

# INTERNATIONAL FINANCIAL FLOWS AND WORKER REMITTANCES: BEST PRACTICES

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## A. INTRODUCTION

The interplay between micro patterns and macro dynamics has created ‘distant proximities’ (Rosenau, 2003). Distant proximities are real-life experiences that both integrate and fragment relationships outside and inside borders. Immigrants are key protagonists of distant proximities: through their labour, they integrate their home and host countries into the global economy in order to keep their own families together. Nevertheless, their lives are also fragmented by the experience of distance and separation from their families and nations. The end result is a transnational lifestyle, characterized by both opportunities and hardships that feature this paradox of distance and closeness.

This lifestyle has also implications for development. Although development economics has long considered foreign capital and savings as key to increase a country’s capital-output ratio (Tarp, 1999), until recently it had neglected one very important source: migration, and worker remittances in particular. There is an interlinkage between migration and development. Specifically, through remittances, migration has brought new opportunities for social and economic change in many areas.

Historically, four factors of foreign savings were considered: foreign direct investment (FDI), official development assistance (ODA), foreign trade and the transfer of technology. However, in the past three decades, significant changes, have influenced economic growth and development thought spurring migration flows. The relationship between development and migration, and the resulting effects of economic ties between diasporas and home country economies are becoming more relevant for development and social change.

In particular, the transnational networks that emerge from household to household relationships include immigrant-based donations, small and large investments, trade, tourism and unilateral transfers of worker remittances. For example, the mobilization of migrant savings and investments at home are spurring economic growth in areas traditionally neglected by the private and public sectors, especially in rural areas. Moreover, the communication between and among households have generated dramatic revenue flows to businesses in the United States and Latin America, as seen, for example, in the increasing demand for telephone services.

The present chapter addresses the effects and opportunities that remittances and other migrant-based relationships have and provide in developing countries. The first part addresses the relationship between migration, development and remittances. The second part looks at global trends and at regional patterns in migration and remittances. The third part examines the role of hometown associations in linking migrants and committees of origin for rural development. Lastly the paper offers an analysis of policy alternatives and best practices linking remittances, migrant based donations, and other practices. The section provides cases worldwide, and presents the initiatives undertaken in several Latin American countries.

## B. MIGRATION, DEVELOPMENT AND REMITTANCES

Globalization and migration are connected through a political economy of foreign labour demands in services and other divisions of labour (Orozco, 2002a). Mittelman (2000) explains that the current anatomy of the global political economy is composed of a spatial reorganization of production among

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world regions, large-scale flows of migration among and within them, complex webs of networks that connect production processes and buyers and sellers, and the emergence of transnational cultural structures that mediate among these processes. He stresses that heightened competition among and within regions, mediated by such micro patterns as ethnic and family networks, accelerates cross-flows of migrants. In turn, this cross-flow of migrants produces economic effects in the labour-sending country. These micro patterns have effects on the home country's economic growth and distribution of wealth. Therefore, the movement of people becomes an indicator of economic development.

First, the networks resulting from the prevailing ties of labour migration have contributed significantly to the integration of countries into the global economy. This point is important in various sectors, including investment, trade, tourism and unilateral transfers. For example, the mobilization of migrant and their relatives' savings and investments at home, in the acquisition of land, property, or small businesses, are spurring economic growth in areas traditionally neglected by the private and public sectors.

Second, unilateral transfers, reflected primarily through family or worker remittances, and to a lesser extent through donations made by migrant associations, constitute key component of economic growth and subsistence in many countries. Worker remittances are defined as that quantity of currency that migrants earn abroad and then send home to their families and communities (Kane, 1995).

Studies about remittances have often focused on their wealth generating capacity through savings and investment (Adams, 1998), the factors influencing their flow (El-Sakka, 1999), and their effects on the recipient economies at the household level (Arif, 1999). In synthesis, remittances can be analyzed within the context of the relationship between development and migration in a three prong manner: (a) remittances as another source of foreign savings; (b) remittances as an illustration of a broader process of integration into the global economy through migration -- specifically, in what I refer to as the "Five Ts" of integration, namely, transportation, telecommunication, tourism, transfer of remittances and nostalgic trade (Orozco, 2003d); and (c) remittances as an enabling factor of growth.

### C. THE TREND OF MIGRATION AND REMITTANCES

In many developing countries, international migration has emerged as a significant phenomenon. Within the context of globalization, people have become more mobile, and transient, both physically and technologically. The flows of international tourists around the world have increased to the order of millions. People working for transnational corporations have moved into different regions of the world where companies are expanding or intensifying their activities. People leave countries and continents to escape from natural disasters, wars and conflicts that cause or exacerbate famines. Van Hear (1998) labels some of these people as "new diasporas", i.e. immigrant groups that become diasporas as a result of major contemporary economic and political transitions.

At the labour levels, workers continue relocating because of labour demands, usually in developed countries, economic distress in their home countries, or a combination of both. In addition, families are increasingly becoming transnational with relatives living in more than one country, reuniting, visiting regularly, while maintaining a transnational network of communication (Faist, 2000). Transatlantic migration has also grown, as is the case of people of Bangladesh, India, and Pakistan going to Europe and the United States, or those of the Dominican Republic, Ecuador, Guyana, and Jamaica moving to Europe and the United States.

Conservative estimates indicate that every year there are about 200 million people migrating around the world (Harris, 2002). This number is significant and indicative of broader changes in the global context. Because of globalization, people are able to travel longer distances and reach more countries. As costs decline because of increased travel, globalization is further affected by migration. A greater number of countries have also increased or expanded their demand for foreign labour. Moreover, the

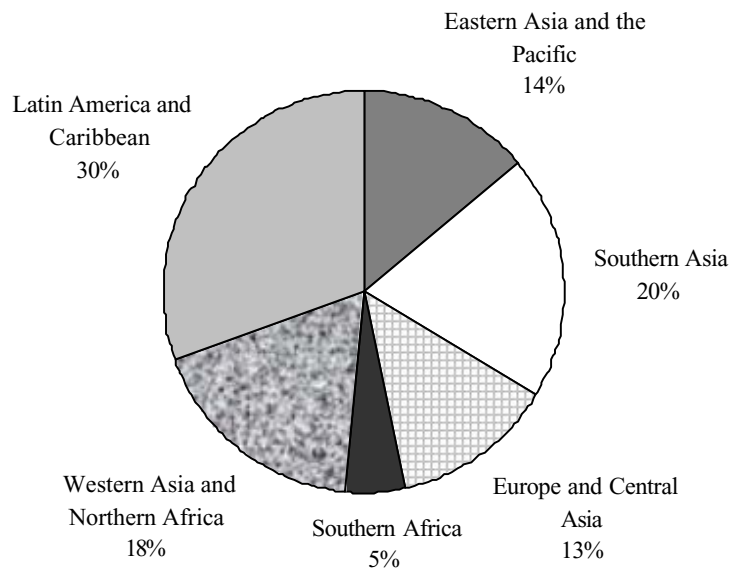
migration flows are no longer unidirectional. For example, Greeks migrate to Germany and the United States, while Albanians migrate to Greece. South Africans move to Australia and the United Kingdom, while Malawians, Mozambicans, and Zimbabweans—and more recently West Africans—relocate to work in the mines and in the service industry as domestic workers, informal entrepreneurs and service providers to the working class in South Africa.

Global migration flows may be greater than this estimate. Many migrant-receiving countries are expanding the number and type of migrants they receive. Moreover, migration is taking place at two levels: both skilled and unskilled workers are going abroad. As Held, McGrew, Goldblatt and Perraton (2000) stress, “there has been a steady movement of highly skilled, highly trained professionals, that is, elite migration”. These migrations are not only headed towards developed countries, but also to some developing countries like the oil-producing countries of Western Asia, where a demand for skilled labour has emerged since the 1970s.

### 1. The Global Flow of Remittances

One of the manifestations of the effects of international migration is remittances. Total remittance flows continue to increase over time. Estimates of the International Monetary Fund (IMF) and World Bank, for example, reported that 80 countries received a total of nearly \$90 billion in 2002. Orozco (2003f) estimates that the total remittance flows in the world reach over 180 billion dollars.

**Figure 1. Worldwide flows of worker remittances by recipient region, 2002**



Source: Orozco, Manuel (2003e). *Worker Remittances in an International Scope*. Washington, DC: Inter-American Dialogue.

Figure 1 shows the distribution of worker remittances received by major regions of the world. Latin America is the main remittance recipient region, receiving about 30 per cent of the total flows. Following Latin America are Southern Asia (20 per cent), Western Asia and Northern Africa (18 per cent), Eastern Asia and the Pacific (14 per cent), and Europe and Central Asia (13 per cent). One interesting feature to note is that one or two countries comprise over half of the total flow to each region. For example, India, the world’s largest remittance recipient country, receives 73 per cent of the flow to Southern Asia.

Mexico receives 34 per cent of the flow to Latin America and the Philippines 43 per cent of Eastern Asia and the Pacific.

In a world of 6 billion inhabitants, international migration seems insignificant as it comes to represent about three per cent of the world. Most migration, in fact is internal—rural to rural, rural to urban—and international migration in many cases follows a sequence of stages, from rural to urban, then to the international sphere. However, international migration takes on greater relevance because of the significant volume of remittances worldwide. To many, remittances have become a stable source of finances (Ratha, 2003, Sørensen, 2002).

These flows of remittances as well as the widespread distribution of them raise important questions as to what impact they have on an economy, how they arrive in the different countries, and, in particular, what are the most common spending practices among traditional remittance-receiving countries like Egypt, Greece, India, Mozambique, Pakistan, the Philippines, Portugal, and Turkey? In some receiving country, the economy may rely significantly on the flows sent by their workers living abroad.

Most of the remittance-receiving countries witnessed a significant macro-economic impact of remittances, not only in terms of helping increase foreign currency earnings, but also by virtue of representing a sizeable share of a country's GDP. Moreover, these resources help expand markets through spending and investment. Table 1 shows that the amount of remittances received by these countries is far larger than FDI or ODA. When compared with exports, remittances also represent a significant portion of that revenue.

Moreover, remittances display an almost counter-cyclical behavior. For example, despite the global economic recession and its impact on the United States, remittances from the country to Latin America continued. While the unemployment rate among Hispanic immigrants in the United States rose 6.3 per cent in 2001, to 7.3 per cent in 2002 and 8.3 per cent in 2003, the amount sent back to their country of origin continued growing in some countries (Orozco 2003b).

Another key feature of migrant remittances is that the flows of money sent are not necessarily related to the level of development in the receiving country. They are rather related to: (a) the market for foreign labour; (b) the receiving country's regional economic position and their relationship to a more economically salient country; (c) the macroeconomic impact that remittances have on the receiving country; (d) the distributive effect on those remittance recipient households.

In this sense, there is no statistical relationship between remittances and income inequalities. For example, when the income gaps between richest 20 and poorest 20 per cent in a country is measured, those with wider gaps received no greater amounts of remittances (in per capita or as per cent of GDP) than other groups with less pronounced income differences (see figure 2). Rather, remittances mostly responds to economic fluctuations such as inflation or deterioration in the local economy or to family ties that are established over time. The only exception is Latin America, where there is a statistical relationship between levels of income inequality and remittances.<sup>†</sup>

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<sup>†</sup> Two separate regressions were computed using OLS with remittances per capita and remittances as per cent of GDP as dependent variables, and income inequality as independent variable. Income inequality was measured as the difference between the income share of the lowest 20 per cent and highest 20 per cent income brackets. This income difference signals the extent of the gap between the rich and the poor, the larger the gap the larger the inequality. The regression involved 57 countries. Neither the correlation nor the statistical significance on the coefficient was significant, except among Latin American countries. See also Adams (2003).

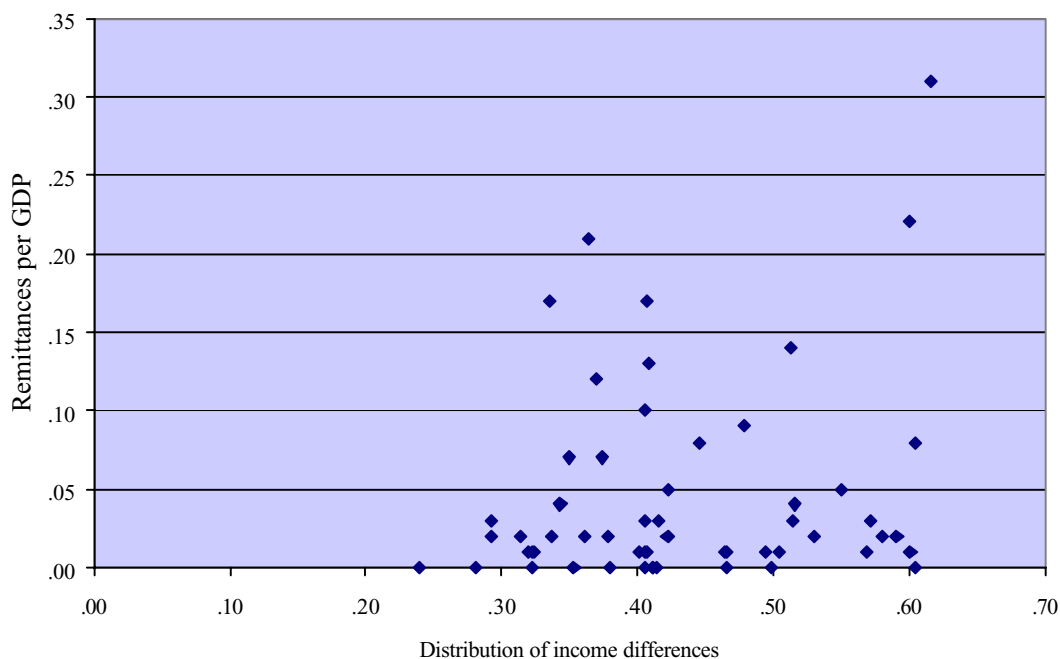
**Table 1. Remittances to major remittance-receiving countries, 2002**

Country	Total amount of remittances (millions of US dollars)	Remittances per capita	Remittances as percentage of			
			Exports	ODA	FDI	GDP
Mexico .....	9 814	97	6	7 243	72	3
India .....	8 317	8	17	569	323	2
Philippines .....	7 189	90	20	..	701	7
Brazil.....	4 601	26	8	1 224	33	1
Spain .....	3 958	97	3	..	151	1
Pakistan.....	3 554	25	36	166	447	5
Portugal.....	3 224	317	13	..	580	2
Egypt.....	2 893	44	66	225	467	3
Morocco.....	2 877	97	36	452	637	7
Bangladesh.....	2 848	21	47	312	6 233	5
Colombia.....	2 351	54	20	533	201	2
Serbia and Montenegro.....	2 089	256	92	108	372	14
Dominican Republic .....	1 939	225	37	1 238	202	10
Turkey.....	1 936	28	6	305	225	1
El Salvador.....	1 935	302	65	829	828	17
Jordan.....	1 921	372	70	360	6 249	22
China.....	1 679	1	1	114	4	0
Guatemala .....	1 579	132	71	635	1 434	8
Ecuador .....	1 432	112	28	663	..	6
Yemen.....	1 294	70	40	222	1 132	21
Sri Lanka.....	1 287	68	27	374	559	8
Indonesia.....	1 259	6	2	96	868	1
Greece .....	1 181	111	11	..	- 192	1
Jamaica .....	1 130	432	102	4 654	277	21
Poland .....	1 109	29	3	96	28	1
Cuba.....	1 100	98	73	1 803	..	..
Tunisia .....	1 071	109	16	225	135	4
Sudan .....	970	30	52	276	..	9
Lebanon .....	952	214	91	209	53	7
Japan.....	947	7	..	..	- 4	0
Haiti.....	810	98	289	520	..	29

Source: World Bank. "World Development Indicators 2004" CD-ROM.

NOTE: Remittances to the Philippines are from Central Bank of the Philippines. Brazil from the IADB.

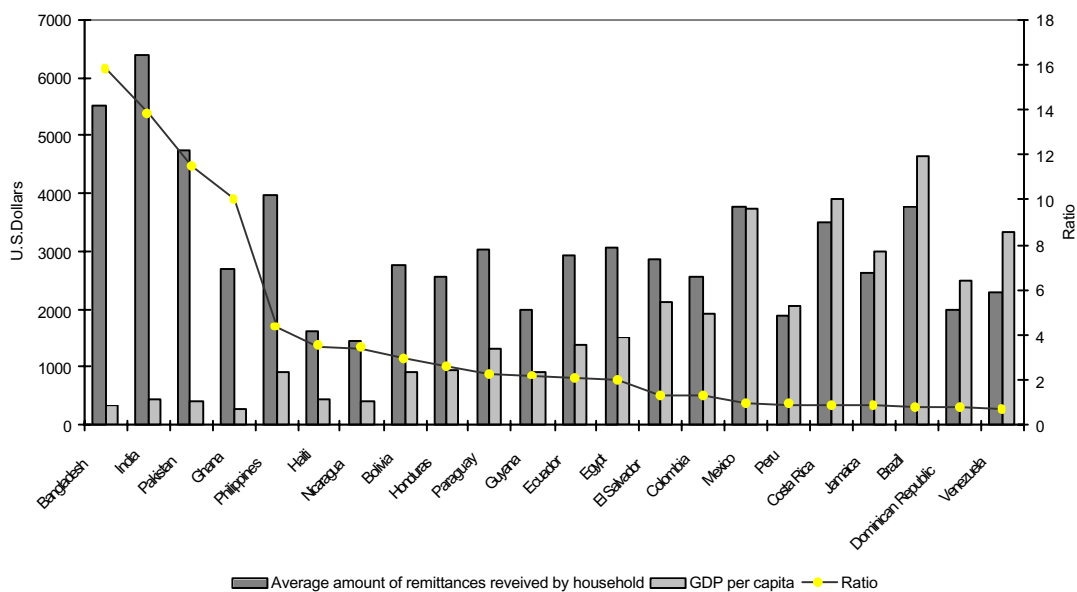
**Figure 2. Remittances per capita and income distribution**



Source: World Bank. "World Development Indicators 2004" CD-ROM.

Remittances have a direct distributive impact on the receiving households, as they improve people's economic status. This can be observed by looking at the average amount of remittances sent by migrants in the United States to various countries worldwide (see figure 3). The average amount of remittances received by persons exceeds the GDP per capita in many countries. Thus, remittances help people improve their income equation.

**Figure 3. The average amount of remittances sent by migrants and GDP per capita, The United States**



Sources: World Bank. "World Development Indicators 2004" CD-ROM.

It is also important to point that remittances transfer manifests their countries being a part of the global economy through migration. Economic integration within a world economy has also occurred through labour migration in at least five areas: tourism, telecommunications, air transportation, remittances transfer, and nostalgic trade. These areas have opened opportunities that have expanded beyond trade and investment.

Finally, there is nostalgic trade. Around 70 per cent of immigrants consume products from their country of origin: tortillas, coffee, rum, tamales, and sweets, among others. The volume of ethnic products exported to the United States from various countries of Latin America has come to represent some 10 per cent of total exports.

## *2. Regional Flows*

### *a. Sending Money to Africa*

The African continent is a region where much migration has taken place, predominantly within the continent itself. Many migrants move from countries in Southern Africa to Angola. South Africa attracts migrants widely from Malawi, Mozambique and from other countries of Southern Africa. In addition, a growing number of people migrate from countries in Western Africa to South Africa (Morris and Bouillon, 2001). Political exiles as well as other Africans have migrated to Europe and the United States. The 2000 Census of the United States shows that there were nearly one million Africans living in the country.

**Table 2. African immigrants in the United States by region of origin**

<i>Region</i>	<i>Number</i>
Eastern Africa .....	213,299
Middle Africa.....	26,900
Northern Africa.....	190,491
Southern Africa.....	66,496
Western Africa.....	326,507
Not classified.....	57,607
Total.....	881,300

*Source:* U.S. Census Bureau (2000).

The flow of remittances from migrants of African origin to their home country occurs through a combination of means, like the use of formal and informal institutions. One typical method of transfer, particularly within the continent, is through the use of existing courier businesses operating through transportation channels, such as buses, taxis or trucks (Sander, 2003).

As one of the principal labour exporters to the oil-producing countries of Western Asia since the 1970s and having accepted remittances totaling almost \$3.5 billion in 1985, Egypt is among the largest remittance recipients in the world. The total volume of remittance inflows to Egypt is underestimated, as significant amounts go through informal mechanisms and are thus unrecorded (Choucri, 1986). Choucri (1986), points to factors explaining why the flow may be larger. First, there are large numbers of Egyptians working in Western Asia: over 1.3 million during the early 1980s and currently 1.4 million (International Labour Office, 2000). Second, these overseas workers are known to remit large

percentages of their incomes. These foreign currency inflows should contribute to the balance of payments and help maintain a strong domestic currency. Despite these flows, however, the balance of payments has deteriorated and the local currency has weakened (Choucri, 1986). This points to a large amount of remittances entering the economy through hawala dealers or other informal arrangements.

Microfinance institutions and non-bank financial institutions provide domestic and international money transfer services—a growing industry in Uganda with a population of 23 million and per capita GDP of \$355 (World Bank, 2003). The Bank of Uganda estimates that \$550 million in remittances, commonly known as *kyeyo*, flow into the country every year (Mutumba-Lule, 2003). In 2001, remittances represented 8.5 per cent of the country's GDP. Though remittance transfers are centered on Kampala, the capital and major cities, some businesses and institutions are working to extend the abilities of Ugandans in rural areas access to remitted funds. The Centenary Rural Development Bank of Uganda offers international remittance transfers via Western Union. *MoneyGram* works through Allied Bank International to provide money transfer in Kampala as well as the second largest city, Jinja. Courier companies are also active in Uganda, transferring remittances and other small individual payments domestically.

In Kenya, where an estimated \$649 million is sent annually from the United Kingdom alone, (Kabbucho, Sander and Mukwana, 2003), there is an active network of microfinance institutions in the country, but they are restricted by law from offering money transfers. Courier and bus companies, such as Akamba Bus Services and Securicor Courier are popular ways of sending money in cash. Finally, the *hawala* system remains prevalent in Kenya (Kabbucho, Sander and Mukwana, 2003).

As a major destination country for refugees from neighbouring countries, Kenya receives large amounts of remittances. According to UNHCR, 137,400 Somalis and 55,600 Sudanese were residing in Kenya (United Nations High Commissioner for Refugees, 2000). Despite difficulties with the transfer system, remittances comprise a considerable level of the country's economic activity. A third of households in Kenya receive remittances translating to some 5 million Kenyans in rural areas receiving remittances (Kabbucho, Sander and Mukwana, 2003). Some small remittance companies and money transfer organizations serve specific refugee communities, like the Somalis in Kenya. Refugees send remittances outside the country to Somalia or other African nations.

Access to the formal financial system has become more limited since the mid-1990s, when both commercial banks and post offices cut back operations. Remittances played a significant role in the Kenyan economy throughout the 1990s, when other sources of foreign exchange were scarce and both multilateral and bilateral aid were withheld (Okoth, 2003). International money transfers are handled primarily by money transfer operators like Western Union and *MoneyGram*. The Government-owned Kenya Post Office Savings Bank works as an agent of Western Union and also offers savings accounts. Cooperative Bank of Kenya transfers money through an agency agreement with *MoneyGram*.

#### *b. Sending Money to Asia*

People of Asia migrate worldwide, to Africa, Europe, Oceania, the oil-producing countries of Western Asia, and to North America. The end result has been a global Asian diaspora with ties in more than one country. Some of the major diasporas include those of Chinese and Indian origin, but others exist, including Filipino, Pakistani, and Vietnamese. Encouragement by the governments of the use of formal channels to remit funds from abroad, improvement in electronic funds transfers and the growth of money transfer organizations have expanded and shaped the remittance industry in Asia.

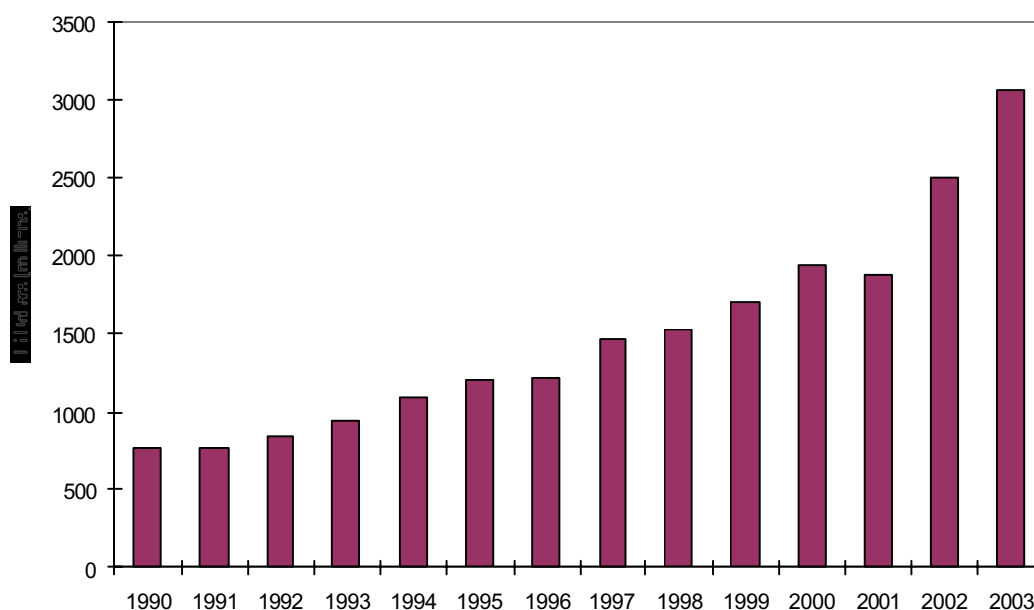
India is the largest remittance-recipient country in the world, and in 2003 it received over \$14.8 billion dollars. In 2001, remittances represented 27 per cent of its merchandise exports, over seven times greater than its ODA, and almost five times as much as its FDI (World Bank, 2002). Remittances are

clearly an important element in India's balance of payments as well as a major source of foreign exchange (Madhavan, 1985).

Recent years have witnessed an increase in migration from several Asian countries and thus in remittance flows. The top international destinations for Bangladeshi, Indian and Pakistani migrant workers are the oil-producing countries in Western Asia (Bahrain, Iraq, Kuwait, Libya, Oman, Qatar, United Arab Emirates) and countries in Southeastern Asia (Malaysia, the Republic of Korea, Singapore).

Bangladesh has experienced a high degree of internal migration, but between 1976 and 2002, over 3 million people left the country to work abroad. During the same period Bangladeshi migrants sent home \$25 million in remittances. In 2003, remittances amounted to \$3.1 billion (see figure 4) and accounted for 124 per cent of international reserves and 38 per cent of exports. The largest amount of remittances by Bangladeshi as well as by Filipino migrants originates in the United States. Two-thirds of Filipino permanent emigrants are in the United States, and the Philippines has been the second largest source of migrant workers in the world, second only to Mexicans who mostly migrate to the United States (Martin, 1993; Reinart, 2002).

Figure 4. Remittances to Bangladesh



Sources: World Bank Development Indicators 2003 and Central Bank of Bangladesh.

Beginning in the 1970s, the growth of remittances to India took place alongside the increased migration to the oil-producing countries of Western Asia, India and Pakistan are the largest suppliers of non-Arab labour (Premi and Mathur, 1995). Remittances from the oil-producing countries of Western Asia to India increased from virtually nothing to 51 per cent of total remittances by 1988. In 1991, they represented 40 per cent of total remittances received in India (Premi and Mathur, 1995).

Remittances sent to many Asian countries are used primarily for basic expenditure. The funds are spent on daily consumption needs, land, housing construction, and education. Sofranko and Idris (1999) estimated that 42 per cent of remittances to Pakistan are used to cover basic family needs, 29 per cent are on other consumer goods, and 13 per cent is invested in some kind of business venture. This inflow contributed greatly to the country's balance of payments and accounted for 76 per cent of merchandise

exports (Addleton, 1984). According to some analysts, along with development assistance, remittances may have provided a cushion for high government deficits (Haque, Husain and Montiel, 1994).

#### *Governments' efforts to improve remittances*

Governments' encouragement of the use of formal channels to send remittances and policies to enhance remittance value.<sup>‡</sup> has resulted in less use of the informal *hawala* system. In Bangladesh these policies include agreements with banks in host countries; providing incentives such as special VIP, gold, and silver cards for transfers and advantages given expatriate Bangladeshis identical to those the government grants foreign investors (International Organization for Migration 2003).

While constraints on foreign currency have hindered the remittance process in some Asian countries, several governments have revised their policies, implementing efforts to motivate migrants to remit through the banking system. In Pakistan, as a result, remittances through formal channels tripled between July 2001 and July 2002. The Government has devoted significant efforts to closing the gap between the "kerb" exchange rate offered by *hawala* dealers and the inter-bank rate used by commercial and State banks (Bokhari 2002, 9). Also, the Government has begun a new programme, "Remittance Book", through the Overseas Pakistanis Foundation to reward regular remittance senders. This programme records the amount of money sent by Pakistanis living overseas and provides certain benefits for those remitting more than \$2,500 annually and other benefits for those sending more than \$10,000 annually. The Government has also recently announced plans to establish official Money Exchange Companies (MECs) to replace the *hawala* dealers. According to this plan, the Government will issue licenses allowing banks and money transfer organizations to increase their dealings in foreign exchange (Arab News, August 5, 2002).

The Government of the Philippines has shown an interest in studying the behavior of sending remittances, and it has attempted to channel more remittances to the country. In addition to compiling statistics on remittances through the Central Bank, the Government has established an agency to assemble data specifically on overseas contract workers and the money that they send home (Rodriguez 1996). During the 1980s, the Government attempted to increase remittance flows through mandatory requirements. These efforts had less success than its newest incentive programme whereby Filipinos overseas can purchase Balikbayan boxes full of consumer goods from duty-free shops. These gift boxes are then delivered to their families instead of the traditional cash remittances (Rodriguez 1996).

#### *Agents of remittance transfers*

Various kinds of actors are involved in the processing and transfer of remittances to Asian countries, including financial institutions, banks, exchange houses, and money transfer organizations. Exchange houses are a principal means of sending money from the oil-producing countries in Western Asia. Some Indian states and private banks have established agreements with these exchange houses to facilitate the transfers of remittances. These transfers typically occur in an account-to-account manner, and are concentrated in the United Kingdom and the United States. There is also a growing number of online remittance companies targeting their services at the Indian diasporas in the United Kingdom and the United States. Major money transfer organizations, particularly Western Union, have expressed interest in capturing a larger share of the large Indian market. To that end, Western Union opened up counters within Indian post offices (India Abroad, 2001) and negotiated with Pakistan's postal system to use its 13,000 locations for money transfers.<sup>§</sup> Similarly, some banks in Pakistan have also recently become

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<sup>‡</sup> Hawala is a kind of transaction in which money is not physically or electronically transferred. The hawala system is an "operation that consists of making a financial transfer between principals located in two countries using intermediaries who operate in the informal sector. (El-Qorchi, Maimbo, and Wilson 2002).

<sup>§</sup> Western Union Money Transfer service extends to Pakistan, <http://www.ameinfo.com/news/Detailled/17682.html>, January 2003.

involved in the remittance business with overseas branches. The National Bank of Pakistan also forged an agreement with Western Union, is eager to expand its market share in Pakistan.

In comparison with other countries, the Philippines exhibits the most diverse remittance market. The transfer of funds to the Philippines, primarily from the United States takes place through various mechanisms and players (see table 3).

**Table 3. Type of institution used to send remittances, the Philippines, 2001**

<i>Institution</i>	<i>Percentage</i>
Banks .....	71
Agency or local office .....	4
Door to door delivery.....	23
Friends or co-workers.....	1
Others.....	1
Total.....	100

*Source:* Philippines Census Bureau, “2001 Survey of Overseas Filipino Workers,”

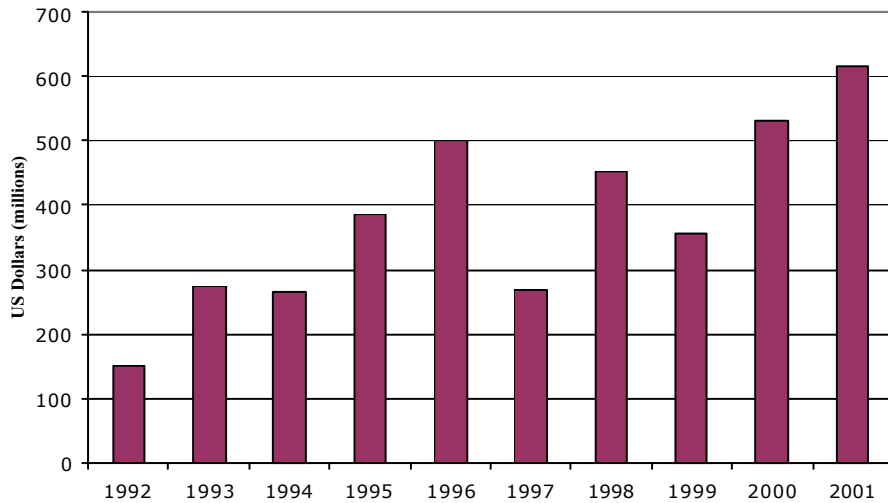
Banks and their branches abroad are processing the majority of remittances sent by Filipinos living abroad. The participation and expansion of banks during the past decade explain the dramatic increase in remittances during the 1990s (Battistella, 1999). Migration flows during this period was relatively stable, and thus cannot alone explain such an increase (Reinaruth, 2002). In addition to bank branches in the United States and Asia, non-bank financial institutions also play a significant role in transferring funds to the Philippines. These money transfer organizations are niche players and focus primarily on sending remittances only. If we combine the “Door to door delivery” service that the majority of these organizations offer with the option to “Pick up” cash at a local agency, they transfer over a quarter of the remittances entering the Philippines.

*c. Sending Money to Europe*

Europeans have also constituted an important migrant group with significant relationships with their home countries. Historically, Greeks, Portuguese, Spanish and Turkish are known to have close trans-national communities abroad. A large amount of funds are remitted to Portugal, while Greek and Turkish migrants send money from Germany and have established a banking system that allows for remittances to be more institutionalized. Greek banks have created widespread opportunities for remittance transfers from other European countries and the United States, and provided a model of financial access for other countries in the region. Growth of European banking systems and their facilitation of remittance industry corresponds with rising levels of migration to European countries and the United States.

After the fall of Communist regime and the easing of travel restrictions, Albanians started moving abroad in large numbers to seek employment opportunities. The most common destinations for Albanian workers are Greece and Italy. It is estimated that out of a total population of 3.2 million people in Albania, one million have emigrated to Greece and Italy (Lianos and Glystos, 2004). An estimated \$700 million of annual remittances flows into Albania had been essential in stabilizing the Albanian economy during the mid-1990s, particularly as a source of foreign exchange. These flows sustained Albania’s economic recovery and significantly covered deficits in goods and services accounts, representing a record 48 per cent of these deficits in 1998.

Figure 5. Migrant remittances received in Albania, 1992-2001



Source: World Bank Development Indicators, 2003.

Those Albanians with dependent family members in the home country tend to send small amounts on a regular basis, usually via courier. Others who do not regularly remit tend to save larger amounts, which they take with them upon returning to Albania. In addition, several Greek banks have begun operations in Albania, facilitating the flow of remittances and opening opportunities for greater financial access for remittance senders and their families.

Out-migration of people from Portugal paralleled the growth of remittances received. Portugal experienced significant emigration to Western Europe throughout the 1960s and 1970s, and at present, there are approximately 4.5 million Portuguese living abroad, almost half the resident domestic population (Economist Intelligence Unit, 2001). In 2001, approximately 20,500 Portuguese emigrated—72 per cent of them temporarily (for less than one year) and 28 per cent long-term (for more than one year). Over three-quarters of them went to France, Germany or Switzerland.

Portuguese migrants in Europe send remittances to their home from a small number of sending countries. France has been the most important source country since the 1960s, and more recently, Germany, Switzerland, and the United States have also become significant source countries (Karafolas, 1998). According to figures from the Banco de Portugal, 42 per cent of remittances came from France, 18 per cent from Switzerland and 15 per cent from the United States.

Transfers of remittances are primarily performed by Portuguese banks with their branches abroad. As Portuguese banks expanded operations to the countries of destination for their migrants, remittances from these countries increased. According to Karafolas (1998), from 1975 to 1994, for example, the number of Portuguese bank units in France increased from 12 to 115. This same period saw a growth in remittances from \$544 million to a peak of \$1,840 million in 1992, while the Portuguese population in France remained relatively stable during this period. Many of the Portuguese banks in France, Germany, and other countries of destination offer full banking services, contributing to migrants entering the banking system and maintaining accounts.

Greek migration during the 1960s to North America and Western Europe—more specifically, to the Germany and United States—resulted in increased flows of remittances to Greece. As in the case of Portugal, Greek banks abroad encouraged sending more remittances. When remittances from Germany surpassed \$100 million in 1970, there were only three Greek banking units in Germany. By 1994, there were 27 banks, branches, and affiliates of Greek banks in that country. Over the same period, the number

of Greek banks in the United States increased from three to 21 (Karafolas, 1998). Lianos (1997) finds further evidence for the important role played by banks in the Greek remittance market. Analyzing the factors that influenced the decision to remit to Greece from Belgium, Germany and Sweden, he concluded that the higher number of Greek banks in Germany, as compared to other two countries, allowed for more informed decisions to remit.

The growth of migration from Turkey began during the 1960s and 1970s with Germany as the primary destination of these emigrants, as it was for many Portuguese. The Turkish Government soon became aware of the importance of remittances as a source of foreign exchange and intensified its efforts to send more national workers abroad (Sayari, 1986). Turkey is a major recipient of migrant remittances, which represent almost 17 per cent of Turkey's exports of merchandise and far surpass any ODA and FDI that the country receives.

Remittances have become a key focus of the Turkish Government's migration policies, and they have developed several schemes to attract remittances. Like other countries, Turkey has offered special interest rates for foreign currency deposits and import privileges for migrant workers. While these efforts have attracted more remittances to Turkish banks, other initiatives—such as establishment of a new bank to help finance “workers’ companies” which had migrants as their primary stockholders—failed. These companies were created to channel migrants’ remittances into investment schemes in their home country, but there were few participants and many bankruptcies (Sayari, 1986).

The remittance market itself in Turkey is composed primarily of Turkish banks abroad. Bank branches throughout Europe, and particularly in Germany, offer efficient systems to transfer money to accounts maintained in their home offices in Turkey. This system mirrors that of Greek and Portuguese banks throughout Europe. In addition to crediting bank accounts in Turkey with the remittances, some banks also offer options that do not require either the sender or the beneficiary to maintain accounts.

#### *d. Sending Money to Latin America*

Within the Latin American context, worker remittances are becoming increasingly relevant to the economies of many countries. In 2003, Latin America received more than \$38 billion in remittances from Canada, Europe, Japan, Latin America itself and the United States. The table 4 shows the total remittances sent to selected countries in Latin America and the Caribbean in 2003. The table also shows remittances as a percentage of GDP and exports. It reveals that, especially for the smaller economies of Central America and the Caribbean, remittances represent a significant percentage of these macroeconomic indicators.

The overwhelming majority of remittances received in Latin America are sent from the United States. The Central Bank of Mexico, for example, estimates that 95 per cent of total remittances originate in the United States. In the case of Jamaica, 70 per cent of the remittances received comes from the United States.

Table 4. Remittances to Countries in Latin America and the Caribbean, 2002

Country	Total amount of remittances (millions of U.S. dollars)	As percentage of		Average transfer sent per immigrant (\$)	Cost to send average amount (%)
		GDP	Exports		
Mexico.....	13 266	3	7	378	5
Brazil <sup>a</sup> .....	5 200	1	8	376	..
Colombia .....	3 067	2	20	256	6
El Salvador .....	2 316	18	71	287	4
Dominican Republic .....	2 217	11	43	199	9
Guatemala.....	2 106	9	76	269	6
Ecuador.....	1 657	7	31	295	4
Jamaica.....	1 426	23	117	263	8
Peru.....	1 295	2	15	191	..
Cuba <sup>a</sup> .....	1 194	..	84	..	17
Haiti <sup>a</sup> .....	977	33	333	162	10
Honduras .....	862	16	61	257	6
Nicaragua <sup>a</sup> .....	788	29	127	146	10
Bolivia .....	340	1	8	276	9
Costa Rica.....	306	1	4	350	..
Venezuela.....	247	0.3	1	228	14
Argentina .....	225	..	..	..	..
Guyana <sup>a</sup> .....	137	16	24	..	..
Trinidad and Tobago .....	88	1	1	..	..
Belize.....	74	..	..	..	..
Total.....	37 786	..	..	..	..

Sources: Central Banks of each country, Author's estimates, World Bank "World Development Indicators 2004" CD-ROM, and National Money Transmitters Association.

### *Senders and Receiving Households*

According to the United States Census in 2000, over 40 per cent of Latinos earn less than \$20,000 a year and over 70 per cent earn less than \$35,000 a year. On average, immigrants in the United States send \$260 in remittances at least seven times a year, but these amounts vary depending on the country of origin. Among Latin Americans, Brazilians, Costa Ricans and Mexicans, send the most, while Haitians, Nicaraguans and Peruvians send the least. While there is a considerable variation among migrant populations, remittances represent at least 10 per cent of the migrant's income. This proportion can reach as high as 22 per cent, as in the case of Mexican immigrants; Mexicans represent the largest share of Latinos in the United States and send nearly \$400 a month, more money than any other Latino groups.

Income variations of Latino households in the United States may explain the differences in amounts sent to home country. For example, 48 per cent of Nicaraguan households in Miami had incomes of \$1,821 a month on average (Fernandez-Kelly and Curran, 2001). Nicaraguans send the average of \$146 a month, which represents just under 10 per cent of their income. Furthermore, according to the United States Census, per capita household income among Dominicans in New York and the United States is \$9,069 and \$11,013, respectively (Rivera-Batiz, 2002), and like Nicaraguan, Dominicans send only \$199.

Most remittance recipients are women. According to the *Consejo Nacional de Población* (2000), approximately 70 per cent of remittance recipients are women. On average, 50 per cent of the recipients form part of the economically inactive population. Furthermore, half of the individuals receiving remittances have no other source of income. In Honduras, about one-third of the remittance receiving households are located in rural areas and at least 80 per cent are poor (United Nations, Economic Commission for Latin America and the Caribbean, 1999).

#### *Remittances to Rural Areas*

The flow of remittances into vulnerable areas, including the rural sector, has important implications for social change. Specifically by virtue of being a financial transfer that goes into neglected areas, remittances can and have provided alternatives for subsistence and survival.

A significant flow of remittances goes to rural areas. Examples of these cases are Dominican Republic, El Salvador, Haiti, Mexico and Nicaragua. In Mexico, over 75 per cent of all migrants leaving the country originated in ten states (see table 5). Similarly, the top ten remittance receiving states receive over two-thirds of all remittances sent to Mexico.

**Table 5. Percentage of Migrants Originating in Top Ten Sending States and Percentage of Remittances Received by Top Ten Remittance Receiving States, Mexico**

<i>State</i>	<i>Percentage of migrants, 1993-1994</i>	<i>Percentage of remittances, 2000</i>
Guanajuato.....	17.9	13.7
Michoacan .....	10.9	11.2
Distrito Federal.....	7.5	4.5
San Luis Potosi.....	7.4	5.8
Jalisco .....	6.9	11.4
Coahuila.....	6.3	..
Durango .....	5.7	3.4
Chihuahua.....	5.2	3.6
Zacatecas .....	4.5	4.5
Guerrero.....	3.5	4.9
Estado de Mexico .....	..	3.8
Total.....	75.8	66.8

*Sources:* El Colegio de la Frontera Norte. "Problemas y Perspectivas de las Remesas de los Mexicanos y Centroamericanos en Estados Unidos," *Unpublished Manuscript*, El Colegio de la Frontera Norte: Departamento de Estudios Económicos. Mexico: 2002, p. 30; Torres, Federico (2001). "Las Remesas y el Desarrollo Rural en las Zonas de Alta Intensidad Migratoria en México," Naciones Unidas: Comisión Económica para América Latina y El Caribe (CEPAL). Mexico, pp. 3, 27-28.

Except for the Federal District of Mexico, migrants originate in both rural and urban areas (Torres, 2001). According to EMIF, 56 per cent of international emigrants came from urban areas, while 42.1 per cent came from rural areas. However, remittances play a larger role in rural Mexican economies than in urban ones. In 1996, 10 per cent of all rural households reported receiving remittances, whereas less than 4 per cent of urban households reported receiving them (El Colegio de la Frontera Norte, 2002).

Like in Mexico, in El Salvador, the states which lose the highest percentages of their populations to migration—Cabañas, Chalatenango, Morazán, San Vicente, Sonsonante and la Unión. Notably, they are the most ecologically deteriorated states, have the lowest standards of living and lack significant infrastructure. In absolute numbers, the urban center of San Salvador sends the largest numbers of migrants abroad, with approximately 22 per cent of Salvadorans in the United States originating in San

Salvador (Garcia, 1998). It is interesting to note that the geographic distribution of the remittance-receiving households in El Salvador and Mexico is similar (see table 6). Thus, rural households in each country make up a significant percentage of all remittance recipients.

**Table 6. Rural-urban distribution of remittance-receiving households, El Salvador and Mexico, 1996**

	<i>El Salvador</i>	<i>Mexico</i>
Urban.....	60.5	54.3
Rural.....	39.5	45.7
Total.....	100.0	100.0

*Sources:* El Colegio de la Frontera Norte. "Problemas y Perspectivas de las Remesas de los Mexicanos y Centroamericanos en Estados Unidos," *Unpublished Manuscript*, El Colegio de la Frontera Norte: Departamento de Estudios Económicos. Mexico: 2002, p. 36; García, Juan José. "Las Tendencias de la Migración en El Salvador," FUSADES-PNUD, 1998, p. 10

Migration and remittances patterns in Nicaragua are also worth noting. Migration from Nicaragua is predominantly to Costa Rica and the United States. In a nationwide study conducted in June 2001, 42 per cent of those living in Managua reported having a relative abroad, compared to 35 per cent in the Pacific region and 29 per cent from North-Central Nicaragua. The majority of those reporting outside Managua had relatives working in Costa Rica, whereas those living in Managua had relatives primarily migrating to the United States (Orozco, 2003).

Receiving households use the vast majority of remittances for daily expenditures and consumption. For example, Mexican households receiving remittances from abroad typically spend over 70 per cent of that money on their daily needs such as food and clothing. Households in Ecuador, El Salvador, Guatemala and Honduras also exhibit similar spending patterns. In surveys conducted in each of these countries, over three-quarters of the population spent their remittances on living expense. (see table 7).

**Table 7. Percentage distribution of remittances by type of expenditure, 2003**

<i>Type of expenditure</i>	<i>Country</i>				
	<i>Ecuador</i>	<i>El Salvador</i>	<i>Guatemala</i>	<i>Honduras</i>	<i>Mexico</i>
Living Expenses <sup>a</sup> .....	60	84	68	77	70
Savings.....	8	4	11	4	7
Business investment.....	8	4	10	4	1
Education.....	2	4	7	10	6
Property Purchase.....	4	1	1	2	1
Others.....	18	2	3	3	3
Unknown.....	1	2	0	0	11
Total.....	100	100	100	100	100

*Source:* IADB-MIF, Survey of remittance recipients in Latin America, 2003. Washington, IADB

<sup>a</sup> including mortgage, rent, food and utilities.

In the rural areas, a portion of remittances are likely to be used to purchase land. A survey in Mexico found that remittance recipients in low density populations (mostly rural areas) typically spent more money on machinery and other equipment than did their counterparts in higher density populations (El Colegio de la Frontera Norte, 2002). This same study of rural Mexican areas concluded that remittances spent on the purchase of such inputs as land, cattle, and other agricultural equipment allowed

rural households to continue these agricultural activities despite no apparent earnings from the agricultural production itself (El Colegio de la Frontera Norte, 2002).

#### D. HOMETOWN ASSOCIATIONS AND RURAL DEVELOPMENT

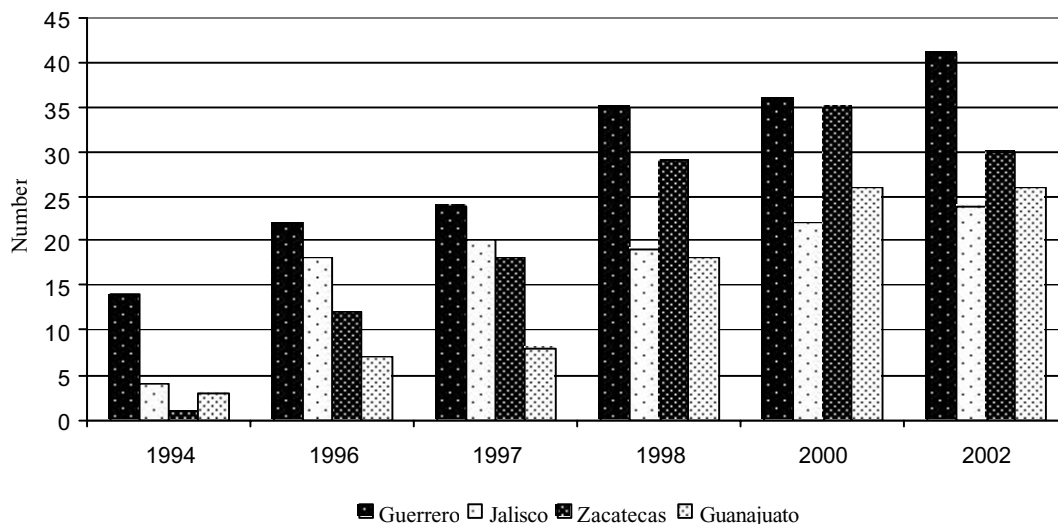
Hometown associations (HTAs) represent another important relationship between the rural sector and immigrants. Created to maintain links with and support communities of origin, HTAs are increasingly taking advantage of the upsurge in migrant remittances and the need for economic aid in their home countries. HTAs have sought to retain cultural ties and improve their home country communities.

HTAs are primarily philanthropic groups whose work sometimes overlaps with economic development. Organizations made up of Dominicans, Guatemalans, Guyanese, Mexicans, Salvadorans and others work to support their hometowns. Figure 6 shows the increase in HTAs based in Chicago over the past eight years.

HTAs vary in level of organizational formality, but most have governing boards of 10 or fewer members that include a president, secretary, treasurer, and auditors. Elections for these positions are held every six to 12 months. This core membership chooses projects and mobilizes more extensive support for fundraising.

Generally, a club member visits the hometown, returns with a list of needs, and proposes three or four projects to the president, who then initiates discussion and calls a vote among active members. The projects reflect a combination of perceived community needs and the preferences of members. HTA members are motivated by a practical desire to improve economic and social conditions in the hometown and hope to prevent future emigration. They engage in a wide range of projects, including the improvement of public infrastructure, health and education, support to the town church or cemetery, and town beautification such as constructing parks.

Figure 6. Number of Mexican hometown associates in Chicago, the United States, 1994-2002



Source: Orozco, Manuel (2002c).

Health and education projects, which generally involve the construction or repair of health centers and school facilities, as well as the donation of materials such as computers, are the most popular type of HTA activity. Such projects attract wide support because they are tangible and assist the town's most vulnerable populations, the elderly and children. Public infrastructure projects are also common and often preferred by town mayors, who equate construction work with progress.

HTAs undergo a learning process, generating new ideas and learning lessons from previous experiences. At the same time, newer HTAs tend to diversify their activities and increase their focus on economic infrastructure and investment. As table 8 shows, older associations continue to focus on more traditional activities dealing with recreation or town beautification, whereas clubs formed after 1995 dedicate resources to a wider variety of projects, from church repairs to public works to health and education.

Infrastructural activities, such as paving roads, electrifying neighborhoods or supporting community areas, can be both philanthropic and developmental. The nature of the contribution depends primarily on the immediate economic needs of a given town, and the support of an HTA may improve the economic health of that community. The experiences in El Salvador and Mexico show that construction in rural areas where there is no basic infrastructure has been important to communities. In many parts of Mexico, for example, infrastructural development precedes any investment strategy, and the donations by hometown associations play a key role.

The majority of Mexican HTAs raise some \$10,000 a year to help their communities, although some groups generate as much as \$100,000 annually. HTAs are conscious of their limited fundraising base and choose activities appropriate to their resources. While small by the standards of the United States, this level of donations nonetheless has a substantial impact in the rural receiving communities. In fact, the majority of HTAs work in rural towns with populations below 1,000 people. These communities have annual per capita incomes below \$400, highly underdeveloped public and financial infrastructures, and lack any type of commercial center. Moreover, at least one-third of households receive remittances, and residents must travel at least 50 kilometers to purchase goods.

**Table 8. Type of activity performed by Mexican hometown associations, according to the year that they were funded (percentage), United States.**

<i>Type of activity</i>	<i>Year</i>				<i>Number of projects</i>
	<i>Before 1984</i>	<i>1985-1989</i>	<i>1990-1994</i>	<i>1995-present</i>	
Health and education.....	35	11	28	30	57
Infrastructure.....	9	11	9	20	30
Church work.....	13	11	9	11	22
Recreation .....	9	11	16	5	18
Ornamentation of town.....	9	11	7	5	13
Economic investment .....	0	11	0	8	10
Cemetery .....	0	11	2	3	6
Others.....	26	22	30	19	47
Total .....	100	100	100	100	116

*Source:* Orozco, Manuel (2003c). Hometown Associations and their Present and Future Partnerships: New Development Opportunities? Washington: Inter-American Dialogue, September 2003.

In the context of these communities, HTA donations are especially important in improving the quality of life. The contributions are even more striking when compared to the municipal budgets for public works. In towns with fewer than 3,000 people, the HTA donation is equal to over 50 per cent of the budget allocated for public works. For localities with populations under 1,000 people, the HTA donation can be up to seven times larger than the public works budget (see table 9). Thus, HTAs work on projects that would otherwise be impossible for these communities to implement.

**Table 9. Amount of donations and its ratio to the budget for public works, according to the population of localities, Mexico, 2002.**

<i>Population of the localities receiving contributions</i>	<i>Average amount of donation (in the U.S. dollars)</i>	<i>Ratio of donation to the budget for public works</i>
Less than 999 .....	8 648	7.1
1 000 to 2 999.....	11 999	0.5
3 000 to 4 999.....	8 397	0.1
5 000 to 9 999.....	9 602	0.1
10 000 to 14 999.....	11 072	0.0
15 000 and over.....	14 589	0.0
Total.....	9 864	3.5

*Source:* Orozco Manuel (2003). *Hometown Associations and their Present and Future Partnerships: New Development Opportunities?* Washington: Inter-American Dialogue, September.

#### E. DEVELOPMENT OPPORTUNITIES: OPTIONS AND BEST PRACTICES

There are certain policy opportunities that link remittances, migration and development. Some initiatives have been pursued in countries like in El Salvador by the Government, private organizations, and international cooperation, as discussed below. This section also presents some best practices in remittance transfers and initiatives.

##### *1. Policy options*

The financial activities of migrants in the form of remittances have a more complex impact than what is generally perceived. It is important to recognize, however, while remittances primarily go to the poor, remittances alone are not a solution to the structural constraints of poverty. In many and perhaps most cases, remittances provide a temporary relief to families' poverty, but seldom provide a permanent avenue into financial security. To achieve this, structural reforms regarding inequality in Latin America as well as specific policies for integration and financial democracy for sending and receiving homes are necessary. Thus, the various relationships that immigrant communities have with their home country demand strategies that have a direct impact on issues relating to reducing transaction costs, leveraging the capital potential of remittances through banking and financing, promoting tourism, nostalgic trade, and investment, and establishing a state policy that attends to a country's diasporas.

*Diaspora Outreach Policy.* An outreach policy aimed at the community residing abroad is key to any migrant-sending country's economic strategy. This should be the first step in addressing the linkages of home country with the immigrant community living abroad.

*Cost Reduction.* The transmission costs of remittance sending—fees incurred through the use of intermediaries—continue to be a significant concern to immigrants, development agencies, and other actors involved in the process. Sending money to home countries entails costs of between 4 and 10 per cent of the funds sent. However, as options for reducing costs—such as the formation of strategic alliances between money transfer companies and banks, and between banks in Latin America and North America, and the use of debit card technologies—permit more direct transfers, money transmissions are becoming less expensive.

*Banking the Unbanked.* Many people in remittance-recipient societies lack access to the formal banking system. For example, in El Salvador, only two in ten have access to bank accounts. The effects of being unbanked include a higher susceptibility to greater transaction costs and the lack of the opportunity to

establish credit records and obtain other benefits from financial institutions. Remittances are an alternative source of funding in the absence of banking systems and provide capital to recipients for different forms of investment, insurance and precautionary savings. Micro-finance institutions and credit unions in remittance-recipient countries demonstrate the potential to respond to this growing demand for financial transactions.

*Investment and Micro-enterprise Incentives.* Studies have shown that, on average, around ten per cent of remittances received are saved and invested, and a percentage of people are in a position to use their money for an enterprising activity. Both private sector and development players can position themselves as credit partners for these potential investors. The effect is the provision of credit, supported by remittances, in local communities that lack the presence of active markets and production networks. Tying remittances to micro-lending has a development potential to enable the enhancement of local markets.

*Hometown Associations as Agents of Development.* The philanthropic activities of hometown associations have a development potential. Some of the infrastructure and economic development work performed by these associations represent an opportunity for development agents to partner in local development. Governments can work with international organizations and hometown associations to jointly figure income generation schemes for their local communities.

*Tourism.* Although a significant percentage of immigrants visit their home countries as tourists, there is still no tourism policy aimed at diasporas. The lack of such policy reflects not only neglect by governments but also a lost opportunity. Governments and the private sector can participate in joint ventures to offer their diasporas tour packages to visit traditional and non-traditional sites to rediscover and discover their home countries. They can also work out investment alliances with diasporas interested in partnering to establish joint ventures relating to tourism.

*Nostalgic Trade.* There is a significant demand for nostalgic goods, and many of the small businesses created by diasporas rely on the importation of such goods. Governments, development agencies and the private sector, particularly local artisan businesses, find a natural opportunity to enhance their productive and marketing skills by locating their products with small ethnic businesses in Northern America, where a demand exists.

## *2. Development Practitioners and lessons learned in remittance transfers*

These policy issues have met some positive experiences resulting from spontaneous developments or systematic initiatives coming from institutions in various parts of the world. What follows is an illustration of experiences in selected countries worldwide. Here the paper looks at initiatives taking place among four major players; Governments, private sector, non-governmental organizations, and international donor agencies (see table 10). The initiatives include efforts related to cost reductions, credit instruments, facilitation of donations by hometown associations, and provision of incentives for migrant capital investment.

**Table 10. Best practices in remittance transfers**

	<i>Organization or programme</i>
I. Government	National Savings and Financial Services Bank (BANSEFI), Mexico Banques Populaires (BP), Morocco State Bank of India (SBI), India Federal Deposit Insurance Corporation (FDIC), United States Social Investment and Local Development Fund (FISDL), El Salvador 3x1 Programme, Mexico Por mi Jalisco Programme, Mexico
II. Private sector	Banco Industrial (BI), Guatemala Banco Salvadoreño (BSal), El Salvador Banco Solidario (BSol), Ecuador
III. NGOs	Oaxaca Bank, Mexico Federation of Salvadorian Savings and Credit Cooperatives (FEDECACES), El Salvador
IV. International donor agencies	Multilateral Investment Fund of the Inter-American Development Bank (MIF) United States Agency for International Development (USAID) Ford Foundation Rockefeller Foundation Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) International Fund for Agricultural Development (IFAD) Inter-American Foundation (IAF)

*a. Initiatives by Government*

*National Savings and Financial Services Bank (BANSEFI), Mexico*

The Banco de Servicios Financieros (BANSEFI), is a programme of the Mexican Government with the mandate to increase the financial products and services available to the Mexican population, particularly those Mexicans with low incomes. BANSEFI created a pool of popular banks, micro-finance institutions and credit unions to act as a remittance distributor. It established arrangements with companies like GiroMex and Dolex and has extended its partnerships to Vigo, MoneyGram, El Camino Transferencias, Via America, and Moneyda. BANSEFI also works with US Bank and has plans to expand agreements to other community and national banks.

BANSEFI offers financial products and tries to give individuals a sense of financial culture. As part of its Partnership for Prosperity programme between the Mexican and U.S. Government, BANSEFI is trying to disseminate information about the costs of remittances from the United States. It is also working with other institutions to teach people about the benefits of using the account-to-account transfer system.

Saving and Credit Institution's (SCIs) are beginning to play an active role in this market. Together with BANSEFI, 69 SCIs have created a commercial alliance called L@Red de la Gente. This alliance has enabled SCIs to participate in the distribution network of remittances through contracts negotiated by BANSEFI. Under this scheme the members of L@Red de la Gente can offer financial services in their communities, mostly low income urban and rural areas where the formal financial system has no coverage and also originate migrants. Once the remittance is paid, member institutions of L@ Red de la Gente

have the incentive to open savings accounts to the migrant and their family, knowing they have an income source. L@ Red de la Gente together with BANSEFI has over 1,000 branches, and will soon grow to more than 1,200 branches as more SCIs are integrated into the alliance.

On the marketing side, the Mexican Foreign Ministry's Institute for Mexicans Living Abroad and BANSEFI invite banks like US Bank, Wells Fargo, Bank of America, HSBC and Citigroup to discuss remittance and other services with hometown association leaders. Individual banks will then follow up with the associations, invite them to the branch, let them observe their Spanish-speaking employees and make them feel comfortable. Word of mouth has been effective in the United States, and proved the best strategy in Mexico. BANSEFI opened an office in the Mexican Consulate in Chicago as a pilot marketing programme. The office distributes information about BANSEFI's remittances and other products.

On average, BANSEFI has opened accounts for 10 per cent of the individuals who come in for remittance services, an improvement from six per cent in October 2003. Much of the success has to do with establishing trust with its clients. While the bank believes the number of account holders will grow, it has also found that individuals still use traditional ways to remittances because they are a proven method that works. The challenge is to find out how to reach Hispanic populations in the United States especially given the lack of market information available. Therefore, BANSEFI's branches are located where people don't hold accounts. For the year that it has been involved in banking the unbanked via remittances, the bank has been successful, though it could be much more aggressive, especially with a larger budget.

#### *Banques Populaires (BP), Morocco*

It is estimated that at least 60 per cent of remittances to Morocco go through Groupe Banques Populaires (BP) (Orozco, 2003). BP is a major state-owned bank which has branches and agents in several European countries. Moroccans in Europe can open joint checking accounts at the local BP branch for themselves and for family members in Morocco. Moroccans living abroad deposits funds that a relative can withdraw at no cost to either party. In addition to checking accounts, BP offers emigrants a number of ways to wire money to Morocco. For example, they can wire money to a BP account, where the account holder in Morocco can withdraw at a fee of 0.1 per cent of the amount transferred, provided it is over \$100. They can also wire money to a person in Morocco, to be picked up at any BP branch for a fixed fee of 90 Moroccan dirhams regardless of the amount wired. BP also provides subsidized credit for real estate and entrepreneurial investments in Morocco. In addition, BP offers a variety of insurance options specifically for migrants, covering everything from repatriation of one's body after death to airplane fare in the case of a family emergency. BP has even created a foundation to meet some of the cultural and educational needs of migrants and their families, establishing, for example, special schools for the children of returning migrants in Tangier and Agadir, and organizing competitions for cultural presentations (Orozco, 2003e).

#### *State Bank of India (SBI), India*

The State Bank of India (SBI) is the largest bank in India with over 9,000 domestic locations and 48 points of service in 28 different countries. The bank offers a variety of ways to send remittances through demand drafts, telegraphic/wire transfers, as well as personal checks and travelers' checks. Demand drafts in the local currency (rupees), are issued at SBI foreign offices/correspondent banks or exchange companies in Bahrain, Oman, Qatar, and the United Arab Emirates. This rupee drawing arrangement is with SBI and the transfer is mailed to the branch of SBI where a particular client's account is maintained. Quicker transfers may be made using wire or telex transfers through SBI offices/correspondent banks having SWIFT/ TT drawing arrangements. SBI also offers products and services for its clients wishing to invest in India from abroad, such as special programmes designed for purchasing property from abroad.

In 1998, the Indian Government announced that in conjunction with SBI, it would allow foreign banks to sell Resurgent India Bonds to non-resident Indians. This scheme aimed to encourage Indians living in the United States and elsewhere to invest in their home country. The SBI has allowed foreign banks to sell the bonds, assuming that they are better located to tap into the Indian diaspora (Orozco, 2003e). The SBI branches in the United States also issues credit cards to the Indian diaspora. These accounts are only open to Indian citizens currently residing outside of India, and they offer incentives to expatriates to keep their money in the Indian banking system. The non-resident Indian accounts offer higher interest rates than normal bank accounts, as well as, tax exemptions on portions of interest earned. They can be denominated in foreign currency and non-resident Indian account holders can designate beneficiaries within India who may be permitted to have access to this account (Orozco, 2003e).

*Federal Deposit Insurance Corporation (FDIC), United States*

The FDIC and the Consulate General of Mexico launched the New Alliance Task Force (NATF) in May 2003. The initiative is comprised of a coalition of over 30 banks, 25 community-based organizations, and government agencies all striving to provide immigrants in the United States with necessary financial education and support services to access the U.S. banking system. The NATF is made up of four working groups: Financial Education, Mortgage Products, Bank Products and Services, and Social Projects.

Prior to the launch, of NATF the Mexican Consulate had been promoting how the *Matricula Consular* could be used to promote banking services. This coincided with the FDIC's conclusion that immigrants' primary challenge to entering the banking system is obtaining the proper form of identification. The FDIC began presenting the *Matricula* as an alternative and engaged in a two-year educational process with banks. Currently, 118 banks nationwide accept both the *Matricula* and the individual taxpayer identification number as alternative forms of identification to open bank accounts. Eighty-six of such banks are located in the Midwest of the United States. Over 20 banks in the Midwest offer bank products with remittance features.

The NATF holds quarterly meetings in Chicago to take an inventory of who is doing what, share best practices, and report on new laws. Each of the working groups meets regularly. The Financial Education Working Group employs the FDIC's *Money Smart* financial curriculum to help adults outside the financial mainstream improve their money skills and create positive banking relationships. The programme is offered in Spanish and three other languages. Future classes will be held on topics such as home-buyer information, predatory lending, taxpayer education, and use of alternative forms of identification, among others. Eighteen organizations including banks and non-profit organizations would be involved. Banks, such as Bank of America, have donated ATMs for in-class simulation purposes.

The Mortgage Products Working Group helps banks develop loan programs for immigrants that can be held in the bank's portfolio, as well as be sold on the secondary market. The Task Force has created a model loan product called the New Alliance Model Loan Product (NAMLP). It is intended for use by potential homeowners who pay taxes using an individual taxpayer identification number. The NAMLP is based on developed unconventional mortgage programs to help immigrants qualify for existing home loan programmes.

One of the highlights of the Bank Product and Services Working Group was the conference held at the Mexican Consulate in Chicago in December 2003. Thirty national, regional and community banks gathered for a showcasing of current and future remittance products. Bank of America, North Shore Bank, Mitchell Bank and Fifth Third Bank featured their four different remittance products with four different features. These programs demonstrated that such products are needed by the community as well as are a means to involve the "unbanked." The business case for banking the "unbanked" has been successful and there is real interest in the economics of the issue. The Task Force has also been successful in receiving input from community organizations. While the profits do not necessarily come from accounts

for remittance senders, banks are looking to the long term. They want clients to enter the system and then cross over into other products like credit cards, auto loans, small business loans, etc., where the profits lie. There is a tremendous loyalty in the immigrant market, once you get individuals into the system, they are unlikely to leave and that they usually bring in another 10-15 people.

In its December 10, 2003 press release the Mexican Consulate highlighted the promising preliminary results of NATF. So far, more than \$100 million in deposits have been invested in financial institutions that accept the Mexican *Matricula*. Official reports from over 30 banks that operate in the Midwest indicate that over 50,000 new bank accounts had been opened in the Midwest by December 2003 by formerly “unbanked” customers, with an average balance of \$2000. The Task Force estimates that new accounts represent over \$100 million in deposits. As of December 2003, over 35,000 immigrants in the Midwest have participated in education classes or workshops using the FDIC’s Smart Money curriculum and similar financial education programs. In the 2002 tax filing season, almost 7,500 immigrant working families were served in Chicago-area free tax preparation sites, with EITC refunds of \$9.3 million, saving immigrants \$750,000 in preparation fees. The FDIC/Mexican government is considering expanding the program and is forming working groups in Chicago, Los Angeles and Austin. Similar task forces are also being formed in Iowa and Atlanta.

#### *Social Investment and Local Development Fund (FISDL), El Salvador*

The Government of El Salvador has worked closely in forging partnerships with hometown associations (HTAs) to work on a range of development projects in rural areas. One important example is the initiative managed by the Social Investment and Local Development Fund (FISDL) of the Government. To take advantage of the success that Salvadoran hometown associations have had in the design and implementation of projects, the FISDL developed a programme where associations abroad compete for matching funds from the national Government to complete development projects. The programme known as “Unidos por la Solidaridad” is designed to work with Salvadoran organizations raising funds to support their hometowns. Through this programme, hometown associations submit applications describing the project and funds required and FISDL reviews it for feasibility and responsiveness to community needs.

As of 2004, there were 14 contests for FISDL matching funds involving more than 40 projects to which hometown associations have contributed \$2.1 million. FISDL has maintains a liaison approach through the programme “Conoce tu municipio” which provides information to hometown associations about the status of their hometown, as well as the projects FISDL has undertaken in individual towns.

Of the 45 projects, 17 deal with infrastructure, 14 on recreation and 6 on health. The Cuscatlan-origin hometown associations (SALA, L.A. and Asociación Adentro Cojutepeque) have sponsored two projects with FISDL. In Cojutepeque they worked to remodel and furnish a recreation area for the town. In Suchitoto, Cuscatlan, SALA worked with the FISDL to repair and install streetlights on an access road to the Port of San Juan.

#### *The 3x1 Programme, Mexico*

One way that hometown associations have been able to magnify the impact of their donations is through matching grant programs with the Mexican Government. Since 2002, hometown associations have participated in a programme called *Iniciativa Ciudadana 3x1*, in which every dollar donated by a club is matched by one each from the local, state, and federal Government. This federal programme was preceded by informal partnerships as well as formal initiatives, such as the 2x1 Programme, in various states. States with high rates of emigration and well-organized migrant communities in the United States, including Guanajuato, Jalisco, Michoacán, and Zacatecas, are the most active in the 3x1 programme. Together, they represent over two-thirds of the amount allotted on a national level.

The 3x1 Programme has increased hometown associations contact with government officials, especially on the local level. Relationships with mayors are particularly important, as the local government often contributes to projects not just financially, but also with labour and donations in kind. Construction projects in particular provide much-needed jobs to local residents.

The timeline of a project and continuity of work are critical to development. Most hometown associations have worked for ten consecutive years implementing a range of projects. Every year, they spend at least six months developing and carrying out a given project. The lifespan of an organization provides an important clue as to how long it can provide support to a given project. Knowing the amount of time it takes to get a project going sets a calendar for activities.

When an association participates in the 3x1 Programme, it establishes a committee in the hometown to oversee the disbursement of funds and the overall project implementation. Hometown associations working outside the 3x1 Programme often establish links with individuals including relatives and local leaders such as priests, to serve as the association's liaison in the hometown. Generally, the local contact person acts as a manager and foreman of the project, providing information about budgets and schedule of work. Hometown associations do not usually have a hands-on role until the very end of a project, when they are present to offer a quality assessment.

By virtue of their close contact with government officials as well as their close oversight of projects, local representatives of hometown associations play an important role in promoting civic participation. Nearly 80 per cent of hometown associations have interacted with municipal government authorities. These local liaisons also enhance transparency by monitoring the disbursement of funds and holding local government officials accountable for timely completion of projects. In addition, hometown associations have established relationships with other local groups, such as firefighters, teachers, and doctors, in individual projects. While outside of a formal partnership like 3x1, these links are important in maintaining close contact with the town.

While the aggregate amount donated by hometown associations is difficult to determine, the Mexican Federal Government invested \$15 million in 2002 to match with associations in the 3x1 Programme. Approximately 50 per cent of hometown associations participate in this programme, and those who do not participate donate similar amounts. Therefore, at a minimum, Mexican hometown associations donate \$30 million a year. Furthermore, because the number of hometown associations registered with the consulates is only a snapshot of the total in existence, it is likely that the overall amount donated is much higher. In addition, there are 2x1 schemes in different states that operate independently and remain outside the amounts allocated by 3x1 Programme.

#### *Por mi Jalisco Programme, Mexico*

In addition to facilitating remittance transfers and donations, players in the market are working in finding ways to attract migrant capital investment. State offices in Mexico are conduits that transmit message to migrants and hometown associations about investment opportunities in their communities and regions. One illustration of such project took place in Jalisco. The state of Jalisco has an investment promotion programme, *Por mi Jalisco*, that involves support in investment feasibility studies, as well as grants and credits to migrants interested in investing in their communities of origin. The state office has advertised the programme through the Jalisco hometown associations in the United States. As a result, there have been at least ten investment schemes in which hometown association leaders played the role of advertisers for the state about the investment opportunities that existed in Jalisco and members of the association decided to participate in the investment. The success of the investment has depended on the entrepreneurial skills of the investors as well as on current economic conditions. However, the programme has been successful in locating resources and partners.

*b. Initiatives by Private sector*

*Banco Industrial (BI), Guatemala*

In late 2002, Banco Industrial (BI) established an alliance with King Express, a U.S.-based courier and money order company. BI acts as a complement to the services, offering value-added services. Through the alliance, remitters can go to King Express to buy a money order, which will be immediately paid out to beneficiaries in Guatemala by presenting the money order and a form of identification. The alliance with King Express for remittances has been very successful; 90,000 affiliates use remittance services.

BI promotes the service by marketing the immediacy of the money order retrieval, the fact that an account with the bank is not a requirement and that it offers a better market exchange rate. Marketing strategies include direct mail, open advertising, raffles on occasions such as Christmas and Mother's Day, and participation in events in the communities where it has branches. King Express is responsible for marketing on the United States side, where it utilizes its large database for direct mail marketing. King Express also has a close relationship with the community, participating in many social events at restaurants and clubs frequented by Latin Americans. It also puts on promotions at Guatemalan fraternities in cities with large populations like Chicago, Miami, New York and various areas of California.

When clients enter the bank to use remittance services, the bank offers its other services. The bank tends not to bombard clients with many products at once, but rather take a little-by-little approach. Savings accounts are usually the first product clients select. The bank teaches the client about how to manage the account and about the finance institution. BI offers special conditions for opening accounts through promotional or gift items, or the chance to participate in a raffle for prizes like home appliances, for example. BI has had satisfactory results in turning remitters into bank clients, although it still has a long way to go. Thirty to 40 per cent of 500,000 bank clients who use remittance services hold a bank account. Advertising remittance services, rather than other financial services, has proved a much more successful way to attract clients.

*Banco Salvadoreño (BSal), El Salvador*

Banco Salvadoreño (BSal) offers two remittance products, one through its affiliate in the United States, BancoSal Inc. and one through a new relationship with King Express. Through its *Salvadoreño Emprendedor* programme, established in July 2003, beneficiaries open a savings account for funds sent directly from accounts opened at any of BancoSal Inc.'s six agencies in the United States located in California, Houston and Las Vegas. Using their VISA Electron debit card, recipients in El Salvador can access funds any time through ATMs and pays bills over the Internet, telephone or at kiosks. The second product, initiated in October 2003, is through an alliance with King Express. The US-based King Express client sends money orders to the designated recipient who can immediately cash it at a BSal's window. The bank is also the biggest paying agent of Western Union in El Salvador.

To market remittances, the bank uses radio spots, print media and will eventually use television. It also participates in Salvadoran community events, where it distributes brochures and other promotional materials. In El Salvador, the bank utilizes highway billboards, radio and print media. The bank has a 12 per cent share of El Salvador's remittance market. Seventeen thousand remittance beneficiaries hold BSal's accounts.

*Banco Solidario (BSol), Ecuador*

Banco Solidario (BSol) began its remittance service under the premise that it wanted to develop a model to bank a traditionally unbanked sector and give migrants access to all bank services in Spain,

Ecuador and soon in Italy. Current efforts focus on alliances with six popular banks (cajas) in Spain and one commercial bank. BSol began working with its first bank, Caja Murcia, in the beginning of 2003 and located in an area of high Ecuadorean concentration. In Spring 2003, it started more formal operations with Caixa and Caja Madrid, later reaching agreements with BanCaja, Caja de Monte y Sevilla, Caixa Catalunya and Banco de Valencia. The transfer costs € 6-9 on average for clients and non-clients.

BSol focuses marketing on its distribution channels, although it also utilizes radio and television advertisement focusing on price and service. Its alliances with popular banks allow clients to access 9,000 outlets to send money, which has proved the most effective marketing strategy. BSol has also created a network in Ecuador with 110 places to receive remittances. Word of mouth is also common there. BSol's main strategy has been to transnationalize its clientele with financial products designed for both remittance senders and recipients. In Ecuador, the goal is to attract relatives and create incentives for them to use the bank's services. As part of its Enlace Andina, BSol created a special account called "My Family, My Country, My Return," which offers clients bundled savings options. Since its launch in 2002, the, nearly 5000 "My Family, My Country, My Return" accounts have been created, representing \$3.5 million in consolidated savings. The bank estimates that after one year in operations it holds between five and eight per cent market share.

In Ecuador, the bank uses remittances to draw clients to other products. The customer making a transfer is given preferential treatment with the mindset that the bank wants to establish a long-term relationship. They most frequently use credit lines, housing and home buying credits, savings accounts and insurance. Two hundred and fifty-three remittance recipients have bought homes through credit and 1,460 individuals have opened savings accounts. BSol's other banking products include the Chauchera smart card that allows clients to make transactions using the network used by pre-established providers. The product is for all clients but is commercially sold as a value-added for emigrants. The bank also offers small credit loans for urgent needs.

#### *Federation of Salvadorian Savings and Credit Cooperatives (FEDECACES), El Salvador*

Savings and credit cooperatives have more initiatives and outreach to remittance senders and recipients than typical commercial banks. In 1994, the Federation of Salvadoran Savings and Credit Cooperatives (FEDECACES) initiated the IRnet system, which provides international wire transfers among credit unions, in alliance with the World Council of Credit Unions. This initiative originally faced limitations due to lack of resources. In particular, it required developing computer software that would allow for a more efficient money transfer system that could operate throughout their branches and member institutions. However, with the support of the Inter-American Development Bank, the programme has been able to attract clients into its money transfer system that encompasses 26 points of service in El Salvador, in addition to its central offices and the participation of 18 cooperatives.

FEDECACES' relationship with other financial institutions underscores the advantages of enabling environments that facilitate flows, customer empowerment, and related economic and social benefits. Originally, FEDECACES would only transfer remittances from a credit union based in the United States. In order to expand its service in the United States, it then arranged to send money through three money transfer companies—Vigo International, Rapid Money, and Viamericas—which all charge lower prices than their business competitors. FEDECACES' remittance service tripled since then and expanded its activities to include the money transfer companies. Because of its new expanded reach, remittance transactions in the last three years have grown significantly and it represents five per cent of market share (see table 11).

**Table 11. Amount of remittances transferred by FEDECACES**

<i>Year</i>	<i>Amount (in the US 1,000 dollars)</i>
1997.....	85
1998.....	57
1999.....	89
2000.....	175
2001.....	1 203
2002.....	22 023
2003.....	60 000
2004.....	88 000

*Source:* FEDECACES officials' interview, January 2004 & 2005

The role that FEDECACES plays is important, because it is an alternative savings and credit institution with a commitment to work with low income households as well as to operate in rural areas. This latter point is very important considering that 40 per cent of remittances go to rural areas where the existence of commercial banks is very limited, especially outside the main cities. Institutions like FEDECACES and other microfinance operations have offices and branches in many areas neglected by the larger banks.

*c. Initiatives By Non-Governmental Organizations*

*Oaxaca Bank (Mexico)*

In Mexico, one successful microbank, Xuu Ñuu Ndavi (Money of the Poor People), operates in the Mixteca region in Oaxaca. Many residents in this indigenous town have relatives living abroad and remitting money to home. Of the \$170,000 received in remittances after the first year of operation, the microbank's 168 members, including 83 women, accumulated \$160,000 in savings. The experience of this bank demonstrated that remittance-receiving households have a propensity to save, and to do so in financial institutions. Key to the success of this and similar microbanks is their level of trust with the local population.

*d. Initiatives By Donor Agencies And Foundations*

*The Multilateral Investment Fund (MIF) of the Inter-American Development Bank*

One of the pioneering institutions in addressing the link between remittances and development has been the Multilateral Investment Fund (MIF) of the Inter-American Development Bank. The MIF has addressed the issue from a research, advocacy and operational perspective. Since 1999, the MIF has engaged in a series of discussions and studies about the impact of remittances in Latin America and the problem posed by high transaction costs. As its research and public discussion ensued, the Fund moved one step forward by taking the initiative to fund projects aimed at modernizing a financial infrastructure that could allow money transfers at lower cost, while addressing the financial needs of unbanked remittance receiving households.

To that effect the MIF has funded over 20 million dollars in projects in seven countries in Latin America (Brazil, Colombia, Dominican Republic, Ecuador, El Salvador, Mexico, Nicaragua), many of which go to microfinance institutions or alternative savings and credit institutions. Table 12 identifies some of the known projects.

**Table 12. Projects funded by the Multilateral Investment Fund, 2001-2004**

<i>Project</i>	<i>Country</i>	<i>Amount</i> <i>(in 1,000 U.S. dollars)</i>
Expansion and strengthening of a microfinance institution FIE	Argentina	2 396
Remittance Fund for Entrepreneurs .....	Brazil	5 000
Mobilization of remittances through microfinance institutions.....	Colombia	825
Distribution Channels for Remittances .....	Dominican Republic	2 500
Financial and business services for remittance recipients .....	Dominican Republic	840
Support Micro-Enterprises Utilizing a Line of Credit .....	Ecuador	2 200
Strengthening of Financial Services and Remittances .....	El Salvador	1 500
Capitalization of Remittances for Local Economic Development.....	Mexico	1 115
Strengthening Savings and Credit Unions .....	Mexico	3 500
Investment of Remittances.....	Mexico	460
Investment in Financiera Nicaraguense de Desarrollo .....	Nicaragua	1 750
Support for returning entrepreneurs	Peru	500
Enhance dev. impact of Peruvian workers' remittances from JP	Peru	7 200
Financing for micro and SMEs thru formal financial intermediaries	Regional	8 200
MIF-IFAD partnership facility for rural private sector dev-LAC.....	Regional	4 000
Total.....		40 986

*Source:* Inter-American Development Bank, Multilateral Investment Fund, Project Database, Online.

Some of the success cases identified earlier in this report, such as that of BANSEFI in Mexico, FEDECACES in El Salvador, and Banco Solidario in Ecuador, have been related to projects funded by the MIF in those institutions. The end result has been an accumulated knowledge of activities and issues linked to operations currently underway.

More recently, the Fund has decided to engage in partnerships with other donors and institutions. For example, it now has an alliance with the International Fund for Agricultural Development (IFAD) of the United Nations. In April 2004, the two institutions announced the creation of a 7.6 million dollar fund aimed at funding remittance related projects that addressed microfinance and investment. Under this agreement, to which MIF provided \$4 million local counterpart organizations, such as microfinance institutions and credit unions, are expected to commit \$1.6 million to the projects they propose (IADB-MIF 2004).

#### *The United States Agency for International Development (USAID)*

The United States Agency for International Development (USAID) has followed the issue of remittances in the past four years, considering it as an area of attention within its programmatic plans. Some missions have decided to participate in some projects linking with micro-finance, banking and hometown associations. The following section highlights USAID's work in Mexico, El Salvador, and Jamaica as well as the work of Global Development Alliance, a recently created unit within the agency.

In Mexico, the Latin American regional office of USAID began a pilot programme on remittances. Their efforts pertaining to financial activity deal with expanding the financial services accessible to recipients of personal remittances. For example, in September 2002, USAID gave a \$500,000 grant to the World Council of Credit Unions, Inc. (WOCCU) to help Caja Popular Mexicana connect to WOCCU's remittance services and market related services to recipients. In September 2002 USAID granted

\$166,000 to Acción Internacional for their research examining the links between microfinance and remittances in order to gauge the interest of microfinance institutions in becoming involved in the service.

USAID has planned future projects that will include partnerships with microfinance organizations, cooperatives and banks in order to extend banking services to the low-income sectors in the countries and communities where the agency is engaged. The agency will provide \$900,000 annually from 2004 to 2008 aimed at improving financial services to low income remittance senders and receivers. While USAID's projects related to remittances are still in the early phases and the results from development projects are not yet available, preliminary indications appear promising. The programme linking WOCCU to Caja Popular Mexicana processed \$9 million in transactions from its launch in August to December 2003.

In El Salvador, USAID's Education Program recently launched a pilot initiative with remittances called the *Alcance* project. The programme to date has focused on basic education in the poorest rural communities. The new initiative is targeted at children who cannot benefit from USAID's quality-based programs because they do not attend school. The premise of the programme is to attract donations from El Salvadoran hometown associations in the United States to give the poorest children scholarships to cover their basic needs so they can complete the sixth grade. USAID plans to create a sustainable mechanism within the Salvadoran Ministry of Education, through partnerships with the Pan-American Development Foundation and World Vision El Salvador to receive the donations from hometown associations and channel them into scholarships. To date, World Vision has distributed 1000 "scholar packages" to low-income children at 25 different primary schools throughout El Salvador and hopes to reach a total of 40 schools with 2000 packets by June 2005.

In Jamaica, USAID is working on a number of economic issues with a particular focus on improving the business environment. One aspect of this effort focuses on access to financing through microenterprise and remittance programs. In November 2003, USAID entered into an agreement with the Jamaica National Building Society (JNBS), one of the country's remittance companies. Through the programme with JNBS, they will introduce smart card technology to reduce the cost of money transfers and create greater accessibility to funds. JNBS will leverage the savings created from the implementation of the smart card into development work.

Global Development Alliance (GDA) is the section of USAID dedicated to forging public-private alliances with Governments, businesses and civil society. Over the past years, GDA has become involved in the area by partnering with the Foundation for International Community (FINCA) and Hewlett Packard separately to develop new technology, such as debit cards, to lower transaction costs of remittances. GDA's primary foci are: (a) increasing market driven alternatives to large wire transfer companies such as Western Union and Money Gram; (b) strengthening the capacity building of hometown associations and broker groups; and (c) developing alternate technology to reduce transaction costs of remittances.

#### *Ford Foundation*

The Ford Foundation has a number of different programs, many of which focus on microfinance and access to financial services for poor people. The foundation began making grants to broader projects dealing with remittances in 2002. The foundation's focus is on family and individual remittances, rather than collective remittances. It is interested in programs that allow individuals to build financial assets and let financial institutions become intermediaries in rural communities.

The foundation has worked with microfinance networks at the regional, Mexican and Central American level. For example, the foundation made a grant to the Interdisciplinary Group on Women, Work and Poverty to provide fellowships at Mexican universities and to research how poor women use remittance to improve their livelihoods and welfare of their families. Other grants for remittance research have been made to the Instituto Tecnológico de Oaxaca (ITO) and the Autonomous University of

Zacatecas. Ford has also supported the Red de Migración y Desarrollo, which has launched an online academic journal. It is supporting the FLACSO institutions in Guatemala, El Salvador and Costa Rica to design a common programme to reinforce each other's efforts and take on a more regional effort with regard to remittances.

The Ford Foundation's future plans will focus on the relationship between remittances and microfinance institutions. The foundation is interested in promoting efforts that will shed light on how microfinance institutions can effectively deal with remittance flows. One particular area of concern for the Foundation is to examine how remittance activity will relate both technically and legally with unregulated microfinance institutions.

#### *Rockefeller Foundation*

The Rockefeller Foundation became involved in the field of remittances in an exploratory way in 2003; it began making grants for projects beginning in 2004. In 2003, the foundation spent approximately \$650,000 on remittance related programs. In 2004, it substantially increased funding to \$3 million to support a larger inter-disciplinary initiative called North American Transnational Communities. Its overall goal is to enhance the livelihood of families who live transnationally and are pursuing economic activities on both sides of the border.

The foundation has made research grants to the Inter-American Dialogue to study the impact of remittances on development. The foundation has supported El Rescate in Los Angeles through funding research for case studies of productive projects financed by hometown associations in El Salvador, and capacity building in Los Angeles' transnational community.

In Mexico, the Rockefeller Foundation is going to focus on the three Mexican states of Puebla, Zacatecas and Oaxaca. It will also look at cities in the United States and the civic structures that support the migrants in Chicago, Los Angeles and New York. The foundation is going to fund a model of transnational investment links that brings together stakeholders from Los Angeles, the Zacatecas Federation and member hometown associations, the University of Zacatecas, local NGOs, and community representatives in Zacatecas for joint planning, problem identification, project oversight and evaluation. So far, seven potential pilot projects – ranging from food processing, manufacturing and small-scale agriculture – have been identified. Additionally, the foundation has given basic support for the Zacatecas Federation to increase the effectiveness of its philanthropy efforts.

#### *The Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)*

The Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) is an international cooperation enterprise for sustainable development with worldwide operations. Its aim is to improve the living conditions and perspectives of people in developing and countries with economies in transition. In the GTZ framework, remittances fall into programs for strengthening the economy and employment.

In El Salvador, GTZ has worked for over 20 years and began remittance-focused initiatives in 2002. Its counterpart in El Salvador is the Ministry of Economy. It also has working relationships with the El Salvadoran Ministries of Labor and Agriculture. GTZ also partners with national worker unions, the National Chamber of Commerce, and at the local level, 15 mayors in the province of La Paz, cooperatives and business associations. Remittance work related to the development of the local economy has specifically focused on the province of La Paz, El Salvador. GTZ is working on establishing a microcredit fund, seeking to channel the remittances in the region as well as trying to design a regional policy for it to grow.

In Guatemala, GTZ has been working as a public company of the German Government for over 30 years. GTZ's main beneficiary organizations are commercial banks, unregulated microfinance institutions, savings and credit cooperatives, immigrant and neighbor associations and municipal mayor's

offices. Other regional and local partners include financial NGO and “OPDs”, Guatemalan immigrant associations and neighbor councils, “Grupos Gestores locales,” and the Comité de Cooperantes Internacionales en Microfinanzas de Guatemala (CCIMF). GTZ’s aim to use remittances to bring quality integral financial services, not just credit, to rural and neglected populations. The idea is to connect remittances and financial services to local economic development. GTZ’s efforts resulted in the establishment of the Alternative Remittances Network initiative. This network operates through a pilot programme in the region with FOLADE, a network of financial NGOs, banks and cooperatives.

#### *International Fund for Agricultural Development (IFAD)*

Another case where institutional relationships and partnerships have occurred with Government involvement refers to the participation of the International Fund for Agricultural Development (IFAD) of the United Nations in co-financing development projects with homeland associations. IFAD has a widespread rural project network in Latin America and the Caribbean region, and has been working on projects concerning the relationship between rural development and remittances in El Salvador.

IFAD has been working to determine the role of remittances, especially as untapped capital, coming from the United States to Latin America. IFAD has been working, with the World Bank with Salvadoran hometown associations in the United States to sensitize them on the conditions of rural Salvadoran communities and identifying potential cooperative projects, pooling resources of hometown association and IFAD. IFAD worked with hometown association in Los Angeles, to privately construct a local high school. Besides providing 53per cent of the funding, IFAD offered technical assistance and help obtaining the support of the Ministry of Education for the project.

What IFAD has done is to incorporate hometown association initiatives in the programme which in turn encourages migrants and migrant associations to invest in income-generating projects in their home countries. By matching migrant funds, IFAD has provided technical and financial assistance for projects in targeted Salvadoran communities.

#### *Inter-American Foundation (IAF)*

The Inter-American Foundation (IAF), like the IADB, approached the subject of remittances in the late 1990s upon the realization that many of the grantees and their beneficiaries received remittances and often financed their investment with the money received from relatives. The year 2003 marked the first formal and systematized effort on the part of IAF to focus on transnational community development issues. IAF organized roundtable discussions in several cities in the United States and staff participated in regional and national level conferences of hometown associations or similar organizations formed to assist their communities of origin. The roundtables, co-sponsored with U.S. private foundations and universities, brought together representatives from more than 30 hometown associations and 11 foundations, local governments and academic centers, to share information about transnational activities. IAF joined Hispanics in Philanthropy (HIP), and serves on the HIP Transnational Committee. IAF also initiated six case studies on non-financial “remittances” in Dominican Republic, El Salvador, and Mexico.

IAF has used grants to co-fund community development projects in partnership with diaspora organizations in the United States. Projects include work with the Fundación para la Productividad en el Campo, A.C., (APOYO), a Mexican non-governmental organization that will use remittances from U.S.-based Mexican migrants participating in hometown associations to help capitalize a revolving loan fund for low-income farmers in the migrants’ home states. IAF’s other projects will include work with the Fundación de Apoyo Infantil Guanajuato to increase the long-term economic benefits of remittances in 63 rural communities in northeast Guanajuato, Mexico, and Fondasyon Enstityson-yo pou Devlopman ki Sòti nan Baz-la (FIDEB), a Haitian association of community development organizations.

IAF will also work with Fundación Centroamericana para el Desarrollo Humano Sostenible (FUCAD) on a three-year project to enable communities in El Salvador and their hometown association partner organizations in the United States to launch economic development projects in six communities in El Salvador. Partners include the Salvadoran Government's social investment fund and El Rescate and the University of California at Los Angeles (UCLA). A project with the Centro de Recursos Centro Americanos (CARECEN International, El Salvador) will enable 20 communities in El Salvador and their corresponding hometown associations in the United States to initiate grassroots development projects in collaboration with the respective municipal Governments. The project will be carried out in partnership with Fundación Nacional para el Desarrollo (FUNDE).

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