750

Previously, remitters made deposits in company accounts at the Bank of Nova Scotia and then brought transaction records to the JNBS or VMBS. However, in November 2002, the Office of the Superintendent of Financial Institutions (OSFI) ordered that the Bank of Nova Scotia no longer be used as a charter bank on security grounds. To avoid money laundering or other criminal activities, each bank now has to know their clients and cannot delegate this authority to a third party. In April 2003, both companies were given six months to end their relationship with the Bank of Nova Scotia and to find status in Canada as a foreign bank. To continue the main activity of money transfer, the JNBS created a remitting company, Jamaica National Money Transfer. The VMBS also plans to reopen as a remitting company.

In the case of the Guyanese, one major company, Laparkan, serves the community. Amounts sent per transaction range between \$150 to \$200 but peak to \$400 in peak periods of September, Christmas and Easter. Client numbers vary between 200-300 monthly but may double in peak periods. Client numbers vary between 3,000 to 3,600 yearly.

Aside from monetary remittances, Guyanese send goods to relatives through the same company. On average, 300 boxes leave Canada monthly for Guyana.

Western Union Money Transfer is the world's leader in money transfer services. In 2001, remittances channeled through Western Union globally were equal to US\$ 52 billion. Anecdotally, according to a company manager interviewed, approximately 10% of total worldwide amounts serviced originate from Canada. This share corresponds to US\$ 5.2 billion. They estimate that 65% of the amounts from Canada, or the equivalent of US\$ 3.38 billion are sent to Central American, Caribbean and South American countries.

The cost of sending money through remitting companies is worth exploration. Rates express themselves in two ways. First, as flat fees fixed by the companies themselves and, second, as hidden costs. Hidden costs are found in currency conversion rates. In addition, fees charged are fixed for amounts between certain thresholds. It is of interest that thresholds imposed by companies may prompt remitters to increase remittance amounts to take advantage of decreasing relative costs for higher amounts.

**Table 3: The Cost of Sending Money**

	< \$100	\$101 - \$200	\$201 - \$300	\$301 - \$400
Western Union	14	18	20	22
VMBS	10	15	20	25
JNBS	10	14	14	22
CAM Transfert	10	10 – 16	16 - 24	24 – 32
Bobby Express	12	12 – 24	24 – 36	30 – 48
SOCA Transfert	8	8 – 16	16 – 32	32 – 48
Meli Melo Transfer*	3	0	0	0
Laparkan	10	15	20	25

\*no charge for large amounts given in US\$ and delivered in Haitian Gourdes

In terms of exchange rates, it is the remitting companies that compute exchange rates given to clients. Each day, the companies print out the conversion rates obtained from the receiving country and the majority of clients rely on the exchange rates given by the company. Discussions held with remitting company managers indicate that some of the company earnings come from exchange rate differentials. Although there were no estimates on the amounts earned, one manager stated, under the condition of anonymity "we make money on exchange rates." In fact, the Western Union web site notes that "any difference between the rate given to customers and the rate received by Western Union will be kept by Western Union in addition to the transfer fees".

Notwithstanding costs, remitting companies offer several advantages to clientele. They benefit from close contact with clients on both sides by providing rapid, flexible and reliable services. Most companies deliver remittances on either the same or next day and delivering services are tailored to client needs. These include, depending on the final destination, cars, motorcycles, bicycles, horses and donkeys.

Growing competition amongst remitting companies means a rise in company incentives which may include financial support to non-governmental organizations and discounts during peak periods. Even greater competition may translate in reduced overall costs for the remitters.

In contrast, Canadian banks, perhaps given the small quantities involved, are not significantly involved in remittances. However, there have been several small scale initiatives worth noting in this regard.

Money transfer services through Canadian banks are normally charged an \$80 fee and it takes a minimum of 48 hours for the transferred amount to reach the final account destination located in another bank. The high fee attracts only large amount transfers, usually starting at \$3,000. Further, bank accounts are required at both ends. Money orders, costing around \$15 are another option but take a long time for the receiver to actually have the money in hand and require a bank at the receiving end. Normal procedures indicate that once the user receives, by mail, the money order, they take it to a bank, which sends it to a collection house, which then verifies if funds are available. Depending on reliability of postal services, this process can take weeks or months and is insecure.

Another possibility is for an individual in Canada to open a bank account in Canada and in their country of origin. The senders make deposits in Canada and then communicate with their families in the home country with the deposit amounts. The deposits are then withdrawn either at bank branches or with debit cards. This possibility, however, is limited to those with access to banks. The Caisses Populaires Desjardin recently had such a highly popular remitting program with Vietnam but it stopped after the Government of Vietnam removed the option of withdrawing money from the bank accounts in US currency.

For seasonal agricultural workers, the Bank of Nova Scotia has set up a remitting program tailored to their needs. At present, the bank has over 200 branches in the Caribbean and controls the Inverlat in Mexico with over 400 branches.

The program, initially designed for Mexican seasonal workers to aid in the flow of remittances, allows seasonal agricultural workers to send their relatives an amount, not exceeding \$1,000 per

week, at a flat cost of \$9.99 per transaction. While still in Mexico, the government issues the worker identification relevant for a financial institution and a Scotia Bank employee gives them a plastic card with the worker's ID, bank account information and restriction to use only for transfers with the Bank of Nova Scotia. The worker gives a duplicate of this card to the relative that they normally transfer to. Deposits are normally available for withdrawal in Mexico the day after the transaction in Canada.

### **Data Availability**

The Government of Canada does not prepare official estimates of remittances. Statistic Canada's Household Survey found that Canadian households send, on average, \$89 per year in gifts of money, pensions and charitable donations to the rest of the world. This figure is not indicative of remittance totals but does suggest the possibility of questions on remitting behaviours on the next Census.

Created in July 2000, all remitting companies and financial institutions involved in money transfer globally report to the Financial Transactions Reports and Analysis Centre (FINTRAC). In the fiscal year, 2002-2003, FINTRAC received reports of over two million financial transactions. Given their mandate, which is to deter money laundering and terrorist financing by providing critical information to support the investigation and prosecution of money laundering offences, it is not well placed to provide data on remittance transfers.

While conducting research on remittances from Canada, staff from the following institutions and government departments were contacted: The International Development Research Centre (IDRC), the Departments of Demography and of Economics of the University of Montreal, the Department of Economics of the University of Toronto, Finance Canada, Industry Canada, Statistics Canada, The Office of the Superintendent of Financial Institutions and the International Monetary Fund. None were able to provide any data sets on remittances from Canada.

### **Conclusions**

For Canada, the amount of remittances outflows is negligible in relation to our economy. However, in comparison with development assistance and the budgets of the developing nations they are directed to, the numbers become significant and their impact great. Thus, while the direct role of the Government of Canada may be limited, there is room for greater understanding of remitting behaviours and amounts from Canada.

Given the ever increasing value of remittances, their impact is not to be underestimated for developing countries. In fact, as many people migrate for economic reasons, the lure of sending money back to the home countries is strong, not only for the migrants and their families, but for the government as well.

In Canada, with the exception of financial reporting regulations such as FINTRAC, there is limited regulation on remittances. This is both a difficulty and a benefit. For consumers, it may mean high costs in the absence of a competitive market for remitting companies or a lack of avenues for service complaints. The advantages include the maintenance of an informal, unregulated and

untaxed system where remitters choose, when, where and how to remit thus leaving the control in the hands of the remitters and the money in the hands of those who need it most.

In regards to remittances, the essential issue that has to be clear is that these are person to person transfers and the receivers alone are to determine how to use the funds. This income, in the poorest households, may be used to fulfill the needs of daily consumption. These include food, clothing, education and health care. Remittances may also be used to buy land or homes, invest in small business or be set aside as family savings. The latter is an area which governments may want to encourage.

Greater competition between the remitting companies will also act to eventually lower fees. In Canada's free market system, there is no role for the government to play in this regard. However, there may be room for monitoring of quality of services.

Arguably, the high cost of remitting to the developing world acts to decrease the amount of funds that actually makes it to the receivers. To lower the cost, there is a role for international cooperation with host governments in developing banking and credit systems, along with prompting and increasing trust and usage of such systems, in areas which are not presently banked. Further, the benefits of "banking the unbanked" may also translate into more regularized use of savings.

The developmental impact of remittances, while its level may be questioned, is clear. Remittances spent on goods or services domestically generate positive multiplier effects on an economy. Further, the value added for improved nutrition, education and health care is a long term investment which will increase social and economic benefits to a country.

Finally, it should be noted that remittances are acting, not only to change consumption patterns of receivers, but internal government policies of receiving countries. In efforts to increase and encourage the flow of remittances, governments must reach out to their nationals abroad by policies, such as dual citizenship, which cater to their diaspora. Internationally, this also prompts a more activist role for governments in the human rights of their migrants abroad.