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THE ROLE OF REMITTANCES IN LEVERAGING SUSTAINABLE DEVELOPMENT IN LATIN AMERICA AND THE CARIBBEAN

HEARING

BEFORE THE

SUBCOMMITTEE ON
DOMESTIC AND INTERNATIONAL
MONETARY POLICY, TRADE, AND TECHNOLOGY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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THE ROLE OF REMITTANCES IN LEVERAGING SUSTAINABLE DEVELOPMENT IN LATIN AMERICA AND THE CARIBBEAN

Wednesday, March 7, 2007

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC AND
INTERNATIONAL MONETARY POLICY,
TRADE, AND TECHNOLOGY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:15 p.m., in room 2128, Rayburn House Office Building, Hon. Luis Gutierrez [chairman of the subcommittee] presiding.

Present: Representatives Gutierrez, Maloney, Moore, Clay, Hinojosa; Paul, Jones, and Roskam.

Chairman GUTIERREZ. Good afternoon. The Subcommittee on Domestic and International Monetary Policy, Trade, and Technology of the Committee on Financial Services will come to order.

Today's hearing is entitled, "The Role of Remittances in Leveraging Sustainable Development in Latin America and the Caribbean." In this hearing, the subcommittee will examine the increasing sums of remittances flowing into Latin America and the Caribbean from the United States and around the world, and explore how these remittances can be leveraged by individuals, communities, banks, credit unions, international institutions, government, and NGO's, and used for long-term development opportunities in the region.

Per the committee rules, we have agreed to limit opening statements to 5 minutes per side, but with no objection, all members may submit written statements for the record. We are expecting Floor votes around 3 p.m., at which time we will probably have to take a short recess, so I want to move as quickly as possible to our witness testimony.

And with that, I now recognize myself for 5 minutes for an opening statement.

This hearing has been a long time coming. It is the first hearing on the issue of remittances in the House Financial Services Committee since 2003. Since then, remittances in Latin America have increased from $38 billion to a staggering $60 billion. And this is the first hearing, that I am aware of, to focus solely on the issue of remittances for sustainable development. I believe the focus of this hearing is appropriate, because of the sheer volume of remit-

tances flowing to Latin America and the Caribbean, especially when compared to official aid and direct investment.

This will be the first in a series of hearings on remittances. This spring, our subcommittee will hold another hearing to focus on the sending side of remittances, and the regulatory issues that are associated with the process.

But today our distinguished panel is here to discuss the use of remittances by recipients for developmental purposes. As I said, remittances sent to Latin America and the Caribbean from all parts of the world were estimated to be at more than $60 billion in 2006. This amount surpasses both the official development assistance and foreign direct investment to the region.

Seventy-five percent of forty-five billion of the remittances sent to these regions originated in the United States. Total remittances now represent 5 times the amount of official development assistance to Latin America and the Caribbean.

The timing and importance of this hearing is punctuated by President Bush's imminent 6-day trip to Latin America. Coinciding with this trip, the President is calling for increased trade with the region and a promise of more aid. Earlier this week, he stated that since he took office, the President of the United States has doubled the amount of assistance to Latin America to a total of $1.6 billion last year—$1.6 billion versus $45 billion—which is more likely to spur sustainable development.

The reality is that we are behind the curve when it comes to leveraging remittances for sustainable economic development, and I believe that the remittances issue should be part of the dialogue when it comes to trade issues and development in Latin America and the Caribbean.

The majority of remittances are sent to improve the economic well-being of households in the recipient nation. Studies suggest that about 80 percent of remittances are used to pay for everyday needs of the recipients. That still leaves as much as 20 percent of savings—20 percent savings and investment. For Latin America in 2006, 20 percent represents $20 billion—still far more than the total official aid to the region.

The challenge that remains is how to leverage remittances sent to Latin America and the Caribbean in a way that will help develop the economies of the recipient nations.

We have a top-notch panel, which I will be introducing shortly, and I look forward to a vibrant discussion. But before I close, I would like to talk a little bit about the tradition of remittances. There is a long history and tradition of sending money to friends and loved ones in other countries, a tradition that is not unique to the United States. Migrant workers contributed heavily to their home country's GDP in Spain, Italy, and Ireland as early as the 19th century.

In 1901, Italy was the first country in the world to enact a law to protect remittances, and in 1960, Spain was the first country to sign an international treaty to lower the cost of remittances received.

The debates on this issue are also not new. My staff found a book published in 1856 that dedicated an entire chapter to objecting to remittances. At which group was the author's anger directed? The

Irish; it seems that the hard-working Irish living in America sent $8 million in remittances back to Ireland in 1854. At this point, I recognize the ranking member, Dr. Paul, for his opening statement.

Dr. PAUL. Thank you, Mr. Chairman. As you pointed out, this is an issue that has been around for a long time, but it has come to the forefront more recently, because there is a lot of concern about immigration, and whether our immigrants are legal or illegal.

I believe that when markets are free, and immigrants are legal, this is a non-issue. It's an economic transaction that is done voluntarily, and it should benefit everybody concerned. Today, conditions are a little bit different, and people are more concerned about the illegality of some of our immigrants.

There is an incentive for illegal immigrants—or immigrants—to bring their families to this country if they are not able to receive a remittance. In many ways, if people are concerned about illegal immigration, they really ought to encourage remittances, instead of encouraging the immigrants to bring their families in.

Just as other incentives encourage families to come in, if they are guaranteed amnesty or guaranteed welfare benefits, it makes it much easier to say, "Bring the families along," rather than saying, "Somebody is here legally and working, they should be permitted to send their money to whomever or to wherever they want."

The other concern I have for those who do worry about this—and I think rightfully so—is the idea that once you start to regulate, or put on controls, you can't do it on just those you don't want to participate. You have to put the regulations on everybody. It's sort of like gun control. And as a conservative, we want to control illegal use of guns, we don't want to take away the legal use of guns.

But if we want to control certain individuals from sending remittances to some countries, we really have to regulate everybody, and everybody has to be regulated, and everybody has to make these reports. So, in an effort for those to tinker with these laws and make changes, I think I would urge caution that we never take away the freedom of choice and the freedoms that all Americans enjoy, and that we shouldn't tamper with.

With that, Mr. Chairman, I yield back my time.

Chairman GUTIERREZ. Thank you, Dr. Ron Paul, for your very insightful comments. I would like now, if the staff could please lower the screen?

I am going to introduce the witnesses, while they take care of the technical issues. We have an excellent panel of witnesses today, all of whom are experts in the areas of remittances, or microfinance.

Our first witness is Mr. Sergio Bendixen, president of Bendixen & Associates, and a widely recognized Hispanic public opinion researcher.

Our second witness is Dr. Manuel Orozco of the remittances and development program at Inter-American Dialogue.

Our third witness is Dr. Elisabeth Rhyne, senior vice president of ACCION International, where she focuses on remittances and microfinance issues.

Our fourth witness is Ms. Nitza Segui Albino, founder and CEO of the International Migrants' Development Fund.

And, finally, we have Mr. Bruce McNamer, president and CEO of TechnoServe, a company that focuses on microfinance and development around the world.

And so I recognize Mr. Sergio Bendixen for 5 minutes.

STATEMENT OF SERGIO BENDIXEN, PRESIDENT, BENDIXEN & ASSOCIATES

Mr. BENDIXEN. Thank you so much, Mr. Chairman. It is an honor to be here. I have referred to the remittances as a river of gold that flows from the north, from the United States, from Europe, and from Japan, to Latin America, because of the sheer volume of money that goes down south.

But I am now beginning to speak about remittances as maybe the most important economic engine for Latin America in this new century, because there is now clear evidence that the remittances that are received in Latin America are allowing people to have access to mortgages, to have access to small business loans, and to have access to investment products that will allow for the economic development of Latin America.

I speak about the subject with a great deal of confidence, because the Inter-American Development Bank has given me the privilege of studying the remittance flows from the United States, Japan, and Europe to Latin America in surveys done in approximately 23 countries. We have interviewed more than 60,000 people who either send or receive remittances. I am going to share with you—and I am very glad to see the Power Point presentation working—some of the basic facts and figures that we have learned over the last few years.

First of all, let me remind—I don't think I need to remind you, Mr. Chairman, but for those who may not be so familiar with the process of remittances, we are talking about a process that involves the poorest of the poor. As you can see from this graphic, 75 percent of the Latin American remittances that send remittances home on a regular basis live on less than $30,000 a year. They are the working poor. And many of them live on the edge of the poverty line.

And as you can see from this graphic, the percentage of Latin American immigrants that send money home has increased over the last 5 years. In a survey conducted nationally in 2001, 59 percent of Latin American immigrants were sending money home. That number is now up to 73 percent. And maybe the exactness of the number is not important, but definitely the trend is up. Remittances will continue to increase over the next few years. The reasons why, we can discuss at another meeting, because there are many.

But there is no doubt that remittances are increasing. There are now 12.6 million Latin American immigrants sending money home on a regular basis. They are sending money every month, at approximately $300 per remittance, for a total of $3,600 per year. If you do the math, we're talking about—and you referred to it—$45 billion sent from the United States to Latin America during 2006.

And if you add the approximately $10 billion sent from Europe, mostly Spain, Portugal, Italy, and France to Latin America, and the $3 billion or $4 billion from Japan, and the $1 billion or $2 bil-

lion from Canada, you have $60 billion arriving in Latin America during the past year. That is $200 million every day, of every week, of every month of the year; truly a river of gold.

Let's put that $60 billion in context of what else—what kind of other money arrives in Latin America. When you total up the amount of money in foreign direct investment—the amount of money that Wal-Mart, that Toyota—we've been hearing lately about all the money the Chinese have been putting into Latin America—that adds up to only $45 billion.

And when you look at the money that is put into Latin America as official development assistance—that's the World Bank, the IDB, the IMF, the money that we give as part of our aid program—we're talking about $6 billion.

So, in comparison, as you mentioned in your opening statement, there is no doubt that remittances are now the largest source of capital that can benefit Latin America to economically develop.

There is another great advantage of remittances that not everybody understands. This money does not go to the government. This money does not go to the big financial institutions. This money does not go to business interests. The remittances are a mechanism to redistribute wealth; they go directly to the people.

As you can see in this graphic from our study in Mexico, 30 percent of the money received in Mexico goes to the poor; another 57 percent, the yellow and the blue bars, goes to people who are working Mexicans; and 13 percent goes to the middle class. This is money that goes directly into people's pockets, and gives them the freedom and the choice to decide what to do with it.

As I mentioned at the beginning of my presentation, there is now evidence, clear evidence—scientific evidence, I believe—that remittances are beginning to be used to leverage access to investment products.

Back in 2003, in a poll conducted in Mexico, we found that about 20 percent of remittances were being used to open up a savings account to finance the university education of young people, to get a loan to open up a small business, to maybe build a house, or to get a construction loan. In a poll recently completed late last year—

Chairman GUTIERREZ. You have 30 seconds. The little red light turned. You know, I will stay here all afternoon, but—

Mr. BENDIXEN. That number was up to 40 percent.

Now, what do I recommend to the committee? I think that the most important thing that I can say to you is to make it as easy as you possibly can for remittance senders to have access to a bank account.

The FDIC pilot program in the City of Chicago for financial literacy has had great results in the City, and I think if it's taken nationally, if we can get more remittance recipients and senders to understand the value of having a relationship with a financial institution, the more that these remittances are going to allow these countries to be able to progress economically, as people begin to use the money, not just for consumption, not just for poverty alleviation, but for economic development. Thank you.

[The prepared statement of Mr. Bendixen can be found on page 30 of the appendix.]

Chairman GUTIERREZ. We will make sure we have them in our field hearing in Chicago. Thank you.

Mr. Orozco, please?

STATEMENT OF MANUEL OROZCO, REMITTANCES AND DEVELOPMENT PROGRAM, INTER-AMERICAN DIALOGUE

Mr. OROZCO. Good afternoon. Thank you very much for inviting me to share with you some of the knowledge we have accumulated over time about the impact of remittances on development. I am going to focus most of my remarks on the policy opportunities to leverage these funds.

My colleague sitting here, Mr. Gutierrez, has talked about the impact that the flows have. In practical terms, the impacts are both social and economic. At the social level, it has an effect on poverty reduction. One way to think about it is the following way—the flow of remittances that people receive are, most of the time, 30 percent above per capita income in most of these countries.

So, for example, take a country like Nicaragua. Per capita income is $1,000. People are receiving about $2,000 in remittances. And if you look at another country, for example, Haiti—we just came back from Haiti, from presenting a study that we did there—the average amount sent is $150 a month. And the per capita income in that country is $600 a year.

So, you can see how poverty reduction is really one of the effects that comes from remittances. More importantly, is also the economic effect that this has, and that is that there is a—not only the flow that goes for the—to take care of the basic needs of the population, but also a flow that has an effect on the daily activities through savings.

In many of these countries—basically, in Central America and Caribbean countries, the flow of money that is saved by migrants, who have a higher propensity to save than people who do not receive remittances, may be as high as 50 percent of gross domestic savings in the whole country. So remittances are not only responsible for consumption, but also, they really help to increase the savings ratio of the country, and in turn, increase the capacity to provide financing for investment in the home country.

All of these issues have a short-term and immediate-term effect in keeping people out of poverty. The policy challenge, from the development context, is how to get people out of poverty, given this reality.

Last year, as you mentioned, $62 billion went to Latin America, predominantly from the United States. We have identified a number of policy opportunities and solutions, some of them based on actual experience and other ones on observation of other cases.

I have submitted to you the testimony and material that contains it, but I am going to elaborate on some of them. One of them is strategies to improve competition and cost reduction.

Specifically, one of those strategies deals with adopting the automated clearinghouse system called "Directo a Mexico." It's a system that costs $.67, and it consists of making transactions from bank accounts in the United States to a bank account in Mexico.

Another strategy is to introduce debit cards into the country. It improves security of transfers on the sending and the receiving

side, but more importantly, it reduces the amount of cash in the street, and therefore, it increases the opportunity to have savings in the cards.

The cost of transactions has declined, but you still can do more on that. And the competition in the money transfer systems right now is there is this disposition to get engaged in this type of activity.

Another recommendation is to accelerate financial intermediation projects with credit unions and microfinance institutions. These institutions are predominantly in areas where a significant flow of the remittances go. And yet, there is not other financial access. The impact that you can have is quite considerable.

In practical terms, funding projects that deal with financial product design, for example, can have an effect of transforming that remittance recipient client into a financial client with the proceeds, with credits, etc. And whenever this has happened, there has been a significant transformation rate. One out of three people end up having bank accounts as a result of having these relationships.

The third recommendation is to engage banking, depository institutions, more actively into the banking remittance recipients, in particular. Right now, 60 percent of remittances are withdrawn from banking institutions, yet only 20 percent of people have bank accounts.

And I think we need to promote a community reinvestment act in Latin America in a way that you require that the banks that are providing this financial service also provide the range of other financial services, from risk mitigation to savings and credit.

In Central America, for example, at least 10 to 20 percent of the revenue that banking institutions have earned from the overall transactions that come from remittance transfers.

Chairman GUTIERREZ. Mr. Orozco, if you could, summarize quickly your comments so that—your 5 minutes are up.

Mr. OROZCO. My 5 minutes are up.

Chairman GUTIERREZ. I am—

Mr. OROZCO. And, finally, I think, looking at remittance literacy, it's another area that I think is very important. The central banks of these countries really do not have tools to provide financial or remittance literacy to their communities, to their societies, and that is really an easy area to work on, from the U.S. perspective. Thank you.

[The prepared statement of Mr. Orozco can be found on page 56 of the appenidx.]

Chairman GUTIERREZ. Thank you.

Now we have Dr. Rhyne. Please, for 5 minutes.

STATEMENT OF ELISABETH RHYNE, SENIOR VICE PRESIDENT, ACCION INTERNATIONAL

Ms. RHYNE. Mr. Chairman, thank you so much for inviting us here. We are always delighted to share with you the work that ACCION International is doing.

Let me just tell you who ACCION is, and why we are here. We are a U.S. non-profit founded in 1961, working in microfinance. We work through banks and microfinance institutions, primarily in Latin America, to provide financial services to low-income people in

23 countries. We reach more than 2,000,000 clients, with a total portfolio of loans of $2.4 billion.

Since 2002, we have been working on the remittances issue, and trying to get a handle on it. And our perspective on that issue is mainly drawn from our partner institutions, who are financial institutions in Latin America, and therefore, it's mainly on the receiving side.

We have worked with banks such as Citibank and microfinance institutions such as Banco Solidario of Ecuador, to develop products that leverage the economic impact of the remittances on the receiving end.

We agree with the previous presenters, that remittances, by their nature, do contribute to economic development. It is difficult to leverage that in a specific way, because these are small, private—and as Mr. Paul said—voluntary transactions. So, with policy and legislation, it is difficult to affect that contribution. We believe that the best policy stance towards remittance is one that supports the senders and the receivers to achieve their own goals. And that is the effort towards which we have been working.

The market research that we have done challenges the traditional perception of migration as a one-way process. Today's immigrant hasn't abandoned her home country, but is living a life that integrates both the United States and the country of origin. This could be seen by the persistence of remittance flows which continue for as much as a decade or more after the immigrant leaves. That continued involvement is supported by communications technology, transformation, and the ability to move money from one country to another.

On the sending side, ACCION has identified that there is really a remittances life cycle that influences the size, frequency, and potential use of remittance flows. People arrive, and they get themselves established. Their incomes are low at the beginning, then they kind of hit a middle period where their incomes are higher, they're more established, and they're still very closely connected to their home countries.

During this period, which we kind of think of as a 2- to 5-year period after they arrive in the United States, is a time when they are most interested in making—in having their remittance flows used for investment and asset building back home.

As they have been in the United States longer, they tend to shift perspective a bit more, and make more of their investments here in the United States, but they continue to send the remittances back home.

On the receiving end, there is a different sort of perspective, and I think that's captured by looking at the way that remittances are used. Some of the statistics we have already seen. Everyday needs constitute the major use of remittances, but there is a substantial fraction that are going for health, for education, and for savings and investments, including real estate.

We are interested in helping people to have more ability to put the remittances into those latter categories. But a fundamental problem is that many of the remittances—receiving families don't have access to financial products and services that can allow them to make these kinds of investments. They are unbanked. The IDB

research puts the percentage of recipients lacking a bank account at 90 percent, which is extremely high.

So, what we have been trying to do—we have been trying to achieve two objectives. One is to increase the participation of banks at both ends of the remittances industry, to encourage the access of senders, and especially the access of receivers, to a broader array of financial services.

We have also been trying to develop remittance-linked products that will assist the customers in meeting their long-term financial goals.

Now, where we stand in trying to do that is we are first confronted with the fact that 70 percent of remittances are cash to cash, and go through money transfer companies. We have been working in the past couple of years on projects involving moving these flows towards bank accounts. Because when flows are associated with bank accounts, the senders have more options for how to manage the money they receive. It's more secure, it's often cheaper, and they gain an access to a broader array of financial services.

For example, we have been working with Citibank and Banco Solidario in Ecuador, to implement a bank-to-bank remittance services. Now, we have encountered a lot of challenges in this. Many of them are challenges because it's a new industry. The bank staff on the sending side are unfamiliar with the customer base.

Chairman GUTIERREZ. Dr. Rhyne?

Ms. RHYNE. They find it expensive to serve these customers—

Chairman GUTIERREZ. I'm sorry, Dr. Rhyne? If you would—

Ms. RHYNE. My 5 minutes are up already?

Chairman GUTIERREZ. Yes.

Ms. RHYNE. Okay.

Chairman GUTIERREZ. It goes quickly here.

Ms. RHYNE. It sure does.

Chairman GUTIERREZ. We would like to ask questions, too.

Ms. RHYNE. Let me say two things, then. One is the products that we have found that matter the most for receiving families—savings accounts, home improvement loans, and insurance products—we would like to be able to offer those transnationally, but find that there are many policy barriers that stand in the way.

And in terms of policy recommendations, I would support the broad recommendations that Manuel Orozco just mentioned, promoting industry structures that allow for the smooth movement of funds, a competitive setting for the industry as a whole, for the removal of the barriers of access of senders to banking services, supporting the expansion of financial services to recipient families, which is ACCION's main business, and increasing the financial literacy of senders and receivers. Thank you.

[The prepared statement of Dr. Rhyne can be found on page 78 of the appendix.]

Chairman GUTIERREZ. Thank you, Doctor.

Ms. Albino, please?

STATEMENT OF NITZA SEGUI ALBINO, CEO, INTERNATIONAL MIGRANTS' DEVELOPMENT FUND

Ms. ALBINO. Chairman Gutierrez, and members of the subcommittee, thank you for the opportunity to be here.

Before I continue with my testimony, I would like to provide you with a brief background of the International Migrants' Development Fund, FIDMi. FIDMi is a young, independent, not-for-profit organization based in Washington, D.C., whose mission is to contribute to poverty reduction in trans-national communities through their engagement in the formal financial system.

FIDMi was founded in 2002 by a multidisciplinary group of community leaders, international and community professionals, development professionals, and finance experts concerned with the excessive cost of money transfer services, leverage remittances to improve the quality of living of immigrants and their families abroad, and creating a viable model for their insertion in the formal financial system.

FIDMi's development model consists of one-stop affordable financial services, in partnership with Lafayette Federal Credit Union and other financial institutions in Central America, culturally appropriate, low-literacy, advocacy and community reinvestment, particularly capitalizing on the income generated as a result of our remittances program.

Others have spoken about research, and so I am going to skip all of that, and I am going directly to some of our lessons learned. One of FIDMi's core programs is Semillas, "seeds," an education program that focuses on financial literacy. FIDMi—this program's main objective is to increase immigrants' capacity to understand and to engage in the formal financial system.

This is particularly important, since large percentages of Latino immigrants—almost 50 percent—do not use the services of formal financial institutions, and did not have access to these institutions while living in their countries of origin. In many Latin American countries, according to a study published by Dr. Orozco, 2 in 10, in many countries, have bank accounts.

A workshop session of our education curriculum discusses with program participants the impact of remittances at—as individuals, members of a family, and their countries of origin. Through these workshop sessions, our staff has been able to gather the following data. The vast majority of program participants—mostly women—send money to pay for health, education, and food expenses, to pay for all debts, and to pay the cost of investments such as mortgage loans, and small businesses.

Immigrant practices show that remittances is an important factor for development. Through investing in education, health, nutrition, and business development, the quality of life for their families and children left behind significantly improves.

Our concern is raised by the following question. What strategies can be leveraged so Latin American and Caribbean families consider migration as an option, and not a way out of their countries?

Please allow me to share a few areas in which remittances can be leveraged: provide incentives to financial institutions to create services and products that can be accessed by poor, rural, and urban marginalized recipients of remittances; stimulate financial institutions receptors of remittances to partner with the third sector to provide basic financial literacy in rural and marginalized communities, including in communities of indigenous and African backgrounds; and engaging financial institutions and not-for-profit

organizations to provide financial education in primary and secondary schools.

Education programs should be accompanied by allowing youngsters who receive remittances to open savings accounts. Fomenting programs that provide microcredit for women who are remittances recipients. Microcredit for women will have a multiplied effect, since they will help increase health, education, and nutrition variables, for example, and are excellent money managers.

Encouragement of an environment in which a wide range of financial institutions, including credit unions, promote their services in immigrant communities, leading immigrants to have access to credit and loans for investments in micro and small businesses, and mortgage loans, for example, that could be paid in the form of remittance or directly into their accounts in financial institutions abroad.

Encourage and get to commit money transfer agencies, particularly the largest companies, to dedicate at least one percent of their income in supporting sustainable projects, particularly credit and savings programs, or small or medium-scale impact, not through largest banks. This program should be tied to financial money management education.

Encourage a climate in which immigrants interested in returning home can open savings accounts in financial institutions in the United States. A portion of monies that are saved will be matched at a three-for-one for micro and small businesses in their community of origin. Programs must be tied to business education program.

Discourage state of the union to tax immigrants to send money to their countries of origin, since they, immigrants, are—

Chairman GUTIERREZ. Sorry, your time is up, thank you.

Ms. ALBINO.—continuing to mitigate poverty in their communities of origin.

And lastly, widening the funding stream for innovative programs and projects that—lead by not-for-profit organizations in the United States that reach out to immigrants who are interested in investing in their home communities. Thank you, very much.

[The prepared statement of Ms. Albino can be found on page 26 of the appendix.]

Chairman GUTIERREZ. Thank you.

Mr. McNamer, please?

STATEMENT OF BRUCE MCNAMER, PRESIDENT & CEO, TECHNOSERVE

Mr. MCNAMER. Mr. Chairman, and members of the subcommittee, thank you for the opportunity to testify before the subcommittee to share our views on the potential for remittances to unlock economic growth for the world's poor.

Almost 40 years ago, when a Connecticut entrepreneur named Ed Bullard created TechnoServe to apply private sector solutions to poverty in the developing world, he could not have foreseen the enormous potential power of these new capital flows as a tool for fighting poverty. Since then, TechnoServe has evolved to focus on building thriving businesses and industries as a catalyst for poverty-reducing economic growth, with a particular focus on the rural

economy, where 70 percent of the world's poor reside. We operate in 15 countries worldwide, with a global staff of 400, mostly with backgrounds in the private sector.

Mr. Chairman, remittance flows are a critical issue in relations between the United States and the developing world, particularly with the nations of Latin America. The roughly 40 million Latinos living in this country sent a significant amount of capital to Latin America, roughly $60 billion last year. Remittances are an important source of capital. They now comprise more than official development assistance and foreign direct investment, combined, to Latin America.

But while remittances represent enormous potential to create economic development in poor regions of Latin America, this potential has not yet been realized. While remittances help to feed families and educate children and meet other important basic needs, overall they have not been used for business start-up or growth—important catalysts for broad-based economic development.

The Inter-American Development Bank reports that less than 10 percent of those receiving remittances have a savings account. Only about one percent of remittance flows have been used to start a business. This translated into significant lost opportunities to invest in productive economic activity in real, thriving businesses. And it is such businesses that offer the jobs and the income that have the potential to sustainably lift people out of poverty.

How, then, to harvest the potential for these flows to jump-start private sector growth? How do we answer the question posed by this subcommittee on leveraging remittances for sustainable development?

We would submit that in order to do so we need to think about this in a more holistic sense. And to think about capital intermediation here, on both the supply and demand side. Several factors need to be in place to enable and support the development of thriving enterprises. On the supply side, capital is certainly critical, and remittances are potentially a source of such capital, provided the right investment vehicles and incentives can be put in place.

However, capital alone is necessary but not sufficient. On the demand side, you need viable business opportunities and entrepreneurs in which to invest. And the mere fact of capital will not guarantee that this happens. This is not a case of "build it and they will come."

And, in fact, what we have here is neither supply nor demand. Remittances are not pooled for capital investment, and there are too few viable undertakings in which to invest—a classic chicken/egg quandary: no businesses, little incentive for capital formation; no capital formation, no opportunities for business growth.

So, what do we do? Well, we work on both. How do we facilitate the flow of remittances toward the flow of investment? That is, how do we work on the supply side? Critical to doing so is providing the right institution and policy framework for capital formation. And the simplest and most effective means for doing so is encouraging and aggregating remittances into savings accounts. To this end, we recommend a broadening of emphasis, particularly in the microfinance field, from microloans to providing savings accounts. This requires a range of new products and services, and a strengthening

of institutions to provide them. And, in fact, there are a number of NGO's and others, including people at this table, who are currently doing just this.

From this base, you can start to think, then, about more systematically capturing remittance flows directly into savings accounts, and perhaps from there into more sophisticated services. For example, strengthen local institutions as agents for the provision of loan guarantees from individuals or home town associations in the United States to investments in Latin America.

Beyond this—and, again, still on the supply side—there may be other opportunities for capital formation. Tax incentives for the creation of pooled investment vehicles in the United States could create a means for U.S.-based citizens of other nations to invest in businesses in their home countries. There are existing examples of successful funds in Latin America, based on remittance flows. More such products need to be developed to catalyze investments for business start-up and growth.

But again, availability of capital and market access alone are not enough. Would-be investors need productive enterprises in which to invest their capital. Without a growing pipeline of entrepreneurs developing viable competitive businesses, there is little opportunity to channel remittances away from household consumption into business investment.

So, we must increase the focus on the demand side of the business creation equation, to providing business building skills and know-how, information, technology, business support services, and the facilitation of market linkages. Development assistance funds like those administered by USAID and IADB have an important catalytic role in providing those components, supporting entrepreneurship development programs, bringing in private sector actors and creating market linkages, and working to build international trading capacity.

Our own experience shows that providing this programmatic support for business formation and growth, focused interventions, can spear dynamic new businesses and real sustainable growth.

As just one short example, with the support of USAID and other partners, TechnoServe has run business plan competitions throughout Central America. In El Salvador, in the past 3 years alone, these competitions have helped entrepreneurs create over 160 companies, generating over $30 million in revenues, and creating over 1,000 jobs. The entrepreneurial spirit is alive and well in the region. What it needed is the catalyst to unleash and power it.

Development assistance channeled to these types of entrepreneurship, development, and trade capacity-building activities has a vital role to play. But again, this is a two-sided equation. Get the supply and get the demand. And in that context, remittances play a potentially critical role. Thank you.

[The prepared statement of Mr. McNamer can be found on page 51 of the appendix.]

Chairman GUTIERREZ. Thank you. I recognize myself for 5 minutes.

Mr. Orozco, and Mr. Bendixen, this question is for both of you. With all of your combined experience on the ground in Latin America and the Caribbean, and experience with the Inter-American De-

velopment Bank, what direction could we give to the International Development Bank, through legislation or otherwise, that would assist the Bank in encouraging the nations of Latin America and the Caribbean to focus on this issue, and to start to harness remittances for developmental purposes? Mr. Orozco, would you care to go first?

Mr. OROZCO. I think the primary direction is to establish a collaborative agreement between the United States and these countries, where there is an element of cross-conditionality. You provide technical assistance to increase financial access to people who receive remittances, to increase the savings ratio in the country, in the communities. In exchange for that support, economic performance of these countries needs to be demonstrated.

I think the issue of increasing investment portfolios is very important. I don't think that everybody can be an entrepreneur. But you can enable the environment to offer the opportunities for people who can have the chance to do so, to have access to financial resources.

And there are plenty of institutions that can do that. The Inter-American Development Bank, so far, has provided $70 million in funds with remittances. And the return of that investment has been that one out of three people are getting financial access who—of those people who withdraw money at the microfinance institution. This is an important success, when you think especially in terms of the millions of people who are receiving remittances.

So, we need to expand that through USAID, through OPIC—OPIC is in a strategic position, the Overseas Private Investment Corporation, to do so. They have the funding. Thank you.

Chairman GUTIERREZ. Mr. Bendixen?

Mr. BENDIXEN. Mr. Chairman, I am biased. But the message I would send to the IDB is keep doing the great work that you have been doing. The Inter-American Development Bank has focused a light on this whole process. It was instrumental in bringing the cost of sending money to Latin America down substantially. It is now taking a leading role in making sure that government and business and financial institutions and the people themselves know that there are financial opportunities, that this money can be leveraged for the well-being of their families and of their countries.

And I would also make this point. I think that the great thing about remittances is that the government just doesn't really need to get all that involved. The process is already working, even though a couple of the witnesses might not agree with my figures, the latest research done by the IDB shows that there is now 40 percent of the money sent in remittances in some countries, like Mexico and Brazil and Peru, that is available for economic development.

Remittance companies have done a great job in getting the money there quickly and getting it there safely. And now they are beginning to offer mortgages, small business loans, and access to capital.

I think that, in a way, just allows the process to continue, makes sure that there is a light on it, so that everybody is well informed, and makes sure that the data is good. There is so much money

there, that if we just leave it alone and allow private enterprise to do its work, it will lead to tremendous things in Latin America.

Chairman GUTIERREZ. Thank you. We will continue to work—I don't know who would like to respond to this question, but maybe—there is a thought that says, "Well, you know, all of this money, all these billions of dollars leave the United States of America and go—and aren't spent here. So you don't buy cars here, you don't buy clothing here, you don't create economic development here with the capital. You don't invest, and so that money is just sent away, $60 billion"—well, $35 billion from the United States. How—Ms. Albino, how would you respond to that?

Ms. ALBINO. I would say, first of all, that probably 60 to 70 percent—I read a figure that is around 80 percent of the money stays here. And one of the problems that we find is that immigrants do not have access to the formal financial system, so they use other means to distribute their money, or to use their money, or, to hide it in their mattresses, so to speak.

And opening the opportunities for immigrants to save here, investments can be done in here as well. You know, a lot of immigrants are here to stay. So their dreams to build capacity here, to have better conditions of living in the United States is also a very important aspect of it.

Chairman GUTIERREZ. Thank you very much. Dr. Ron Paul, the gentleman from Texas, is recognized for 5 minutes.

Dr. PAUL. Thank you, Mr. Chairman. I want to follow up on the chairman's comments about where this money goes, and what good it might do or not do.

I was pleased to hear Mr. McNamer emphasize the private approach to solving poverty, and that, of course, is what I have always emphasized. I am not a fan of foreign aid. I don't see foreign aid as being voluntary. I see that as extracting funds from poor people here, sometimes, and sending it to governments elsewhere. And I certainly favor market decisions over bureaucratic decisions.

So, this idea that there are remittances that go into these countries, I think, is actually a good alternative to foreign aid. If you're not a supporter of foreign aid and you still want to help, you don't want to do anything to interfere with this, because there is really—the way I see it—no dark hole.

They get the money, and some of it will come back here, and they will buy American products. And the other thing that might happen is they might buy a Treasury bill, some of that money might end up buying a Treasury bill, which serves our interest.

I guess the closest thing to a dark hole would be if the money is cash and it goes into the underground economy, but even that is not a negative for us, because that is literally an interest-free loan. I mean, they could have put it into a Treasury bill and earned interest, but they just take the cash.

It might not be good for us in the long run, because it encourages us to inflate—that is, create money to buy goods and services and pay these bills—and we literally get the benefit, temporarily, of exporting our inflation. So when these funds leave our country and maybe sit there, it's not a disadvantage. I don't see many disadvantages for allowing remittances to occur.

And I don't have a precise question, but I would just like to get Mr. McNamer maybe to follow up on this, and maybe give me an idea about how these funds would be broken down. Is the amount that goes into the underground economy minuscule, and do some of these dollars end up buying Treasury bills? And just how do you see these dollars playing out in the marketplace?

Mr. MCNAMER. Well, I have to start with the disclaimer that I am not here as the remittance expert. I sort of operate more on the business development side. But just a couple of comments.

Agreeing wholeheartedly with what you have said, and pointing out in addition, a lot of these monies cannot—if they are productively invested in businesses—generate a set of service and products that can actually become part of the trade flows between our countries, and then thereby actually offering American citizens a broader set of cheaper goods and services from other countries. So it actually does come back to this country.

And I couldn't agree more that these are private individuals transacting privately, making private decisions about where they want to allocate their monies. As to kind of the level and amounts of, you know, where these variance remittances go, I have to sort of disclaim any real precise knowledge of that.

Dr. PAUL. Dr. Rhyne?

Ms. RHYNE. Thank you. I wanted to comment on the issue about whether remittances are a substitute for foreign aid. I think that foreign aid is aimed at different purposes, it's aimed at achieving structural change in the countries.

And if you look at the history of USAID and its support for microfinance over the years, one of the reasons that we're even talking about the progress that has already been made in helping recipients gain access to financial services in the home countries is because of the investments that USAID has made over the years in microfinance that helped create some of those institutions.

Chairman GUTIERREZ. Thank you.

Mr. BENDIXEN. Just quickly, Congressman, because foreign aid is not in the same order of magnitude as remittances, let me read you the figures for Mexico. Mexico, in 2006, received $35 billion in oil revenues, $25 billion in remittances, $17 billion in foreign direct investment, $14 billion in tourism, and when it comes to all the aid, $110 million. So you're comparing $25 billion to $110 million. It's not even a part of the same conversation, in all honesty.

Dr. PAUL. I would say maybe that's a proper proportion. I yield back.

Chairman GUTIERREZ. Thank you. Thank you, Dr. Paul. I yield to the gentleman from Missouri, Mr. Clay.

Mr. CLAY. Thank you, Mr. Chairman, and thank you for holding such an interesting hearing.

Ms. Albino, in your testimony, you mentioned the importance of providing financial literacy to all, especially in Latin America, and including those of indigenous and African heritage. Please discuss some of the unique obstacles faced by these groups when it comes to financial literacy and financial issues in general.

Ms. ALBINO. Well, we know that indigenous and African descendants are the poorest in the region. So, the point is that if we provide financial literacy and opportunities for business development,

there might be another angle in which our communities can be better off.

Mr. CLAY. So that would be a way to kind of attack poverty in—

Ms. ALBINO. Of course. And Mr. Orozco can tell you more, and probably Ms. Rhyne and—

Mr. CLAY. I was getting to Ms. Rhyne. Thank you so much.

Ms. ALBINO. And Mr. Bendixen, for instance, on Honduras and in Central America, the experiences with remittances.

Mr. CLAY. Okay, thank you. Perhaps Dr. Rhyne or Mr. Bendixen would like to address the question.

Ms. RHYNE. Quickly, to comment on some of the goals of the financial literacy work that we do—one, is we want people to be able to think about what their life financial goals are, how to set them, and how to plan and go about achieving them.

Two, is to understand what the available options are for themselves, as consumers of financial services, to understand how financial services work.

And, three, how to be a smart consumer, to tell the difference between a good set of services that are being offered, and one that is not being offered on proper terms.

Mr. CLAY. Thank you for that. Mr. Bendixen?

Mr. BENDIXEN. Again, a set of figures—five million out of six million Latin Americans go to a bank to pick up their remittance. Their relative in Europe or the United States or Japan sends it through a remittance company, but they go pick it up at a bank, 50 or 60 percent. About 10 percent have a bank account. They're showing up at the bank every month.

Mr. CLAY. They might as well stop in and open an account.

Mr. BENDIXEN. They are picking up $200 or $300 every month, and the bank doesn't offer them a savings account, a checking account, nothing. And when you look at Haitians, and when you look at the black people in Latin America, it's even lower.

So, there is a rejection, almost, from the banking institutions in Latin America to let the regular people into the system. Now, that's something that is changing, and it's changing fast. But I want to point out that right now a lot more could be done by the banks. The remittance companies are the champs here.

Mr. CLAY. Thank you.

Mr. BENDIXEN. They let everybody participate. The banks—

Mr. CLAY. Thank you for that response, Mr. Bendixen. Dr. Rhyne, let me ask you, in your written testimony you mentioned that ACCION has helped banks and microfinance institutions set up remittance services through partnerships with money transfer companies and bank-to-bank services through Citibank and others.

In what countries is this taking place, and how successful has it been? And is it something that ACCION intends to replicate in other areas of the region?

Ms. RHYNE. It is—we have worked in five or six countries. We are working in Mexico, we have worked in Ecuador, Peru, Bolivia, Haiti—am I forgetting—we are working now in Nicaragua.

We have been, I think, successful in helping our institutions, who are small financial institutions, gain access to the remittance industry on the receiving end, to become distributors of remittances.

And I think it's—we have faced a harder challenge on the side of developing the cross-sell financial products.

So, we are encountering more barriers to putting these funds into loans and mortgages, but we are able to bank the customers and offer them savings accounts.

Mr. CLAY. Okay. Thank you. And my final question is to Ms Albino. In your testimony, you mention encouraging the large money services businesses to dedicate one percent of their income to support sustainable development projects. That's an interesting idea.

My first question is, have you suggested this to the industry?

Ms. ALBINO. In the past, I worked for a multi-lateral organization, the International Organization for Migration. We developed a program with various countries, primarily Caribbean countries, and we approached Western Union—that was in the past; there have been changes since then—and MoneyGram, so they could devote at least one percent of the income, or the profits they generate. And of course, at the time, there was no interest.

There has been a lot of changes in the industry, which we have to recognize. However, there is a lot more to be done in that direction.

Mr. CLAY. My time is up. Thank you all for your responses.

Chairman GUTIERREZ. Thank you, Mr. Clay. And to my good friend from Texas, a gentleman that has shown great interest in this issue and has been very helpful, Mr. Hinojosa.

Mr. HINOJOSA. Thank you. I have enjoyed all of the presenters. I think they have interesting information, and particularly Bendixen's Power Point presentation, and how important these remittances are throughout the world, and particularly those that have over $1 billion in remittances, based on that map that I saw.

But I think of most interest to me were some of the points that were made by Dr. Rhyne and Ms. Albino, the reason being that you seem to be addressing how microloans can help people if they had the financial literacy to invest it or to start up small micro-entrepreneurship businesses.

And most Congressmen like myself who have regions and pockets throughout our Congressional district where there is great poverty, where there is high unemployment, they are—they have a similarity to these countries that you all talked about, the difference being that they don't have $500 or $1,000 annual income, like some of these countries do. And yet, they don't seem to come out of that hole where there is so much poverty and many are second, third, fourth generation of immigrants—forgive me, not immigrants, but migrants, going to harvest crops and coming back. So, it's interesting that you all come up with some ideas.

And so, I will start with my first question to Ms. Albino. You mentioned ways to leverage the remittances. What have you found has worked best in the areas that you have studied, and why would they be successful and other areas unsuccessful?

Ms. ALBINO. You mentioned financial literacy and some of the barriers that some of your constituents have. One of the interesting lessons that we learned last year when we launched a program is that we were conducting and facilitating financial literacy courses to our members and clients. However, we didn't have a very rich—

they couldn't address opening bank accounts or accessing financial products.

And what we did, in order to come up with a solution, was to engage in a relationship with a financial institution, with a credit union. Through the credit union now, we not only do financial literacy and money management courses for individual counseling, what we do also is to engage them in the process. We engage them in the financial institution that provides them with an adequate product that they can use.

There are no maintenance fees. In some of the products—for instance in checking accounts or savings accounts—there is no cap. So you can—with their membership, you can put $5 or $10 a month into your account, and you can keep your account, and no charges will be made, for instance.

So, microcredit is also another vehicle in which we found that some of our clients could benefit, so that they can better their lives.

Mr. HINOJOSA. Dr. Rhyne?

Ms. RHYNE. Yes, our primary business is offering financial services, and in particular, working capital loans for microbusinesses. And we do that both in the United States and in Latin America and around—in other countries, as well.

One of the issues is the percentage of receivers of remittances who are already microentrepreneurs, or in a position to become microentrepreneurs, varies. In Nicaragua, for example, we found that was a third, so that's a very substantial fraction to work with, in terms of offering them loans.

What we want to do is to make sure that—and we're working on the sort of underwriting methodologies to do this—is how can somebody who is receiving a remittance payment get credit for that—in terms of his capacity to borrow? So, if you're receiving the money on a regular basis, that is—it becomes part of your income, but it's very hard to establish that kind of, you know, banking framework as something you should be getting credit for, and therefore, saying you can borrow this money. But we're working on methodologies to do just that.

Mr. HINOJOSA. One question to you. With Citigroup being in Mexico, as successful as they are worldwide, it seems to me that they would be the ones to set the example to other bankers, receiving those remittances and to open up accounts to take the unbanked and open up accounts. Is that happening?

Ms. RHYNE. Yes, it is happening. It is—you have to think of Citibank as a very large bureaucracy. You have groups within those institutions who are very interested in making that happen, but you have a lot of inertia; it is like turning around the QE II.

So, yes, they are successful, but they do have to overcome embedded kind of interest in not being—or lack of interest in this market segment.

Mr. HINOJOSA. I yield back.

Chairman GUTIERREZ. Thank you, very much. Are there any further questions of members of the committee?

I ask unanimous consent that all members have 5 days to revise and extend their remarks. I would like to say thank you to Mr. McNamer, Ms. Albino, Dr. Rhyne, and Dr. Orozco. I would like to give a special thanks to Mr. Bendixen for his work on the causes

of better understanding our community, others—you are helping me understand our community. Imagine, if I have to try to understand them, imagine the ignorance that exists outside.

And I think that, as the President goes to Latin America, maybe—according to this panel—it's pretty clear that foreign aid is good, maybe, economic development is good, but it seems to me he better focus on remittances. Thank you so, so much.

[Whereupon, at 3:12 p.m., the hearing was adjourned.]

A P P E N D I X

March 7, 2007

OPENING REMARKS

MAXINE WATERS D-CA (35Th)

SUBCOMMITTE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY, TRADE AND TECHNOLOGY

"The Role of Remittances in Levering Sustainable Development in Latin America and the Caribbean"

March 7, 2007

Good afternoon ladies and gentlemen. I want to thank Chairman Gutierrez and Ranking Member Ron Paul for holding today's hearing on "The Role of Remittances in Leveraging Sustainable Development in Latin America and the Caribbean."

Remittances reflect the globalization and movement of people across borders. No where has this been truer than in the U.S., as remittances from here have become the lifeblood of many communities in Latin America and the Caribbean (LAC). Remittances from the LAC reached the staggering level of $53.6 billion in 2005, and according to one report the LAC is the largest remittance market in the world.

Mexico is the largest recipient of remittances, with over $40 billion, or nearly 80 percent of the total. Brazil and Columbia are the next two recipients of remittances with $6 billion and $4 billion a piece. Central America and the Dominican Republic have remittance in excess of $11 billion, and the Andean nations totaled approximately $9billion.

Currently, it is estimated that more than 25 million LAC born adults are living outside of their own countries. It is estimated that 65 percent of these persons send money to their countries of origin on a regular basis. This translates into $100-300 per month, or anywhere from $1200 to $3600 annually; it requires 200 million financial transactions each year to remit the funds.

Nearly $10 billion or $1,787 for each of the 5,378,555 million Latin American adult immigrants in California was sent abroad. Nearly two-thirds, or 64 percent of immigrants reported that they send money regularly, or at least 12 times a year. The average remittance from CA to Latin America is $235 for each transaction.

As this hearing will demonstrate, there is growing debate about remittances. I believe, however, that there is consensus that remittances do not represent a

comprehensive development strategy for Latin America or the Caribbean. Remittances can play a role in the leveraging equation, spurring savings and investment in the LAC. As we examine the issue of remittances, I would like to consider the issue within the larger context of what we must do to make it attractive for persons to live, work and invest in their country of origin. This is not an easy issue, and the answer lies in real alternatives at home for people rather than abroad.

As such, I am very interested in the testimony of today's witnesses. I hope it will shed light on how we can sue remittances to assist in the development process. Thank you.

International Migrant's Development Fund
Fondo Internacional para el Desarrollo de Migrantes
FIDMi

Testimony of the
International Migrants' Development Fund
(FIDMi)

Before
Subcommittee on
Domestic and International Monetary Policy, Trade and
Technology of the House Committee on Financial Services

Hearing:
"The Role of Remittances in Leveraging Sustainable Development in Latin America and the Caribbean"

Wednesday, March 7, 2007
2220 Rayburn House Office Building, Washington, D.C.

FIDMi's mission is to "contribute to poverty reduction in transnational communities, through their engagement in economic and financial activities, education, advocacy and community reinvestment"

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"The Role of Remittances in Leveraging Sustainable Development in Latin America and the Caribbean"

Mr. Chairman, Congressman Luis Gutierrez, Members of the Subcommittee on Domestic and International Monetary Policy, Trade and Technology of the House Committee on Financial Services. On behalf of the International Migrants' Development Fund (FIDMi), I would like to thank you for the opportunity to speak before you regarding "The Role of Remittances in Leveraging Sustainable Development in Latin America and the Caribbean".

Before I continue with my testimony, I would like to provide you with a brief background of the International Migrants' Development Fund (FIDMi). FIDMi is a young independent not-for profit organization based in Washington, D.C., whose mission is to contribute to poverty reduction in transnational communities through their engagement in the formal financial system. FIDMi was founded in 2002 by a multidisciplinary group of community leaders, international and community development professionals, and finance experts concerned with the excessive costs of money transfer services, leverage remittances to improve the quality of living of immigrants and their families abroad and, creating a viable model for their insertion in the formal financial system.

FIDMi's development model consists in "one- stop affordable financial services" in partnership with Lafayette Federal Credit Union and other financial institutions in Central America, culturally appropriate, low-literacy financial literacy, advocacy and community reinvestment, particularly, capitalizing on the income generated as a result of our remittances project.

FIDMi's funding come from diverse sources such as Lafayette Credit Union, Washington, D.C., Mayors' Office on Latino Affairs, the InterAmerican Development Bank Solidarity Program, among others. FIDMi has not received funding from the Federal Government.

Doctor Manuel Orozco, Mr. Sergio Bendixen, the Inter American Development Bank and other institutions have actively research the impact of family and "collective remesas" to supporting community development in immigrants' communities of origin. My testimony instead will draw a few recommendations based the lessons and practices of our programs.

The context: Remittances and Migration

Remittances are intrinsically linked to labor migration. As you know, the vast majority of Latin American and Caribbean immigrants left their countries of origin due to, political prosecution, weak economic growth performance including, the increasing poverty and inequality in marginal urban and rural areas, the lack of access of the poor to receive financial services to build assets[1], among other factors.

In 2006, Latino and Caribbean immigrants sent over $60 billion[2] in remittances, primarily from the United States. Migrants send an average of U.S. $250-$300.00, depending on the country, to their relatives and friends. The impact of remittances is such that for many countries is the most important source of income and savings, and, exceeds the Official Development Assistance and

[1] See Orozco, Manuel. Rural Finance Innovation Case Study. Remittances, the Rural Sector, and Policy Options in Latin America. Paper published at an International Conference on Best Practices: Paving the Way Forward for Rural Finance.
[2] Fedewa R., Orozco M. "Leveraging Efforts on Remittances and Financial Intermediation". Intal ITD. Working Paper 24. December 2006.

has been an important engine for development, creating the basis to improving the quality of life of many poor communities.

FIDMi-"Semillas" (Seeds) Program: Lessons learned from program participants:

One of FIDMi core programs is Semillas ("Seeds"), an education program that focuses in financial literacy. This program main objective is to increase immigrants' capacity to understand and to engage in the formal financial system. This is particularly important since large percentages of Latino immigrants (almost 50%), do not use the services of formal financial institutions and did not have access to these institutions while living in their countries of origin. I many Latin American countries, according to a study published by Dr. Orozco, two in ten have bank accounts.[3]

A workshop session of our education curriculum, discusses with program participants the impact of remittances at individuals family and countries or origin levels. Through these workshops sessions, our staff have been able to gather the following data: the vast majority of program participants, mostly women[4], send money home to pay for *health, education and food expenses, to pay for old debts and, to pay the costs of investments such as, mortgage loans and micro and small businesses.*

Immigrants' practices shows' that: remesas is an important factor for development. Through investing in education, health, nutrition and business development, their families and children left behind quality of life significantly improves.

Our concern is raised by the following question: *"what strategies can be leveraged so Latin American and Caribbean families consider migration as an option and not a way-out of their countries?"*

Please, allow me to share a few areas in which remesas may be leveraged:

One: Provide incentives to financial institutions to create services and products that can be accessed by poor rural and urban marginalized recipients of remesas.

Two: Stimulate financial institutions receptors of remittances to partner with the third sector to provide, basic financial literacy in rural and marginalized communities, including in communities of indigenous and African heritages.

Three: Engaging financial institutions and not- for profit organizations to provide financial education in primary and secondary schools. Education programs should be accompanied by allowing youngsters that receive remesas to open savings accounts.

Four: Fomenting programs that provide micro-credit for women who are remittances recipients. Micro-credit for women will have a multiplier effect since they will help increase health, education and nutrition variables, for example and, are excellent money managers.

Five: Encouragement of an environment in which a wide range of financial institutions, including

[3] Fedewa R., Orozco M. "Leveraging Efforts on Remittances and Financial Intermediation". Intal ITD. Working Paper 24 December 2006.
[4] 90% of "Semillas" program participants conducted at partner community based organizations, are women.

credit unions promote their services in immigrant communities, leading immigrants to have access to credit and loans for investments in micro and small businesses and mortgage loans, for example, that could be paid in a form of remittance or directly into their accounts in financial institutions abroad.

Six Encourage and get to commit money transfer agencies, particularly, the largest companies, to dedicate at least 1% of their income in supporting sustainable projects, particularly, credit and, savings programs of smaller-medium scale impact (not trough the largest banks). These programs should be tied to financial/money management education.

Seven: Encourage a climate in which immigrants interested in returning "home" can open savings accounts in financial institutions in the United States. A portion of monies that are saved will be match at 3x1 for micro and small businesses in their communities of origin. Programs must be tied to a business education program.

Eight: Discourage States of the Union to tax immigrants that send money to their countries of origin, since they (immigrants) are contributing to mitigate poverty in their communities of origin.

Nine: Widening the funding stream for innovative programs and projects lead by the not for profit sector in the United States that reach out to immigrants whom are interested in investing in their home communities.

Thank you for the opportunity to share our experience and ideas to levering remittances for developing purposes. I welcome you to get to know FIDMi-Mi Tierra's' unique model program. At FIDMi we are committed to support members of our community to get off poverty through engaging them in the formal financial system and to foster the provision of affordable financial services, financial literacy and community reinvestment.

Sergio Bendixen, President, Bendixen and Associates
Testimony to the House Financial Services Subcommittee on
Domestic and International Monetary Policy, Trade, and Technology
"The Role of Remittances in Leveraging Sustainable Development
in Latin America and the Caribbean"
March 7, 2007

Chairman Gutierrez, thank you for the opportunity to testify this afternoon on an issue that is of great importance not only to millions of Hispanic immigrants in the United States but also to the economies of most Latin American nations.

My name is Sergio Bendixen. I own a public opinion research company based in Miami, Florida, that specializes in multi-ethnic and multi-lingual polling. I have over twenty-five years of experience in the field. Since 2001 I have been retained by the Multilateral Investment Fund of the Inter-American Development Bank to conduct national surveys and focus groups of remittance senders in the United States, Japan, and Portugal; and recipients in 17 countries in Latin America.

I have also conducted surveys in Russia, Azerbaijan, Moldova, and Georgia for other clients. In total, my firm has interviewed over 60,000 remittance senders and receivers. My testimony today draws upon information gleaned from a number of these surveys, with a particular focus on a survey I completed in the United States in 2006.

Poll Methodology
In the 2006 poll, we interviewed 2,511 Latin American immigrant adults residing in the United States with family in their home countries. The interviews were conducted by telephone, in Spanish. The margin of error of the poll was two percentage points. **It should be emphasized that a special effort was made to simplify and pre-test the polling instrument so that immigrants with little formal education could understand each question. In addition, interviewers were used that were from the community, so that they could build trust with respondents to secure more accurate results.**

Major Findings
A great deal has happened in the remittance market in recent years. Efforts to improve remittance data collection, increase competition and reduce cost in the remittance industry, and explore the development impact of remittances have born fruit. Today, we know that:

- Remittances sent to Latin America and the Caribbean were more than $62.3 billion in 2006, surpassing the combined amount of net official development assistance and foreign direct investment to the region;

- Money transfer costs have been reduced by over 50 percent;

- Remittances constitute one of the broadest and most effective poverty alleviation programs in the world. In Latin America and the Caribbean, an estimated 8-10

million families would fall below the poverty line without remittance income. For them, remittances are critically needed.

The challenge now is to help leverage the economic development impact of remittances. For this reason, the 2006 survey of the United States had a particular focus on the banking practices of immigrants, remittance investment potential, and the financial products that senders and receivers are most interested in receiving.

While remittances are clearly far from reaching their full potential as an investment tool, the recent survey shows the international migrant community is becoming increasingly aware of the potential of structuring the transfer of funds to achieve more effective economic results. Remittance senders are making greater use of the formal financial system, lowering costs and multiplying financial benefits.

But, much more needs to be done to leverage these resources, and, particularly, to provide transnational families with access to the financial system and more options to use their funds. Despite the unprecedented levels of interest in remittances, a variety of historical, legal, regulatory, and cultural obstacles continue to prevent the financial sector from successfully integrating remittance senders and receivers.

The study indicates that 12.6 million Latin American immigrants in the United States sent home approximately $45 billion in remittances over the past year. This is a substantial increase over 2004, due to the fact that more immigrants are sending remittances, and they are sending more money each time.

Over the last two years, the percentage of Latin American immigrants sending money home on a regular basis to their relatives has increased from 61 percent to 73 percent. In that same period, the average amount of each remittance sent has also increased from $240 to $300.

Immigrants in the United States now also have more purchasing power: total income for Latin American immigrants is estimated at more than $500 billion. While almost 10 percent of these earnings are sent home to their families, more than *90 percent* is spent in the states and towns where they live, directly contributing to local economies.

For example, in Texas, $5.2 billion in remittances equates to a contribution of more than 50 billion to the local economy. In Georgia, a state with more recent immigration, $1.7 billion in remittances reflects an impact on the local economy of almost $7 billion. In Virginia, which experienced an almost 100 percent increase in remittances from 2004 to 2006, a total of $1.1 billion in money transfers meant an influx of more than $11 billion into the local economy.

Remittances from the seven major "traditional sending" states (California, Texas, New York, Florida, Illinois, Arizona, and New Jersey) generally continue to show large increases, now totaling over $30 billion annually, two thirds of all remittances sent. California is the leading state, now reaching over $13 billion in remittances.

However, the data trend lines also demonstrate dramatic changes in migration patterns in the United States. More recent destinations for Latin American workers such as Georgia, North Carolina, Maryland, and Virginia account for substantial remittance flows to LAC, with $1.7 billion from Georgia, and about $1 billion each from North Carolina, Virginia, and Maryland. This validates the observed trend that immigrants are no longer simply moving to traditional "magnet" communities tied to their country of origin by cultural and familial links. Instead, workers are migrating to the states where the jobs are.

This trend is confirmed by the next five ranked states in remittances, Colorado, Nevada, Massachusetts, Pennsylvania and Washington, which send more than $500 million each; and the next six -- Indiana, Oregon, New Mexico, Wisconsin, South Carolina and Connecticut -- which send over $300 million.

Immigrants from the next 14 states send home between $100 million and $300 million annually. Eleven states that did not have data available in 2004 now register annual remittance amounts of between $9 million in to $130 million. All told, 40 states and the District of Columbia now send more than $50 million annually.

One state, Louisiana, experienced a nearly 250 percent increase to $208 million in 2006 from $61 million in 2004, largely as a result of an influx of reconstruction workers in the wake of hurricane Katrina.

The Mid-Atlantic Region (Virginia, District of Columbia, Maryland, Pennsylvania and Delaware) leads the nation in the percentage of immigrant adults sending remittances regularly (88 percent), followed closely by Georgia (85 percent) and North Carolina (84 percent).

Demographics of Remittance Senders

The median age of frequent remittance senders in the United States has decreased over the last five years. Fifty-four percent of the senders were younger than 35 years old in 2006. Nevertheless, the percentage of older immigrant remittance senders who have been in the United States for 10 years or more remains substantial. Migrants from Mexico and Central America who send remittances are significantly younger than remittance senders from other Latin American countries.

More than three-fifths of remittance senders can be considered "working poor" or "lower middle class," with annual incomes of less than $30,000. Yet, based on focus groups convened for this study, remittance senders remain optimistic about their economic futures.

Financial Democracy

A pressing issue going forward is how to give more remittance recipients and their families access to the financial system. **While the survey shows that the use of a bank**

or credit union to send remittances has increased from 8 percent of senders in 2004 to 19 percent in 2006 – a reflection of a growing awareness of alternative and lower-cost methods of transferring funds – many immigrants in the United States still feel disenfranchised from the US banking system, as a result of legal and regulatory hurdles, cultural factors and a lack of appropriate products.

The problem of a lack of access to financial products does not only exist in the United States. Perhaps the most surprising and provocative indicator revealed by a recent MIF scorecard on the remittance industry deals with the distribution network of remittances. Until now, a common assumption has been that because remittances are generally cash-to-cash transfers outside the financial system, most remittances are distributed through a retail store or money transmitter licensee such as a bodega. This assumption is wrong.

According to the scorecard data, the majority of remittances to LAC, 54 percent, are distributed through a bank, cooperative, credit union, microfinance institution, or other type of deposit institution. Unfortunately, only a very small percentage of remittances transferred through the financial system are currently going into bank accounts.

The reality is that in the vast majority of instances where banks are distributing remittances, they basically serve merely as a licensed distribution agent for a Money Transfer Organization. Indeed, remittance operations are kept separate from other bank operations – sometimes even physically separate from the teller line available to account holders. By contrast, cooperatives, credit unions, popular banks, and microfinance institutions have a better record of channeling remittances into accounts – although there is still significant room for improvement. As a result, there continues to be a missed opportunity to put millions of LAC families on a pathway to credit.

Investment Potential

In contrast to surveys and studies conducted earlier in this decade, a greater number of migrants in the latest study expressed interest in investing in Latin America and the Caribbean. A majority (52 percent) are very interested in the economic future of their home country.

Owning a family home and opening a small business in their country are the two most common investment aspirations. One-third of those asked said they have made such investments, mainly in real estate. This represents a significant increase compared with five years ago, when only five percent of the migrants polled said they made investments in their homelands.

While the incomes of migrant remittance senders are low by U.S. standards—64 percent of them have an annual household income of less than $30,000—most say the economic situation of their families in the United States is good (58 percent) or excellent (10 percent), and they are confident about making more progress.

The analysis provided by focus groups in nine countries found substantial agreement between the remittance senders and the recipients on the purposes to which the money transfers were being applied. The study identified the major usages in order of importance as follows: food, health, utilities, education, clothing, housing and business.

A common misconception about remittances is that they are used only for consumption purposes. This is not the case. Our surveys show that about 20% of remittances is available for investment. Indeed, in cases where appropriate products were offered to remittance recipients, about 30% of them purchased them and became deposit customers of a financial institution.

Financial Products

If more migrants were to have access to remittance-linked investment products, which ones would they choose? The study identified insurance and banking products as the most attractive, for both senders and recipients. Housing and education investment products were also of great interest.

The following is a brief description of how these financial products may be acquired and applied in the remittance process:

Insurance – Immigrants living in the United States purchase life or health insurance for their family member in Latin America and the Caribbean.

Banking – Remittances are deposited into a bank account in the name of the remittance recipient and an agreed portion of each remittance is assigned to a savings account.

Housing - The remittance history of a recipient serves as collateral for a home mortgage or a home construction loan.

Education – Immigrants living in United States make direct payments to a university or private school attended by their family member in Latin America and the Caribbean.

Microfinance Loans – Remittances are deposited into the account of a microfinance institution. Recipients are eligible for small business loans based on their remittance records.

Direct payments – Immigrants living in the United States make payments directly to vendors in Latin America and the Caribbean to cover basic household bills of their family member.

Agricultural Loans – Remittances are deposited into a microfinance institution account. Remittance recipients are eligible for agricultural loans or agricultural "bridge" loans based on their remittance records.

The goal of offering these products to remittance recipients is to help increase local savings in Latin America, thus expanding access to credit, and encouraging the creation of new businesses and employment. By spurring development at home, we can increase opportunity south of the border, and help generate jobs to keep immigrants at home, with their families.

General Trends and Conclusions

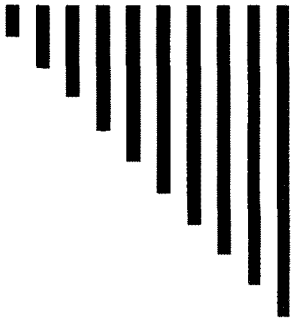
The structure and flow of remittances sent by migrants in the United States to Latin America and the Caribbean has changed significantly in recent years. While the volume and number of remittances has increased sharply, there have also been more gradual changes in the method of resource transfers and the destination of the funds. Although food, health and utilities top the list as the items intended to be purchased for the families of the remittance senders, there is a growing interest in investments in the home country, especially housing.

There is significant, untapped potential for remittances to be applied to economic and financial sectors where their impact could be multiplied—sectors such as insurance, mortgages, private education, banking and finance, especially microfinance and rural credit. More and more remittance senders are using the formal financial system, although the vast majority of remittance senders continue to rely on money transfer companies

If the cost of remittances continues to fall and more options are given to remittance senders and receivers for remittance transfer and investment products, millions of families in Latin America and the Caribbean will benefit and so will national and local economies. A sincere desire by immigrants to help their country of origin as well as their families will aid efforts to encourage this trend, as will an expressed interest on the part of migrants in investing remittances in homes, credit, insurance and other financial products.

Barriers of distrust of the financial systems and the lack of awareness and access to formal financial institutions remain. There is also a lack of knowledge about the importance of building a credit history on the part of remittance senders and receivers that needs to be corrected.

Governments, financial institutions and civil society can play a major role in creating awareness among emigrants and their families about the possibilities of obtaining a greater return on the resources they send home while contributing more to the economies of their countries of origin.



River of Gold

Testimony to the House Financial Services Subcommittee on Domestic and International Monetary Policy, Trade and Technology

Sergio Bendixen, President
Bendixen and Associates

March 7, 2007

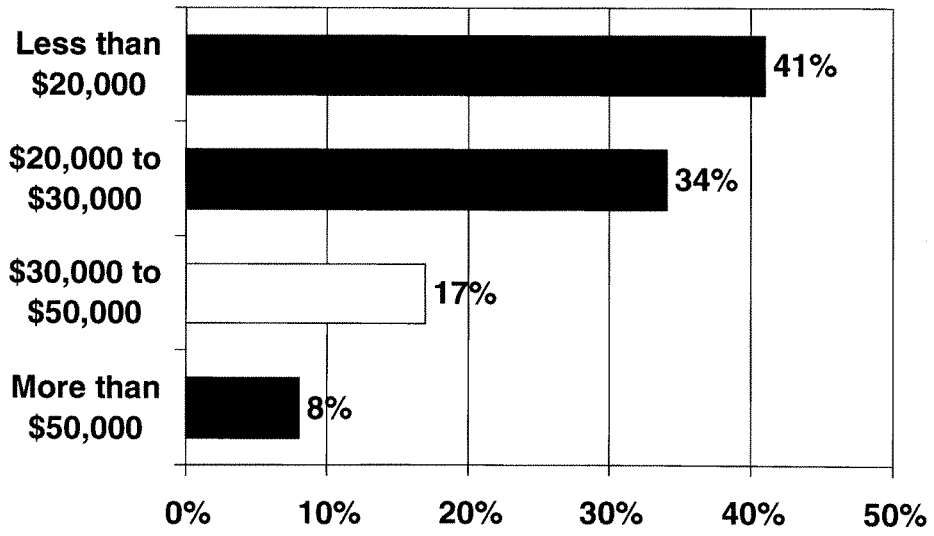
Polling History

- Bendixen and Associates has conducted public opinion research projects on remittances in 23 different countries during the last five years for the Multilateral Investment Fund of the Inter-American Development Bank and for the European Bank for Reconstruction and Development.
- B&A has interviewed over 60,000 remittance senders and recipients in the United States, Spain, Portugal, Japan, Russia, Azerbaijan, Georgia, Moldova, Mexico, and 14 other Latin American and Caribbean countries.

MIF
FOMIN

European Bank
for Reconstruction and Development

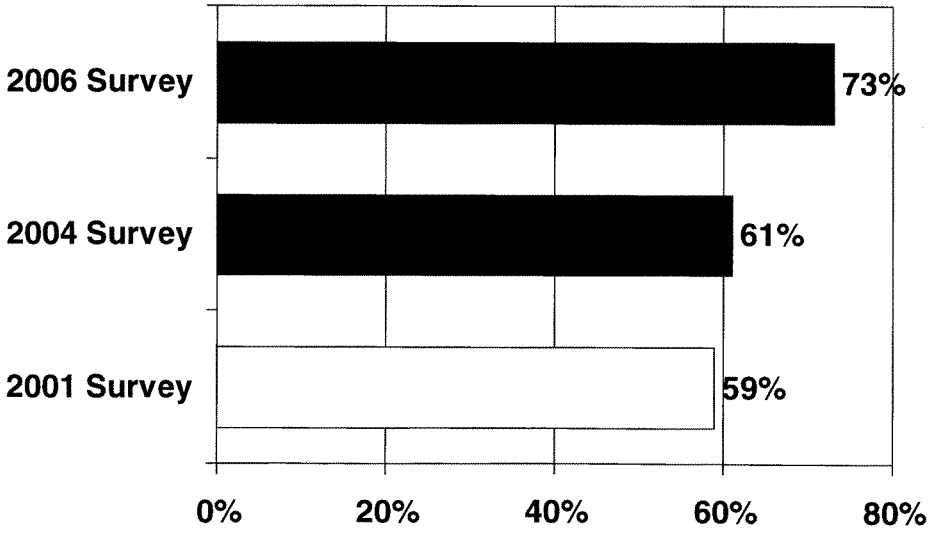
Annual Household Income of Remittance Senders



Source: IDB Survey in the United States, 2006

Have you ever sent money to your family in Latin America?

Remittance Senders in the United States



Source: IDB Survey in the United States, 2001, 2004 & 2006

Regular Remittance Senders in the United States

- **12.6 million** Latin American immigrants living in the United States sent money to their families during the last year.
- The average Latin American immigrant sent **$3,600** to family members during the last year.

Source: IDB Survey in the United States, 2006

Remittances to Latin America

- Latin American immigrants living in the United States sent approximately **$45 billion** to their families during the last year.
- Latin American immigrants living in Europe, Canada and Japan sent approximately **$15 billion** to their families during the last year.

Source: IDB estimates

Money to Latin America in 2006

Remittances from USA, Canada, Europe and Japan	$60 billion
Foreign Direct Investment	$45 billion
Official Development Assistance	$6 billion

Source: IDB estimates

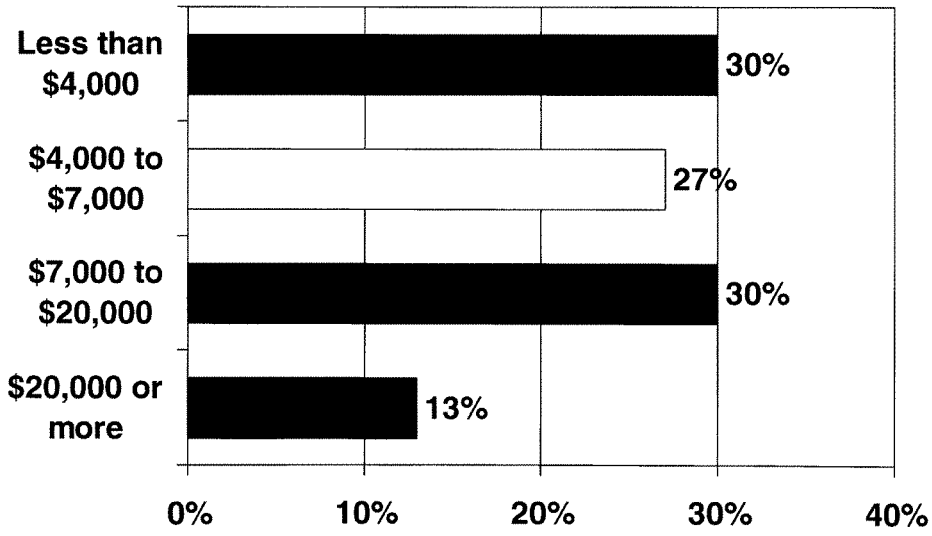
Money to Mexico in 2006

Oil Exports	$35 billion
Remittances	$25 billion
Foreign Direct Investment	$17 billion
Tourism	$14 billion

Source: *Reforma*, Mexico City

Annual Household Income of Remittance Recipients in Mexico

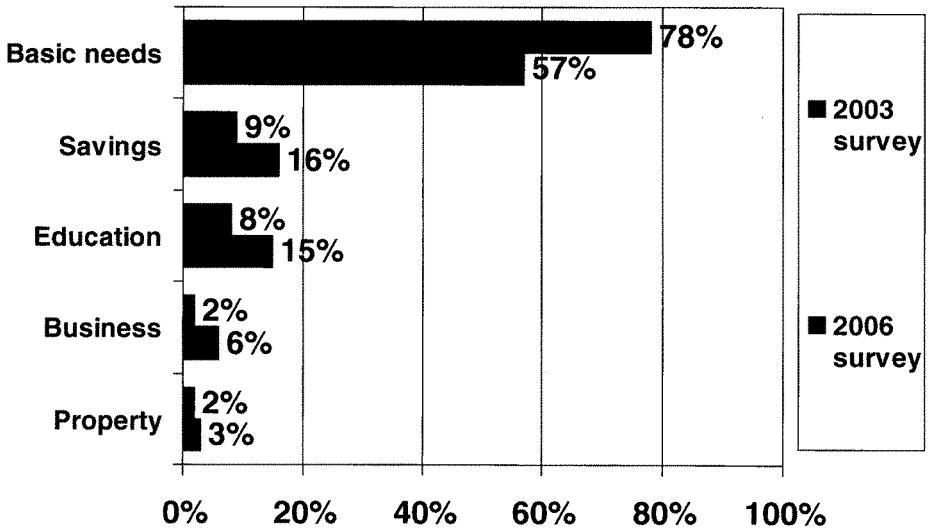
(in US dollars)



Source: IDB Survey in Mexico, 2006

How is the money used?

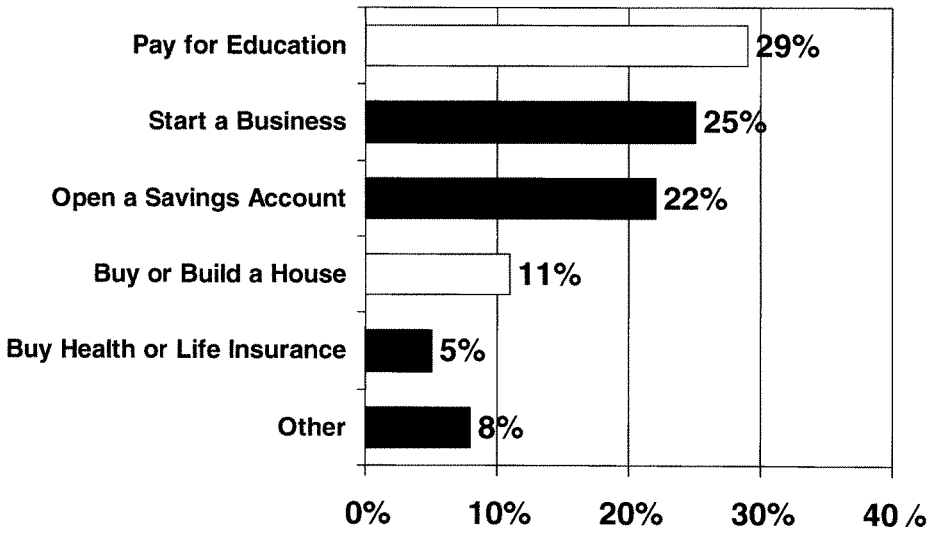
Remittance Recipients in Mexico



Source: IDB Surveys in Mexico, 2003 & 2006

Other than basic needs, what do you use the money for? – **$350 million**

Remittance Recipients in Haiti



Source: IDB Survey in Haiti, 2006

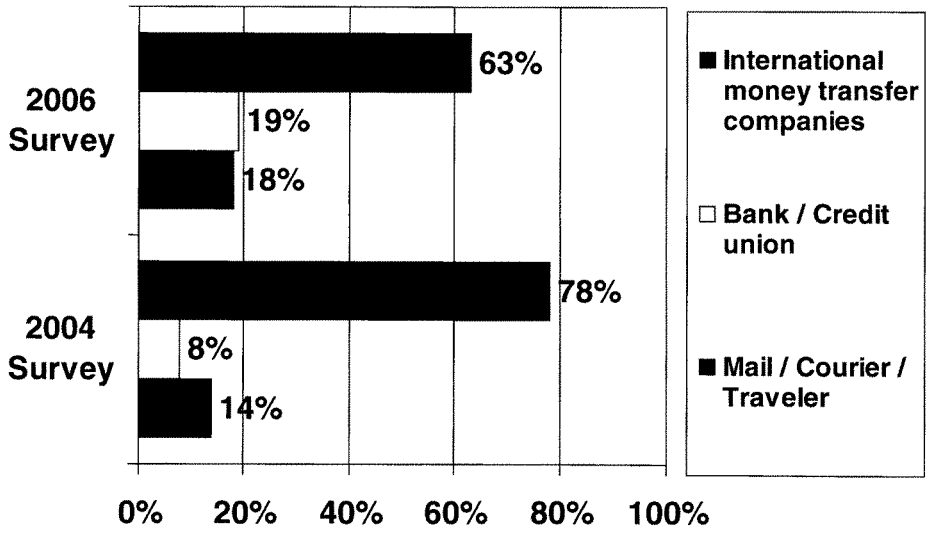
"Remittances – a catalyst for economic development"

- Daniel Shoer Roth reports on the impact of remittances on the town of Cabrera, Dominican Republic in a February 18, 2007 article in *El Nuevo Herald*.

- Reports many new houses being built with remittance funds, the creation of many construction jobs, and the increase in the sale of building supplies.
- Reports the opening of small businesses like a telecommunications center, a transportation service for tourists, and a currency exchange office.
- Reports that remittances are being used as collateral for loans.
- Reports that the reconstruction of the cathedral in the central plaza, and the purchases of a new fire truck and computers for the local school are being funded by Dominicans in the United States and Europe.

How do you usually send money to your family in Latin America?

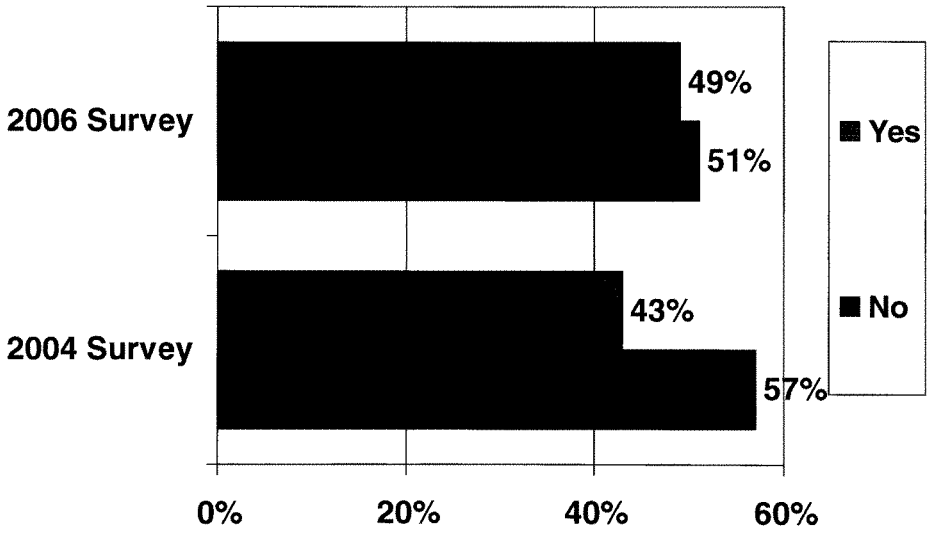
Remittance Senders in the United States



Source: IDB Surveys in the United States, 2004 & 2006

Do you have a bank account?

Remittance Senders in the United States



Source: IDB Surveys in the United States, 2004 & 2006

Recommendation

- The United States Congress should encourage Latin American remittance senders in the United States to open a bank account.
- The FDIC pilot program on "Financial Literacy" in Chicago should be nationalized and fully funded. Latin American immigrants need to understand the importance of a relationship with a financial institution, a credit history, and the advantages of financial products like mortgages, small business loans, and insurance.

Statement by

Bruce McNamer

President & CEO, TechnoServe, Inc.

Before the Sub-Committee on Domestic and International Monetary Policy, Trade and Technology
House Committee on Financial Services

March 7, 2007

Introduction

Mr. Chairman, Ranking Member and members of the Committee:

Thank you for this opportunity to testify before the Committee to share our views on the potential for remittances to unlock economic growth for the world's poor. Almost 40 years ago, when a Connecticut entrepreneur named Ed Bullard created TechnoServe to apply private sector solutions to poverty in the developing world, he could not have foreseen the enormous potential power of these new capital flows as a tool for fighting poverty. Moved by the plight of people he encountered volunteering at a hospital in rural Ghana, he sold his business and created TechnoServe to give the rural poor in the developing world access to the tools they need to improve their lives. While many others have since adopted a private enterprise approach to poverty reduction, TechnoServe was one of the first to pioneer this approach in the late 1960s, beginning with support to rural entrepreneurs in Honduras

Since then, TechnoServe has evolved to focus on building thriving businesses and industries as a catalyst for poverty reducing economic growth, with a particular focus on the rural economy, where 70% of the world's poor reside. We base our work out of offices in 15 countries in Africa and Latin America. Our staff, primarily host country nationals, is drawn from leading private sector firms--from industry and management consulting firms. Many have run successful businesses themselves—the best people to help other entrepreneurs to start or grow their businesses.

While relatively new to TechnoServe, I also bring a private sector perspective to anti-poverty efforts. Before joining TechnoServe I worked in investment banking at Morgan Stanley and management consulting at McKinsey & Company. My thinking on poverty and economic growth has also been heavily influenced by my hands-on experience as a Peace Corps Volunteer in Paraguay.

In 2005, enterprises we assisted in Africa and Latin America generated $50M in revenues, and bought local raw materials worth $30M, benefiting 750,000 people. In this work we are honored to have as partners such leading US firms as Google, Proctor & Gamble, Kraft Foods, Ernst & Young, Cargill, Nestle, Peets Coffee & Tea and Google.

Our approach varies by industry and country, according to the specific economic opportunity. But the core elements of the approach are:

- **Analyze the business opportunity**: Identify a high-potential industry that can support scaleable, replicable businesses that benefit the rural poor and the point(s) along the value chain where interventions can be most effective. We do this using the same approach used in venture capital to identify the economic opportunities with the highest return on (donor) investment.
- **Identify the entrepreneur**: Find someone with business aptitude and the drive and determination necessary to succeed.
- **Develop the business**: Provide the necessary technical and business development support to help the business reach its full potential.
- **Improve the enabling environment**: Promote regulations and policies that improve the business climate.
- **Refine and scale up to expand impact**: Improve the business model based on experience and use it to launch or expand more businesses within the industry.

To complement our business- and industry-building work, we also run entrepreneurship development programs that more broadly promote a culture of entrepreneurship and give individuals the training and connections they need to successfully launch and manage their own businesses.

Mr. Chairman, remittance flows are a critical issue in relations between the U.S. and the developing world, particularly with nations of Latin America. Approximately 40 million Latinos live in this country. They send a significant amount of capital to Latin America—roughly $45 billion annually. Remittances are an important source of capital. Total remittances now represent 5 times the amount of official development assistance to Latin America/Caribbean.

Remittances represent enormous potential to create economic development in poor regions of Latin America. However, this potential has not yet been realized. According to a 2006 Inter-American Development Bank study, less than 5 percent of those sending remittances have opened a savings account back home. Only about 1% of remittance flows have been used to start a business. This translates into significant lost opportunities to invest in productive economic activities. It is such businesses that offer the jobs and income that have potential to lift people out of poverty.

In El Salvador, for example, one in six Salvadorans - 1.5 million people - live abroad. They send home nearly $3 billion annually, generating 16% of the country's gross domestic product. While remittances helped to feed families and educate children, and meet other important basic needs, overall they have not been used for business start up or growth, important catalysts for broad-based economic development. While meeting basic needs is critical—sustained private sector growth is required to drive long-term improvements in people's lives.

Profitable, competitive business opportunities provide opportunities for productive investment. However, in many of these economies, entrepreneurs have few resources to help them identify profitable business opportunities and limited support to launch and grow them. Without productive enterprises in which to invest, people will continue to spend remittances on household goods and services.

The key challenge is how to create viable, growth-oriented businesses which will unleash job creation and income. TechnoServe believes private enterprise is the linchpin of efforts to promote economic growth in the developing world. Indeed it is the only thing that can. Entrepreneurial people, given the knowledge and tools to improve their lives, will improve productivity, promote innovation, and create the jobs and incomes to improve living standards and escape poverty. We have worked with thousands of entrepreneurs in the developing world to build thriving businesses and industries, creating economic growth that benefits not only individual households, but entire communities and countries.

Several factors need to be in place to enable and support entrepreneurial people to invest in productive enterprise: Capital is certainly critical...and remittances are potentially a source of such capital, provided the right investment vehicles and incentives can be put in place (and I do want to talk more about that). However, capital alone is necessary but not sufficient. Equally important are business-building skills and know-how, information, technology, and support services. Development Assistance funds have an important catalytic role to play in aiding these components -- supporting entrepreneurship development programs, creating market linkages and building trade capacity. TechnoServe's partnerships with USAID, the IDB and other funders to help strengthen entrepreneurs in Latin America is proof that competitive, profitable businesses can be created and can create jobs, income, wealth, and avenues for productive investment (from remittances and elsewhere).

In this context, it is worth noting that a great deal of poverty in Latin America remains concentrated in rural areas. Thus, it is small farmers who represent the vast majority of income generation and employment. While non-agriculture jobs and gradual rural transformation will be required, in the short to medium-term finding new ways to integrate farmers into competitive, profitable industries is essential for promoting poverty reducing economic growth, and contributing to overall peace and security.

There are a number of ways to optimize the power of remittance flows to productive investment areas where most of the poor live. These roughly fall into three areas: 1) improvement of the enabling environment for remittances to stimulate expansion of remittance-based financial products; 2) facilitation of potential business opportunities, under CAFTA and more broadly; and 3) expanded business development services to entrepreneurs to grow the pipeline of investment opportunities. I will briefly describe these three.

Improvement of the Enabling Environment for Remittances

A number of actions could be taken to make it easier for US-based immigrants to make cross-border investments. The expansion of savings and other vehicles to increase savings and investment will be critical to create local capital. Tax incentives for the creation of pooled

investment vehicles in the US could create a means for US-based citizens of other nations to invest in businesses in their home nations. There are existing examples of successful funds in Latin America based on remittance flows, which offer loan and loan guarantee products for consumption, housing and health, etc. More products need to be developed to catalyze investments for business start up and growth. More finance needs to be made available, both greater availability of cash-flow based lending, as well as lending anchored on remittance flows.

Facilitation of CAFTA-related and other business opportunities in Latin America

There are a number of exciting opportunities, some facilitated by CAFTA, which have the potential to reap benefits for Latin American businesses. By way of example, the growing ethnic products market, presents a significant opportunity for companies in Latin America. Latin immigrants in the US buy a range of food products from their home countries, including dairy, fruits and vegetables, as well as arts and crafts. In El Salvador, for example, about 80 export ready firms produce ethnic food products. TechnoServe research indicates that there are at least 100 small-scale artisanal food companies that sell exclusively to the local market, but have the potential to export. This is just one example where investments from remittances, either direct or via pools of investment capital, could be channeled to strengthen businesses, generate jobs and income.

Business development services to entrepreneurs

However, availability of investment capital and market access alone are not enough. Would-be investors—including the hardworking immigrants generating the remittances-- need productive enterprises in which to invest their capital. Without a growing pipeline of entrepreneurs, developing viable, competitive businesses in growing, sustainable markets, there is little opportunity to channel remittances away from household consumption into business investment. Development Assistance has a vital role to play in providing entrepreneurs the support to translate their good ideas into great businesses. TechnoServe experience shows that when you provide entrepreneurs access to information, technology, business support services and capital they sorely need, they are empowered to unleash the power of private enterprise, just as we do in the US.

With support of USAID and other partners, TechnoServe has run Business Plan Competitions throughout Central America to do just that. In El Salvador alone, these competitions have helped entrepreneurs create over 160 companies, generating over $29M in revenues, and creating over 1000 jobs. The entrepreneurial spirit is alive and well in the region. What is needed is the catalyst to unleash and empower it. Development assistance channeled to these types of entrepreneurship development and trade capacity building activities has a vital role to play.

Thank you Mr. Chairman, Ranking Member, and Members of the Committee for your serious attention to the important issue of leveraging the power of remittances for economic development. Remittances have a vital role to play in stimulating investment and business creation. Well-designed results-oriented programs can provide hardworking entrepreneurial

people in the developing world the tools they need to generate long-term solutions to poverty and to create better lives for themselves and their children.

The Role of Remittances in Leveraging Sustainable Development in Latin America and the Caribbean

Manuel Orozco
Inter-American Dialogue
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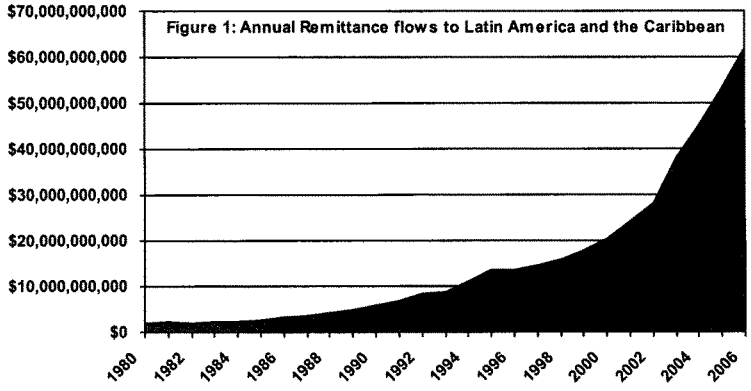
Testimony presented before the Subcommittee on Domestic and International Monetary Policy, Trade and Technology at the hearing entitled, "The Role of Remittances in Leveraging Sustainable Development in Latin America and the Caribbean". March 7, 2007.

Introduction

As the global economy increasingly connects goods and people, international money transfers sent by migrants are having an effect on economic growth and local development. This testimony provides an overview of the impact of remittances to Latin America and the Caribbean and identifies prevailing challenges and puts forward recommendations to leverage these flows toward greater and sustainable development.

I. Remittances to Latin America and the Caribbean: a brief overview

The volume of remittance flows to Latin America and the Caribbean has increased to over sixty billion dollars in 2006 (see Figure 1). The increase is due to a number of factors that include reactions to economic downturns in Latin America and the Caribbean, strengthened ties between the U.S. and Latin America, improved competition in money transfers, increases in contact among members in a transnational family and improved accounting of the money received. For example, in 1980 only 17 countries reported flows on remittances; by 2004 the number was 30. Even these figures, reported by Central Banks, are considered to be conservative estimates.



Source: Central Bank of each country

These flows have had an economic impact in several of these economies. First, the sheer volume has become an important source of foreign savings that helps to sustain foreign currency reserves and the financial system. For example, in many Caribbean and Central American countries, remittances are the most important source of income and exhibit far more stable flows than other factors. Second, remittances respond to macroeconomic shifts, particularly to inflation, thus manifesting countercyclical tendencies. Third, in some countries, particularly in smaller ones, these savings contribute to the country's growth rate. Fourth, remittances represent an economic engine attached to an intermediating industry that includes other kinds of services and transactions. Fifth, remittances have a distributive impact in a country's economy.

Table 1: Central America in the global economy, 2005, in millions US$

Sector	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica	D.R.
Remittances	2,992.8	2,830.2	1,763	850	362.0	2,410.8
Merchandise Exports (not including maquiladora)	5,028.6	1381.47	875.0	857.9	2,954.0	1,397.9
Maquiladora	352.4	1,920.7	886.4	682.1	4,072.3	4,734.6
Official Development Assistance*	218.4	211.5	641.7	1,232.4	13.5	86.9
Income from Tourism	868.9	542.9	472.2	207.1	1,598.9	3,519.7
GDP	27,400.0	17,244.0	8,000.0	5,000.0	20,014.5	29,333.2
R+X+A+T/GDP	35%	40%	58%	72%	45%	41%

Source: Central Bank of each country

In the broader Latin American and Caribbean context, remittances are increasingly taking on an important share of the National Income. Although they only represent 2 percent of regional gross domestic product, the impact of remittances varies across countries and regions and is greater in smaller economies.

At the national level, such variations are associated with the relationship to GDP, to per capita flows and per capita GDP as well as to the cost of sending money. For example, Haiti, Honduras, Nicaragua, El Salvador and Jamaica are countries where the remittances received represent more than 10% of total GDP. However, not all of these countries are relevant when remittances are measured in per capita terms. Those countries that receive more than US$100 per capita include ten countries, among which are Mexico, Guatemala, Ecuador, Barbados and Grenada. These differences are noted in the average amounts sent as well as in the relationship between the annual amount sent and per capita income in these countries. The table below highlights these differences. Although the average amount sent is around $270 per month, when that figure is compared to per capita GDP, again the results vary. Recipients in Haiti, Honduras and Bolivia, for example, receive amounts that are nearly three times per capita GDP. The cost of sending money also varies across countries and may be associated with volume; the lower the volume entering a country, the more expensive the transfer will be.

The differences in these trends are a function of specific country conditions as well as the history of migration. For example, although Central America, the Caribbean and Mexico have a historical relationship of migration to the United States, each migratory pattern and its subsequent remittance flows respond to the realities of these countries. Thus, Salvadorans and Dominicans may receive relatively similar volumes; however, their migrant populations are different in size and the timing of migratory flows responds to varying dynamics. In the case of El Salvador, they responded to the civil war and its post-conflict process, whereas in the Dominican Republic there is a response to a longer historical tradition with one reference point being emigration in order to escape the Trujillo dictatorship.

Table 2: Remittances and key economic indicators

	Remittance transfers ...				
Country	**and GDP**	**Per capita**	**Cost**	**Average Transfer**	**Annual Volume**
Mexico*	2.98%	187.18	6.0%	351.00	23,053,000,000
Brazil*	1.09%	30.85	8.13%	541.00	7,372,650,000
Colombia*	4.84%	90.48	5.0%	220.00	4,200,000,000
Guatemala*	11.42%	237.54	5.6%	363.00	3,609,810,000
El Salvador*	18.28%	411.31	5.2%	339.00	3,316,000,000
Dominican Republic*	13.35%	271.03	6.4%	176.00	2,700,000,000
Ecuador*	6.01%	136.07	3.9%	293.00	2,900,000,000
Jamaica*	18.33%	622.78	8.2%	209.00	1,770,000,000
Peru*	3.71%	89.21	4.6%	169.00	2,869,250,000
Honduras*	23.09%	244.72	5.8%	225.00	2,359,000,000
Haiti*	34.53%	115.50	6.7%	123.00	1,100,000,000
Nicaragua*	19.05%	154.91	5.2%	133.00	950,000,000
Paraguay*	8.52%	89.31	9.11%	263.00	650,000,000
Bolivia*	10.17%	93.66	5.6%	235.00	989,000,000
Costa Rica*	2.11%	92.44	9.46%	301.00	520,000,000
Argentina**	0.2%	7	9.02%	212.00	800,000,000
Panama*	1.36%	61.90	10.50%	196.00	292,100,000
Guyana*	36.89%	359.52	10.14%	179.00	270,000,000
Barbados	4.3%	418	11.66%	220.00	300,000,000
Trinidad and Tobago*	0.77%	70.75	10.41%	200.00	110,000,000
Uruguay**	0.3%	71	11.28%	198.00	115,000,000
Belize*	3.77%	148.70	8.78%	220.00	93,150,000
Suriname*	4.20%	122.49	10.17%	220.00	102,300,000
Grenada**	5.2%	220		220.00	23,000,000
Venezuela, RB*	0.11%	4.64	17.10%	138.00	124,000,000
Chile**	0.0%	1	8.90%	279.00	13,000,000
Antigua and Barbuda**	1.5%	140		220.00	11,000,000
Dominica**	1.5%	56		220.00	4,000,000
St. Kitts and Nevis**	1.2%	86		220.00	4,000,000
St. Lucia**	0.6%	25		220.00	4,000,000
St. Vincent and the Grenadines**	0.8%	27		220.00	3,000,000

*Source: Central Banks of each country, World Bank Development Indicators, data collected by the author. Note: * 2005; ** 2003.*

Table 3: Remittances and other indicators

	Rural areas	Female Recipients (%)	Female Senders (%)	Recipients with Bank Accounts (%)	Non-Recipients With Bank Accounts (%)	Senders With Investment (%)	Recipients with Investment (%)
Bolivia		52	71	44	35	4	
Colombia		68	54	52	45	5	14.5
D.Republic	40	73	45	66	58	3	21.1
Ecuador	57	74	28	46	34	1	29.8
ElSalvador	39.5	72	46	31	19	3	10.6
Guatemala		80	29	41	17	2	5.1

	Rural areas	Female Recipients (%)	Female Senders (%)	Recipients with Bank Accounts (%)	Non-Recipients With Bank Accounts (%)	Senders With Investment (%)	Recipients with Investment (%)
Guyana	40	71	48	62		8	11.7
Haiti	54	53	32	68.4		25.5	17.7
Honduras			37	34	16	4	4
Jamaica			49	65	60	2	
Mexico	45.7	63	17	29	28	2	
Nicaragua	45	72	44	10	10	3	27
Peru		46		37	35		

Source: Central Banks of each country, World Bank Development Indicators, data collected by the author

A look at these flows and their manifestations in the Latin American and Caribbean region shows the presence of three distinct groups as they relate to the impact these funds have in each country. One group is represented by those countries whose flows have an effect on most if not all the indicators mentioned above. This means that remittances have an important presence both in the country's national and per capita income, as well as in the inflow to a household's income, which is at least twice the average per capita income. A second group is one wherein the effect of remittances is felt in half of these indicators, and the third group is that which is minimally impacted by remittances.

Table 4: Impact of remittances on Latin American and Caribbean economies

Impact of Remittances		
Strong	**Medium**	**Low**
Guatemala	Paraguay	Dominica
Ecuador	Colombia	Panama
Nicaragua	Peru	Antigua and Barbuda
El Salvador	Dominican Republic	St. Vincent and the Grenadines
Haiti	Brazil	Chile
Honduras	Suriname	Trinidad and Tobago
Bolivia	Costa Rica	Argentina
Guyana	Belize	St. Kitts and Nevis
Jamaica	Grenada	Uruguay
Mexico	Barbados	St. Lucia
		Venezuela, RB

Ratio of remittances: 1: < .66; 2:0.67-1.5; 3: > 1.51; Remittances as % of GDP:1: < 1%; 2: 1 to 4%; 3:>4%; Remittances per capita: 1<36; 2: 37-100; >100; Remittances cost: 1: > 7.5; 2: 7.6-9.5; 3: <9.5.

Remittances and finance

Studies show that depending on the groups and families, migrants may see a portion of remittance as an asset in itself because they then use it to invest in their families' material circumstances to transform their lives.[1] Remittances sent to address educational needs, for example, create such a basis for asset building.

[1] Pozo, Susan and Catalina Amuedo-Dorantes "Remittances as Insurance: Evidence from Mexican Migrants," *Journal of Population Economics*, 2006,

Investment in business and real estate, in particular, and migrant donations to their local communities are unambiguously concrete forms of financial asset accumulation at the individual and community levels. In the case of financial issues we find that between one and two in ten migrants invest in their home country, and nearly three in ten build savings at home. The table below shows the kind of asset building practices that were found to take place among migrants from twelve different Latin American countries.

Table 5: Percent of remittance senders and recipients who . . .

	Sender	Recipient
Have a bank account	27	50
Mortgage loan	10	10
Have a small business	3	17
Have a small business loan	1	4
Have a student loan	1	3
Are paying insurance policies	2	6
Lends money to family to invest	2	2
Do not have financial obligations	NA	32

Source: Orozco, Manuel. Survey of senders and recipients. See report on Transnational Communities.

Table 6: Percent of remittance senders/recipients who in addition to remittances help/are helped by their family to address other economic obligations, such as. . .

	Sender	Recipient
Mortgage loan	12	28
Pays loans to take care of a small business	2	27
Pays for a student loan	2	8
Helps pay for health insurance	2	16
Other financial obligations	22	26

Source: Orozco, Manuel. Survey of senders and recipients. See report on Transnational Communities.

The table is based on surveys of 3,000 remittance senders that were used to gauge the determinants of sending as well as the factors that affect financial asset building activities.[2] In looking at these numbers, the link between migrant savings and finances is clearer. Statistical analysis showed that females remit about 9 percent less money than do males, that the amount of funds remitted increases by about 5 percent for each year of age, and that the longer an individual has lived in the United States, the less they remit. However, the longer a person has been remitting the more money they tend to remit.

When examining the relationship between remittance sending and financial obligations, the results demonstrate that when an immigrant has a bank account, it increases the amount remitted by 9 percent. In addition, individuals who report having a savings account in the home country remit nearly one-quarter more dollars.

[2] Similar results were found among South East Asian migrants and their families.

Sending Monies for Business and Loans[3]

Using financial obligations, such as investing in a small business or paying off a loan, as the dependent variable it is possible to see that the most important factor in whether money is sent to pay off loans is whether or not the sender has a savings account in the home country. This may reflect the fact that savings abroad are often part of small investment ventures migrants keep in the home country. Indeed, senders with savings accounts in the home country are 3.3 times more likely to send money to support a business abroad than those without savings accounts.

Otherwise, monies sent to help pay off a loan abroad behave somewhat similarly to general remittances. Education is associated with a decrease in the likelihood that a US migrant will choose to pay off loans abroad. In addition, there is a reduction of 7 percent for each year that a migrant has been in the U.S. in the likelihood of sending money to pay off loans. This is nevertheless countered by the finding that each year of remitting is associated with a 20 percent increase in the likelihood that money will be sent to help pay off a loan. Yet, at some point increasing years of remitting is associated with a decreasing likelihood that monies will be sent to pay off loans. Also like the general results for the amount of remittances sent, senders giving to a spouse are 2.4 times more likely than those not sending to a spouse to give money to pay off loans. Finally, having a bank and a savings account substantially increase the likelihood that a sender will remit funds to help pay off a loan abroad.

Like the analysis of the amount of remittances sent, these results suggest that U.S. migrants with formal financial commitments are, in turn, more likely to send money. In these two outcomes, the moneys are targeted for what can only be considered investment purposes in the home country, e.g., running a business or paying off loans. Once again, this suggests that financial diversification is associated with perceived interests to, and knowledge of, making productive monetary contributions abroad.

II. Limitations and challenges of the impact of remittances

Although remittances play an important role as a social protection mechanism in many instances and practices, is important to bear in mind that the overall effect of these flows will depend in large part on the capacity of the local economy and services to absorb these savings.

A study conducted by the author in five communities in Latin America and the Caribbean looked at the extent to which services were matched by a demand from remittance recipients. Here in this section we provide a synthesis of the interplay between remittance transfers and the local economy.[4] The cities included a range of migration experiences. In the case of Jerez, Zacatecas or Suchitoto, El Salvador, migration has been part of a longstanding pattern dating at back least thirty years. More recent migrant communities were also studied, such as Salcaja, where residents predominantly started emigrating in the eighties during the civil war in Guatemala, or Catamayo, Loja, Ecuador where emigration

[3] This section is reproduced from the report *Transnational Engagement, Remittances and their Relationship to Development in Latin America and the Caribbean,* and comes from section 4b.

[4] The comparative study is found in Orozco 2006a; the authors of the independent reports are Eguez et al. 2006, Andrade et al. 2006; Reifsteck 2006; Garcia Zamora 2006 and Alvarez Aragon et al. 2006.

developed in the late nineties as a result of the migratory waves resulting from the economic crisis of 2000. Overall, these communities are illustrative of places were at least one third of the flow of remittances goes within their respective countries: one third of the flow goes to the capital cities, one third to provincial capitals, and one third is captured by these types of semi-rural or rural communities.

The local economies of these communities struggle with structural and institutional challenges as well as with the current demands of the global economy. Productivity is constrained by relatively small labor forces, and subsistence agriculture is still a pattern in any of these cities. Moreover, in each community only one or two main sources of income exist, thus posing difficulties in diversifying sources of growth. Jerez is a mixture of agricultural activity and commerce. Salcaja operates on subsistence agriculture and textile production of garments sold for the regional market. Suchitoto is also agriculturally oriented, focusing on the production of basic staples with a small and emerging tourist industry; and Catamayo is a bifurcated economy with two enclaves, an airport and a sugar cane farm, that coexist with local subsistence agriculture and entrepreneurs working in commercial activities. Although connected to larger urban centers, these cities maintain relationships of economic dependence on those centric places.

Table 7: Basic profile of five cities

	Jerez, Zacatecas Mexico	Salcaja, Quetzaltenango, Guatemala	May Pen, Jamaica	Suchitoto, El Salvador	Catamayo, Loja, Ecuador
Population	37,558	14,829	57,332	17,869	27,000
Labor force (%)	41%	37%		34%	31%
Population ages 5-19	34.7% (ages 0-14)	36.81% (5,459)	32.3% (18,520)	34% (7 to 18)	30%
Main economic activities (%) --Commerce and Services --Agriculture --Manufacturing --Construction	35%; 19%; 13%; 11%;	42%; 4% (excl. subs.); 6%;		15.5%; 52.2%; 7.6%;	39%; 20%; est. 8%
Proximity to major urban center	45kms to Zacatecas	9 kms to Quetzaltenango	58 kms to Kingston	45 kms to San Salvador	36 kms to Loja

Source: Orozco 2006a; Eguez et al. 2006; Andrade et al. 2006; Reifsteck 2006; Garcia Zamora 2006; Alvarez Aragon et al. 2006.

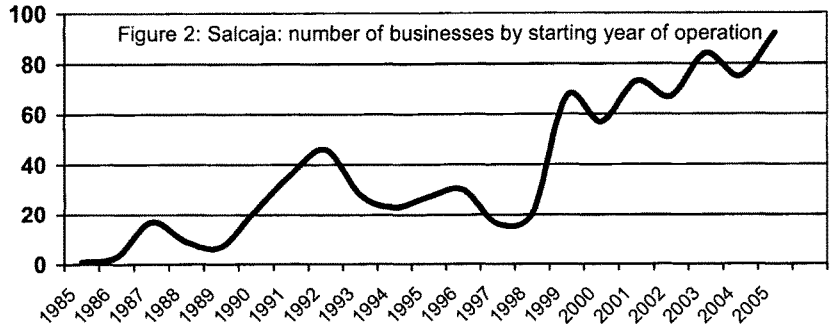
Moreover, these cities operate on low wages and precarious employment, unable to compete with other markets or in the global economy. Wages are often one third or one quarter of the cost of living. An agricultural worker in Catamayo working in sugar cane fields earns US$150 a month, and a store clerk in Salcaja earns US$200. This reality makes it hard for people to maintain a decent standard of living through their own employment. The cost of the basic food basket ranges between US$150 and US$350. This gap between earnings and cost of living has been a key factor in the decision to migrate for many people.

Table 8: Monthly Cost of Living, Income and Remittances

	Jerez	Catamayo	Suchitoto	Salcaja	May Pen
Cost of living . . .					
Food	219	228	209	201	245
Services (utilities)	60	44	40	43	99
Education	13	32	29	56	98
Health	40	41	34	68	22
Entertainment	27	3	40	35	14
Total	359	348	352	403	478
Income . . .					
Wages	323	303	125	162	295
Total earnings, remittances included	930	501	622	353	320
Monthly remittances amount received	637	331	515	181	247

Source: Orozco 2006a.

The productive base of the local economies is reduced to commercial activities, subsistence agriculture and some artisanal industrial work. Those segments that are more productive are concentrated in some economic enclaves, such as sugar cane production in Catamayo, vegetable production in Suchitoto or textile and garment manufacturing in Salacaja. However, there has been an overall increase in the number of registered businesses over the past six years.



Source: Orozco 2006a; Alvarez Aragon et al. 2006.

Table 9: Business Activities of local economies (number)

Type	Catamayo	Suchitoto	Jerez	May Pen	Total
Retail Store	18	60	10	126	214
Food market	57	4	23	30	114
Restaurant	41	36	2	16	95

Professional serv	15	17	13	19	64
Other commercial activities	3	39	1	6	49
Other services		36		91	127
Entertainment	13	13	9	15	50
Transportation		20	5	3	28
Construction and Maintenance	2	11	10	10	33
Hardware and Ind. Warehouses	6	2	11	15	34
Auto and repairs	5		11	35	51
Food manufacturer	4	11	4		19
Gas	7	2	6	4	19
Hotel	13			2	15
Financial	6	1	10	10	27
Furniture	2		5	5	12
Bookstore		4		4	8
Media	1		2	10	13
Other industrial activities		3		4	7
Tourism	1			1	2

Source: Orozco 2006a; Eguez et al. 2006; Andrade et al. 2006; Reifsteck 2006; Garcia Zamora 2006; Alvarez Aragon et al. 2006.

Remittance recipients and the local economy

Migrants who have left these communities regularly send money to their families so that they can take care of their basic needs and hopefully save. The number of remittance recipients in these cities is relatively variable but is around 15% of the population, representing between two and six thousand households which each receive an average of US$300 a month. Given the poor conditions of the local economy, the arrival of nearly one million dollars a month into the economy is more than a welcome flow; it is also a potential economic stimulus.

Table 10: Remittance recipient households

	Jerez, Zacatecas Mexico	Salcaja, Quetzaltenango, Guatemala	Suchitoto, El Salvador	Catamayo, Loja, Ecuador	May Pen, Jamaica
Percent of remittance recipient households	18.20%	15%	23%	15%	
Estimated number of remittance recipients	6,836	2,224	2,073	4,050	
Number of people in household	4	5	5	6	4
Number of children in household	1	2	3	2	2

Source: Estimates based on interviews and country census data

Remittance recipients spend money predominantly on basic food items needed to take care of households composed of an average of six members. The majority of the foodstuff purchased is locally or nationally produced, thus benefiting domestic producers and the economy. Most remittance recipients also spend money on education, health and other services with an average expenditure of US$500 a year on health and education. In fact, half of remittance recipients have made repairs on their home or invested in buying a new home

in the past five years. One third of those homebuyers did so at the investment request of the relative living abroad. Moreover, half of remittance recipients have invested in some small business activity, most of which was also prompted by the remittance sender. What's more, those who are able to keep some disposable income after daily expenses open savings accounts. This is more prevalent when there are more financial intermediaries available in the community or financial institutions reach out to these costumers. In Catamayo, for example, there are three credit and savings cooperatives and one bank that offer basic financial services to recipients. Similarly, Salcaja has one cooperative and two commercial banks. The Salcaja cooperative is proactive in reaching out to remittance beneficiaries and has several marketing tools to sell financial services to recipients.

Table 11: Remittance recipients who have invested in a small business or have savings accounts (%)

	Jerez	Catamayo	Suchitoto	Salcaja	May Pen
Invest	22.2	58.8	13.3	30.8	44.4
Savings account	11.1	29.4	86.7	61.5	88.9

Source: Orozco 2006a.

Despite the fact that these families are investing or own bank accounts, the extent to which suppliers in the local economy cater and market their products to this market segment is very limited at best. This situation does not apply only to financial institutions but to health, education, and other services. The quality of services provided is rather poor and supply is sparse, with some exceptions. Local businesses do not target this population group as a source of wealth generation, thus missing opportunities to maximize on the multiplying effect of these flows. At most there is a tacit acknowledgement that their businesses benefit from the demand of products and services from remittance recipients.

Both education and health sectors perform poorly in these communities. Institutions do exist, predominantly in the public sphere, but do not provide first class services to people. Schools are understaffed, teachers are ill prepared, and health provision is rather inadequate or expensive. For example, in Jerez, there are only two high-schools in a city of more than 20,000 people, 30% of which are under the age of 18. A similar situation is found in Suchitoto. In both cases, many students are forced to travel to their closest economic centers to obtain education. In the case of Salcaja, private institutions have emerged to fill this gap. As a result, many remittance recipient parents have taken advantage of this sector, putting their children in private schools for an improved education.

Table 12: Education, health and finance institutions

	Jerez, Zacatecas Mexico	Salcaja, Quetzaltenango, Guatemala	Suchitoto, El Salvador	Catamayo, Loja, Ecuador	May Pen, Clarendon, Jamaica
Number of high-schools	2	12 (públicas), 8 (privadas)	1 public high school, 1 vocational center	8	4

Number of health centers	3 private hospitals, 4 public hospitals; 31 specialists; 24 general practitioners;	1 (público), 25 (privados)	1 public hospital, 3 private medical clinics	25	1 public hospital, 3 private medical centers, 6 private practitioners
Number of commercial banks	4	2	0	1	6
Number of credit unions or MFIs	1	1	3	3	3

Source: Orozco 2006a; Eguez et al. 2006; Andrade et al. 2006; Reifsteck 2006; Garcia Zamora 2006; Alvarez Aragon et al. 2006.

Businesses do not seek to innovate or adapt to changing demands and realities accompanying the inflow of remittances. In education, for example, people invest predominantly in basic services and do not spend on greater educational opportunities such as putting children in extracurricular activities, paying for tutoring lessons, or taking computer classes. This lack of approach is informed as much by limited knowledge on the part of parents as to what they should do for their children's education as by the lack of supply of educational services. This latter issue is perhaps more relevant because remittance recipients are willing to spend on education but see few incentives to do so because the supply of services is relatively poor.

Table 13: Type of school obligations people engage (%)

	Jerez, Zacatecas Mexico	Salcaja, Quetzaltenango, Guatemala	Suchitoto, El Salvador	Catamayo, Loja, Ecuador	May Pen, Clarendon, Jamaica
Fees	15		37	57	
School registration	40	76	35	82	92
Transport		31		7	54
Food	23	5	26	2	54
School supplies, uniforms	36	71	62	61	96
Activities			22	8	33
Other	11	44		5	4

Source: Orozco 2006a; Eguez et al. 2006; Andrade et al. 2006; Reifsteck 2006; Garcia Zamora 2006; Alvarez Aragon et al. 2006.

Looking to an inventory of all businesses operating in the community, there were very few, if any, education related businesses except for school and office supply stores.

Table 14: Businesses operating in education related activities

	Jerez	Suchitoto	Salcaja	Catamayo	May Pen
Private schools	11	0	8	4	0
Office supply	0	1	18	7	4
Internet	0	2	9	4	3

Total number of businesses	11	3	35	15	7

Source: Data provided by municipalities in every city

When businesses were interviewed about their business perspectives, their approach was relatively crude or simplistic and asserted that remittance recipients were not necessarily a business target. However, all businesses were quick to acknowledge that recipient patronage was important to bringing in revenues to their stores, and that in many cases they have had to respond to changing demands from recipient households.

Overall, local businesses respond to the local demands but provide insufficient resources to meet the market preferences of remittance recipients. One reason is their lack of access to finance or ability to scale up their businesses. In addition, their knowledge of recipients' market preferences and expectations of revenue generation are scant. They express frustration about the little opportunities or choices available. For example, one store owner expressed that "There is no development that stimulates the municipality, and it is surprising to have a place with such rich resources as remittances where no one is taking advantage of them for anything productive." A drugstore owner in Jerez said, "migrants visit or send money because they have roots here. But local businesses, commerce, don't know how to take advantage of these flows in investment or commercial projects. There isn't even a chamber of commerce that motivates economic activities."

3. Policy opportunities

The contribution of remittance transfers and earnings to families in Latin America and the Caribbean provides more than safety nets to many people. But the limitations that the flows often face require policy consideration as these initiatives can better leverage the flows on broader structural issues such as education and health.

Overall the policy effort must aim at modernizing the productive base of local economies while leveraging resources from migrant foreign savings. In concrete terms this means linking investment opportunities, savings creation, local and central government enabling environments and increased risk propensity among local, national and transnational entrepreneurs.

We identify initiatives where donor activity can be critically important to promote leveraging schemes through remittance funds and migrant capital investment.

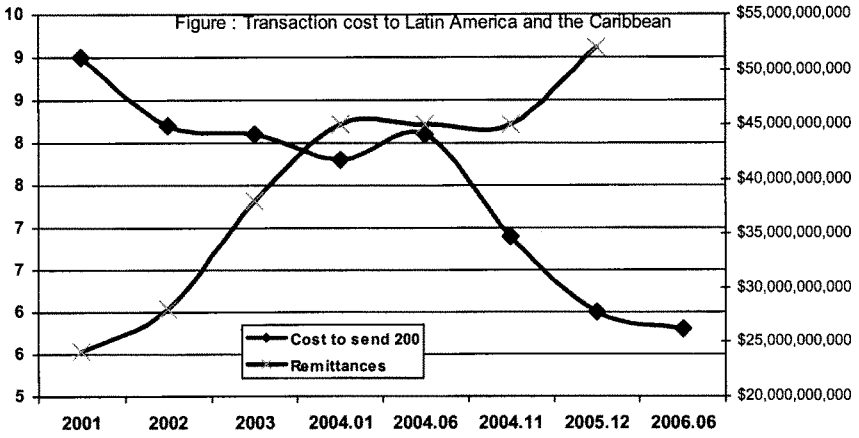
1. Improve competition and cost reduction;
2. Accelerating financial intermediation projects with credit unions and MFIs;
3. Engaging banking institutions more actively by identifying their opportunity costs in rural areas, including community reinvestment schemes by banking financial institutions;
4. Supporting projects on feasibility investment schemes to develop investment portfolios, including recommendations on business consolidation where microenterprise is ineffective or inefficient or technical assistance for business development, particularly among those seeking to return to their countries;
5. Providing tax breaks on the import of technology devices that can enhance the use of alternative payment instruments, such as debit cards or mobile banking;

6. Linking investment opportunities to the transformation of subsistence agriculture, while relaxing investment red tape and including outreach for migrant investment in the investment promotion offices available in all of these countries;
7. Designing projects that include education and health services among a range of other services offered by MFIs in cooperation with schools, public or private:
    a. Education funds, tutoring classes, extracurricular activities, internet;
    b. Health insurance, specialized medicine funds;
    c. Goals and standards among community leaders, financial institutions and local governments to raise educational attainment from 6th to 12th grade levels;
8. Engaging local governments and the private sector to review their role as environment enablers to promote investment and increase productivity.
9. Reaching out to the diarpora
10. Macroeconomics of remittances and finance: donor cooperation

Here we discuss some of these recommendations:

Improve competition and cost reduction

In the past several years, sending remittances from the United States to Latin America has become much cheaper. The cost of sending $200 in the mid-1990s averaged about $30 (or 15 percent). It dropped to about $20 by 2001 and to some $12 (or six percent) by 2005. The amount saved was approximately $5 billion just last year (far more than overseas aid to the region).



Much of the declining cost can be explained by growing competition among money transfer operators (MTOs). And the companies compete on prices and services. The use of technology has also increased. "Directo a Mexico" is an automated clearinghouse system developed by the Federal Reserve Bank of Atlanta and the Bank of Mexico and charges US banks a fee of only 67 cents per transaction to transfer money to Mexican

banks. Other companies are expanding their use of ATMs, debit and credit cards, and prepaid cards.

Opportunities to further reduce costs deal with mitigating adverse activities that affect MTOs competition, such as closing of bank accounts, and introducing alternative methods to transfer remittances such as prepaid cards.

The recent regulatory focus on MTO's has driven a significant increase on the regulatory scrutiny and regulatory oversight on bank's services offered to MTO's. As a result of the regulatory focus, banks have grown concerned about the resulting increased compliance management costs and the increased risk of doing business with MTO's. A large number of banks have decided to either exit relationships with MTO's and/or to significantly reduce the number of MTO's they serve. Today a number of MTO's are struggling to find banks that are willing to serve their needs and in some cases they may be facing increased banking service costs. A number of MTO's have had to suspend part or all of their operations

New technologies should increasingly allow for far cheaper account-to-account transactions, but the remittance companies, financial institutions, and both senders and recipients will have to learn how to use them and make substantial adjustments in their behavior. It is encouraging that nearly 30 percent of remittance recipients already use debit or credit cards; this number is as high as 50 percent in some countries. An important experience is that of Jamaica National Building Society.

The Jamaica National Building Society (JNBS) through its subsidiary JN Money Services Ltd. (JNMS) serves Jamaicans living in the diaspora by facilitating remittance services in Canada, the USA and the UK. In partnership and cooperation with USAID, JNBS chose to automate the process of sending and receiving money transfers through swipe card technology. As a result it now has over 70,000 cards users and 50% of remittance recipients have been brought into the formal banking system, with 25% of those receiving their remittances through a card product which is then used to make purchases at those small businesses that accept debit card purchases. What's more, the majority of the bank's small business clients also benefit from making remittance payouts through increased access to both credit and remittance receiving customers. Rates of saving have increased considerably, not only through direct deposits to savings accounts, but also by reducing the amount of cash in circulation and through the increased use of electronic transactions.

Accelerating financial intermediation projects with credit unions and MFIs

The experience so far has demonstrated that small savings banks, microfinance institutions and credit unions play key roles in transforming remittance recipient clients into bank clients at non-negligible rates (Orozco 2005) and in turn increasing savings and investment ratios in communities where remittances arrive. However, few institutions are involved in remittance transfers or receive support to do so. In Latin America and the Caribbean, less than ten percent of remittance-paying institutions are credit unions or MFIs, yet they are reaching out to recipients more persistently.

Table 15: Percent distribution of locations by type of business

Type of payer

Country	Bank	Cooperative, credit union, popular bank	MFI	Bureau of Exchange	Retail store	Post office	Home delivery
El Salvador	67.5%	6.4%	1.8%	1.4%	16.4%	.	6.6%
Honduras	61.5%	1.1%	1.7%	8.9%	26.8%	.	.
Ecuador	59.4%	4.3%	.	.	36.3%	.	.
Mexico	55.3%	2.1%	.0%	2.3%	40.2%	.	.
Haiti	50.9%	.6%	9.8%	.	38.6%	.	.
Peru	50.8%	3.5%	3.2%	6.6%	35.1%	.8%	.
Bolivia	47.5%	12.4%	18.6%	.1%	20.3%	1.1%	.
Colombia	39.5%	.	.	46.8%	13.7%	.	.
Dominican Republic	39.1%	2.4%	.1%	10.3%	48.2%	.	.
Jamaica	26.6%	13.2%	1.0%	.7%	46.1%	12.4%	.
Guatemala	23.5%	3.3%	.4%	.	72.8%	.	.
Nicaragua	17.7%	18.6%	9.7%	.	53.9%	.	.
Guyana	7.7%	.	.	.	56.9%	35.4%	.

Donors are slowly working towards support of these institutions, yet more attention is needed. The Inter-American Development Bank has invested more than seventy million dollars to leverage remittance transfers by providing support to MFIs. The assistance pays attention to financial product design and marketing and technology. However, accelerating support and participation of these financial institutions will be of critical importance to get people into financial institutions and increase their financial education and assets.

Credit unions, for example, are more oriented towards remittance recipients and have sold financial products and leveraged their funds. This is particularly the case of Salcaja Credit Union and Acoproduzca in Suchitoto (member of Fedecaces), which have both developed strategies for attracting clients and turning them into members. Their banking rates are low, but may grow depending on their strategies and efforts. Currently Salcaja has 1,000 remittance recipient clients, and Acoproduzca has 300 (Alvarez Aragon et al. 2006). Acoproduzca also attracts savings from remittance recipients who do not pick up their money: in April 2006 the cooperative received US$20,000 in deposits, the majority of which came from remittance recipients. Banco de Loja in Catamayo is the third major competitor in the local remittance market controlled by two agents and offers financial products to recipients.

Types of technical assistance that can be offered include: EXPLAIN

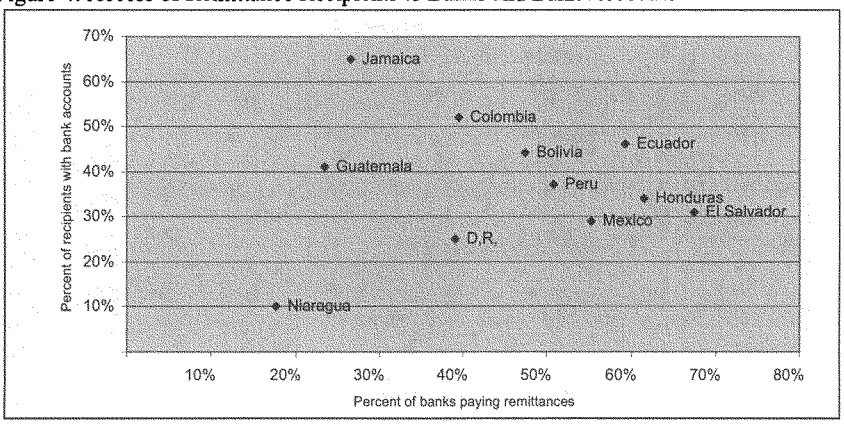
-Financial product design
-Financial product marketing
-IT development
-Market research
-Regulatory compliance

Engaging banking institutions
These efforts to bring people into savings and credit institutions do not exclude banking. Banks are at the core of providing the full range of financial opportunities while at the same

time increasing profitable schemes. Governments and donors should work with banks to more actively identify their opportunity costs in rural areas. Moreover, there should be efforts to introduce initiatives that require community reinvestment schemes by banking financial institutions. These schemes should aim at encouraging banks to increase access to capital in rural and low income areas, promoting entrepreneurship and competitiveness.

This issue is particularly important because progress has been slow in getting remittance recipients to open banks accounts in the region. Ironically, across Latin America, banks play a central role in distributing remittances, making nearly 50 percent of all payments—but so far they have not taken advantage of this role to turn recipients into bank customers.

Figure 4: Access of Remittance Recipients to Banks and Bank Accounts



An important example of providing financial services to recipients is in Mexico. The government agency BANSEFI established a network—L@ Red de la Gente—of some 1200 banks, micro finance institutions, and credit unions to serve as distribution centers for remittances. In 2006 BANSEFI had increased its payments to 100,000 transfers and was opening accounts for about one quarter of its payment recipients.

Other strategies include:
-Loan funds and securitization
-Remittance and Financial literacy
-Financial product design or marketing
-Modernizing payment systems

Supporting projects on feasibility investment
Local communities often offer investment opportunities that can benefit from small scale investors who can create new businesses or consolidate already existing ones. To that effect

donors, in partnership with governments and private sector institutions, can work toward the creation of investment portfolios, including recommendations on business consolidation where microenterprise is ineffective or inefficient, linking investment opportunities to the transformation of subsistence agriculture, or technical assistance for business development, particularly among those seeking to return to their countries. These kinds of initiatives represent a step forward to enable an investment environment among migrants wishing to participate in small business development. In fact, part of this effort must include relaxing investment red tape and encouraging migrant outreach through the investment promotion offices.

Two areas of attention promoting investing related to migrants is nostalgic trade and tourism:
Tourism. A significant percentage of immigrants visit their home country as tourists, yet there is no tourist policy aimed at members of the diaspora. That void reflects government neglect and a lost opportunity. Governments and the private sector can participate in joint ventures to offer their migrants tour packages to discover and rediscover their home countries. They can also work out investment alliances with migrants interested in partnering to establish joint ventures relating to tourism.

Nostalgic trade. Significant demand exists for so-called nostalgic goods, and many of the small businesses created by migrants rely on the importation of such goods. Governments, development agencies, and the private sector, particularly artisans' businesses, find a natural opportunity to enhance their productive and marketing skills by locating their products with small ethnic businesses in North America and other migrant receiving countries, where strong demand exists.

Providing tax breaks on the import of technology
Remittance transfers are intimately related to their effective and efficient delivery, whereby technology plays an important role. Currently technology devices exist, such as Point of Sale Terminals (POSTs), that can further enhance remittance spending. However, access to the technology is often expensive or cumbersome to acquire. The critical importance of POSTs in remittance transfers lies in that these instruments enable the use of financial resources for payments in lieu of cash on the streets using debit cards or mobile communication devices. Modernizing small vendors and merchants with POSTs in developing countries creates a foundation to reduce cash in the street, increase saving among the public, remittance recipients in particular, and positively influence revenue streams for MFIs and banks. Remittance recipients using debit cards at their typical places of economic activity, such as kiosks, colmados, pulperias or small retail stores, would enjoy the use of this payment instrument, while better managing their resources and reducing the circulation of cash in the street.

Design projects that include education and health services
Although remittance recipients invest in health and education, the demand for good health and education services is often unmet due to lack of knowledge by the public or lack of service delivery. One important strategy to provide these services is forging business partnerships between MFIs and health and education providers to advertise and sell health insurance, utilizing already existing institutions, including public schools or clinics.

Microfinance institutions can serve as financial and social service providers through contracts with these other institutions.

Some of these services include:

a. Education funds, tutoring classes, extracurricular activities, internet lessons

In cooperation with schools, public or private, MFIs can sell education packages, including loans or services, to remittance recipients. Children will benefit greatly from parents who purchase packages of extracurricular education (arts, crafts, sports) or tutoring lessons to raise their grades. Providing these services not only improves the educational status of children of emigrants but also motivates parents working abroad to continue investing in this long term asset. Moreover, the satisfaction of parents that their children are obtaining a qualitative education is gratifying (Orozco 2006a).

b. Health insurance, specialized medicine funds

At least forty percent of remittance recipients are minors or are people in retirement, that is, individuals with a higher demand for health care services. MFIs can partner with insurance companies, clinics and health centers to sell affordable health services. These services should include emergency care, life insurance, medical insurance, body repatriation and child care. The effect of the supply of these services will enhance the quality of life of people while educating them about appropriate understandings of health care.

c. Define goals and standards to raise educational attainment and benefits from 6th to 12th grade levels

Lack of competitiveness in the global economy is a critical factor affecting economic development and outward migration. Communities where remittances arrive are places where attention to the future of their society needs more review. Education is one key component to improve local economic development, which can be leveraged through remittances. However, an economy with a mediocre educated class will not be able to fully absorb remittances. Therefore communities need to consider goals and standards to raise educational performance during five year periods in order to guarantee that children in communities with high levels of outbound migration are improving their educational attainment and achieving skills.

Provide technical assistance on financial and remittance literacy

The Central Banks of each country in Latin America and the Caribbean lack resources and capacity to provide basic financial literacy to its population. Educating people about the role of finances is a critical step toward development, and is also of becoming importance among remittance recipients. Financial and remittance literacy can be established in cooperation with Central Banks and financial institutions to reach out to the millions of remittance recipients.

Reaching out to the diaspora. An outreach policy to the community residing abroad is key to any migrant-sending country's economic strategy. Currently no such policy is in place in most countries, and governments could gain significantly from such an approach. The only significant experience is Mexico. El Salvador, Guatemala and Dominican Republic have also increased efforts to work in this field.

These efforts not only have an effect on improving the quality of life of people who receive remittances but they also add value to the local labor force. By increasing the demand for these services, new jobs are added and productivity is heightened. Thus remittances will prove to have a greater multiplying effect beyond basic consumption and personal savings.

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The Role of Remittances in Leveraging Sustainable Development in Latin America and the Caribbean

Testimony of Dr. Elisabeth Rhyne
Senior Vice President, ACCION International
Before the
Subcommittee on Domestic and International Monetary Policy, Trade and Technology of the
Committee on Financial Services
U.S. House of Representatives

March 7, 2007

1. Background: ACCION International and Its Experience in Remittances

ACCION is a U.S. non-profit institution founded in 1961 and working in microfinance for the past three decades. ACCION's mission is to give people the tools they need – financial services and training – to work their way out of poverty. ACCION works through 30 partner banks and microfinance institutions, primarily in Latin America and the Caribbean, to provide financial services to low-income people in 23 countries, including the United States. As of the end of 2006, ACCION's affiliates and partners were reaching more than 2 million clients with microloans, with a total portfolio of $2.4 billion. Most of ACCION's partners are fully regulated commercial banks and finance companies that pursue a double bottom line of financial performance and social mission.

ACCION has been working in the area of remittances since 2002. Our perspective on the remittances industry is primarily that of our partners in Latin America who provide financial services to the recipients of remittance flows, though we also work to a smaller extent with remittance-sending communities in the United States. We have carried out extensive market research to understand the financial needs of senders and recipients. We are working now with banks and microfinance institutions to develop financial products that complement remittances and can help leverage the economic impact of these funds. ACCION has also helped banks and microfinance institutions set-up remittances service through partnerships with money transfer companies and the piloting of a bank-to-bank remittances service through Citibank and our affiliate in Ecuador, Banco Solidario. ACCION is currently developing financial literacy tools to help recipients make informed financial decisions.

2. The Volume and Importance of Remittances Between the U.S. and Latin America/Caribbean

According to IDB studies, remittances to Latin America in 2005 accounted for more than $53.6 billion. Approximately 75 percent of this volume (US $ 40.2 billion) came from

senders in the US. The volume of remittances to Latin America is the fastest growing in the world.

The overall importance of remittances as an economic phenomenon can be seen not only from their size, but also from facts such as the following:

- Over 60 percent of adult, foreign-born Latino immigrants in the U.S. send remittances home on a regular basis, averaging US$100-US$300 per month.
- For at least these 6 countries in the region remittances flows are equivalent to 10% of GDP: Haiti, Nicaragua, El Salvador, Jamaica, the Dominican Republic and Guyana.[1]

Because remittances are made up of large numbers of small, private transactions, based in the lower income segments of the population, they have certain unique economic characteristics.

- Remittances put large sums of money into circulation in countries in Latin America for the purchase of goods and services that boost the economy. In this way, remittance flows have a positive impact on economic development.
- Remittances tend to be countercyclical, as senders increase flows during bad times in their home countries. Thus they provide some measure of economic stability when economies in the region go through crisis or slower growth.[2]

The private character of remittances means that it is easiest to trace the impact of remittances by examining how recipients use them. Research has shown that remittances improve the well-being of recipient households.

- The majority of these funds are sent to help improve the economic well-being of households back home. Studies place the proportion used for everyday needs at between 60 and 78 percent.
- A significant portion goes to health and education: 5 percent for the education of children left behind in the home country and between 5 and 9 percent on family health.
- Remittances to Latin America have been shown to have a positive impact on the education and health of children, especially among low-income households.
- A smaller, but growing percentage – 7 percent – is used for savings. Remittances have also been found to have a positive correlation with increased savings rate among poorer recipients. [3]
- Funds are also being used to carry out the dreams or investment goals of immigrants and recipient families. Approximately 6 percent are sent for investments back home, including real estate.[4]

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[1] Inter-American Development Bank. Remittances as a Development Tool. http://www.iadb.org/mif/remittances/index.cfm.

[2] The World Bank. 2006. Global Economic Prospects: Overview and Global Outlook.

[3] Fajnzylber, Pablo and J. Humberto López. 2007. Close to Home: The Development Impact of Remittances to LAC. Conference Edition. The World Bank

3. ACCION's Market Research on the Potential for Remittances to Support Family and Business Investments in Latin America

ACCION has carried out extensive market research among senders in the United States and especially among recipients in Latin America. One of the most important findings from this research is a challenge to the traditional perception of migration as a one-way process that involves the complete integration of the immigrant into the United States and the breaking of bonds back home. Our research found that immigrants continue to be deeply involved in the lives of their families in their home countries.

Today's immigrant has not abandoned his or her home country but is living a life that integrates both the U.S. and the country of origin. This can be seen from the persistence of remittance flows, which continue for as much as a decade or more after the immigrant leaves his or her country. Spouses work together to carry out home improvement projects, build new houses or start businesses back home. Recipients speak of their relatives who send remittances as the person who has helped them in the past and who will help them in any future emergency. The continued involvement of immigrants across borders relies on communications, technology, transportation, and the ability to move money from one country to another.[5]

Most of ACCION's work in this area has focused on developing financial products and services that assist recipients to use remittance flows for improving the quality of their lives through investments for the future – focusing on the 22-40 percent of remittances that are used for purposes other than everyday consumption needs. Facilitating the use of remittance flows for investments is one way to enhance the economic development impact of those flows.

ACCION has identified a Remittances Life Cycle -- a set of patterns in the evolution of the immigrant's experience over time – that influence the size, frequency and potential uses of remittance flows. The Arrival Phase, lasts one to two years from the point of arrival of the immigrant to the United States. In this phase the recent immigrant is finding his (or her) way in the U.S., spending most of his earnings on establishing his life in this country. Remittances flows, while frequent, are not large, and may be used to pay off the debt incurred in getting to the U.S. During the Intermediate Phase, between the second and fifth years of presence in the U.S. the recipient has generally achieved some stability in the U.S., with a higher income, and is still very close to his family. This is the time when the sender is most likely to direct his remittance payments into investment projects. In the Established Phase, which begins gradually and at different times for different immigrants, the immigrant relaxes ties with the country of origin and focuses more on building assets in the U.S. Remittance flows continue and because of the

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[4] Inter-American Development Bank. Remittances as a Development Tool. Op. cit.

[5] Jaramillo, María 2005. Leveraging the Impact of Remittances through Microfinance Products: Perspectives from Market Research, ACCION InSight #10, Boston , MA. (www.accion.org/insight).

immigrant's higher income, they may remain high, but there is less interest on the sender's part on investment projects at home.

This life cycle reflects the experience of the sender. However, ACCION's research has shown that in developing financial products to respond to the needs of immigrants and their recipient families, senders and receivers need to be considered as separate markets. Recipients tend to be housewives in charge of the household left behind, parents taking care of children of the immigrant or the children themselves. Immigrants and recipients have distinct financial needs and goals as well as different perceptions towards financial products. Successful financial products that leverage remittances need to respond to the specific needs of senders and the needs of recipients.

A fundamental problem is that many recipient families do not have access to the kind of financial products and services that facilitate investments. Most of them are "unbanked" – lacking a bank account or any established relationship with a financial institution. IDB research puts the percentage of recipients lacking a bank account at 90 percent.[6]

ACCION's work focuses on enabling our partners and affiliates to serve these recipient families with the kinds of financial products that they and the senders of remittances both wish to develop. We seek to leverage the remittance flows in order to improve the ability of the recipient to qualify for life-enhancing financial services.

Our market research suggests that the following financial products are most relevant for remittance receiving families and provide the greatest opportunity for senders and receivers to cooperate in supporting investment:

- *Savings Accounts.* Recipients in Latin America expressed a preference for savings accounts where they could directly receive their remittances. They valued the convenience and increased security that this would give them. At present the vast majority of payments are received in cash because recipients lack bank accounts, in some countries there is a low participation of banks in the offer of remittances services, or because banks are not interested in serving low-income clients. Interest is also strong, particularly among senders, for programmed savings accounts that can help households save for specific purposes such as education, emergency funds, or the down-payment of mortgages.
- *Home Improvement loans.* For recipients and senders alike, improved housing becomes physical evidence of the improved welfare achieved through migration. Recipient households we interviewed in Nicaragua and Ecuador were already using remittances to buy construction materials to build a second floor or renovate a room in their house. Remittances could help households qualify for a home improvement loan to be able to start or complete their construction projects in shorter times.
- *Insurance.* Immigrants in the US: expressed a great interest in health and life insurance. The protection of families back home is a key concern for immigrants, and

[6] Inter-American Development Bank. Remittances as a Development Tool. Op. cit.

as mentioned before families rely on their immigrant relatives to help them in case of emergencies.[7]

Some potential also exists for linking remittances to mortgages and working capital loans for microenterprises. However, the greater complexity of these products makes it more difficult to leverage remittance flows for these purposes. In studies carried out it was identified that sometimes new home purchase and business start-ups represented wishes or hopes of immigrants more than real investment plans. In the past couple of years more banks from Latin America have reached out to immigrants in the US to offer them mortgages to buy houses back home. However, it is still to early to determine the success of these programs in part because of lack of data to quantify how much real demand exist for these services, because the goals, attitudes and levels of integration change for immigrants over time, and because of the lack of a legal and regulatory framework that can facilitate these kind of off-shore mortgage financing.

4. The Structure of the Remittance Industry

Most remittances between the U.S. and Latin America are sent through money transfer companies like Western Union or Money Gram. While money transfer companies handle 70 percent of total flows, banks handle only 11 percent and credit unions 2 percent. A significant 17 percent is sent through informal means such as the mail or through individuals traveling back home.

Most remittances flows are cash-to-cash. Senders bring cash to the money transfer company, and recipients receive cash at a remittance distributor's office. Initiatives in the past couple of years have begun to move these flows toward account-to-cash or cash-to account, including the use of pre-paid cards in Latin America to disburse remittances funds. ACCION is currently working with its affiliated institutions to promote the channeling of remittances to accounts or to cards that can facilitate the banking of recipients.

In addition to the benefits of reducing transactions costs, it is also beneficial for senders and recipients to move remittances flows into financial systems and away from cash. When flows are associated with bank accounts, senders can maintain greater options for how to manage the money they receive and recipients gain access to a broader range of financial services. Increased access to financial services can expand the range of ways in which remittances funds end up being used.

5. Issues from ACCION's Experience

Remittances are private funds sent between individuals living in different countries. The goal of ACCION's remittances project is to support the decision making process of senders and recipients regarding how funds are used. ACCION believes that this can

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[7] Jaramillo, María. 2005. Beyond Small Change: Making Migrant Remittances Count. In: Terry, D. F. y S.R. Wilson (Eds.). Beyond Small Change: Making Migrant Remittances Count. Inter-American Development Bank.

increase the economic impact of remittances and support the development of local economies.

Currently, the remittances service infrastructure makes it hard for immigrants and recipient families to implement their decisions on how these funds should be used. Because the majority of funds are being sent through cash-to-cash mechanisms it becomes difficult for the immigrant to designate what percentage of the amount sent should be used for a specific goal. Receiving remittances in a savings account can help immigrants and their families manage better these funds by saving a portion of it or splitting its use into different projects. Depositing remittances into savings accounts also makes it easier to link these funds with other financial products that can give families greater options for channeling remittances to investment goals.

ACCION has provided technical assistance to Citibank and Banco Solidario in Ecuador to implement a bank-to-bank remittances service. This service is currently being used by Ecuadorian immigrants and their recipient families. Some of the challenges encountered on the sending side in developing this service have been: (a) lack of understanding of this "unbanked" segment; (b) fears and barriers to using banks; (c) the cost of compliance to serving low income customers – especially those with limited levels of (financial & general) literacy and (d) the difficulty this segment has in completing the requirements or having the proper identifications most banks demand.

In adapting financial products to respond to the needs of immigrants and recipient families ACCION has also encountered challenges in the legal framework that limit the development of transnational products. For example, legal regulations prevent the development of an insurance product that an immigrant can purchase in the US protect their family back home. In a similar way there are limitations in the offering of insurance products that a family in Latin America can purchase to protect their relative in the US.

When working with our affiliates in Latin America who are interested in offering mortgages in the US for immigrants we also encountered a complex legal structure that makes it very difficult for a foreign bank to open a point of presence in the US. The complexity, paperwork, time and funds required to obtain a representative office license make it hard for smaller banks in Latin America to offer their services to immigrants in the U.S. Because of the legal complexities involved in mortgages and insurance, ACCION has focused on developing products for remittance recipients in areas where no policy barriers have been encountered: home improvement and savings accounts.

To the extent that ACCION and its bank partners are successful in incorporating remittances into formal financial systems, money transfers have the potential to affect not only the day-to-day well being of the recipients but also their asset base. By channeling remittances into savings, home improvements and business growth, remittances can build the foundation for growing out of poverty.

6. Recommendations

ACCION's experience with remittances to date leads us to make the following broad policy recommendations.

1. **Promote mechanisms that allow for rapid, reliable and convenient movement of funds, including the entry of banks into the remittances industry.** Encourage the integration of the Automated Clearing House (ACH) systems between the United States and Latin American countries in order to make it easier for banks to offer bank-to-bank remittances services. In 2003, the ACH systems of the United States and Mexico were linked in order to reduce the cost and time of cross-border financial transactions. This systems integration can be extended to other countries in the region.
2. **Promote a competitive setting in which consumers benefit from price and service quality competition among suppliers.** Balance the need to prevent misuse of these channels for money laundering and the need to maintain an environment that supports competition among money transfer companies. An increase in regulation has led to banks closing the accounts of small and medium sized money transfer companies because of the increase scrutiny from regulators.
3. **Remove barriers to the access of senders to banking services.**
   - Increased acceptance of alternative ID forms to open a bank account in the US (Matrícula Consular or Passport).
   - Reduce fears that the unbanked segment might have of using financial services.
   - Develop an environment that can encourage banks to continue working to bank immigrant communities by offering remittances services as an entry point to establishing a banking relationship with them.
4. **Support the expansion of financial services to recipient families.**
   - Promote the development of cooperative international legal frameworks that can support the offer of trans-national financial products to support immigrants in achieving investment goals back home. Important products in this category are mortgages, and insurance.
   - Continued positive enabling environments are needed to ensure that microfinance institutions interested in reaching the lower income populations can continue to do so.
5. **Increase the financial literacy of senders and recipients regarding financial planning and the informed use of financial services.**
   - Encourage the dissemination of information and financial literacy tools to increase awareness among immigrants of the remittances and banking services available to them, and how to be a smart consumer of such services, including the trade-offs between money transfer companies and banks as remittance channels.
   - Support also financial literacy programs that can help recipient households in Latin America increase their understanding of how financial products work, the benefits of receiving remittances through a bank account, and the potential that remittance funds have to help them generate assets and achieve investment goals.