

Considerations on diasporas and development¹

As the reality of globalization reaches more people than ever before, the role and impact of diasporas in development are becoming increasingly critical considerations in policy and politics. The movement of people today is more transnational than at any other time in history, and effective economic integration thus depends on the human links and connections that exist across borders. The same is true for development in that it also demands less territorialized strategies; this is the critical challenge for practitioners and volunteers alike. The following are some thoughts on the challenges and considerations to keep in mind when looking for opportunities to establish projects and partnerships with diasporas.

A. The reality of diasporas in present times

We live in a world characterized by the interplay between micro and macro dynamics, creating the reality of ‘distant proximities.’² Distant proximities are real-life experiences that both integrate and fragment relationships outside and inside borders. Immigrant laborers are key protagonists of distant proximities: they integrate their home and host countries into the global economy as they seek to keep their families together. Their lives are also fragmented, however, by the experience of distance and separation from their families and nations. The end result is a transnational lifestyle, characterized by both opportunities and hardships that feature this paradox of distance and closeness.

Trends in international migration over the past thirty years have shown that migrants have become substantively involved in different economic and social activities in their home countries. This is due in part to the dynamics of globalization and to new opportunities resulting from political and economic opening in their home societies. One of the resulting outcomes is the formation of transnational families and communities; the latter defined as groups or families that maintain relations and connections that include home and host societies.³

¹ Manuel Orozco. Inter-American Dialogue. Paper presented at the The Role of Diasporas in Developing the Homeland, June 16h, 2006, George Washington University, Washington, DC.

² Rosenau, James. *Distant Proximities: Dynamics beyond globalization*. (Princeton: Princeton University Press, 2003).

³ There are a range of definitions, for example one is “groupings of migrants who participate on a routine basis in a field of relationships, practices and norms that include both places of origin and destination” Lozano, Monica.

In practical terms, a typical immigrant's economic linkage with the home country extends to at least four practices that involve spending or investment: family remittance transfers; demand of services such as telecommunication,, consumer goods or travel; capital investment and charitable donations to philanthropic organizations raising funds for the migrant's home community (see box below). Remittances are the first and most important economic activity. Although the determinants of sending do not vary between nationalities, the frequencies and quantities of money sent fluctuate across groups. For example, Latinos and Filipinos in the U.S. send an average of US\$300 a month, whereas Southeast Asians in Japan send \$671, Filipinos US\$600 and Ghanaians in Europe send US\$400 every six weeks.⁴

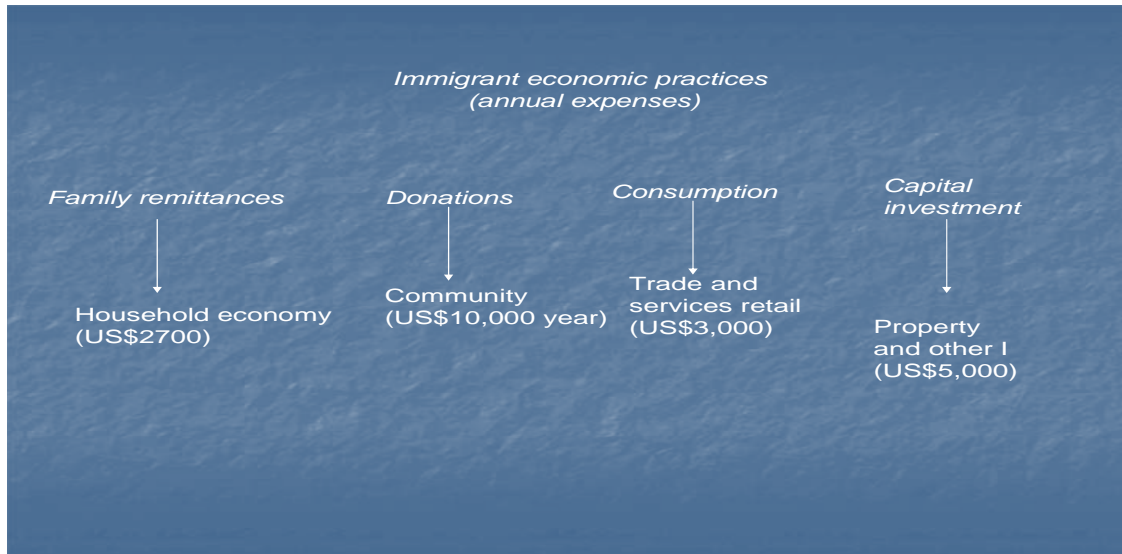
Migrants also manifest their links by staying in touch, calling and visiting their homeland. They purchase and consume foodstuffs from their home country such as tortillas, beef jerky, cheese, rum and coffee, and spend money on phone cards to call their families. Eighty percent of Latinos buy phone cards and speak to their relatives by phone for an average of two hours a month.

Two other practices involve donations and investment. In the case of donations, migrants raise funds to help their hometown as organized civil society groups. Belonging to a hometown association (HTA) is one important migrant activity that provides economic resources for the communities of origin. These donations may amount to US\$100 to US\$200 a year per individual and in some countries like Mexico donations on aggregate may translate to more than fifty million dollars. Finally, migrants often also have a desire to invest in a property or a small business, devoting between US\$5,000 and US\$10,000 to that activity.

"Transnational Migrant Communities and Mexican Migration to the United States," co-authored with Bryan Roberts and Reanne Frank, *Ethnic and Racial Studies* 22(2):238-266.

⁴ Orozco, Manuel with Rachel Fedewa, South East Asia report, 2005

Figure 1: Immigrant Economic Practices



Although these are predominantly concrete material activities, they reflect individual and group exercises of a migrant's transnational identity through symbolic and material commitments to the homeland. The implications of these experiences have raised interest and questions about their effect on development and the ways in which these interactions can be further leveraged to promote it.

These practices generate significant revenue and benefits for many. Take, for example, the cases of Salvadorans and Ghanaians. These migrant communities have been established for more than thirty years in the United States and have extended their links to the homeland at different levels. The tables below show estimates of the number of transnational activities that keep migrants connected with their home country. The highest volume of money spent is on remittances (which earns companies a 10% revenue), but other activities are also important relative to their impact on the two economies, such as phone calls.

Table 1: Percent of Salvadorans who . . .

	(%)	Number	Annual Cost /expense (US\$)	Volume (US\$)
Call on average 120 minutes	41	340300	288	98,006,400
Send over \$300	32	265600	4200	1,115,520,000
Buy home country goods	66	547800	200	109,560,000
Travel once a year	24	199200	700	139,440,000
(& Spend over S\$1,000)	61	506300	1000	506,300,000
Have a mortgage Loan	13	107900	7000	755,300,000
Own a small bus.	3	24900	7500	186,750,000
Helps family w/ mort.	13	107900	2000	215,800,000
Belong to an HTA	5	41500	200	1,500,000

Note: number of Salvadorans remitting from the U.S. is 830,000

Table 2: Percent of Ghanaians who . . .

	(%)	Number	Annual Cost /expense (US\$)	Volume (US\$)
Call on average 80 minutes	50	100000	432	43,200,000
Send over \$300	60	120000	4800	576,000,000
Buy home country goods	80	160000	200	32,000,000
Travel once a year	50	100000	1200	120,000,000
(& Spend over S\$1,000)	80	160000	1000	160,000,000
Have a mortgage Loan	20	40000	7500	300,000,000
Belong to an HTA	20	40000	200	8,000,000

Note: number of Ghanaians remitting from the U.S. is 200,000

These practices among diasporas have motivated them to consider their potential roles in the development of their countries. Moreover, in some cases other development players and diasporas have realized that they are indeed in a position to become partners.

The end result is currently one of commitment and experimentation, as well as a reluctance to co-invest on the part of development organizations. In a growing number of important cases, some donors have engaged in activities to leverage migrant economic activities. Overall, however, donors are engaging in experimental strategies or trials, while an institutional strategy to link their work with diasporas remains missing. Several factors may explain why this is the case. First, some development experts do not believe that migrants can participate in development schemes. Second,

because of the limited knowledge that exists about organized diaspora groups, some donors have uninformed expectations about the results that these groups can achieve. For example, there are problems of symmetry between donors and diaspora organizations that need addressing. Third, diasporas' lack of development expertise and focus on how to become involved in development and what to expect out of their involvement affects their ability to convincingly demonstrate to donors that they are suitable partners. Fourth, academics who have studied diasporas have contributed little to developing a systematic approach that links diasporas and development. There is a lack of knowledge, theory, and method on how to bridge the assumed link. At points, academics themselves have even made errors. For example, the term "collective remittances" is an example of an expression invented by academics that in actuality does not exist outside the minds of non-hometown association practitioners. The appropriate term is "donations." A similar problem surrounds the extrapolation of terms like "social remittances." Fifth, the subject matter itself cuts across issues of migration and thus makes many uneasy about the political implications of doing migration-related work. Sixth and finally, even when there are good intentions among donors, there is no communication among them, much less outreach.

B. Considerations linking diasporas and development

The presence of millions of immigrants who are regularly connected to their homelands, as well as the impact that those connections have on local economies and communities, are not negligible. The size of these migrant populations is likely to continue increasing, resulting in more and more funds that will be flowing back to their home countries. Hence, taking diasporas into account when designing a development strategy is not only highly justified but necessary.

Diasporas have been defined as "sociopolitical formation[s], created as a result of either voluntary or forced migration, whose members regard themselves as of the same ethno-national origin and who permanently reside as minorities in one or several host countries. Members of such entities maintain regular or occasional contacts with what they regard as their homeland and with individuals and groups of the same background residing in other host countries".⁵

Diasporas define themselves through relationships with the homeland, international entities, and host-country governments and societies, thereby influencing various dynamics, including

⁵ Sheffer, Gabriel. 2003. *Diaspora Politics: At Home Abroad*. Cambridge: Cambridge University Press, p. 10-11.

development. One key consideration of the relationship between diasporas, migration, and development is that diasporas form, in part, as a response to changes in the composition of the international system (be it the global economy or the international political landscape), as well as development or underdevelopment. People leave their countries because of development conditions there, yet they continue to engage with their homelands at various levels.

Such engagement stretches the idea of development beyond territorial boundaries. The UNDP defines development as a condition that creates “an enabling environment for people to enjoy long, healthy and creative lives.” A development player aims to find solutions to human needs and to offer alternative ways to promote self-sustainability. In more practical terms, economic development is a condition by which individuals and society at large enjoy a good quality of life, are free, have opportunities for upward mobility and are able to improve their material circumstances. Three areas that enable these conditions are health, education and material asset accumulation. In a context of transnational migration, deterritorialized development strategies should look at the intersecting issues linking them to diasporas.

The following section highlights five key issues related to linking diasporas and development.

1. The Dimensions of Diasporas’ Links to Development

Little theoretical analysis exists regarding the link between diasporas and development.⁶ Here we argue that this link lies at a point where the economic activities of migrants intersect in a way that transforms the material base of migrants, their relatives and their societies. This transformation takes place along various dimensional spaces. Jenny Robinson (2002) speaks of the relationship between diasporas and development as being three-pronged: a) development *in* the diaspora, b) development *through* the diaspora, and c) development *by* the diaspora. The first refers to the use of networks in the host country, which includes the formation of ethnic businesses, cultural ties, and social mobilization. Development *through* the diaspora refers instead to “how diasporic [sic] communities utilize their diffuse global connections beyond the locality to facilitate economic and

⁶ Most studies assume there is a relationship but do not specify it conceptually or methodologically. Some efforts to do so are Sørensen, N.N. (2004). *The development dimension of migrant remittances*. Copenhagen, Denmark: Danish Institute for Development Studies; Gundel, J. (2002). The migration-development nexus: Somalia case-study. *International Migration*, 40(5), 255-279.; S. Munzele Maimbo & D. Ratha (Eds.), *Remittances: Development Impact and Future Prospects* (pp.347-377). Washington: DC: The World Bank.

social well being”.⁷ The third applies to the ramifications of “the flows of ideas, money, and political support to the migrant’s home country” (123).

2. Linking Development to Migrant Economic Practices

A second clue to consider lies in the establishment of operational links with the economic practices in which migrants engage. Within the context of changing dynamics and realities there are important development alternatives to consider. Donors can identify their role by understanding the activities of diasporas, their dimensional space and their nexus to development. In doing so, they will be able to better operationalize policies and strategies. Thus, the various relationships that immigrant communities have with their home countries demand strategies that have a direct impact on issues relating to reducing remittance transaction costs, leveraging the capital potential of remittances through banking and financing, promoting tourism, nostalgic trade and investment and establishing a state policy that attends to a country’s diasporas (see Table 1).

The table below offers a matrix between migrant economic activities and their three dimensions. These activities associated to development in the diaspora produce different dynamics. For example, in the context of remittances, development in the diaspora means to leverage the funds as a mechanism to provide financial access to migrants, whereas through the diaspora remittances play an instrumental role to provide financial access to remittance recipients. Finally, the relationship between remittances and development by the diaspora are associated by the role of ethnic minorities in providing resources and services on remittances, such as establishing money transfer operations (MTOs).

⁷ Robinson, Jenny. 2002. *Development and Displacement*. Oxford: Oxford University Press, p. 113.

Table 3: Three dimensions of diasporas' links to development

Development Activities	In the diaspora	Through the diaspora	By the diaspora
Family remittances	Banking the unbanked	Financial intermediation; MFI	Thamel, MTOs,
Consumption of goods and services	Access to a demand of products	Supply of home country commodities	Small business development
Investment of capital		Technical training in remittance receiving areas	Manufactured goods; nostalgic trade; tourism
Cash and in kind donations	Capacity building	Project identification; networking	Social philanthropy

3. The Limits of the Economic Activities in Promoting Development

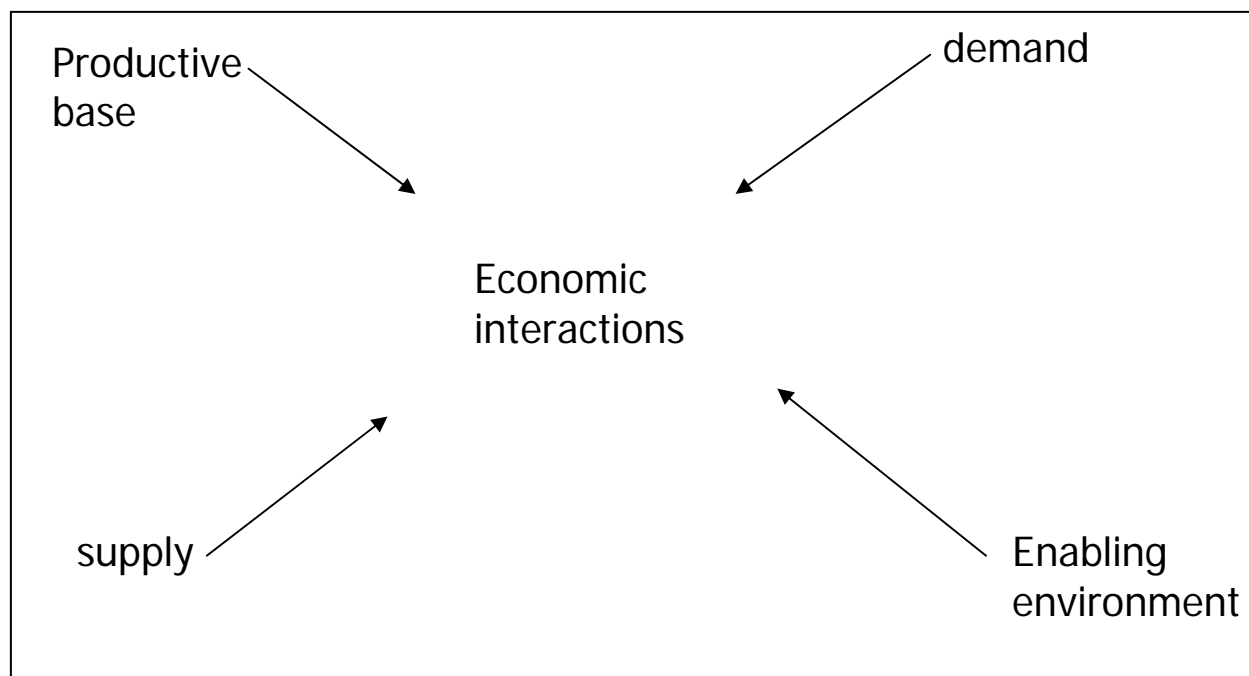
It is important to recognize that while remittances and other economic exchanges primarily go to the poor, these interchanges alone are not a solution to the structural constraints of poverty. In many and perhaps most cases, remittances provide a temporary relief to families' poverty, but seldom provide a permanent avenue into financial security. The literature on poverty and remittances has shown that the latter reduces poverty to a certain extent. Sustainable development through diaspora involvement depends on structural reforms addressing inequality in the home countries, as well as specific policies on financial democracy and asset accumulation.

Thus, when thinking about the intersection between development and migrant foreign savings it is important to understand that the social and productive base of an economy significantly defines the ways in which remittances will effectively function in that economy. In other words, the fertility of the local economy will determine the leveraging impact of remittances. Remittances need to be understood exactly as what they are: foreign savings. As with any other source of foreign savings, like aid, trade or investment, remittances interact with the structure of the local economy.

The extent to which such structures absorb foreign savings is the first question for development practitioners. This means that it is important to analyze the productive forces in an economy, the efficiency levels, how modern it is, what level of diversification/concentration of production exists within the various sectors, how entrepreneurship operates and is enabled, what technology tools exist or are missing, and the extent to which governments provide an enabling environment to motivate an interaction between investment and production (see Figure 2). Such analysis will

highlight the urgency to create development strategies that link the local economies with the leveraging potential of diaspora or migrant foreign savings.

Figure 2: Economic interactions in the local economy



A recent comparative study of four semi-rural communities in Latin America showed that the productive base of their economies was unable to fully absorb these funds and the need to implement such strategies and policies was urgent.⁸ The study showed that the local economies are relatively fragile, with high costs of living that make it difficult for remittance recipients to save and mobilize those savings.

In each community the entrepreneurial class caters little to the demands of remittance recipients, and its form of operation is relatively primitive. Moreover, governments and civil society do not provide recipient families with adequate support networks to help them cope with the realities of migration. As a result, nearly one third of recipients reported that they were considering migrating and leaving their communities in the near future.

⁸ Orozco, Manuel. *Remittances and the Local Economy in Latin America: between hardship and hope*. Study commissioned by the IADB, July 2006.

Table 4: Economic profile of four Latin American cities

	Jerez, Zacatecas Mexico	Salcaja, Quetzaltenango, Guatemala	Suchitoto, El Salvador	Catamayo, Loja, Ecuador
Basic profile				
Population	37,558	14,829	17,869	27,000
Labor force (%)	41%	37%	34%	31%
Population ages 5-19	34.7% (ages 0-14)	36.81% (5,459)	34% (7 to 18)	30%
Main economic activities (%)	35%;	42%;	15.5%;	39%;
--Commerce and Services	19%;	4% (excl. subs.);	52.2%;	20%; est.
--Agriculture	13%;	6%;	7.6%;	8%
--Manufacturing	11%;			
--Construction				
Proximity to major urban center	45kms to Zacatecas	9 kms to Quetzaltenango	45 kms to San Salvador	45 kms to Loja
Cost of living . . .				
Food	219	228	209	201
Services (utilities)	60	44	40	43
Education	13	32	29	56
Health	40	41	34	68
Entertainment	27	3	40	35
Income . . .				
Wages	323	303	125	162
Total earnings, remittances included	930	501	622	353
Monthly remittances amount received	637	331	515	181

This analysis examined the extent to which the local economy exhibits substantive opportunities or failures that are enablers of migration and remittances. If an economy is unable to produce in a competitive context, its labor force will be depressed and eventually a portion will migrate in order to be able to provide for their families. Even once they are away and send money, however, the beneficiaries may only be able to do so much with that money insofar as the local economy provides an effective supply for the demand of services and products. Thus the need for significant policy change among development practitioners is more urgent than previously perceived.

4. Participation within the Diaspora

Understanding the level of engagement that diasporas can have in development is crucial. Assuming that everyone is involved or can be involved is unrealistic. When looking at the extent to which groups form organizations to promote development, we find that at most one quarter of individuals who send remittances belong to a kind of organization.

Migrant levels of engagement, on the other hand, are far greater in other activities relating to family or personal investments. In addition, not all national groups have the same level of participation. As the table below shows, economic activities and practices vary across nationalities, therefore considering partnerships with diasporas requires an assessment of how much can realistically be achieved with different groups.

Table 5: Levels of transnational engagement by country of origin

Country	COL	ECU	ELS	GUA	GUY	HON	MEX	NIC	DR	BOL	JAM
Calls once a week	80	98	41	56	42	57	66	70	77	33	75
Sends over \$300	27	33	32	43	33	8	46	13	17	21	42
Buys HCG	88	95	66	50	84	74	86	83	65	70	64
Has a saving account.	39	55	16	19	48	16	21	5	29	10	58
Travels once a year	34	51	24	9	45	12	23	19	69	13	69
(& Spends over US\$1,000)	61	90	61	48	54	43	70	26	64	91	58
Has a mortgage. Loan	12	14	13	4	18	12	3	6	6	36	15
Owens a small bus.	5	1	3	2	8	4	2	3	3	4	2
Helps. Family w/ mort.	21	24	13	1	21	8	5	7	13	31	16
Belongs to HTA	6	10	5	3	29	7	2	4	3	1	16

Source: Orozco, Manuel (2005c). *Transnational Engagement, Remittances and their Relationship to Development in Latin America and the Caribbean*. Washington, DC: Institute for the Study of International Migration, Georgetown University, July, 2005

5. The Need for Institutionalized Communication

Establishing a line of communication with migrant organizations is critical for creating an effective development partnership with diasporas. Both diaspora organizations and donors need to find a space for interaction and communication to bridge a divide that currently separates them, namely that diaspora groups are predominantly volunteer organizations. In order to develop successful partnerships, governments need to develop confidence building tools and initiatives that make migrants recognize that governments are serious and committed to working with them. Confidence building incentives should stress at least four components: dialogue with leaders, institutional resource investment for policy outreach, institutional communication mechanisms that ensure systematic and legitimate contact with diasporas, and the joint creation of an agenda of policy initiatives affecting both governments and migrants.

C. Current donor practices⁹

Today there are several examples worldwide of linking diasporas to development through policy experimentation by the operations of donors. These policy issues have had some positive experiences resulting from spontaneous developments or systematic initiatives coming from institutions in various parts of the world. The following is an illustration of these experiences in selected countries.

1. Policy options

The various relationships that immigrant communities have with their home country demand strategies that have a direct impact on issues relating to reducing transaction costs, leveraging the capital potential of remittances through banking and financing, promoting tourism, nostalgic trade, and investment, and establishing a state policy that attends to a country's diasporas.

i. Diaspora Outreach Policy

An outreach policy aimed at the community residing abroad is key to any migrant-sending country's economic strategy. This should be the first step in addressing the linkages with the immigrant community living abroad. Such policy should first and foremost validate and legitimate the reality of

⁹ This section is an introduction to section D of a report titled "International Financial Flows and Worker Remittances: issues and lessons" commissioned by the United Nations, 2005.

their migration status, and second, explore policy opportunities to develop their condition and position in the home and host countries.

i. Business competition

The transmission costs of remittance sending—fees incurred through the use of intermediaries—continue to be a significant concern to immigrants, development agencies, and other actors involved in the process. Sending money to home countries entails costs and their pricing depends on the level of industry competition. As competition and volume increase costs drop.¹⁰ Therefore is important to analyze the structure of competition in corridors and identify obstacles that hinder it, and promote options to reduce costs.

The formation of strategic alliances between money transfer companies and banks, and between banks in Latin America and North America, and the use of debit card technologies, are examples of ways in which money transmissions are becoming less expensive.

iii. Banking the Unbanked

Many people in remittance-recipient societies lack access to the formal banking system. The effects of being unbanked include a higher susceptibility to greater transaction costs and the lack of the opportunity to establish credit records and obtain other benefits from financial institutions. Leveraging financial services among remittance recipients and senders is an alternative that would increase access to banking but also expand credits through the mobilization of remittance savings. Micro-finance institutions and credit unions in remittance-recipient countries demonstrate the potential to respond to this growing demand for financial transactions.

iv. Investment and Micro-enterprise Incentives

Studies have shown that, on average, around ten per cent of remittances received are saved and invested, and a percentage of people are in a position to use their money for an enterprising activity. Both private sector and development players can insert themselves as credit partners for these potential investors. The effect is the provision of credit, supported by remittances, in local

¹⁰ Orozco, Manuel. International Flows of Remittances: Cost, competition and financial access in Latin America and the Caribbean—toward an industry scorecard. Report presented at the meeting on “Remittances and Transnational Families” sponsored by the Multilateral Fund of the Inter-American Development Bank and the Annie E Case Foundation, organized on May 12th, 2006.

communities that lack the presence of active markets and production networks. Tying remittances to micro-lending has a development potential to enable the enhancement of local markets.

v. Hometown Associations as Agents of Development

The philanthropic activities of HTAs have a development potential. Some of the infrastructure and economic development work performed by these associations represents an opportunity for development agents to partner in local development. Governments can work with international organizations and HTAs to jointly figure income generation schemes for their local communities.

vi. Tourism

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

vii. Nostalgic Trade

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

viii. Macroeconomic policy

Remittances respond to macroeconomic trends, such as changes in prices or the structure of a recipient country's financial system. Moreover, the ability of an economy to fully absorb migrant foreign savings will depend on the ways in which an adequate balance exists between macroeconomic policies and leveraging efforts on these flows. Governments, donors and diasporas need to explore various policy opportunities that stimulates a country's economy as a fertile ground to nourish the flows entering from abroad.

2. Best Practices and lessons learned

These policy issues have met some positive experiences resulting from spontaneous developments or systematic initiatives coming from institutions in various parts of the world. What follows is an illustration of experiences in selected countries worldwide. The catalogue of best practices provided here looks at initiatives taking place among four major players; Governments, private sector, non-Governmental organizations, and international donor agencies (see table 12). The initiatives include efforts related to cost reductions, credit instruments, facilitation of donations by HTAs, and provision of incentives for migrant capital investment.

Table 6: List of best practices in remittance transfers, donations and other activities

Player	<i>Remittances</i>	<i>Donations</i>	<i>Other (invest.,)</i>
<i>Government</i>	Banasefi (Mexico); Morocco Bank (Morocco); NRI (India); FDIC (USA)	Sedesol (Mexico); FISDL (El Salvador);	Por mi Jalisco (Mexico)
<i>Private sector</i>	Banco Salvadoreño (El Salvador); Banco Solidario (Ecuador); Banco Industrial (Guatemala); WF, BoA, Citi (USA)		
<i>NGOs</i>	FEDECACES (El Salvador); Oaxaca Bank (Mexico);		
<i>Donors / Foundations</i>	IADB; USAID; Ford Foundation; DFID , GTZ	IAF; IFAD, IADB, Rockefeller	

Broadly, these donors are only in the earlier stages of working on this field. Four institutions combined have invested nearly US\$50 million in grants to leverage remittances development role. The IADB is the only institution that has gradually systematized its work. Yet, it is important to identify all possible lessons learned from the projects funded.

The Multilateral Investment Fund of the Inter-American Development Bank

One of the pioneering institutions in addressing the link between remittances and development has been the Multilateral Investment Fund (MIF) of the Inter-American Development

Bank. The MIF has addressed the issue from a research, advocacy and operational perspective. Since 1999, the MIF engaged in a series of discussions and studies about the impact of remittances in Latin America and the policy problem posed by high transaction costs. As its research and public discussion ensued, the Fund moved one step forward by taking the initiative to fund projects aimed at modernizing a financial infrastructure that could attract money transfers at lower cost, while addressing the financial needs of unbanked remittance receiving households.

To that effect the MIF has funded over 20 million dollars in projects in several countries in Latin America (Brazil, Colombia, Dominican Republic, Ecuador, El Salvador, Mexico, Nicaragua), many of which go to microfinance institutions or alternative savings and credit institutions. Table 7 identifies some of the more known projects funded and related to remittance transfers.

Table 7: Projects funded by the Multilateral Investment Fund, 2001-2004.

Project	Country	Amount
Expansion and strengthening of a microfinance institution FIE	Argentina	\$2,396,060
Remittance Fund for Entrepreneurs	Brazil	\$5,000,000
Mobilization of remittances through microfinance institutions	Colombia	\$824,770
Distribution Channels for Remittances	Dominican Republic	\$2,500,000
Financial and business services for remittance recipients	Dominican Republic	\$840,000
Support Micro-Enterprises Utilizing a Line of Credit	Ecuador	\$2,200,000
Strengthening of Financial Services and Remittances	El Salvador	\$1,500,000
Capitalization of Remittances for Local Economic Development	Mexico	\$1,115,000
Strengthening Savings and Credit Unions	Mexico	\$3,500,000
Investment of Remittances	Mexico	\$460,000
Investment in Financiera Nicaraguense de Desarrollo	Nicaragua	\$1,750,000
Support for returning entrepreneurs	Peru	\$500,000
Enhance dev. impact of Peruvian workers' remittances from JP	Peru	\$7,200,000
Financing for micro and SMEs thru formal financial intermediaries	Regional	\$8,200,000
MIF-IFAD partnership facility for rural private sector dev-LAC	Regional	\$4,000,000
Total		\$41,985,830

The Fund engaged in partnerships with other donors and institutions. For example, it now has an alliance with the International Fund for Agricultural Development (IFAD) of the United Nations. In April 2004, the two institutions announced the creation of a 7.6 million dollar fund aimed at funding remittance related projects that addressed microfinance and investment. Under this agreement, to

which MIF provided \$4 million local counterpart organizations, such as microfinance institutions and credit unions, are expected to commit \$1.6 million to the projects they propose (IADB-MIF 2004).

One of the successful cases resulting from IADB efforts is the Red de la Gente project. In Mexico, for example, BANSEFI, the National Savings and Financial Services Bank, a quasi government institution mandated to increase financial products and services to all Mexicans, entered in the remittance market and received funding to strengthen its technology and network of banks. In 2003 BANSEFI established a network of over 1200 distribution centers, called L@Red de la Gente, together with popular banks, micro-finance institutions and credit unions to act as a remittance payer. BANSEFI forged agreements with several MTOs, including GiroMex, Dolex, Vigo, and MoneyGram. It also linked its network to the FedACH International SM Mexico Service.

Under this scheme the members of L@Red de la Gente are offering remittance transfer services in mostly low-income urban and rural areas that experience significant emigration to the US, and where the formal financial system has no coverage. In January 2005, BANSEFI was making 25,000 transactions a month and had opened accounts for 10 per cent of the individuals who had come in for remittance services, an improvement from the 6 per cent who opened accounts in 2003. By June 2006 the Red de la Gente grew four times to 100,000 transactions a month and continued banking remittance recipients.

Other IADB-MIF grantee institutions like FEDECACES, the federation of credit unions in El Salvador, have targeted remittance recipients directly as potential members of the credit union. Approximately 25 percent of remittance recipients who choose FEDECACES to receive their remittances are also FEDECACES clients.

Table 8. Number of accounts opened among remittance recipient household clients of Fedecaces

Institution	New accounts opened	Monthly transfers	Conversion rate	Rural presence
Fedecaces	4375	22000	20%	90%
Acocomet	800	2383	34%	100%
Acacu	2703	2703	100%	90%

The United States Agency for International Development (USAID)

The United States Agency for International Development (USAID) has followed the issue of remittances since 2000, considering it an area of attention within its programmatic plans. Some missions have decided to participate in some projects linking with micro-finance, banking and hometown associations. The following section highlights USAID's work in Mexico, and Jamaica as well as the work of USAID's Global Development Alliance, a recently created unit within the agency.

In 2002 the Latin American regional office of USAID, began a pilot program on remittances focusing mostly on Mexico. USAID initiated four specific programs related either to the financial aspects of remittances. Their efforts pertaining to financial activity deal with expanding the financial services accessible to recipients of personal remittances. In September 2002, USAID gave a \$500,000 grant to the World Council of Credit Unions, Inc. (WOCCU) to amend an ongoing project with Caja Popular Mexicana to help the latter connect to WOCCU's remittance services and market related services to recipients. In September 2002 USAID granted \$166,000 to Acción Internacional for their research examining the links between microfinance and remittances in order to gauge the interest of microfinance institutions in becoming involved in the service.

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

USAID is also working on a number of economic growth issues in Jamaica, with a particular focus on improving the business environment. One aspect of this effort focuses on access to financing through microenterprise and remittance programs. In November 2003 USAID entered into an agreement with the Jamaica National Building Society (JNBS), one of the country's remittance companies. Through the program with JNBS, JNBS introduced smart card technology to reduce the

cost of money transfers and create greater accessibility to funds. After eighteen months of work 21% of remittance recipients were withdrawing their money with debit cards.

Moreover, JNBS leveraged the savings created from the implementation of the smart card into development work. The building society participated with USAID in acquiring computers from U.S. companies and donating them to different schools in Jamaica. JNBS helped pay for the costs in Jamaica of setting up computer connections and possible training in the technology.

The Global Development Alliance

GDA is the section of USAID dedicated to forging public-private alliances with between Governments, businesses and civil society. To date, GDA has not allocated a significant amount of resources into remittance and development programs, leaving that up to the various USAID missions. However, over the past year GDA has become involved in the area by partnering with the Foundation for International Community (FINCA) and Hewlett Packard separately to develop new technology, such debit cards, to lower transaction costs of remittances. In late January of 2004, GDA announced a \$600,000 grant to expand a public-private alliance with VISA and FINCA towards electronic microfinance. The program will take place over five phases, beginning in Central America, and provide a business model that VISA and USAID will customize for other nations.

GDA's primary foci are: 1) increasing market driven alternatives to large wire transfer companies such as Western Union and Money Gram; 2) strengthening the capacity building of HTAs and broker groups; and 3) developing alternate technology to reduce transaction costs of remittances. GDA provided an estimated \$1 million in funds over the past year for such activities. According to the personnel interviewed for this study, the fact that there is no single person dealing with the remittances and development issue within the GDA constitutes a significant barrier for the agency.

Ford Foundation

The Ford Foundation has a number of different programs, many of which focus on microfinance and access to financial services for poor people. The foundation began making grants to broader projects dealing with remittances in 2002. The foundation's focus is on family and individual remittances, rather than collective (HTA) remittances. It is interested in programs that allow

individuals to build financial assets and let financial institutions become intermediaries in rural communities. The Ford Foundation has 10 migration and development programs with remittance components totaling an estimated \$700,000 in grants. It typically spends a few hundred thousand or more annually on such projects.

Recipients of the Ford Foundation's funding include the Mexican Association of Social Sector Credit Unions (AMUCSS), the California Credit Union League and UCLA's North American Integration and Development Center's effort to incorporate immigrants in Santa Maria, California into credit unions to access financial services and find a means to send back money to the town of Santa Cruz, Mixtepec through a microbank. As another part of the program, the groups worked with HTAs to connect people to financial services in California.

The foundation has worked with microfinance networks at the regional, Mexican and Central American level. The Ford Foundation made a \$235,000 grant to the Interdisciplinary Group on Women, Work and Poverty to support 35 student fellowships at Mexican universities to research how poor women use remittance income to improve their livelihoods and welfare of their families. The foundation has granted \$60,000 to the organization Alianza para el Desarrollo de Microempresas (ALPIMED), which has done significant work on remittance transfers.

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

International Fund for Agricultural Development (IFAD)

Another case where institutional relationships and partnerships have occurred between the International Fund for Agricultural Development of the United Nations, and other players. In the area of remittances, IFAD, together with the Multi-Lateral Investment Fund (MIF) of the Inter-American Development Bank (IDB), recently created a program to support binational rural development projects in remittance receiving communities. The program, which is headquartered at the Inter-American Dialogue, supports funding in three areas: knowledge development for

community-based organizations and rural development, development of rural financial services, and development of rural productive investment. Eligible institutions include NGOs, immigrant philanthropic groups working to support their home communities, as well as savings and credit institutions.¹¹

Other Initiatives

Many initiatives have focused on efforts at financial intermediation among remittance recipients, but remittance senders represent another, yet equally important, side of the equation. The Federal Deposit Insurance Corporation (FDIC) and the Consulate General of Mexico launched The New Alliance Task Force (NATF) in May 2003. The initiative is comprised of a coalition of over 30 banks, 25 community based organizations, and government agencies all striving to provide immigrants with necessary financial and education and support services to access the U.S. banking system. The NATF is made up of four working groups: Financial Education, Mortgage Products, Bank Products and Services, and Social Projects.

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

The Task Force holds quarterly meetings in Chicago to take an inventory of who is doing what, share best practices, and report on new laws. Each of the working groups meets regularly. The Financial Education Working Group employs the FDIC's Money Smart financial curriculum to help adults outside the financial mainstream improve their money skills and creating positive banking relationships. The program is offered in Spanish and three other languages. Future classes will be held on topics such as homebuyer information, predatory lending, taxpayer education, and use of alternative forms of identification, among others. Eighteen organizations including banks,

¹¹ IFAD has also worked in other areas of funding to hometown associations.

non-profits, and others would be involved. Banks, such as Bank of America, have donated ATMs for in-class simulation purposes.

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

One of the highlights of the Bank Product and Services Working Group was the December 10, 2003 conference held at the Mexican Consulate in Chicago. Thirty national, regional and community banks gathered for a showcasing of current and future remittance products. Bank of America, North Shore Bank, Mitchell Bank and Fifth Third Bank featured their four different remittance products with four different features. These programs demonstrated that such products are needed by the community as well as are a means to involve the 30 "unbanked." The business case for banking the "unbanked" has been successful and there is real interest in the economics of the issue. The Task Force has also been successful in receiving input from community organizations. While the profits do not necessarily come from accounts for remittance senders, banks are looking to the long term. They want clients to enter the system and then cross over into other products like credit cards, auto loans, small business loans, etc., where the profits lie. There is a tremendous loyalty in the immigrant market, once you get individuals into the system, they are unlikely to leave and that they usually bring in another 10-15 people.

In its December 10, 2003 press release the Mexican Consulate highlighted the promising preliminary results of NATF. So far, more than \$100 million in deposits have been invested in financial institutions that accept the Mexican Matrícula. Official reports from over 30 banks that operate in the Midwest indicate that over 50,000 new bank accounts had been opened in the Midwest by December 2003 by formerly "unbanked" customers, with an average balance of \$2000. The Task Force estimates that new accounts represent over \$100 million in deposits. As of December 2003, over 35,000 immigrants in the Midwest have participated in education classes or workshops using the FDIC's Smart Money curriculum and similar financial education programs. In the 2002 tax filing season, almost 7,500 immigrant working families were served in Chicago area free

tax preparation sites, with EITC refunds of \$9.3 million, saving immigrants \$750,000 in preparation fees.

According to FDIC personnel interviewed, mortgage loans will be of major interest to banks. Banking the unbanked has been a three stage process, beginning with 1) learning about the Matricula Consular and learning regulators views; 2) offering remittance features to bring in clients; and 3) offering mortgage loans. Some banks are providing mortgage loans using ITIN numbers – six in the Milwaukee and Chicago area. To date, 15 of the 35 NATF-member banks offer mortgage products that utilize ITIN numbers, totaling 659 loans - approx \$93 million in originations. The Wisconsin Housing & Economic Development Authority (a NATF member) purchases these loans in the secondary market from local banks in Milwaukee, WI.

The FDIC has now expanded the program throughout the Midwest, California (Los Angeles), Texas (Austin), Iowa and Georgia (Atlanta), New York and Boston and has formed working groups in these areas