



Approaches to Increasing the Productive Value of Remittances

IAF and Other Case Studies in Financial Innovations and International
Cooperative Community Ventures:
Papers presented at a conference held at the World Bank, March 19, 2001

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INTRODUCTION

CARLO DADE, INTER-AMERICAN FOUNDATION

Remittances — earnings sent back to countries of origin by international migrant worker — are perhaps the most durable and basic form of foreign aid. In Latin America and the Caribbean, the explosion in migration to the United States in the 1980s and 1990s dramatically accelerated the growth of remittances at the same time that levels of official development assistance to the region were declining. The conflux of these two factors has made remittances of critical interest to the development community.

Yet, we know little about the potential use of remittances for development. What we do know is that the flow of remittances is enormous, that remittances account for a sizeable portion of national income, and that remittances are used primarily for consumption and as a safety net. Working through what we know, we start, and often stop, with a fixation on the volume of the flows, billions of dollars to Mexico, more than \$1 billion to El Salvador, close to \$1 billion to the Dominican Republic. Fixating on the numbers often leads linearly to the assumption that large flows equal large sums available for development. We in the development community forget the last in the list of things we know: that Remittances are sent by poor people to poorer people for immediate and pressing needs.

This, however, is more caution against exuberance than proscription on experimentation. Remittances, it turns out, *are* being used for development in the region.

The above summarizes discussions that occurred in September of 2000 at the Inter-American Foundation during a lunch presentation by Dr. Susan Martin of Georgetown University and Dr. Manuel Orozco of the Inter-American Dialogue. As a funder of innovation and experimentation in development, the Foundation, over the decades, has occasionally funded projects involving remittances. However, in the fall of 2000, the Foundation had, or was considering, four such projects. The sudden change from an occasional project in remittances to four at the same time, led to the invitations to Dr. Martin and Dr. Orozco.

During the discussions that followed the presentations, it became clear that while much was known about remittance flows and while the subject was generating much interest, no one in Washington was really sure if, or how,

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the papers
reflect the IAF
belief that
innovations
and ideas in
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problems

remittances could be used for development. A multitude of studies and conferences on remittance flows and patterns had created interest in the subject of using remittances for development, something most development professionals intuitively felt was possible, but no one had experiences to share. It seemed that everyone in the development community was thinking that it would be nice to use remittances, but no one had tried to do so. Over lunch arose the idea for a conference to share the early experimentation by the IAF and other groups with the Washington development community.

In preparing for the conference, we were fortunate to benefit from Orozco and Martin's advice and assistance, and later that of Lindsey Lowell of Georgetown University. In hosting the conference, we benefited from support from the Washington Office of the United Nations Economic Commission on Latin America and the Caribbean and the Private Sector Development group in the Latin American Region of the World Bank.

Some of the presentations made during this conference follow. The papers represent a range of views from a range of actors. They reflect the Inter-American Foundation's approach to development: Innovations, and ideas from those who struggle daily with the problems, balanced with analysis and research by those who study these problems, produce results.

Finally, there is developing a fixation on lowering transactions costs and devising new financial mechanisms to direct remittances into productive investments. This reflects a Washington perspective that might not be shared throughout the region. The prudent and provident opening remarks by Raúl Rodríguez contained the following caveats:

- Beware of tinkering too much with the market regarding individual remittances.
- Beware of establishing easy links and projections between individual remittances and uses beyond basic needs.
- Beware of trying to overrule the common sense and priorities of hometown associations.

The last point is crucial. Remittances are money earned by and for the poor. It is imperative that the poor set the agenda and choose the priorities for how this money will be used.

May 7, 2001



AGENDA

WELCOME: OPENING REMARKS

Carlo Dade, Conference Organizer, Inter-American Foundation

David Valenzuela, President, Inter-American Foundation

Danny Leipziger, Director, Finance, Private Sector and Infrastructure Group, Latin America and Caribbean Region, World Bank

Inés Bustillo, Director, Washington Office, U.N. Economic Commission for Latin America and the Caribbean

KEYNOTE ADDRESS

Raúl Rodríguez, Managing Director, North American Development Bank

REMITTANCE FLOWS IN THE AMERICAS

Chair: Susan Martin, Director, Institute for Study of International Migration, Georgetown University

Volume, Flow, and Characteristics of Remittances

Manuel Orozco, The Inter-American Dialogue

Remittances to Central America: Case Studies on Their Productive Use

Pablo Serrano, ECLAC

Remittances for Small-scale Infrastructure/SSME Development: Evidence from Private-Public Infrastructure Study

Federico Torres, World Bank

The Development Potential of Remittances, Country Overviews

Patrick Breslin, Inter-American Foundation

THEMATIC SESSIONS

Targeting Specific Communities: Remittances to Mexico via U.S. Home Town Associations

Chair: Mario Riestra Venegas, National Coordinating Office for Mexican State Offices on Migrants

Apoyo, Mexico, **Roberto Ramírez**

El Trapiche Investment Project, Oaxaca, Mexico, **Elsa Payo**

Federation of Zacatecanos of Los Angeles, California, **Guadalupe Rodríguez**

Remittances to Capitalize Local Development: Alternative Transfer Systems

Chair: Fernando Jiménez-Ontiveros, Priorities and Programming Unit, Multilateral Investment Fund

Haitian Development Bank, **Randolph Voyard**

World Council of Credit Unions, **Michael Beall**

Global Expand, **Antonio Gayoso**

FONKOZE, Haiti, **Anne Hastings**

City National Bank of New Jersey, **J. C. Roy**



KEYNOTE SPEAKER

RAUL RODRÍGUEZ

Mr. Raúl Rodríguez, managing director of the North American Development Bank, was first appointed director of project development and finance at the bank in early 1995. He has played the central role in developing the bank's first projects and establishing its institutional development program. Prior to joining the bank, Mr. Rodríguez served as executive director of the Mexican Foreign Trade Bank, as Mexico's trade commissioner in Canada and as secretary of economic development for the border state of Tamaulipas.

OVERVIEW

SUSAN MARTIN

Dr. Martin is director of the Institute for the Study of International Migration in the Edmund Walsh School of Foreign Service at Georgetown University. She has served as executive director of the U.S. Commission on Immigration Reform and director of policy research and programs at the Refugee Policy Group. She has lectured extensively on migration issues and has testified before Congress. Dr. Martin received her M.A. and Ph.D. in American studies from the University of Pennsylvania and has taught at the University of Pennsylvania and at Brandeis University.

PABLO SERRANO CALVO

For more than 20 years, Mr. Serrano has worked for the Mexico Sub-regional Office of the Economic Commission for Latin America and the Caribbean (ECLAC), researching and writing for the annual economic surveys of the countries served by this office. In recent years, he has been chief of the Social Development Unit, responsible for studies on poverty, health, education, social security and other subjects. Two years ago, he coordinated a regional project on the productive use of remittances in Central America from immigrants in the U.S. A Mexican citizen, Mr. Serrano is an economist with a degree from the National Autonomous University of Mexico (UNAM). He completed post-graduate studies in economics at the Institut International d'Administration Publique in Paris, France, and in Latin American Studies at UNAM's Faculty of Political and Social Sciences in Mexico City.

MANUEL OROZCO

Mr. Orozco is the director for Central America at the Inter-American Dialogue where he oversees a special project on the developmental role of remittances in U.S. Latino communities and in Latin American countries. He holds a Ph.D. and M.P.A. from the University of Texas-Austin, and a B.A. from the National University of Costa Rica. Mr. Orozco has taught at the University of Akron. His areas of research include globalization, international relations theory, democracy, conflict in war-torn societies and minority politics. He has also been a researcher for the Tomas Rivera Policy



Institute on issues related to migration, ethnicity, international relations and their implications for the United States. Mr. Orozco is the author of several studies on remittances including *Latino Hometown Associations as Agents of Development in Latin America* and *Remittances and Markets: New Players and Practices*.

FEDERICO TORRES ARROYO

Mr. Torres is a senior consultant in Grupo Consultor Independiente which has worked in Mexico and Central America for more than eight years in regional development, strategic planning, investment promotion and institutional development. He is an economist at the Universidad Nacional Autónoma de México and has held senior positions in the Mexican federal government. He has been professor and researcher at El Colegio de México, the Universidad Autónoma Metropolitana in Mexico City and University College in London, where he did post-graduate studies. Since 1989, Mr. Torres has worked on regional development issues for major international organizations, for several governments in Latin America, for several federal government agencies and for 12 state governments in Mexico. For the past four years he has worked on remittances and has coordinated a major project of the ECLAC study on remittances in Central America. He is now working on a study of remittances in Mexico for the World Bank.

PATRICK BRESLIN

Mr. Breslin is director of external affairs at the Inter-American Foundation. He received a Ph.D. in political science from UCLA and has lived and traveled extensively throughout Latin America and the Caribbean. He has worked for the Peace Corps, USAID and the Carnegie Endowment. He is the author of *Interventions*, a novel about Chile, and *Development and Dignity*, a history of the Inter-American Foundation.

TARGETING SPECIFIC COMMUNITIES

MARIO RIESTRA VENEGAS

Mr. Riestra was named special representative to this conference by Dr. Juan Hernandez, director of the Human Development Office for Attention to Mexican Migrants Abroad, in the office of Mexican President Vicente Fox. Mr. Riestra heads the Mexican National Coordinating Office for State Offices on Migrants and also serves as counselor to the governor of Puebla.

ROBERTO RAMÍREZ

Mr. Ramírez is director general of the Fundación para la Productividad del Campo, also known as APOYO, a Mexican NGO and IAF grantee using remittances to further development projects in the Mexican states of Oaxaca, Jalisco, Guanajuato, Chihuahua, Durango, San Luis Potosi, Veracruz, Hidalgo, Querearo and Zacatecas.



ELSA PAYO

Ms. Payo is director of a greenhouse project in El Trapiche, Oaxaca, Mexico, that is supported by Mexican migrants in San Diego, California.

GUADALUPE RODRÍGUEZ

Mr. Rodríguez is vice president of the association of Zacatecanos in Southern California. His organization has been working with APOYO to fund development projects in Zactacecas, Mexico.

ALTERNATIVE TRANSFER SYSTEMS

FERNANDO JIMÉNEZ-ONTIVEROS

Mr. Jiménez is chief of the Programming and Priorities Unit at the Multilateral Investment Fund of the Inter-American Development Bank. He previously served as the Spanish commercial counselor in Mexico.

MICHAEL V. BEALL

Mr., Beall is manager of partnerships and the People to People program at the World Council of Credit Unions, which brings people together from different credit union movements through partnerships that provide opportunities for voluntary internship exchanges and leadership. He served as executive vice president of the North Carolina Credit Union League from 1996-2000. He earned a J.D. from the University of Richmond's and a B.A. in government and politics from the University of Maryland.

ANNE HASTINGS

Ms. Hastings is the director of FONKOZE, Haiti's Alternative Bank for the Organized Poor. Prior to accepting the volunteer position in Haiti for five years, she spent 10 years as the managing partner of Scanlon & Hastings, a consulting firm specialized in providing strategic management services to executives in the federal government and the nonprofit sector and in managing young organizations for high performance and steady growth. She received her Ph.D. in public policy and administration from the University of Virginia in 1982. She was a research fellow at both the Brookings Institution and the U.S. Advisory Commission on Intergovernmental Relations.

RANDOLPH VOYARD

Mr. Voyard has served since 1997 as president of the Haitian Development Bank (BHD), new financial institution majority owned by credit unions and cooperatives. Mr. Voyard has worked at Bankers Trust, Marine Midland and Pick Systems in Europe. Before founding BHD, he also served as vice president of Kosmika, a Haitian tourism company. Mr. Voyard holds a B.A. from Brooklyn College.



INTRODUCTION TO THE CONFERENCE

RAÚL RODRÍGUEZ · MANAGING DIRECTOR AND CEO, NORTH AMERICAN DEVELOPMENT BANK

Needless to say, we all concur as to the relevance of any effort to foster the productive value of remittances. However, it is important to take into account the risk of fooling ourselves into believing that this can be an easy task. This holds true for those in the private sector, those in development agencies, but particularly in the case of government.

We will all be much more effective in this endeavor if we take into account some caveats:

First, beware of establishing easy links and projections between individual remittances and uses beyond basic needs. By far, individual remittances occur mainly at the level of those most in need (both senders and receivers) and are meant for urgent and basic individual and family purposes.

Second, beware of tinkering too much with the market regarding individual remittances. Ultimately, what can you, as a central or local government, regulate or mandate effectively? Costs? Exchange rate spreads? It is a fact that competition is increasing, and therefore conditions are improving in terms of costs, transparency, options and access. The role for government is to facilitate and foster competition and the proper operation of all participants. Beyond this, government must concentrate on helping poor and remote segments of the population (as well as undocumented workers in the U.S.) gain access to remittance transfer systems and, hopefully, as a consequence, access to financial services.

Third, beware of improvised intermediaries and technology dealers who promise “easy and altruistic” solutions with abundant perks. There is an obsessive trend lately with regard to ATM’s and debit cards with everything included, from remittances at bargain rates to funeral arrangements — obviously subject to government sponsorship to be specified at a convenient time.

Fourth, beware of trying to overrule the common sense and priorities of hometown associations in the U.S. that already contribute to productive or community causes. But do encourage effective leveraging efforts that support decisions made by these associations and be prepared to offer sound, objective technical advice and honest brokerage services to assist with their projects and links to their hometowns.

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a problem

Fifth, beware of thinking you can amass funds from hometown associations at the pleasure of governments. Ties between sender and community of origin are usually mandatory.

Sixth, beware of some academic peddlers, offering to illustrate the intricacies of “remittance science” for a “reasonable” fee. It is actually a pretty straightforward matter. Productive uses require a very pragmatic kind of research.

Finally, and as has been suggested here today, beware of turning something that is a huge solution into a problem.



OPENING REMARKS

SUSAN F. MARTIN, DIRECTOR, INSTITUTE FOR THE STUDY OF INTERNATIONAL MIGRATION,
SCHOOL OF FOREIGN SERVICE, GEORGETOWN UNIVERSITY

During the past decades, remittances have grown significantly in scale and impact as migration itself has grown. By very conservative estimates, developing countries in the Western Hemisphere receive more than \$16 billion per year from workers residing abroad. Worldwide, the flow of remittances exceeds \$100 billion per year, with more than 60 percent going to developing countries. Having stated these statistics, it is worthwhile to note the weaknesses of existing data on remittances. These numbers likely under-represent the scale of remittances by billions of dollars since many countries have inadequate processes for estimating or reporting on the funds remitted by foreign workers.

Attention to remittances is long overdue, and I welcome the leadership of the Inter-American Foundation, the World Bank and ECLAC. Until relatively recently, researchers, economists and development agencies tended to dismiss the importance of remittances or emphasize only their negative aspects. They often argued that money remitted by foreign workers was spent largely on consumer items, was seldom invested in productive activities that would grow developing countries' economies, and that those receiving remittances quickly would become dependent upon them. Moreover, they equated remittances with excessive consumerism that would lead to remittance-receiving households exceeding the standard of living of non-receiving households. They noted that government attempts to encourage or require investment of remittances were heavy-handed and led to few economic improvements. Over time, they argued remittances would diminish as the foreign workers settled in their new communities and lost contact with their home communities. Sometimes, wives and children would be left behind, with crucial remittances no longer contributing to their livelihood.

Many of these problems still exist, but recent work on remittances shows a far more complex picture. Perhaps because the scale of remittances has grown so substantially in recent years — it almost quadrupled in the Western Hemisphere during the past decade — experts now recognize that remittances have far greater positive impact in developing countries than previously acknowledged. For example, experts such as Edward Taylor at the University of California at Davis argue that even consumer use of remittances stimulates economic development, particularly when households spend their remittances

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remittances to finance development means that the poorest in wealthy countries bear the brunt of assisting people in developing countries

locally. The multiplier effects of remittances can be substantial, with each dollar producing additional dollars in economic growth for the businesses that produce and supply the products bought with those resources.

The micro-economic effects of remittances also can be important, especially in the case of hometown associations (HTAs) of migrants abroad who send communal resources to the villages from which they emigrated. Collected through a variety of means, these resources have helped villages improve roads, water and sanitation systems, health clinics, schools and other community infrastructure. Some state and local governments match contributions from abroad to magnify their impact. There has been a recent trend towards encouraging HTAs to invest in income-generating activities as well, in order to produce new jobs for villagers. These are truly grassroots initiatives that involve community-to-community development.

With the new recognition of the importance of remittances as a development tool also has come greater understanding of the challenges to using them in this fashion. The cost of transferring remittances can be exceedingly high. One study found that many Mexican migrants lose as much as 25 percent of the value of their remittances through fees and low exchange rates. The market appears to be responding to this situation, with greater competition leading to lower transfer costs, but more needs to be done in this area.

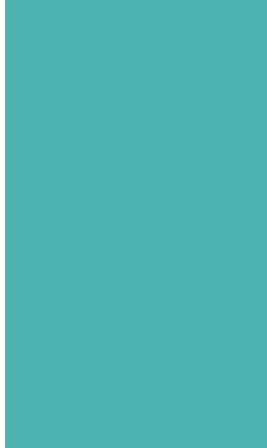
Also, remittances are often used to help families address emergency needs that could, perhaps, be addressed better through other means — or prevented altogether. For example, many households use a portion of their remittances to deal with emergency health care because they lack access to routine health care and do not have insurance. A sizeable part of remittances flowing to Central America have been used for reconstruction after years of civil war and hurricanes and earthquakes. Remittances have become such an important part of reconstruction that they have figured prominently on the foreign policy agenda. The president of El Salvador recently used a meeting with President Bush to request work permits for Salvadorans in the United States. The increased earnings that legally authorized workers could remit would far outweigh the likely foreign aid that would be forthcoming.

When remittances are used to support development or address reconstruction needs, it means that the poorest residents of the US and other wealthy countries are bearing the brunt of assisting people in developing countries. Latin American migrants tend to have low incomes, often living in poverty,



yet they remit billions of dollars to their home countries. While beneficial to the families and societies at home, it is well to ask if the remittances come at a cost to those settling abroad. Are they failing to make investments in education and economic development here in order to send those billions home?

As interest in remittances grows, we must keep in mind all aspects of the phenomenon and seek better answers to some fundamental questions: for example, how to better estimate the actual flow of remittances and understand how they are used; how to reduce transfer costs to maximize the level of remittances reaching local communities; and how to help HTAs and home villages make the most effective use of communal remittances for development.





ECLAC'S EXPERIENCES WITH THE PRODUCTIVE USE OF REMITTANCES BY CENTRAL AMERICAN EMIGRANTS

PABLO SERRANO, CHIEF, SOCIAL DEVELOPMENT UNIT, ECLAC-MEXICO

Over the last 20 years, remittances sent by immigrants to the United States have increased markedly in importance, not only in Central America, but also in Mexico and some Caribbean countries, such as the Dominican Republic, Haiti and even Cuba.

This is precisely the region covered by the ECLAC subregional headquarters in Mexico, where, owing to globalization, two economic areas have experienced enormous growth: the maquiladora industry and remittances of money from emigrants, both of which are linked largely to the economy of the United States. Remittances from that geographic area account for 75 percent or even 80 percent of all remittances sent from abroad by Latin American and Caribbean emigrants to their respective countries of origin. It is almost impossible to give reliable figures on the total value of such remittances, as much of it is sent through informal channels, partially beyond the control of the central banks. However, current estimates are in the neighborhood of \$7 billion to Mexico; \$3.5 billion to Central America — half of which is sent to El Salvador alone — approximately \$1.5 billion to the Dominican Republic, \$7 million to Cuba and an unknown amount to Haiti, where, together with the Dominican Republic, ECLAC is seeking to begin a project on remittances, which includes interaction between these two countries. This would mean a sub-regional total of approximately \$13 billion of the \$16 or \$17 billion received by Latin America and the Caribbean as a whole.

ECLAC focused its attention on the Central American experience for two reasons: the singular importance of remittances, mainly in El Salvador, and the high incidence of poverty. In the Western Hemisphere, apart from Haiti, the highest rates of poverty are found in three Central American countries: Nicaragua, Honduras, and Guatemala, where approximately 80 percent of the population is poor—70 percent in cities and 88 percent in rural areas.¹ In

¹ Strictly speaking, this is the ECLAC estimate for Honduras (1997). If calculations are made on a household basis, rather than for the population in general, the percentage below the poverty line is a little lower (74 percent for the country as a whole), as poor households have more members than households above the poverty line. No figures are available for the urban area of Nicaragua, nor are estimates for Guatemala more recent than those for 1989. In any event, social conditions are similar for these three countries. See ECLAC: *Panorama Social de América Latina 1999-2000*, LC/G.2068-P, August 2000, Table 1.2, p. 40.

estimates for remittances:
\$7 billion to Mexico,
\$1.7 billion to El Salvador,
\$1.5 billion to Dominican Republic,
\$7 million to Cuba



household surveys show rates of poverty are much lower in households left by emigrants

all three of these countries, 54 percent of the population lives in extreme poverty. The situation in El Salvador was somewhat better before the earthquakes, with 54 percent of the population below the poverty line and 22 percent living in extreme poverty. Without a doubt, the \$100 to 200 received each month by many Salvadoran families contributes to their relatively healthier financial situation.

Of course, such a context of poverty underlies decisions to emigrate. No expectations of improving living standards in their own countries, unemployment and low salaries in these sometimes stagnant and generally inequitable economies are important reasons why Central Americans seek new jobs in a country such as the United States where salaries are much higher, even for undocumented workers. Even so, it is not the poorest of the poor who emigrate, as an initial lump sum is required to be able to venture to another country, and also as minimum skills are required to get a job. Thus, ever increasing numbers of young workers of some means — many of them even middle class — emigrate and, beyond this, a growing number of young women have also recently begun to do so.

The breakdown of the family, parentless households and children often left with grandmothers and aunts are some of the social effects of emigration that tend to be offset, at least in material terms, by the additional income provided by remittances. Household surveys show that rates of poverty are much lower in households left by emigrants, as pointed out above. In the late 1980s, ECLAC made use of these findings to address the subject of remittances.

The first stage of the project on remittances and family finance in El Salvador, Guatemala and Nicaragua was in fact an attempt by ECLAC to ascertain the value of remittances at national and family levels. It involved devising a special household survey for all three of these countries to determine to what use remittances were put. As was readily predictable, from 82 to 85 percent of family remittances, depending on the country, were spent on consumer goods. These enable families to feed themselves, dress to more reasonable standards and, in the case of the elderly remaining in their countries, to receive pensions that the very limited social security systems are prevented from paying. From the emigrant's perspective, other priorities are expenditure on children's health and education, which therefore consume between 4 to 8 percent of total remittances. Investment as such was not as great as expected, only 5 to 6 percent of the total. Given the emigrants' usual perspective, land or home purchases, or extensions or improvements to homes, were the lion's share of



investment expenditure; savings and productive investment (i.e., investment-generating production or employment) were marginal.

Three main conclusions were drawn in the early 1990s, when the project's first phase ended: (1) the cost of remittance transfers was too high, and something needed to be done as a matter of urgency in that connection; (2) the role of women in distributing these remittances among the elements of the household budget was extremely important, which had to be taken into account in programs in this area; and (3) the productive use of remittances had to be studied in greater depth, as these resources might potentially become a sustainable mechanism for combating poverty on an ongoing basis.

ECLAC submitted to the donor countries a second phase of the remittance project, dealing with this question — the productive use of remittances — and, finally, after some years, the Dutch cooperation program renewed its funding. Meanwhile, at the end of the 1990s, remittances had risen on a sustained basis, while the cost of transfers to Central America from the United States had fallen to some extent (although not sufficiently), owing mainly to the small number of specialized competing companies. (It should be noted that Mexican recipient families did not enjoy this reduction: Families still see — or have until very recently seen — their remittances reduced by from 15 to 18 percent through commissions or undervalued exchange rates).

In Central America, El Salvador is the undisputed leader in terms of remittance receipts, which approach \$1.7 billion or 13 percent of the current Salvadoran GDP, the highest rate in the Americas. A number of studies have been conducted as a result, and a series of innovative government and nongovernmental programs have been implemented to encourage putting such remittances to better social and economic use. The second country in terms of remittances is Guatemala where, on a smaller scale, other interesting projects have been implemented. In Nicaragua, the government does not appear to be very aware of the importance of remittances nor of instruments for encouraging their more rational use. In fact, much discussion has arisen concerning their scale, both those coming from the United States and from Costa Rica. Finally, Honduras was included in this second phase. Even if remittances are not yet on a very large scale in that country, the government has shown itself aware of their importance and willing to promote a better use of them.

three
conclusions of
the study:
transfers costs
were too high;
women are key
in distributing
remittances;
productive
uses need to
be studied



most
collective or
community
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are earmarked
for religious
festivities or
social projects

collective
remittances
are perhaps
1 percent of
family
remittances

In addressing the topic of the productive use of remittances, the ECLAC regional consultant introduced an interesting element. Encouragement of productive use of remittances had traditionally focused on receiving families — women, as mentioned above — mainly through microenterprise credit and other facilities, where they exist. The innovation now was to acknowledge the role of emigrants or their organizations in the United States as key players who, with their remittances, in fact influence or may potentially influence the economic and social life of their communities of origin, or perhaps even their countries. This is because Central American immigrants in the United States have gained, on the one hand, relatively significant economic power, at least as compared with the typical community they left behind and, on the other, because hard times have often led many of them to develop entrepreneurial skills.

Many successful experiences, mostly in El Salvador, were noted in this second phase of the project. In fact, most collective or community remittances are earmarked for religious festivities or social projects. Currently, few have truly economic aims. For the most part, organizations of immigrants in the United States were created to defend labor and migrant rights. In general, emigrants from a particular community established their organizations in the largest cities in the United States. This meant that a particular town might receive funds to celebrate their patron saint's day or perhaps repair the church tower. Sentiments along these lines are profound and underlie the emigrants' social cohesion. Funds are also spent on, for example, benches in the main square, on a basketball court or on a park. These types of social projects might go further, such as the construction of a road — it is said that in Guatemala the best roads serve towns left by emigrants — even on equipment for local hospitals, schools, and libraries. For example, in El Salvador, there have been large-scale donations of second-hand computers to schools.

Productive or commercial activities developed through the use of collective funds have only been the exception among Central American emigrant organizations and their communities, even when they seem rather promising. The government of El Salvador has launched an important program to link Salvadorans abroad and at home to promote economic and cultural activities — the National Competitiveness Program. Its greatest interest is financial links to facilitate the flow of remittances by establishing Salvadoran branch banks in the United States or, more readily, credit unions. Another priority is to obtain nonprofit status for emigrant organizations to enable them to oper-



ate tax-free. By reducing commissions and taxes, both of these initiatives would allow such organizations to increase remittances. Moreover, a new law on foreign investment was enacted to offer tax advantages to Salvadoran investors living abroad for at least a year, which demonstrates the government's awareness of their investment potential.

One activity identified that might be encouraged is export of articles of nostalgic value, for example, food difficult to find in the United States, such as cheeses and sauces, as well as crafts. It has proved difficult for this productive commercial activity to be subsidized through collective remittances, as it is usually private individuals who launch this type of business.

It is impossible to estimate the total value of collective remittances. Some estimates place them at perhaps 1 percent of family remittances. On that basis, one might arrive at a figure in the neighborhood of \$35 million sent to Central America. However, that amount seems rather high in comparison with other flows to the region, such as those from international cooperation. In any case, it has been underscored that such remittances are essentially different from family remittances and that, if they are well directed, their productive potential is much greater. The criticism has also often been made that the social contribution they make tends to relieve local, and even central, government of its responsibilities as emigrants do their work so well in their communities of origin that governments may very easily wash their hands.

Another very important point that has been stressed is the absence of an efficient local counterpart for social or productive projects. In some cases, the mayor, and in others, the parish priest, becomes the natural local counterpart in identifying and defining a project, but very often there is no organized structure to develop the project behind these individuals. Most Central American associations in the United States — sometimes called “clubs” — are very well organized; some even have money to invest in their towns of origin. But this lack of local organization emerges as one of the greatest obstacles to social and productive projects. There are no counterparts to negotiate; in places where they do exist, they have no structured project to offer.

Family remittances amount to much larger sums., of which a relatively small part is spent on investment. In response, a series of activities has been implemented to encourage investment, but, much remains to be done. It is important to differentiate among the various forms of investment. To many, investment is long-term investment in human capital, health and, in particular,

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some programs in Central America attempt to link remittances with the granting of a home loan

education, which, as was mentioned above, represents from 4 to 8 percent of remittances. Another 5 or 6 percent might be considered investment in a truer sense, but land and home purchases, which are priority objectives for emigrants who intend to return home, account for most of this percentage. Savings account for a very small percentage of remittances because poor families do not have much capacity to save, nor does a culture of saving develop in such social strata, and very often savings accounts are subject to negative real rates of interest, because interest is offset by inflation. Under such circumstances, productive investment and generation of employment are minimal.

During the national and regional seminars organized by ECLAC in its project, a general call was made for the promotion of educational programs for emigrants. It is very widely recognized that education is a key factor in enhancing work skills and for integrating emigrants into the United States. In that connection, English instruction is considered of the highest importance. Another activity identified as a priority was the possibility of emigrants' transferring technologies learned abroad to their communities of origin through short courses.

There are programs in Central America that attempt to link remittances with the granting of home loans. The Central American Bank for Economic Integration (BCIE) is promoting some projects, but much remains to be done.

As stated above, productive investment on the basis of family remittances may be disappointing because of the small flows involved and the very limited entrepreneurial skills of receiving families. The decision to invest depends on various factors — mainly emigrants' strategies involving whether to remain in the United States or to return to their country of origin. Another determining factor is, of course, the macroeconomic stability of their countries of origin. Many emigrants have established their businesses in the United States; some of them are so successful that emigrants have absolutely no intention of returning. Young people, in particular, find new attractions in the United States and appear reluctant to return. Some young or older entrepreneurs might, under favorable conditions, decide to invest in their countries to promote import-export operations. As stated, in contrast to their families in Central America, emigrants have developed entrepreneurial skills. Other emigrants, perhaps older and more conservative, intend to retire in their communities of origin and often buy land, animals, and agricultural equipment and tools. These two groups have two different strategies, and technical and



financial support programs for them must distinguish between emigrants abroad and those who have returned home.

A third group comprises families who remained behind and who could begin a small business on the basis of the remittances they receive. As these family members are, for the most part, women, many such family businesses are small restaurants, seamstress shops or, in general, small-scale businesses. There are programs in existence to help them with credit, business administration techniques (accounting) and, in some cases, technology. However, despite microenterprise's well-recognized role in generating employment, the development of such enterprise is not as promising as it has been in, for example, northern Italy, as these local communities are for the most part poor, with very limited purchasing power. Efforts must be made to link these small businesses with higher-income strata or even production for external markets. Again, the production and export of articles of nostalgic value from Central America to the United States seems to be a first step in that direction.

Beyond improving mechanisms to encourage the productive use of remittances, the general feeling remains that the commissions charged by international fund transfer companies should be reduced. If this remains true for Central America, it has been all the more evident to President Fox in Mexico, where important steps have been taken in that connection. The next priority is to encourage financial flows by opening Central American branch banks in the United States, which apparently is somewhat complicated.

Lastly, there seems to be growing government interest in supporting immigrant organizations in the United States in various ways, as it is now recognized that they are or will become one of the foremost economic and social players in some communities or regions. They have come to play a part in local development and have potential in the productive use of such projects. Good examples of this are experiences in Mexico in the states of Zacatecas, Guanajuato, and Jalisco, with the crucial support of local, state, and federal government. In addition, direct agricultural development action in population-exporting areas of Mexico seems to have attracted the attention of the organizations — or clubs — of emigrants from these areas in the United States.



THE DEVELOPMENT POTENTIAL OF REMITTANCES: COUNTRY OVERVIEWS

PATRICK BRESLIN, DIRECTOR OF EXTERNAL AFFAIRS, INTER-AMERICAN FOUNDATION

CARLO DADE, REPRESENTATIVE FOR HAITI AND THE DOMINICAN REPUBLIC, INTER-AMERICAN FOUNDATION

On a personal note, as long as there have been migrants, there have been remittances. It is safe to say that all of us have this connection somewhere in our family histories. In fact, one of my earliest memories is walking to the post office with my mother in the late 1940s when she regularly mailed money and hard-to-get items to relatives in Ireland. Between 1951, when my parents returned with me to Ireland for a summer, and 1960 when I first went on my own, an impressive new church was built in their hometown with the help of funds my parents and relatives, all working-class immigrants, had sent back home. I am reminded of those memories again and again when I visit some of the groups in Mexico that the IAF has funded and about whom you will hear this morning.

The topic of this presentation is the development potential of remittances, as distinguished from family support, and from buildings, like that church in Donegal. Obviously, though, the distinctions often will be blurred. By development potential, we mean the use of remittances for investment in productive activities, which hopefully will increase income and lessen poverty and its effects, as well provide alternatives to poverty-induced migration.

Even though remittances are an old story, this is a relatively new topic for the development community, though the IAF has funded projects in, what in hindsight we now call, remittance work. The IAF funds projects created and implemented by community organizations, NGOs, the organized poor and other elements of civil society in Latin America. The Foundation has neither programmatic nor sectoral limitations. We fund the best, most innovative proposals for grassroots development in the region. As such, we naturally receive proposals for work with remittances. In recent years, as more and more groups in Latin America and the Caribbean have seized upon the potential to use remittances for grassroots development, we have received a concomitant increase in proposals for work in this area. Yet, one of the first projects was Cooperativas Sin Fronteras in Mexico in the 1970s.

Despite the size and scope of remittances, or perhaps because of it, most of the productive work with remittances is occurring at the grassroots, community-to-community level. This is because, as just noted by Raúl Rodríguez and Pablo Serrano, remittances are tied to specific individuals and then to specific

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communities. It is too large, or even conceivable, a burden to add national or regional concerns. Or, to put it another way, a poor migrant sending home \$100 a month may occasionally be able to send an additional \$10 or \$20 to fix a church or buy a computer, but this individual likely cannot afford to remit another \$10 or \$20 a month to fund a regional development initiative. Where collective remittances have been used by national governments to fund regional and national development projects is Korea. Here the government will assess a fee, or tax, on earnings of workers sent abroad by Korean companies working on projects abroad. Another example is the fee that the Haitian government has collected for Haitian workers recruited by Dominican companies. In both cases, government intervention amounted to imposition of a tax on labor and or earnings. This is a crucial point for governments considering inserting themselves into the flow of remittances. It also echoes points made by other speakers: Those sending and receiving the money are the best judges of how that money should be used, not governments.

A good example of a grassroots, community-to-community project using remittances is that of APOYO, which links hometown associations in the U.S. with agrarian development projects in the home communities. One important note about the APOYO project is that the Foundation has funded what is essentially mediation between hometown associations and leadership in the hometowns by APOYO. It is neither safe nor prudent to assume that emigrants and those who have stayed behind share the same perspectives and priorities on development issues. It is one thing to say that those sending and receiving money are the best judges as to how that money should be used. It is another thing to assume they are in agreement about this.

The other IAF-funded project about which you will hear much more in the coming sessions is a project to create an alternative transfer system and use proceeds to capitalize grassroots development lending. This is the Haitian Development Bank project, and it represents possibly one of the only means to harness the entire flow of remittances. Currently, most remittance transfer businesses charge a fee of anywhere between 10 and 20 percent of the amount transferred and most, often 90 percent, of this fee remains in the US. The Haitian Development Bank plans to charge a lower fee than competitors and to split this fee equally between the U.S. and Haiti. Small, often rural, credit unions and cooperatives in Haiti who will serve as remittance counters in cooperation with the bank will share in these fees. This is a simple but revolutionary idea to capitalize these credit unions and cooperatives and, in effect, to enable them to take over a portion of microenterprise lending. This



type of project can work with countries not represented by strong hometown associations in the U.S. and hence where APOYO likely would not prove feasible.

When thinking about the potential of working with remittances it is important also to consider intra-regional remittance flows. Examples are Nicaraguans working in Costa Rica or Haitians working in the Dominican Republic. This at first glance may appear extremely difficult given that the amounts and total volume of transfers likely are much smaller and that the money travels by other, informal means. Yet, these difficulties may in fact present opportunities. For example, the alternative transfer system that the IAF has funded between Haiti and the U.S. could be expanded to include transfers between Haiti and the Dominican Republic by forging an alliance between grassroots financial institutions, e.g., rural savings and loan associations in both countries. In fact, conversations are underway to do just that. This would have the added benefit of offering a more secure means of transferring funds between the two countries and would present the opportunity for providing financial services to migrant communities now lacking such services, given the amount of money that is stolen and the risk of carrying large sums of money between the Dominican Republic and Haiti. In fact, the implementation of such a system should increase the total volume of remittances arriving in Haiti. Rural credit unions in the Dominican Republic would benefit from fees and spreads.

In addition to *intra-regional* flows, there is much potential for using *internal* flows. The IAF has funded a grant to the Development of La Ranca in the Dominican Republic to create a community bakery in a tiny community along the Dominican-Haitian border. A group from La Ranca that migrated to Santo Domingo submitted the proposal to the IAF. Thus, we have the case of a hometown association operating within the country. From a development perspective, this type of relationship is perhaps more advantageous than working with U.S. hometown associations. It is easier to travel from Santo Domingo to La Ranca than from Washington Heights to La Ranca. Immigrants in the capital return to La Ranca every weekend or at least every other month. As a result, the Dominican hometown association is much more attuned to the needs and desires of La Ranca and there is no need for mediation as in the case of APOYO. Another advantage to working with these types of hometown associations is that they allow work with communities that often lie below the development radar. The community of La Ranca has neither phone nor Internet access. Because of this and other factors, it would be

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difficult for the community to generate a proposal and contact the IAF. Where communication and other factors make working with these communities difficult, an alternative has been to work with national or regional NGOs in these communities. But in this case there is always a question as to how much the proposals are of, for and by the communities and how much of, for and by the NGOs. The difference with working with hometown associations is that the people advocating and working for the community are from the community, have family in the community and likely, as in the case of La Rancha, return there every other weekend. Where technical expertise is not a major factor, working with hometown associations is preferable.

In Guatemala, the Equipo de Consultoría en Agricultura Orgánica, an IAF grantee, is helping communities in three regions to grow and market organic products. Recently, the group has contacted the Guatemala chamber of commerce in the U.S. to investigate selling the group’s products there. Several groups in Mexico also are also exploring the “nostalgia” market.

This and the previous examples illustrate that in development work the term “remittance” needs to be broadened to include the full range of resources sent home. Immigrants are a source of capital, knowledge, experience and ideas, which they can funnel to the community. A good example of this is the Digital Partners initiative out of Seattle. Here a group of high-tech entrepreneurs and executives are banding together to use their experience to foster development back home in India. This type of approach is important for volunteer organizations, U.S. private volunteer organizations and faith-based initiatives.

Work with remittances should be divided clearly and sharply between smaller development agencies like the Foundation and larger agencies like the IDB, USAID, and the World Bank. The easiest, most practical level at which remittances can be used often is that of the small, community project. Larger agencies are better suited for working to link the smaller investments into a rational, formalized framework, which might include offering guarantees, and to working on macro issues such as reforming the financial sector, introducing competition, and strengthening smaller financial institutions to play a role.



GLOBALIZATION AND MIGRATION: THE IMPACT OF FAMILY REMITTANCES IN LATIN AMERICA

MANUEL OROZCO, PROJECT DIRECTOR FOR CENTRAL AMERICA, INTER-AMERICAN DIALOGUE

Although globalization has diverse facets, most analyses have paid attention to its economic dynamic, and specifically to the role of finance and commerce in stretching ties. However, even in the economic context, globalization has been more than trade and finance. Migration, for example, represents a very important dimension of globalization, and family remittances specifically constitute a major factor in integrating societies into the global context, both economically and socially.

Trade and investment are part of broader and increasing patterns of interconnectedness. In the developing world, migration has increased countries' leverage with regard to globalization. Because of migration, Central American and Caribbean economies have transformed gradually from agro-exporting to labor-exporting. An important consequence is that immigrants, and in particular, foreign-born Latinos in the U. S., have sought to establish ties with their countries of origin. Although in most cases institutional relationships have not developed between groups such as organizations of foreign-born Latinos and Latin American civil society or the state, there is a growing interconnection influenced by the flow of family remittances to Latin America.

Globalization and Migration

Globalization is a process affecting the traditional territorial political space and its associated claim to sovereignty. It represents an increase and intensification of worldwide connectedness (and the consciousness of it) with some decline in the significance of territoriality and state structures. Anthony Giddens (1990, 64) defined globalization as "the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa." In Giddens' view (1990, 159), social practices fall under different dimensions of globalization, identified as the world capitalist economy, the world military order, the international division of labor and the nation-state system. In this context, migration falls within the categories of nation-states, the world economy, and the international division of labor.

Despite the fact that migration has been a key element influenced by globalization, it has not been addressed. "Discussions of globalization" notes Stalker

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(1999, 1), “rarely consider international migration at all, or if they do, deal with it as a residual category, an afterthought.” In fact, most analyses of the levels of economic integration pay attention to trade and investment, but neglect to consider labor in any form. This has implications for economic policy-making and development because significant indicators are neglected or set aside.

Recent studies have sought to recognize labor as a key factor in facilitating global economic integration. Stalker (1999), for example, distinguishes various dimensions in which labor is connected to the global economy, either as a factor excluded or included by capital expansion, trade intensification or wage differentiation. Sassen (1996, 1999) offers an interpretation of globalization within the context of migration. She argues that a prevailing tension exists within the nation-state in a struggle to control borders, rights and cross-border flows.

Mittelman (2000, 4) analyzes labor within a framework he calls the “global division of labor and power.” He describes the current anatomy of the global political economy as composed of “a spatial reorganization of production among world regions, large-scale flows of migration among and within them, complex webs of networks that connect production processes and buyers and sellers, and the emergence of transnational cultural structures that mediate among these processes.” As a response to this division of labor and power, migration emerges in developing countries with people seeking better opportunities in industrialized countries by entering labor-intensive activities or low-skill service industries. Mittelman stresses “that heightened competition among and within regions, mediated by such micropatterns as ethnic and family networks, accelerates cross-flows of migrants.” (2000, 65)

Prakash and Hart (2000) further maintain that, in order to understand economic integration, labor needs to be incorporated as a key category of analysis. To Prakash and Hart, an analysis of factors of production significantly contributes to understanding the way a country’s economy is globalized. They argue that “if firms are coalitions of factors of production, integration should be observable at the factor level: at the level of land, labor, capital, entrepreneurship, and technology or intellectual property.” (2000, 104) Prakash and Hart maintain that although labor faces major restrictions on cross-border flow, its mobility “is a fact of life.” They have proposed three measures of integration of labor markets into the global economy. The first is the proportion of foreigners in the domestic workforce, and the second is the ratio of the



“domestic workforce in export-dependent industries and employed by domestic affiliates of foreign MNEs.” (2000, 105) A third measure is remittances. Prakash and Hart argue that migration facilitates integration “through remittances that contribute to a home country’s GNP and provide it with valuable foreign exchange.” (2000, 105) They propose using the remittances to gross domestic product (GNP) ratio as an integration indicator. When these indicators are included in the analysis of economic globalization, a different pattern of economic development is observed. In some cases, the traditional indicators of trade and investment can be complemented with the scope and depth of international labor dynamics.

Recent economic studies agree that the Western Hemisphere has gradually become more integrated through trade and investment. NAFTA, Southern Cone experiments with Mercosur, Central American efforts to revive a common market, as well as calls for a Latin American Free Trade Area illustrate this pattern of integration. As a consequence, economic interdependence has increased; intra-hemispheric trade rose from 46.7 percent in 1990 to 58.3 percent in 1998 (IDB 1999). However, trade and investment integration has been slow and difficult in Central America where globalization has been connected to broader dynamics. In fact, the economies of Central America and the Caribbean show changing patterns suggesting an increasing shift in economic orientation from agricultural to labor-exports. Traditionally, agriculture has been a key strategy for economic growth and has received special attention as a source of subsistence foreign currency (through agricultural exports) and employment. However, for all these categories, economic indicators (see Tables 1a through 1c) show that agriculture has declined significantly while other factors have become more influential. Such is the case with labor migration, which has increased significantly in the past 20 years and has been influential through worker remittances.

economies of Central America and the Caribbean show changing patterns suggesting a shift from agricultural to labor exports

Table 1a. Percentage of Labor Force in Agriculture

Country	1960	1970	1980	1990	1995	1996
Costa Rica	51	43	35	26	22	22
El Salvador	62	57	43	36	27	28
Guatemala	67	62	54	52
Honduras	70	65	57	41	37
Nicaragua	62	50	39	28
Haiti	80	74	71	68
Dominican Rep.	64	48	32	25	15	15

Source: World Bank Indicators, 2000.



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Table 1b. Agriculture as Percentage of GDP

Country	1980	1985	1990	1998
Costa Rica	18%	19%	18%	15%
El Salvador	38%	27%	17%	12%
Guatemala	27%	28%	28%	26%
Honduras	21%	19%	20%	17%
Nicaragua	23%	23%	25%	29%
Dominican Rep.	21%	19%	20%	18%

Source: IDB Statistics, 2000.

Table 1c. Agricultural Exports as Percentage of Total Exports

Country	1980	1985	1990	1996
Costa Rica	66%	70%	49%	56%
El Salvador	77%	79%	54%	28%
Guatemala	68%	79%	66%	57%
Honduras	74%	72%	73%	30%
Nicaragua	77%	90%	73%	49%
Haiti	52%	31%	11%	16%
Dominican Rep.	54%	61%	49%	10%

Source: Cepal, 2000.

Neglecting to focus on labor dynamics as factors in economic integration can slow economic performance or distort measures of key economic indicators. It is thus important to look at the flow and impact of remittances to Central American and Caribbean countries to ascertain their new dynamics and impact.

Interdependence from Below: Family Remittances and Hometown Associations

The processes of migration that took place in the 1970s and 1980s, as well as the continued flow of people from Latin America to the United States, have extended the country-to-country relationships to diaspora-homeland linkages. These connections, however, have been relatively minimal and are at an early stage of development. Foreign-born Latinos living in the U.S. have very little, if any, direct influence on U.S. policy toward Latin America or on Latin American countries' decisions (Orozco 1998). Moreover, most foreign-born Latino organizations work largely within the U.S. because Latinos have sought primarily to improve their social condition. This situation, however, does not mean that Latinos do not have vested interests in Latin America, but rather that overall they prioritize domestic linkages and practices (De la Garza, Pachon and Orozco 2000). But because of migration, political conditions, and technological progress, Latinos have found themselves incorporated as intermestic¹ agents with various sorts of familial, cultural, social, com-

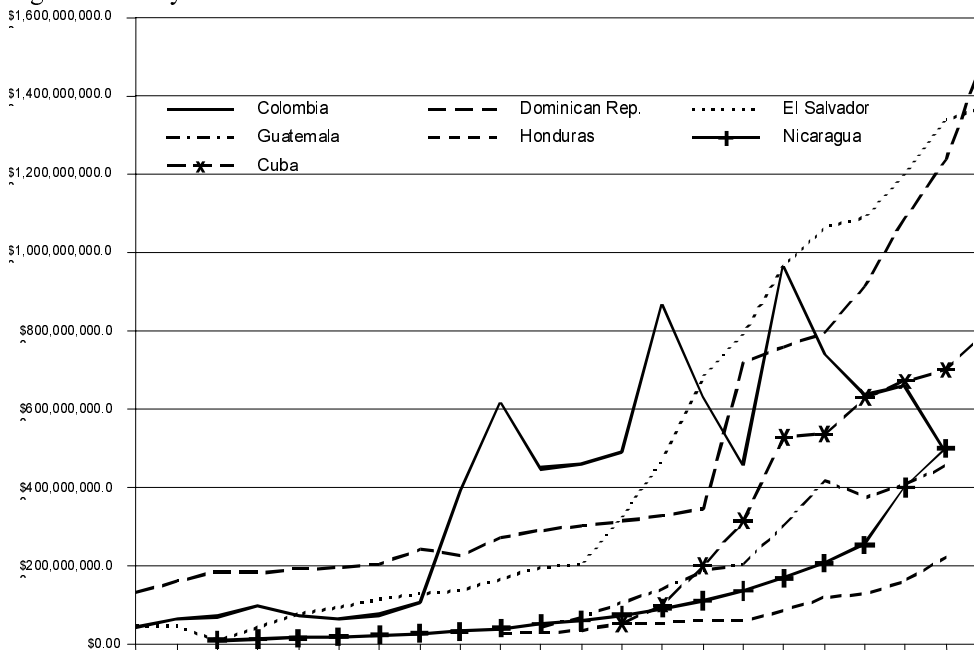


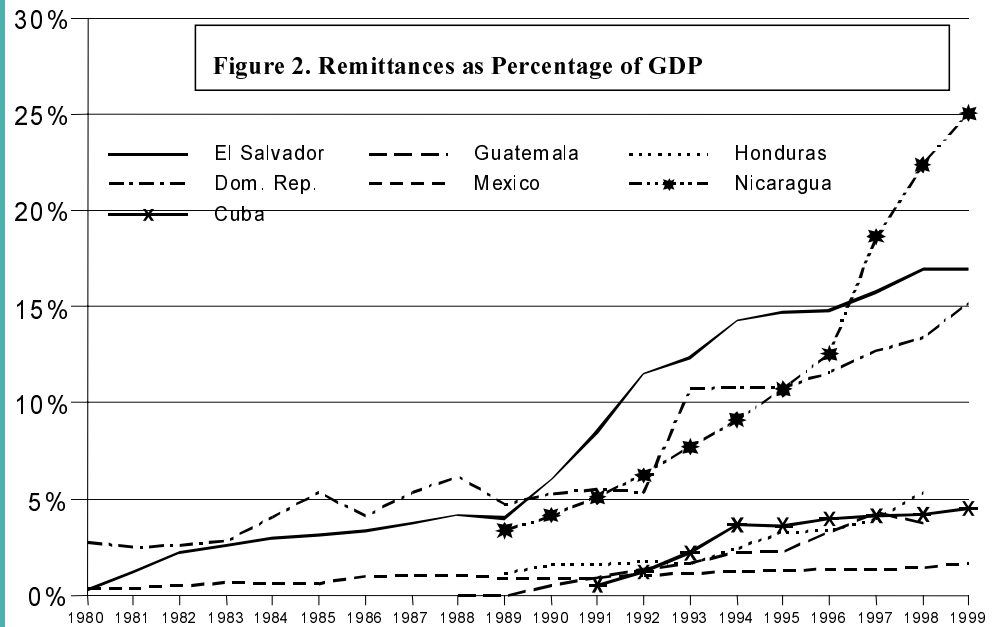
munity and, at times, political relationships. In some situations, as with familial, cultural, and community connections, the bonds of integration are becoming stronger.

Family remittances are currently one of the most important forms of linkage between Latinos and Latin America. They have created an intermestic dynamic that affects sending and receiving countries, and they have become a key factor in economic integration. The dynamics of remittances, however, go far beyond the measure of integration presented by Prakash and Hart. When Held and McGrew (1992, 262) speak of globalization, they do so by reference to two interrelated dimensions: “scope (or ‘stretching’) and intensity (or ‘deepening’).” That is, the boundaries of localities are stretched and already existing global connections are deepened. Looking at the scope and depth of the dynamics of remittances offers an emerging pattern with significant implications. In terms of scope of remittances, one can see that their connection to the range of players involved in the transmission process goes beyond sender-receiver relations. Some of these players are the market intermediaries, government, hometown associations and international groups interested in the flow of remittances. In terms of depth of these dynamics, one can think of the level of involvement of these players in affecting the impact

remittances are one of the most important linkages between Latinos and Latin America

Figure 1. Family remittances to Caribbean and Central American Countries





of remittances on the receiving country, which in turn has a multiplying effect on the economy and society.

Value and Dynamics of Family Remittances

Many Latin American countries find in family remittances an important source of national income. The immigration waves of Central Americans to the United States in the 1970s and 1980s, and continued migration to the U.S. since then, has made remittances a major source of newly acquired income for migrant-sending countries. Remittances began to grow in volume in the 1980s and now appear to be an increasingly steady flow. The flow to Mexico and select Central American countries increased from nearly \$1 billion in 1980, to \$3.7 billion in 1990, and to more than \$10 billion in 1999.²

This increase invites the attention of policy-makers and a range of social actors eager to improve opportunities and conditions in Latin America. Using the Prakash and Hart remittances to GDP ratio also demonstrates how influential remittances are becoming in many countries' economies. In some cases, such as in Nicaragua, remittances represent one-quarter of the national

in Nicaragua, remittances represent one-quarter of national income



income. Even in economies like Mexico's and Cuba's, remittances are gaining relevance.

Remittances may be as important to national economies as exports, which traditionally have been the greatest contributor to the gross national product. Remittances to El Salvador have, on occasion, exceeded the total value of exports, and constitute more than one-half the value of exports in the Dominican Republic and Nicaragua. El Salvador has also come to depend on remittance income and has policies encouraging the continued flow of what is now more than \$1 billion (Weiner 1996, 37-38, Central Bank of El Salvador). Even in stronger countries such as Mexico, which has a robust export-oriented economy, remittances equal 10 percent of the total value of exports, almost 100 percent of the income from tourism (Ortiz 1994, Q-14) and about 80 percent of the value of direct foreign investment (La Jornada 2000).

As mentioned above, the volume of remittances needs to be understood in terms of the players making that flow possible. Hometown associations, the market, and governments are key actors in the remittance phenomena. These are discussed in turn.

Hometown Associations

Partly inspired by the dynamics of family remittances, community groups have been formed by immigrants with the purpose of maintaining relationships with their country or local communities. These organizations are part of a growing trend in transnational social movements influenced both by migration patterns as well as by globalization (Mahler 2000; Roberts, Frank and Lozano-Ascencio 1999).

In fact, one unexpected effect of the flows of family remittances is the formation of hometown associations. Remittances have improved household conditions in the country of origin and have also facilitated contacts with and among families living abroad. In turn, the connections established among remittance senders from similar places of origin lead to spontaneous but coordinated efforts to support not only relatives but towns. In fact, residents of the same town or state in the migrant-sending country form these organizations to retain a sense of community as they adjust to the United States. The HTA is not new to Latinos and has a long and familiar history among U.S. immigrant groups. Typically, its first purpose is social; soccer clubs or community organizations, for example, host dinners, dances and other events where people

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can mingle. HTAs are known to form around and to contribute to the local church and community. And they are known as social and economic conduits back to the hometown.

However, the 1990s has seen the institutionalization of transnational ties between the U.S. and migrant-sending countries. The HTA is also a subset of what some observers assert to be a growing number of transnational migrant organizations, or TMOs (Levitt 1997). The hometown association fulfills several functions, from social exchange and political influence, to the pursuit of small-scale development goals in the home community. These groups are increasingly motivated to take advantage of the upsurge in family remittances and the need for economic aid in their homelands. One of the changes of the 1990s is the emergence of HTAs whose work consists of retaining cultural ties and improving home country communities. Organizations made up of Salvadorans, Guatemalans, Mexicans, Dominicans, and people from other countries such as Colombia and Nicaragua, have increasingly been working toward bettering their towns.

The international activities of the hometown associations studied in a recent project by the Tomás Rivera Policy Institute and the Inter-American Dialogue exhibit at least four features (Orozco 2000a). First, their activities or work orientation ranges from charitable aid to investment. Second, the structure of these organizations varies with more or less formal domestic structures and sporadic relationships with their hometown and governments abroad. Third, the organizations' decisions defining their agenda or activities depend on an array of factors, such as availability of resources, relationship with the hometown, members' preferences and organizational structure. Fourth, like other Latino nonprofits, they have a small economic base.

From a balance of payments perspective, activities like charitable giving and contributions to infrastructure projects, are like remittances in that they are unrequited, unilateral private donations, albeit carried out on a community basis (with the exception of direct investments that typically involve a subset of individuals within the association). First, charitable work is common, including the donation of clothes, construction material for the town church or small cash amounts to purchase goods for local religious festivities. A second type of activity is oriented toward improving the town's infrastructure conditions. Here the associations raise money to pave streets, build parks, create sewage treatment plants, filter water, buy or maintain cemetery plots, or build health care facilities. A third group of activities are oriented toward



“human development” (Eekhoff 1997), the daily educational and health conditions of the towns’ inhabitants. These activities include funds for scholarships, library books, health supplies and medicine, and sports utilities. A fourth type of activity involves capital investment for income-generating projects managed by local community members and often supervised by immigrants.

A second feature of hometown associations is the organizations’ structure and the kinds of links they establish with their community of origin. Most associations lack strong organizational structures, and few have an institutional counterpart in their home country. They have a small membership and their relationship with the hometown is often through the local priest or a notable person or group of persons. Two kinds of relationships are observed. The first is hierarchical, in which the hometown association communicates to its counterpart or contact the decisions and agenda for projects. The second type is one of joint cooperation. The local hometown counterpart, together with the association in the United States, helps define the agenda. Generally, the community associations meet occasionally to discuss their future agenda or fund-raising activities, or deal with extraordinary events, such as the organized support to victims from Hurricane Mitch.

The third hometown association feature relates to these organizations’ decision-making processes. Decisions as to what work orientation the organization must take, or the agenda to establish, depend primarily on the preferences of the members and the financial resources available to them. Most organizations begin their work with charitable donations. As they discover new issues to concentrate on, or as they learn from other organization’s experiences, they may reorient their activities. But their involvement also depends on the time available for the members to invest on the activities. Most members volunteer their time after their regular work and family obligations. Another factor that influences their choice of endeavor is the hometown’s request for assistance. Although few associations have organizational counterparts in the home country, when they do, their contact person often transmits the community’s needs. The conditions of the town become an important determinant of the organization’s agenda. As one community leader expressed, “Our focus of work will depend on the needs of the community, whether the town has easy access to main highways, or it’s an impoverished rural area.” (Orozco 2000a)

A fourth feature of these organizations is their small economic resource base. Most hometown associations raise less than \$10,000 on average

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collective
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(in-kind
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included)
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share in the
global amount
of remittances

each year. However, because the associations are voluntary and do not incur administrative costs, much of the money they raise is sent to the towns in the form of cash or in kind. Although the annual amounts of money raised are not relatively high, they are no different from the average income of those Hispanic organizations identified by Cortes (1999). But more important perhaps is that the aggregate value is as significant as that of U.S. foreign aid, which in 1996 was \$76 million. According to an ECLAC report, in-kind or cash donations from HTAs may amount to less than 1 percent of family remittances, which in El Salvador total more than \$15 million. The ECLAC report stresses that “collective remittances (in-kind donations included) have a small share in the global amount of remittances. Although estimates for Central America are unknown it is difficult to assert that these flows are more than 1 percent of the total value of remittances . . . This amount may seem insignificant, however it may increase in the future.” (Torres 1998, 40-41)

These associations have already had an impact on social development in their home countries, and they may continue to operate and grow in the future. Therefore it is important to study the emerging patterns as well as assist in strengthening their institutional and operational bases.

Economic Interdependence: Market and Government Forces

Most studies of remittances focus on the recipients of remittances as the “principal actors.” However, new and previously little-known actors and activities have emerged with the surge in remittances and have had direct or indirect developmental impacts. The marketplace for transferring remittances has grown apace with the increasing volume of remittances, attracting new companies and new services. Migrant-sending governments, too, have been attracted to the increased volume of remittances, generating innovative practices to leverage their use. These newer actors’ impact on the flow of and behavior associated with remittances has not been sufficiently studied, an oversight this paper addresses with a description of the new players and practices. The figure below portrays these actors, their roles and their relationships. The actors have directly and indirectly influenced the patterns of remittances and their impact on development. Remitters send money to their families for personal purposes and they allocate money for other economic purposes. Recipients become agents of development when their money creates new markets or improves the



welfare of the household through education and health care. Financial services companies have a profit motive, but they are increasingly involved at some level in economic development in their customers' communities.

The Financial Services Marketplace for Remittances

Remittances are sent in various ways, through banks, money transmitter companies (agencies like Western Union) or postal services, or they are hand-delivered by the sender or by a third party (*encomendero* or *viajero*). In Latin America, the use of these instruments varies, depending on factors such as the existence of a modern banking and financial infrastructure, efficient delivery systems, and the educational and income status of the recipient and sender.

During the 1990s these institutions have expanded to service the increased volume of remittances. The non-bank financial institution (NBFI) sector, in particular, has grown. An NBFI is authorized to engage in banking activities not involving the receipt of money on current account subject to withdrawal by check. These institutions manage most remittances. Coopers and Lybrand (1997) found the international component of the U.S. money transmission sector grew an astounding 20 percent annually from 1991 through 1996. International money orders, the next most frequent means of transferring remittances, grew at about 7 percent annually. Today, at least 90 percent of all remittances are transferred electronically or via money orders.

Remittances are a source of large profits for small and large businesses. They profit from the transaction fee charged to the customer, from temporarily investing the funds prior to transferring them, from offering such conveniences as door-to-door service, and, in some cases, from artificial exchange rates. With 97 percent of money transmissions, Western Union and MoneyGram dominate the U.S. market in 1996. Western Union may control at least 18 percent of the remittances market in Mexico and more than 30 percent in the Dominican Republic and Nicaragua (Orozco 2000b). MoneyGram, which competes with Western Union, engaged in an aggressive marketing strategy and, as a result, the company extended its international reach to 22 percent of the international remittances market in 1996. Moreover, in 1995, 44 percent of MoneyGram's money transactions took place between the U.S. and Mexico (Coopers and Lybrand 1997). In El Salvador, Western Union conducts a minimum of 70,000 transactions a month worth an average of \$300 each. In the Dominican Republic, the minimum is 120,000 transactions, or at least 30

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of \$11 billion transferred in 1996, the money transmission sector had an estimated \$1.2 billion in revenues

percent of the remittance flow. These companies charge significant fees, ranging from 8 to 14 percent of the amount remitted.

Although they move less volume, smaller players have about one-fifth of the storefront outlets seen in U.S. cities, and they play a niche role focusing on immigrants in particular. Also emerging now to seek a share of the remittance market are commercial banks in the sender's home country, the U.S. postal service and credit unions with an established remittance network. Commercial banks have seen the profit potential in remittances and represent a natural conduit for the flow of money from one country to another. In the case of El Salvador, for example, banks such as Bancomercio are operating in the U.S. (Houston, Washington, D.C., Virginia, Los Angeles) and charging competitive fees of less than \$10 for almost any amount to be sent, yet they do not have the same outreach capacity of businesses such as Western Union.

In 1997 the U.S. postal service created a delivery system and now offers a lower rate than Western Union or MoneyGram. As a credit-union-to-credit-union service, the International Remittance Network (IRnet) is also an innovative alternative to other courier agencies and banks. Its fee, a flat \$6.50 per transaction, is one of the lowest in the market (WCCU 1999).

Of some \$11 billion transferred nationally and internationally in 1996, the money transmission sector had an estimated \$1.2 billion in revenues. The average amount transferred from the U.S. to foreign countries is \$320, with transfer fees ranging from 6 to 15 percent.

All aspects of this marketplace show substantial growth: volume of remittances carried, number of carriers, diversity of services provided and entry of non-traditional players like foreign banks, U.S. postal service or credit unions. A recent lawsuit against the major remittance companies highlights that the high profitability of this sector has not been without its excesses. However, the resolution of the suit indicates the market is readily amenable to regulation, and a precedent has been set that will encourage these companies to support their customers' communities. The number of players in the market, and the various niches that they serve, suggests that competition will in-



creasingly lower the costs of transferring remittances from the United States to Mexico and Central America.

Evolving Practices to Capture and Leverage Remittances

For the past 20 years, various means of accessing and leveraging remittances have evolved worldwide, particularly in Asia, where there are substantial circular movements of labor migrants to neighboring countries and to the Middle East. In the Western Hemisphere, Mexico has been a leader in developing practices to exploit the increasing flow of remittances, as might be expected from the nation with the largest flow of emigrants and remittances.

Some of the earliest approaches attempt to capture remittances at the point of transfer. Governments may levy strict import duties, affecting primarily money brought into the country primarily. In the 1970s and 1980s, Asian countries experimented with mandating that a share of labor earnings abroad be deposited into a national fund. In the United States, migrants have just gotten the chance to voluntarily earmark their remittances toward development funds. Financial instruments are another alternative to capitalize on the flow. Asian governments took the lead in creating instruments to attract migrant investment in foreign currency accounts and bonds. With a larger market in mind, Mexican banks in recent years have created the remittance-based bond.

Mexico has taken the lead during the 1990s in reaching out to its emigrants in the United States, helping to form hometown associations and encouraging the membership to remit and invest in their communities of origin. The HTAs have served as platforms for matching fund schemes that pool remittance monies with government funds and expertise, and occasionally with private-sector contributions, for locally focused economic development projects. More recently, state governments are experimenting with offering the HTAs investment opportunities in job-creating projects, typically low-entry cost assembly plants. A final approach to leveraging remittances is to influence individual migrants to spend their earnings in ways that benefit the migrant-sending economy. Such programs are oriented toward stimulating migrants abroad to spend remittances on job-creating investments, or to counsel or train returned migrants in ways that increase their contributions to their country of origin. Thus far, these approaches pioneered in Asia have few equivalents in Mexico or Central America. The rest of this section discusses some of these strategies.

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Capturing a Share of the Flow of Remittances

Government Regulations on Remittance Income

None of the countries in Latin America has specific regulations that control the flow of remittances. In post-war Guatemala and El Salvador, the central banks maintain a position of no restrictions or control, letting the remittance market regulate itself. This position is consistent with these governments' policy of privatization and liberalization of their economies. Both central banks closely follow the flow of remittances and measure it by monitoring reports from banks and foreign currency exchange houses. Their methods are estimated to have a margin of error between 5 and 10 percent. In addition to monitoring unilateral transfers and counting them as family remittances, customs regulates emigrants bringing goods into the country (often remittances in kind). Both El Salvador and Guatemala's regulations are liberal regarding import duties: Salvadorans are allowed to bring up to \$1,500 worth of merchandise, and Guatemalans are permitted to bring \$2,000 into the country free of duty.

Government Capture of Remittance Shares

A few countries have attempted to require a certain percent of the earnings of their workers abroad be deposited into a national fund. However, there exists little support for that requirement. Former Guatemalan Ambassador William Stixrud had suggested that emigrants put the equivalent of 10 percent of the value of their remittances toward private investment (Velásquez 1999). He argued for a fund to which emigrants, the government and international development organizations would contribute. For example, for the construction of a hydroelectric plant with a cost of \$1 million, the emigrant community could raise 20 percent of the costs and international development organizations, such as the Inter-American Development Bank, would put up the rest.

Financial Instruments to Attract Remittances

All of the approaches that are discussed above focus on capturing a share of remittances and directing it to some sort of development project or investment scheme. However, attracting remittance monies from low-return transactions or informal transfers into the formal banking sector, while not a direct investment in development, may create more value.



Government and Private-Sector Remittance Bonds

Several years ago, Mexican banks began offering remittances bonds backed by money sent from migrant laborers in the United States (Druckerman 1998). Basically, banks that receive large amounts of wire transfers from workers and companies abroad issue the bonds. The remittance monies may also be part of banks' check-cashing or money order business. The money is deposited into an offshore account prior to conversion into local currency paid to the recipients. The annual flow of remittances is estimated to be, over the last five years, 10 times as great as annual bond payments. In El Salvador, Banco Cuscatlan S.A. is reported to handle at least one-third of \$1.2 billion in remittances and, in 1998, offered \$50 million in remittance bonds.

Migrant-Sending Government Outreach to Migrants

Assisting in the development of formal migrant associations and encouraging their members to remit and invest in their home countries can stimulate remittances. The Mexican government has had a formal outreach effort since 1990. Established during the government of Salinas de Gortari, these efforts continued under the Zedillo administration. The federal programs include the Paisano program and the Program for Mexican Communities Living Abroad (PCMLA). The former attempts to improve the treatment of returning migrants through reducing corruption and abuses by Mexican border and customs officials. The latter provides health, education, legal and social services to Mexicans in the United States. It also helps channel remittances toward local development projects.

The PCMLA program operates through a network of 42 consulates and 23 institutes or Mexican cultural centers in the United States. It cooperates with Mexican clubs and hometown associations to deliver services and encourage them to raise funds for their hometowns. Consuls have helped arrange meetings between community leaders and visiting governmental representatives from Mexico. Moreover, many officials from emigrant-sending cities and states meet with and provide services to emigrant groups.

With the administration of President Fox, a new office was created to more actively interact with Mexicans and attract their resources for investment and profits in Mexico. By late 1998, there were more than 400 clubs operating throughout the United States with most located in Los Angeles and Dal-

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las (this number excludes groups created independently of the PCMLA program). The growth of these clubs has not been even, and has depended on the presence of a cohesive population of immigrants from the same sending areas, and on the activism of community leaders. Zacatecan or Guanajuato clubs have, for example, demonstrated more organizational capacity than others. In some cases, a group is concentrated in one area whereas others are spread throughout the country. Of 112 Zacatecan clubs, 71 are in Los Angeles and 20 in Chicago. On the other hand, of the 40 Guanajuato clubs 11 are in Chicago, seven in Dallas, four in Los Angeles, four in San Jose, three in Oxnard and the remaining 15 in nine different areas.

Although the Mexican experience has proven so far the most successful and organized among Latino organizations, Salvadoran, Dominican and Guatemalan groups are being encouraged to form organizations too. The Salvadoran embassy has learned from the Mexican experience and is mainly working to maintain friendly relations as well as conduct outreach efforts with Salvadoran communities. The community affairs counselor for the Salvadoran embassy reports positive remarks from most Salvadoran groups. In the Guatemalan case, although expatriates seem little aware of the importance of their remittances, the embassy has taken steps to reach out to Guatemalan communities in various parts of the U.S. and is considering investment strategies (Velásquez 1999).

Migrant-Sending Government and U.S. Community Joint Ventures

Governments recognize they can attract emigrants' monies through offering incentives. One approach is to match remittances with government funds, increasing the pool of money available for various projects and motivating hometown associations to leverage their donations. Another approach is to actively solicit and encourage investment by emigrants in their hometowns, essentially diverting remittances to serve the purpose of aiding hometown development.

Hometown-Community Matching Funds

The government of the state of Zacatecas has one of the oldest matching-fund programs, followed by the state governments of Jalisco and Oaxaca. Government teams up with hometown associations and other actors to spur economic development. While the formation of Zacatecan clubs in Southern California began in 1976, by 1992 an umbrella federation of clubs had formed,



at which point the state government began a formal tripartite financing project (Marquez 1998). For every dollar donated by the emigrants, the federal government and the state government each contributed an additional dollar. The projects have prioritized development that benefits the entire community such as providing potable water, building schools and recreational facilities, paving streets, and building churches, plazas and parks. The program has changed in recent years to a four-to-one match to which the municipal government contributes as well. In the future, the state hopes to build microenterprises and other economically productive projects.

In Jalisco, an economic development fund was launched in 1998 to attract hometown associations. The HTAs' donations, remittance-like unilateral transfers, are matched by the government for various development projects including factories and infrastructure projects. But the hometown associations are not the only players. Financial services firms such as Raza Express contributes \$0.75 to the fund for each \$300 sent to Mexico through their company. Raza Express has contributed more than \$50,000 to the fund and the government of Jalisco has put in \$500,000, creating some 15,000 jobs. This strategy combines government funds and Mexican emigrants' monies for their hometown development with those of other actors, in a hybrid form of investment and community support for both similar and different agendas.

Hometown-Community Investment Plans

The state of Guanajuato works with Casas de Guanajuato, associations created in part through outreach efforts, to manage and finance small garment factories in hometowns. The state has set up an office of the Comunidades Guanajuatenses en El Extranjero with a full-time liaison to more than 30 Casas de Guanajuato throughout the United States (Zamora 1999).

Under the "My Community" program, the investment is professionally managed. An outside consultant is asked to put together a business plan the office presents to each U.S. hometown association. A minimum of \$60,000 is required from the community, or, typically, a few individual members (Ferris and Moreno 1998). Furthermore, the state puts up three to four months of wages during the start-up period and makes low-cost loans available. Various incentives attract immigrants to participate in these programs, including, clearly, state support one and the business plan the consulting team presents as profitable. What is more, the investment is in the investors' hometown and preference in hiring may be given to family members. Emigrants working

under the "My Community" program, an outside consultant puts together business plans that are presented to U.S. HTAs



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in these projects believe that “by providing jobs for those with fewer skills, fewer people will be forced to emigrate to the United States in search of work.” (Ferriss and Moreno 1998, 1) Thus far, six garment factories (structured as maquiladoras) have about a year’s track record and three more are in the start-up phase. There are plans to have up to 60 maquiladoras up and running in the next several years.

Conclusion

One conventional assumption about international interaction and integration has been that its significance is related to state-to-state linkages, particularly in trade, investment or security. However, the processes of international migration and the globalization of economies have expanded integration among lesser-known actors, such as migrants and their families. More importantly, transnational ties are producing a complex web of interrelations that influence state behavior and policy-making.

The links established through remittances suggest radical changes are remaking the look of countries’ economies. The Salvadoran decision, for example, to adopt the dollar as its legal tender was closely related to the high reliance on foreign exchange from remittances (Inforpress 2000). The multiplier effects of remittances go beyond the support of the household to alleviate an ailing economy, as in the case of Nicaragua which depends on remittances for 25 percent of its income. In fact, remittances are rescuing the country’s economy during a time of decline in agricultural exports, the major foreign trade sector. Linkages also have an impact in terms of the receipts from new sources when nationals return to their home country as visitors. Nicaragua again provides an example of this trend. A country with a relatively undeveloped tourist industry, it has received substantial income from tourism, predominantly by Nicaraguans who visit from abroad. This example is especially relevant as this country struggles to survive on traditional exports and foreign aid but has failed to understand the labor dynamics that emerged from the migration trends of the 1980s when thousands fled the country, escaping war and crisis.

A key question to ask is whether remittances are likely to decline or continue their upward trend. It is possible the flow may continue in a steady stream because of family linkages and a network of social capital that facilitate and motivate the migration process. However, other variables may be more helpful in explaining whether remittances will change in the future. The flow



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MARCH 19, 2001 - WASHINGTON, D.C.



may depend on the behavior of and interaction among key factors such as the socio-economic condition of the senders, political and economic conditions in the home country and the level of market competition as well as a continued flow of migrants and a steady sending population.

¹ Intermestic refers to actors or practices that are both domestic and international. According to Dominguez (1998) the term was first applied by Manning (1977).

² Remittances to Mexico rose from \$800 million in 1980 to \$2.4 billion in 1990 to \$6 billion in 1999.

Editor's note: The sources for references contained in this article can be obtained by contacting the author, "morozco@thedialogue.org"





A HOMETOWN ASSOCIATION PERSPECTIVE

GUADALUPE RODRÍGUEZ, VICE PRESIDENT, FEDERATION OF ZACATECANOS OF LOS ANGELES

Good morning, ladies and gentlemen. My name is Guadalupe Rodríguez and, on this occasion, I represent the Federation of Zacatecano Clubs of Southern California, of which I am vice president. Please accept a cordial greeting from our president, Mr. Guadalupe Gómez, from the board of directors, and from the Federation member clubs.

May I convey my particular gratitude to the individuals who were so kind as to invite the Zacatecanos to participate in this important meeting.

I would like to let you know that the Federation of Zacatecano Clubs of Southern California was founded some 20 years ago and, since its inception, the clubs' aim has been to hold fundraising events to send money home for purposes of subsidizing, to some extent, the cost of basic services in the club members' communities of origin. Later on, agreement was reached with various presidents of town councils on carrying out one or another community project. Eventually, the program "Two Times One" was developed, for which an agreement was signed by the Mexican minister of social development (SEDESOL) at the time, Mr. Luis Donald Colosio, stipulating that one part of the funds would be contributed by the Mexican state, one part by the municipality, and one part by Federation's member clubs in the U.S

From 1992 to 1998, work was carried out under the program "Two Times One," with Zacatecano clubs in the U. S. investing an average of \$300,000 each year. In 1999, at a meeting in Fresnillo, Zacatecas, with the minister of social development at the time, Mr. Esteban Moctezuma, and the governor of Zacatecas, Mr. Ricardo Monreal Avila, a verbal agreement was reached on the program "Three Times One" with all Zacatecano Federations of the United States. A written agreement embodying the aforesaid verbal agreement was later signed at the Mexican consulate in Los Angeles, California.

During the first year of the agreement (1999), Zacatecanos living in the United States invested \$5 million, with the participation of 32 Zacatecano towns, which allowed church, school, well, drainage system, electricity, water system and paving projects, among others, to be carried out.

There are at present 11 Federations in the United States, one in each of the following cities: Oxnard, California; Las Vegas, Nevada; Dallas, Texas; Hous-

the Federation of Zacatecano Clubs of Southern California was founded 20 years ago



in 2000, \$6 million was invested and 108 projects were carried out by the Federations

ton, Texas; La Belle, Florida; San José, California; Poynette, Wisconsin; West Chicago, Illinois; Denver, Colorado; and Los Angeles, California. In total, there are 229 active clubs.

During 2000, a total of \$6 million was invested and 108 projects were carried out by the Federations as a group, with the Los Angeles Federation carrying out a total of 87 community projects. Through mid-March 2001, some 126 project proposals were submitted. All of them are community projects, representing an approximate cost of 80 million pesos.

I mention all this to let you know that we Zacatecanos are struggling to improve services in our communities. But we would like your support because, in addition to fighting for our communities, we would like everyone to consider contributing to productive projects.

The Federation of Los Angeles, California, the one to which I belong and that I represent on this occasion, has 60 clubs, with some 30,000 members. Many of these people would like to implement productive projects. I would like to mention some projects already underway, but for this I need your time and support. To give some examples, I would point to a dam in the town of Juchipila, in which some 40 partners are participating. Each partner has about 30 hectares of land, and on each hectare, it would be possible to implement a productive project. The curtain wall of the dam was finished this month. In the same town, a mezcal distillery is being built that also needs a little financial assistance.

I would like to mention other projects, among them one involving dairy cows, another involving pig farming and a farm project — all of which are asking for support.

All these Zacatecanos hope for a positive response from me, their representative on this occasion, a response that is not merely words or another meeting. They would like follow-up on what has been discussed, and they hope to obtain your support.

We believe there is ample scope for work — what is required is continuity. On behalf of all Zacatecanos of the United States of America and the United Mexican States, may I express my appreciation in advance. Thank you and God bless you.



A STUDY OF THE SOURCES AND USE OF REMITTANCES BY TYPE OF COMMUNITY IN MEXICO

ROBERTO RAMIREZ ROJAS, FUNDACIÓN PARA LA PRODUCTIVIDAD EN EL CAMPO, A.C. APOYO

The aim of this work is to put forward a series of considerations that the Foundation for Agricultural Productivity Inc. has developed after three years of work in various regions and states of Mexico with very high levels of emigration. It is very important to note that the Foundation is an entity that promotes the development of the groups and communities with which it works, and that it focuses on production and generation of employment and income. Our work involves developing working methods with community groups that specialize in technical, economic, commercial, social, and cultural services. We are not an academic institution or consulting firm whose purpose is to carry out studies.

This paper is divided into three main sections. The first discusses the emigrant. In that connection, we consider it very important to provide information for the development of typologies for emigrants, their stays in the United States, and their ties with Mexico. The second section describes in more general terms the two types of emigrants identified so as to provide a frame of reference in which to understand the presentations given by Mr. Guadalupe Rodríguez, vice president of the Federation of Zacatecano Clubs of California, and Mrs. Elsa Payo, representative of the community El Trapiche in the central valleys of Oaxaca. The third and last section discusses conceptual characteristics of the “local development processes” in binational communities.

The Permanent Emigrant and the Temporary Emigrant

The Foundation has studied various immigrant groups in the United States and the types of remittances that they receive, because such remittances may come to provide the decisive impetus to development in their communities.

We can speak of two types of emigrants. The permanent emigrant decides to emigrate because he sees no other short-term solutions to the lack of employment and opportunity in his community. In this case, when deciding to emigrate, the intention is not to remain in the United States. However, economic conditions, essentially his type of work, force him to make the decision to remain in the U.S. He starts to take steps to remain after living in this country for 10 years and because his children have been integrated into the



remittances
account for 15
percent of a
permanent
emigrant's
salary

school system and the community. This type of emigrant always intends to return to Mexico in his old age.

The permanent emigrant characteristically works in the service sector and manufacturing industry, or has his own business. That is, he works in activities that are carried out throughout the year. These Mexicans are usually of rural or semi-urban origin, with more than secondary education, and the type of work they did in Mexico is similar to that done in the United States. These emigrants become interested in the lifestyle in this country, and therefore their reason for remaining is not only economic. There is a cultural element; they seek to integrate their extended families. Not only their wives and children, but also their parents and brothers and sisters may emigrate to the U. S.

The temporary emigrant, on the other hand, is usually of rural origin, with incomplete elementary education. These emigrants intend to work in the United States to supplement the family income in Mexico, and they seek work in seasonal activities, such as agriculture and construction. These emigrants are landowners or occupiers of land in Mexico. Their work in the United States thus enables them to continue to pursue their principal livelihood at home.

These emigrants do not intend to stay in the United States, but rather to obtain enough money to enable them to subsist in Mexico. They are interested in salary, not lifestyle. Generally speaking, this type of emigrant does not integrate his family into the United States. His temporary stay averages seven months, usually during the spring and summer months.

Remittances of temporary and permanent emigrants

The amount and use of remittances vary depending on the type of emigrant. Here, two types of remittances have been identified: collective, and family or individual.

Individual or Family Remittances

This is the type of remittance emigrants send on a private basis to their families in Mexico. It accounts for most of the nearly \$6 billion sent.

According to surveys, for the permanent emigrant, remittances represent a form of savings. Remittances account for about 15 percent of the permanent



emigrant's salary. The actual value of the remittance is thus considerable, according to research data produced by the North American Integration and Development Center (NAID) of UCLA.

In the case of the temporary emigrant, remittances are spent mainly on consumption and to pay debts, covering agricultural inputs such as seed, fertilizer, agricultural machinery, etcetera. In this case, the remittance may account for some 50 percent of the emigrant's salary, although its dollar value is lower than the dollar value of the remittance of the permanent emigrant.

According to the NAID-CENTER's study of emigrants' remittances, 47 percent of the remittances sent to Mexico are spent on family support; 10 percent on housing; and 20 percent on consumer goods, debt payments, businesses and savings.

The remittances sent by the temporary emigrant fall into the category of the 47 percent spent on family support, while the remittances of permanent emigrants are distributed among housing acquisition, establishment of family businesses, and savings. The NAID-CENTER studies show that approximately 60 percent of emigrants surveyed own real property. These statistics have been corroborated by the survey carried out by our Foundation.

The temporary emigrant's work cycle in the United States is directly linked to agricultural or construction cycles, which begin in early March and end in late October. Most of the remittances from temporary emigrants thus are sent in these months, which coincide with the beginning of the Mexican agricultural cycle when family expenses also are higher.

Collective Remittances

In the last eight years, a different type of remittance, known as the collective remittance, has emerged. Collective remittances are promoted by permanent emigrants who have organized themselves into clubs of fellow townsmen in organizations known as hometown associations. This type of organization is formed to preserve emigrant's cultural identities, which are threatened by integration in the United States. Through this type of organization, emigrants promote and carry out cultural, sporting and social activities, enabling them to maintain ongoing contact amongst themselves in the United States and to strengthen their ties as members of a community.

but 50 percent
of a temporary
emigrant's
salary



there are no HTAs for Mexican cities; emigrants from cities join the club for their parent's community of origin

These associations or groups develop relationships with their communities in Mexico through promotion of collective remittances designed to support civic works, such as construction of health clinics, sports facilities, improvements in urban services, etcetera. To collect funds, the clubs organize various types of events, such as dances, beauty contests, raffles, etcetera.

Clubs seek a counterpart Mexico so that they may jointly choose the civic work on which the remittance will be spent. Where there is a well-organized municipality, it takes on this role. Where there is no well-organized municipality, a family member or friend is sought out. It is rare that civic works are connected with civil society organizations. However, in view of the importance of remittances as a factor in development, state governments have sought to encourage such schemes, though not always with great success.

Hometown Associations (HTAs)

Formation

The development of Mexican HTAs in the United States has reached varying levels depending on migration status and community of origin. The level of development in Los Angeles is not the same as in Houston or New York. The most basic level of development arises naturally as a result of helping new immigrants from back home adapt to the U.S. This assistance often includes finding housing and employment as well as obtaining resources required for their new lives. These emigrants share the same interests as the earlier emigrants in terms of social events and the celebration of traditional festivals but, in particular, they form sports teams whose games bring families together.

The next stage is the development, by a lead group, of an organization of people from the same community who meet and discuss various aspects of their lives in the United States and their communities of origin. Often, these groups are assisted directly by Mexican consulates, which use their databases to facilitate meetings.

Who Joins the Clubs and How They Are Established

HTAs are established mainly among people from rural, rather than urban, areas. It is very difficult for emigrants coming from the various cities, such as Mexico City or Guadalajara, to form clubs on the basis of neighborhoods or *colonias* [residential suburbs]. Emigrants from the cities join the club for their parent's community of origin. For example, according to the Mexican consulate in Los Angeles, there are a large number of immigrants from Guadalajara in Los Angeles, but there is no specific club for that city. (Carol Zabi y Luis Escala)



Club leaders have usually lived longer in the United States than other club members, their standard of living is relatively higher, and they are perhaps the most successful among club members.

Clubs fulfill a dual function. They obtain funds for civic works back home and they provide a sense of community for emigrants in the United States. Recently, these clubs have begun to become a space for reflection and discussion of the political participation of the members in their adoptive country.

The clubs impart traditional Mexican values to children by encouraging their participation in social activities to raise funds. This also strengthens ties among this generation with the hometowns in Mexico. As many of these children are born in the U.S., this is an important indoctrination.

The Clubs and Their Relationship to Communities of Origin in Mexico

Federal and local governments have encouraged and cultivated certain relations with the HTAs. In 2000, the coordinator for *Oficinas de Atención al Migrante* (CONOFAM) [Offices for Emigrant Assistance] was formed to bring together 24 state offices working with migrants. The commendable innovation here is that not only have resources been channeled to civic works, but also a structure has been set up for interaction between the clubs and their communities, their state, and even the federal government. We are seeing a new state-society relationship that has taken on a transnational aspect, involving new power relationships among the communities, their members, and the various levels of government. In fact, club leaders in the United States have acquired a much greater political influence. As Guarnizo (Luis Escala) notes, the emigrants acquire and develop their rights as citizens of Mexico only when they live abroad.

At a higher level of development than HTAs are federations. These are groupings of clubs of communities from the same federative state. The first was the Zacatecas Club in California.

Zacatecas is the community with the most highly developed organization of HTAs, with 130 HTAs and networks to promote relationships between clubs regardless of location in the United States. The Zacatecas club was in fact the first Mexican HTA, constituted in Los Angeles, in 1965. Owing to its degree of development, the Zacatecas Federation channels more funds, or collective remittances, to its member clubs' hometowns than any other federation. In

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Oaxacanos
join HTAs
based on
ethnic, rather
than regional
origins

2000 alone, the Federation sent more than \$2 million to its communities for civic works projects. The Zacatecano Federation, now also the largest in the United States, serves as the conduit for relations with local and federal authorities in Mexico.

The Zacatecano Federation was the first to support projects with the government, and the Federation has made considerable use of the “Three Times One” scheme promoted by the government of the state of Zacatecas. The Federation has developed an internal dynamic that has strengthened the organization and achieves consensus around projects proposed and generated by its members. Perhaps this is because the organization has been in existence for many years and has thus produced groups capable of leadership, who also remain within the organization as ordinary members or members of some committee, even when their terms of offices have expired.

The organization also has a well-developed organizational structure capable of supervising its various areas. The structure draws on the experiences of its longest-serving leaders. Within the Federation, responsibilities are shared among clubs, fostering a participatory culture and decentralization of power, with a profoundly democratic approach to Federation administration. Another reason for the participation by the Federation has been the rapprochement of Mexican state and municipal authorities with clubs in the United States, particularly in California.

Good relations between the Federation and the government is a consequence of the higher educational levels of emigrants, many of whom have completed secondary education. Many emigrants own businesses or are working in the better-paid service sectors

Working with government officials does not represent a problem for these emigrants, as the interests of the community abroad and the officials’ interests are in harmony. The officials recognize the emigrants as promoters of development in their communities and in the Mexican state. Zacatecano authorities are clearly aware of this fact, as the attention they pay to collective remittances demonstrates. They encourage them and promote them in the emigrants’ communities of origin, but do not do so with respect to individual remittances.

These two factors account for large value of collective remittances sent by the Federation for civic projects to be carried out in coordination with state and municipal government.



Oaxaca

In the Oaxaca case, emigrants are of rural origin and for the most part are indigenous. They intend to emigrate on a temporary basis and are involved in agriculture in the United States. Their educational level is low and in many cases they are illiterate. According to studies presented at the seminar on emigration held in Puebla, Mexico, in March 2000, research shows that in the six largest migrant- sending communities, 93 percent of the population is illiterate and speaks an indigenous language.

Emigration from Oaxaca began in the 1980s and is more recent than from Jalisco and Zacatecas. Oaxacan emigrants are young, undocumented, and have no interest in establishing themselves in the United States. Their remittances are therefore devoted to family support, and also to pay part of the cost of agricultural production back home

Oaxacanos who remain for some time in the United States eventually join organizations reflecting their feelings of solidarity based on their ethnic origins, rather than on regional sentiment. These organizations reflect their community, and, therefore, cultural spirit. An example is the *Coalición de Comunidades Indígenas Oaxaqueñas (COCIO)* [Coalition of Oaxacan Indigenous Communities], whose members are from manifestly Zapotecas indigenous communities; the *Frente Indígena Oaxaqueña Binacional (FIOB)* [Binational Oaxacan Indigenous Front], whose members are mainly Mixtecos; and the *Red Internacional de Indígenas Oaxaqueña (RIIO)* [International Network of Members of Oaxacan Indigenous Communities]. The first two organizations have focused on organizing for cultural purposes; only the *FIOB* takes a political participatory approach.

The relationship between the emigrants and their communities does not only revolve around their monetary remittances, but also work and their length of time as members of those communities. This results from their need to perform their *tequio* [public service], their roots thus being preserved through the normal course of events. The approach taken by these emigrants to community is cultural. Collective work and participation are based on that approach.

Organizations based on ethnic sentiments lead to conflict with municipal , but not state, authorities. The ethnic composition of this type of organization explains the lack of federations of clubs, as rivalries between clubs prevents working together.

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It is very difficult to establish dialogue between these groups and state authorities. This has prevented the state government from formulating policies to capture and use the individual and, of course, collective remittances of these emigrants. Proposals for civic and productive projects are restricted to particular regions, and are not necessarily consistent with the comprehensive development policy advanced by the government.

In Oaxaca, a private trust has been organized to receive contributions from the emigrants in the *COCIO* regional organization, and to match these with a federal, but not a state, contribution.

Local Development Processes in Binational Communities

Is it feasible for remittances to be devoted to funding development in emigrants' communities of origin? In what circumstances is this viable? What are the mechanisms for effecting this? Other questions might be asked in this area. However, in terms of methodology, it is important to underscore that any local development proposal will have to take into account emigrants and their families as targets of development. What happens in communities from which people emigrate? What are the conditions in communities where people remain? Is it possible to work in such communities?

To work in such communities, we must understand what is happening there. It is important to remember that emigration is a response to poverty. "Temporary absence" from their homes, because the heads of families find it impossible to fulfill their roles as the main provider of income to meet their families' needs, becomes an economic necessity. Poverty is the source of the emigration phenomenon in many communities in Mexico.

Later, emigrants begin to send remittances to their families. It is entirely understandable that remittances are devoted to consumption, as their purpose is to meet the needs of the family that has been left behind. Such remittances must be understood in a context of poverty.

Recent studies of poverty have resulted in a series of considerations relating to social trends, but none discuss emigration as a consequence of poverty. However, the studies do refer to the weakening of the family unit. Bernardo Kliksberg in his article, "*Acerca de mitos, ideas renovadoras y el papel de la cultura*,"¹ [Myths, Ideas for Renewal, and the Role of Culture] considers that



the social fabric is deteriorating, thereby directly affecting the family unit and, as a result, its various roles, such as the formation of children's values, protection of children's emotional maturing process, protection of children's basic sense of belonging, etcetera.

The studies show a weakening of the family and, as a result, of all roles assigned to it. Although it is not openly discussed, emigrants comment that in some situations, women stay behind as the head of household, a situation that also raises the issue of the feminization of poverty. However, in cases of emigration, such abandonment is not final, at least when it originally occurs. The important point made by the same study is that the head of a poor household initially feels unable to fulfill the fundamental role expected of him, to provide much of the household income, which later translates into a loss of the legitimacy of his role.

Here, the Foundation's interest has focused on the issue of emigration and the poverty generated in these communities. Frustration and discouragement are felt by families living in communities that have ceased to be able to provide a source of livelihood for their members.

The emigrant, as a person responsible for his family, lives with the constant frustration of being unable to provide a subsistence living for it, as is evident from the deprivations suffered, and, in view of this, may decide to leave to "try his luck somewhere else." This is the origin of the emigration cycle.

Emigrants and Investment in Productive Areas

In addition to weakening the family, abandonment of communities begins to result in deterioration of their social fabric, a deterioration that is starting to make itself felt at various levels. Perhaps the most significant element is that feelings of citizenship do not exist in such communities. In political terms, the community begins to suffer from political subservience and *caciquismo* [supremacy of political bosses]. Another widespread phenomenon in these communities is the lack of productive organization. This is to some extent to be expected, as emigration initially leads to a fall in productivity. Two recent UCLA studies indicate that, in the case of continental China, emigration led to a 40 percent decline in agricultural productivity, which caused further deterioration in living standards as agricultural conditions grew worse, which led to greater debt and dependence.

in China, emigration led to a 40 percent decline in agricultural productivity, causing further deterioration in living standards



These two poverty-related phenomena make it difficult for emigrants to invest in productive activities. A partial explanation for this is the deterioration in subsistence conditions and the weakening of productive organization. We have also noted a lack of technical skills among local farmers and resistance to change in traditional structures of production.

In this context, the Foundation's experience has led to the development of a two-part strategy. The first is to repair the organizational fabric of production. To that end, we have devised a series of workshops to strengthen the productive organization processes. We also have strengthened training and technical assistance through demonstration events and technical courses to produce a gradual process of transfer and assimilation of new technologies. We have observed that the time this takes in population-exporting communities is longer than in other impoverished regions.

The second part of the strategy is to work with emigrant organizations here in the United States through the clubs and federations. Members of these organizations demonstrate skills that may promote the development process in their communities of origin:

- organizational skills,
- entrepreneurial skills,
- ability to assimilate technological change,
- self-administration capacity,
- capacity for economic integration.

A final element required to foster integration among clubs and hometowns is creation of a space for convergence through local projects where these two groups may come together. We call this space a "binational development committee."

This type of work requires a development agent for all participants in the processes, both in Mexico and the United States, an agent able to devise strategies with local groups and their clubs. This is the role played by APOYO.

¹ *Pobreza: Un Tema impostergable* [Poverty: An issue that cannot be postponed]. Compiled by Bernardo Kliksberg (FCE, UNDP).



AYITI DIRÈK DIRÈK: FONKOZE'S PROGRAM TO ASSIST HAITIANS LIVING ABROAD TO SEND MONEY HOME AND AT THE SAME TIME PARTICIPATE IN THE ECONOMIC DEVELOPMENT OF THEIR COUNTRY

ANNE HASTINGS, PRESIDENT, FONDASYON KOLE ZEPÒL, HAITI, FONKOZE

Fonkoze is Haiti's Alternative Bank for the Organized Poor. It is an economic alliance of peasant organizations, women's collectives, cooperatives, credit unions, "*ti machann*" (women street vendor) groups and religious communities from all sections of the country. It is dedicated to the rebuilding of Haiti's economy by empowering people and community organizations to engage in successful, income-producing economic activities.

Fonkoze is a national organization, with 16 branches located in throughout the country. We provide financial and educational services necessary to help the women and men of Haiti participate successfully in the economy. Fonkoze offers six principal services:

- a remittances program, which is the topic of this presentation,
- micro-credit loans to women (and men) street vendor,
- a full range of savings accounts,
- currency exchange services,
- literacy and business skills training, and
- business development loans and technical assistance.

Fonkoze, which is legally recognized as a non-profit foundation, is now positioned to spin off its financial services to form Haiti's first micro-credit oriented commercial bank. The largest proportion of stock in this new institution would be held by the Foundation, but other stockholders from within Haiti and from abroad would be encouraged to invest. Fonkoze would continue to exist and be governed by its general assembly and would provide non-financial services, including literacy and business skills training, organization development services, among others.

Importance of the Haitian Diaspora in the Economic Development of Haiti

The visionary leader behind Fonkoze, Father Joseph Philippe, understood at the outset that any initiative proposing to build a democratic economy in Haiti must include the diaspora. There are between 7 and 8 million Haitians living in Haiti today, and a significant proportion, 1 or 2 million, live abroad.



two forces
hold the
Haitian
economy
together
today: women
street vendors
and
remittances

Many people would argue that there are two forces that are holding the Haitian economy together today. First, women street vendors, that is, the informal sector of the economy, and second, the Haitians living abroad who consistently send money home to their families and friends. Without this stream of U.S. dollars, it is clear that the Haitian economy would have an even more difficult struggle staying afloat.

When you ask Haitians why they send money home, they will tell you, “Because I want to help my mother, who is raising my younger brothers and sisters.” Or, “Because my grandmother is sick and needs some medicine.” Or, “Because I must pay the tuition of my nieces or they won't be able to go to school.” Rarely do they say, “Because I want to strengthen Haiti's economy.” But, in fact, that is what they are doing every time they send the monthly installment of \$50 or whatever they can afford. The question for Fonkoze was how to harness these dollars entering the economy toward the economic development of the country.

Getting the Money Home

The vast majority of Haitians, whether living in Haiti or living abroad, can be classified as ‘unbanked.’ That is, they do not use the typical financial services offered by the banks. The result of this is when they need to change their paychecks, they use a check-changing business where they pay exorbitant rates. And, when they need to send money home, they may send it via Western Union, Bobby Express or C.A.M., where they typically pay between 8 and 12 percent in fees and may also lose again when the money is exchanged for *gourdes*.

Haitians who cannot afford these money transfer fees have few alternatives. Most send money home with “friends of friends of friends.” They send the money in cash to a country where people are robbed all the time whether on public transportation or in private vehicles. Often, they never know if the money even reaches the intended recipient. The mother they want to receive the funds, for example, probably can't read or write and may not have access to a telephone. So there is no way for the daughter living in New York to know if the money ever arrived, or if the amount she intended her to receive was received.

Those of us who are “banked,” that is, sophisticated in the use of financial services, would never use these methods. Send money in cash? No way! Pay 12 percent of the money you're sending in fees? Only in the direst of circum-



stances, such as if your teenager is stuck in Europe without enough money to get home, would you consider paying those outrageous fees.

Fonkoze's Early Efforts to Set Up a Service

As I said earlier, from the outset the visionary behind Fonkoze understood the importance of harnessing these dollars for the development of the economy and also of finding a safe, inexpensive, secure and legal way for Haitians living abroad and friends of Haiti to send dollars to Haiti. So early in Fonkoze's history, we began traveling among the diverse Haitian communities in the Caribbean, the U.S. and Canada — to places like St. Maarten, Nassau, Curacao, Guadeloupe, Miami, Brooklyn, California's Bay Area, Chicago, Boston and Montreal. Although all of these Haitian communities are very different from one another, there is one thing they all have in common: They all send money home to their friends and families. In every community we visited, we found the same concerns expressed over and over again. How can I be sure my money is arriving where it's meant to go? How can I be sure the money won't be stolen in transit? How can I get all the money I've saved home, rather than paying so much to get it there?

We met with the leadership of banks in every community we visited in the hopes of finding a bank that would work with us. Our plan was simple; we wanted to open an account in the name of Fonkoze and then ask the bank to verify for us every day the deposits made into the account. We would have a representative in each community who would fax us relevant information: Who sent the money, for whom it was intended, how we should identify the intended recipient and so forth.

The results of these negotiations were frustrating. We did find some banks willing to work with us, but most were concerned about the legal implications for their bank, especially the possibility of money laundering. It was also difficult to get a system of communications set up between, for example, Curacao and Haiti so that we could verify deposits. More troubling was the difficulty of finding representatives in the different Haitian communities who could understand what we wanted done and who would do it carefully and honestly. There seemed to be no way around the fact that representatives would have to handle money, and this posed several problems and risks.

Developing a Mutually Beneficial Relationship with a Bank

those of us who are “banked” would never send money in cash or pay 12 percent of the money in fees



City National became interested in the project from a business perspective—how to get more Haitians into the bank

After struggling for some time to find a bank motivated to work with us and community representatives who would perform for us, an investors in the U. S. introduced us to Mr. Louis Prezeau, president and CEO of City National Bank of New Jersey (CNB) and, as far as we know, the only Haitian-born bank president in the United States. CNB is one of the top ten African-American-owned banks in the U. S. and has a long and proud history. As we described for Mr. Prezeau what we were interested in doing, he become interested in the project from a businessman's perspective — meaning how he could get more Haitians into his bank. Still, it took a long time to finally develop a mutually beneficial relationship — and a totally revamped design for the service with the following features:

- We agreed to keep the majority of our reserves in CNB. This made us a major client of the bank.
- CNB agreed to drop all bank fees, including fees for the acceptance of wire transfers.
- CNB also agreed to send us via e-mail at the end of every day a listing of all deposits into the account during that day — including the name on the check, money order or wire transfer and the amount.
- We hired a Fonkoze U.S. customer service representative who works out of her home with a computer, an AOL account and an 800 number. She is a Haitian-American fluent in English, Creole and French.
- The customer service representative explains to anyone who calls her how the service works. If the person in Haiti has an account with Fonkoze, for a flat fee of \$10 deposits can be made directly into that account, by sending the funds by check, money order or wire to our account at CNB. If the person in Haiti does not already have an account with us, a friend or family member in the U.S. can open an account for him or her. The accounts are free and can be opened in U.S. dollars or in *gourdes* with a minimum opening balance of 100 *gourdes* — about \$4.
- Whenever the friend or family member living outside Haiti is ready to make a deposit in the individual's account, he or she calls the 800 number or sends an e-mail to our customer service representative advising her of the amount and the account into which it is to be deposited. She, in turn, tracks receipt of the deposit by CNB, alerts Fonkoze in Haiti when the deposit has arrived and sends the client in the U.S. a confirmation that the funds have been received and de-

posited into the appropriate account. Whether the amount deposited is \$100, \$1,000 or \$5,000, the fee for the service is the same — \$10.

- The person in Haiti is free to withdraw all or part of the funds at any of our 16 banks where he or she has an account. In most cases, the funds are available the same day or within 24 hours receipt by CNB.

The Advantages of the System for Fonkoze

The partnership we have developed with CNB and the system for depositing funds into accounts in Haiti have a number of advantages for Fonkoze:

- First, the service is available to Haitians living anywhere in the United States or Canada where the 800 number is toll free. It is, in fact, available to the anyone comfortable using e-mail and making wire transfers from bank to bank.
- Second, instead of our hiring representatives in every Haitian community, we hire a single person — our U.S. customer service representative.
- Third, instead of needing relationships with different banks in each community, we need only the relationship we have with CNB.
- Fourth, our representative never touches the money. It goes directly to the bank via wire or postal service.
- Fifth, at the same time that Haitians have a safe and inexpensive way to get money home, we are helping both the Haitians living here and those living in Haiti to use banking services. The vast majority of our clients have never before had a savings account, and how proud they are when they receive their first passbook!
- Sixth, the people who use our service in Haiti become long-term clients of our bank and use our other services.
- Seventh, we don't need an extensive infrastructure of retail points. Our only expenses, other than the salary of the customer service representative, are the expenses involved in advertising the service.

How Has the Service Been Received?

Interestingly, the most avid advocates of our service have been the large number of parishes, churches and assistance organizations that need to get money to Haiti easily and securely but would never consider using a traditional money-



once Haitians living in the U.S. try our service they never turn back

the Haitian community abroad is a tougher market

transfer service. Once they learn of our existence, they become loyal customers and, sometimes, donors. They like that we are cheap and that our branches reach into the most remote sections of the country. They don't have to worry about getting checks from the U.S. to Haiti via the regular mail service; they don't have to worry about whether the recipients can cash the checks; and to verify the transactions, they simply dial our representative or send off an e-mail. If they want a message sent along with the funds, we will do that too. All of these clients rave about our services and proclaim how much easier assisting Haiti has become. And, they love the fact that when they are sending money to their community in Haiti, they are also helping Haiti's alternative micro-finance institution for the organized poor.

The Haitian community living abroad, however, has proven to be a tougher market. Haitians assume our service is some kind of scam because it's so inexpensive. When they call the 800 number, they want to know where our 'office' is. If there is not an office they can visit, they question whether we are legitimate. Often, they don't plan their transfer until the absolute last minute and can't wait the couple of days it takes to send the money order to CNB. They may not know how to buy a money order, or they may not read or write well enough to feel comfortable purchasing one.

However, once a Haitian living in the U.S. has tried our service, he or she never turns back. I cannot honestly say we have lost a single one of our Haitian customers. It may take a long time for them to gain the confidence to give us a try — but once they do, they remain with us. Very, very gradually we are winning the Haitians over, one client at a time.

The Profitability of the Service

For a scrappy, young, under-capitalized institution like Fonkoze, the investment we've made in developing this service has seemed significant. Our expenses have included the following:

- visits to Haitian communities in the Caribbean, the U.S. and Canada;
- training sessions and related travel expenses for the representatives we originally selected;
- losses we suffered from dishonest representatives;
- the salary of our U.S. customer service representative, who makes more than our three highest-paid employees in Haiti combined;



- various timid attempts at advertising, for example, giveaways and limited radio spots; and
- the cost of the legal advice we needed to set up the service, although we were lucky enough to find pro bono legal assistance.

Are our fees today covering our expenses? The short answer is no. We have not yet built a customer base strong enough to cover our expenses, but the popularity of our service is now, after a limited 10-day radio advertising campaign, growing at a much faster pace. Where we used to only receive one or two deposits per day, we are now often receiving nine or 10 deposits daily. We probably need an average of 15 or 20 per day to break even.

Still, the nonfinancial benefits of offering the service far outweigh the losses. We have earned a lot of very loyal customers. The number of accounts opened at our bank has grown significantly. The number of people who thank me daily, or our customer service representative or other Fonkoze employees, for the service is heart-warming. We know we have helped teach many people the value of banking services. And our name has become known in many places it might otherwise never have been heard.

We believe this will be the year for us to begin breaking even, though it will take some new expenditures, such as a long-term radio advertising campaign. But we have not given up hope. We still believe that what we offer is educational and provides a service of real value for many people who contribute on a daily basis to the economic development of an impoverished, fragile democracy.

nonfinancial
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outweigh the
losses



DRINKING FROM THE STREAM OR USING THE ENTIRE TRANS-NATIONAL REMITTANCE FLOW: BANQUE HAÏTIENNE DE DÉVELOPPEMENT

RANDOLPH VOYARD, PRESIDENT HAITIAN DEVELOPMENT BANK

CARLO DADE, REPRESENTATIVE FOR HAITI AND THE DOMINICAN REPUBLIC, THE INTER-AMERICAN FOUNDATION

The Banque Haïtienne de Développement (BHD) is a private bank, majority-owned (51 percent) by more than 90 Haitian cooperatives and credit unions. With a \$175,000 grant from the Inter-American Foundation (IAF), the BHD is preparing to leverage its ownership by financial institutions of the poor to create a new remittance transfer system in Haïti. The BHD experiment represents a promising way to leverage the entire national flow of remittances and go beyond initiatives that use community-to-community flows. The key to the BHD model is fee sharing. Fees generated by this remittance transfer system will be split between the originating agencies in the US, the BHD, and the credit unions and cooperatives that will serve as the remittance counters. This simple splitting of fees will introduce a new and sustainable source of investment capital, hopefully approaching \$3.5 million by the project's end.

To date, more than 40 credit unions and cooperatives throughout Haiti have signed contracts to join the BHD remittance system. This is well above the target of 25 set for the first year and puts BHD on track to exceed the project goal of establishing 100 transfer counters in four years. Personnel from credit unions and cooperatives will receive training in all aspects of operating a remittance transfer counter, including operation of computer systems, and BHD will provide follow-up training and assistance. The institutions will receive a loan from BHD, using IAF funds, to purchase computers, communications equipment, safes and related equipment. Each will receive at a minimum a computer, generator, ATM-type card reader, communications equipment (at this stage envisaged to be V-Sat) and safes. The fund also will be used to finance repairs and updates of existing equipment and software. The projected total per counter investment cost including training, equipment and infrastructure is \$10,750. This includes significant investments that may not be needed elsewhere. For example, the V-Sat communication system and power generators would likely not be needed on the other side of the island in the Dominican Republic. Counter operational overhead is harder to estimate, but should be only the cost of operating equipment and marginal

with a grant from the Inter-American Foundation, BHD is creating a new remittance transfer system in Haïti



one benefit
not
immediately
apparent is an
improvement
in health and
safety

additional costs for staff and security. Revenue generated by the program should easily cover these costs.

For money to be transferred, a deposit is made with Vista Haiti club international (VHci), a BHD affiliate and membership organization composed of organizations and individuals in the Haitian diaspora. BHD is notified of the transfer and notifies the destination credit union or cooperative, which in turn notifies the recipient who, accesses the funds at any BHD affiliate using an ATM-type bank cash card. For each transaction, the BHD system will charge 8 percent of the transfer amount. VHci keeps 4 percent of this amount and the remaining 4 percent is split between BHD (1.5 percent) and the credit union or cooperative (2.5 percent). Thus, a small credit union or cooperative that processes only \$100,000 worth of transfers would receive \$2,500 in fees.

Depending upon the amount borrowed for equipment (estimated average US\$2,500 payable over three years) and the amount of increased expense in running the remittance, this credit union or cooperative would have more than \$1,500 to lend. To jumpstart the process, the IAF and BHD have created an additional fund to match whatever investments the local CU&C make using their remittance fees. Thus, the credit union or cooperative in this example would have more than \$3,000 to lend, but five years into the business it would have well over \$15,000. However, the fund would only match loans made for productive enterprises, for example, agriculture, small industry, crafts. This is to encourage development of healthy portfolios and to steer the credit unions and cooperatives away from the short-term speculative lending that is rampant in Haiti.

With the fees generated by the remittance transfer counters, BHD believes local financial institutions will be able to make approximately 1,000 loans annually for small development projects upon the conclusion of the grant in four years. The potential clearly exists for these institutions to eventually take over much of the micro-enterprise lending in Haiti, with everything that implies — self-sufficiency, sustainability, transfer of knowledge, autonomy, independence from the paternalism of foreign aid, and, most importantly, the growth and democratization of the private sector.

If successful, the BHD program will bring other benefits such as expanded financial services for the poor. Interestingly, one of the benefits not immediately apparent is an improvement in health and safety. Currently, people from



areas other than the largest cities must travel great distances, often for days, to reach a bank or Western Union office. Once there, the person is forced to withdraw the entire amount remitted and then reverse the journey. In addition to never really entering the formal financial sector, the money often never reaches its destination, as crime is a serious and prevalent reality in Haiti.

BHD's grant proposal was first brought to the IAF in 1999, but the agreement was not signed until 2001. In the intervening years, the remittance sector in Haiti has become slightly more competitive and larger institutions, such as Western Union, have opened offices outside the capital. Despite this, the transfer business has not experienced true competition and prices remain high, leaving room for new entrants such as BHD. However, one reason prices remain high is that people are willing to pay more, much more it turns out, for a name they can trust.

This is an issue not just for BHD in Haiti, but for all new entrants in the remittance sector. The large established remittance players also have focused most of their efforts on establishing points of presence in the US, targeting convenience and service at the remittance-sending community. BHD has not been, and likely will not, be able to duplicate this, but it is exploring alternatives to the physical point of presence model. To compete with the more established players, BHD has moved to co-brand with its credit union and cooperative partners, who are adding the BHD name and logo to the signs outside of their offices. But it will take much more to overcome the trust issue.

Another issue to be faced by BHD is the technological leap from barter and cash to debit cards in a country with only 10 bank cash machines. How quickly the technology is adapted, if it is adapted, remains to be seen. Beyond the U.S.-to-Haiti remittance flows, BHD may target the remittance flows between Haiti and the Dominican Republic by partnering with a like-minded grassroots financial institution in the Dominican Republic. This is an area of great need and of no apparent interest to formal financial institutions and remittance businesses. Such a partnership between BHD and a Dominican institution would bring financial services to Haitians working in the Dominican Republic and would improve the flow and amount of remittances to Haiti while helping to capitalize small financial institutions, improving liquidity and avoiding theft along the border. BHD also plans to use its share of the remittance fees to enter, or to create, a mortgage market for small homes.

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