

Between hardship and hope:

Remittances and the local economy in Latin  
America

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## Introduction

This report assesses the capacity and willingness of Latin American economies to effectively absorb remittances into their productive base. Although remittances overall have a positive impact on households and local economies, their effect on long term growth and sustainable development depends in the way these economies react to foreign savings.

The absorption of remittances into productive activities depends on the structure of the economy in question, the way the supply side responds to the demand of services, and the existence of an enabling environment that can stimulate economic activity associated with remittance flows. In particular, the effect of the local economy should be strongest in five key areas: finance, education, health, housing, and insurance.

Case study analyses were conducted in five semi-urban communities in Latin America where migration is either new or longstanding. These analyses reveal that the local economies are relatively fragile, with high costs of living making it difficult for remittance recipients to save and mobilize those savings. In each community we discover that the entrepreneurial class caters little to the demands of remittance recipients. Moreover, we also find that governments and civil society do not provide recipient families with adequate support networks to help them cope with the realities of migration. These findings highlight the imperative urgency to implement policies leveraging remittances. Remittances do stimulate commerce and investment in local economies, but their effects are greater when productive forces interact directly with these flows. The preliminary results in this project suggest the following findings:

1. *Local economies are weak or barely coping; subsistence agriculture prevails even in cities with some manufacturing activity; manufacturing is still artisanal and commerce is unevenly modern. The financial sector is often if not always inaccessible or unavailable;*
2. *About 15% of families receive remittances, with at least one child and/or elderly person living in each recipient household;*
3. *The cost of living is expensive (between \$200 and \$400 a month), comparable to the amounts received in remittances and equal to at least three minimum wages. As a result, little money is left for savings;*
4. *Remittance recipients make good use of their money: in addition to spending money on food, education and health, some do manage to save;*
5. *The local entrepreneurial class is unable to adapt or restructure itself to become more competitive in the global context, even when they have comparative advantages. They offer poor goods and services, whether in education, health, finances, insurance, or locally produced goods;*
6. *Local and central governments are uncertain as to what they can do and have few options to act upon;*
7. *Between 10 and 30% of remittance recipient households say that one person in the family is likely to migrate in the future;*
8. *The average educational attainment in these cities (semi-urban, semi-rural communities) is lower than 6th grade. That is, eight years less than levels of educational attainment in the U.S.;*
9. *Government, private sector, and civil society actors have not in any way considered an approach to leveraging remittances to expand growth. What's more, no support networks exist to address the needs of the families of migrants. At the same time there exist widespread stereotypes about youth and women not working and complaints about the high numbers of youth emigrating.*

## 1. Remittances and its impact in Latin American economies

The realities of migration, significantly spurred by economic and political necessity for survival, in many ways lead over time to the creation of transnational families—defined as groups that maintain relationships and connections with home and host societies.<sup>1</sup> Through cross-border engagements, transnational families engage in a range of activities including but not limited to remittance sending, social networks, economic relationships, cultural practices, and political participation.

Money transfers, tourism, transportation, telecommunication, and nostalgic trade, together known as the 5Ts, have had a significant impact on the economies of these countries and pose important policy questions about the relationship between transnationalism and development.

Currently, a migrant's economic relationship with his/her home country extends to at least four practices that involve spending or investment and are a representation of the desires of continuity of family life and affirmation of identity: 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).<sup>2</sup>

Remittances, the first of these linkages, are the most widespread and important migrant economic activity. While 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.<sup>3</sup>

Migrants also maintain links with their home countries by staying in touch with friends and family by 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. This exchange creates important revenue for U.S. firms.

The final two transnational activities involve donations and investments. In the case of donations, migrants raise funds to help their hometowns through organized civil society groups. Belonging to a hometown association (HTA) is an important migrant activity that

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<sup>1</sup> There are a range of definitions of transnationalism, for example, “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 1999). The trend of ties is spreading everywhere north-south, as well as south-south with significant regional migration patterns.

<sup>2</sup> For an in-depth analysis of the 5Ts, see Manuel Orozco *Transnational Engagement, Remittances and their Relationship to Development in Latin America and the Caribbean*. Institute for the Study of International Migration, Georgetown University: July 2005.

<sup>3</sup> Orozco, Manuel with Rachel Fedewa, “Regional Integration? Trends and Patterns of Remittance flows within South East Asia.” *Inter-American Dialogue*, Washington, DC, August 2005. South East Asia report, 2005

can provide substantial economic resources for the communities of origin. Individual donations may amount to between US\$100 and US\$200 a year per person, and in some countries, like Mexico, donations on aggregate may translate to more than fifty million dollars. Finally, migrants often have a desire to invest in a property or a small business, devoting between US\$5,000 and US\$10,000 to that activity.

Figure 1: Immigrant Economic Practices



These practices generate significant revenue and benefits for many. Take, for example, the cases of Salvadorans in the United States. This migrant community has been established for more than thirty years in the U.S. and has maintained its associations with the homeland at different levels. The table below shows estimates of the number of transnational activities that keep these migrants connected with their home country. The highest amount of money spent is on remittances, from which companies earn average revenues of 10%; however, other activities are also important relative to their impact on the two economies, such as phone calls.

Table 1: Percent of Salvadorans who . . .

Percent of people who...	(%)	Number	Annual Cost /expense (US\$)	Volume (US\$)
Call on average 120 minutes	41	340,300	288	98,006,400
Send over \$300	32	265,600	4200	1,115,520,000
Buy home country goods	66	547,800	200	109,560,000
Travel once a year	24	199,200	700	139,440,000
(& Spend over US\$1,000)	61	506,300	1000	506,300,000
Have a mortgage loan	13	107,900	7000	755,300,000
Own a small business	3	24,900	7500	186,750,000
Helps family w/ mort.	13	10,790	2000	215,800,000
Belong to a hometown assoc.	5	41,500	200	1,500,000

Note: Number of Salvadorans remitting from the U.S. is estimated at 830,000; Source: *Transnat*.

These practices among diasporas are not fungible, but rather reflect specific needs and priorities among migrants and together do not necessarily represent assets in themselves. The consumption of goods and services, for example, is attributed to daily livelihood realities. Remittances, on the other hand, are both a combination of social protection and stock accumulation. Studies show that, depending on the groups and families, migrants may see a portion of remittances as an asset in itself because they then use it to invest in their families' material circumstances to transform their lives.<sup>4</sup> Remittances sent to address educational needs, for example, create such a basis for asset building.

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

Table 2: Percent of remittance senders and recipients who . . .

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

Source: Orozco, Manuel. *Transnational Engagement*.

Table 3: Percent of remittance senders/recipients who in addition to remittances help/are helped by their family to address other economic obligations, such as . . .

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

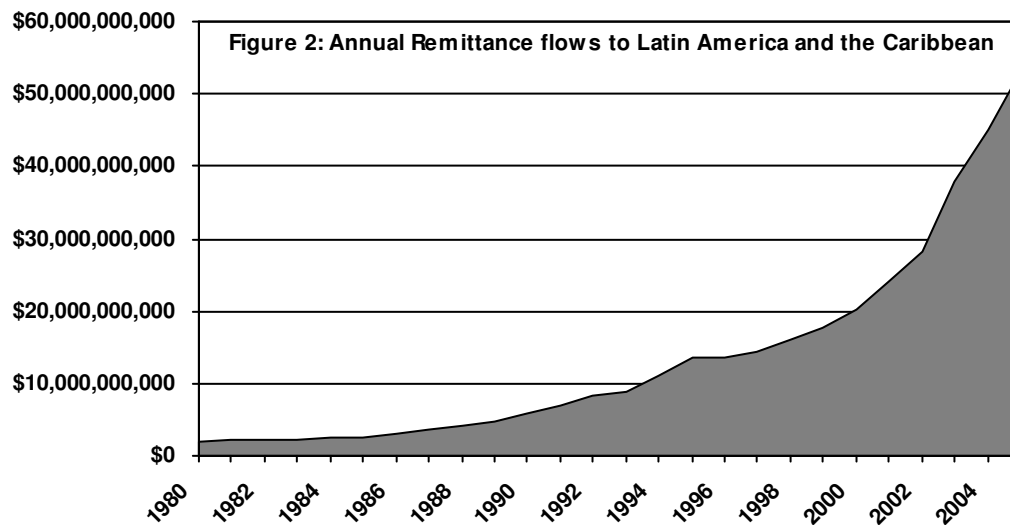
Source: Orozco, Manuel. *Transnational Engagement*.

*i. The direct impact of remittances*

The volume of remittance flows to Latin America and the Caribbean has increased to over fifty billion dollars in 2005 (see Figure 6). The increase is due to a number of factors that include reactions to economic downturns in Latin America and the Caribbean, strengthened ties between the U.S. and Latin America, improved competition in money transfers, increases in the contact among members in a transnational family, and improved accounting

<sup>4</sup> Pozo, Susan and Catalina Amuedo-Dorantes "Remittances as Insurance: Evidence from Mexican Migrants," *Journal of Population Economics*, 2006,

of the money received. For example, in 1980 only 17 countries reported flows on remittances; by 2004 the number was 30. Even these figures, reported by Central Banks, are considered to be conservative estimates.



Source: Central Bank of each country

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

Table 4: Central America in the global economy, 2005, in million US\$

Sector	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica	D.R.
Remittances	2,992.8	2,830.2	1,763	850	362.0	2,410.8
Merchandise Exports (not including maquiladora)	5,028.6	1,381.47	875.0	857.9	2,954.0	1,397.9
Maquiladora	352.4	1,920.7	886.4	682.1	4,072.3	4,734.6
Official Development Assistance*	218.4	211.5	641.7	1,232.4	13.5	86.9
Income from Tourism	868.9	542.9	472.2	207.1	1,598.9	3,519.7
GDP	27,400.0	17,244.0	8,000.0	5,000.0	20,014.5	29,333.2
R+X+A+T/GDP	35%	40%	58%	72%	45%	41%

Source: Central Bank of each country

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

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

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

Table 5: Remittances and key economic indicators

Country	Remittance transfers ...				
	and GDP	Per capita	Cost	Average Transfer	Annual Volume
Mexico*	2.98%	187.18	6.0%	351.00	20,034,000,000
Brazil*	1.09%	30.85	8.13%	541.00	5,750,000,000
Colombia*	4.84%	90.48	5.0%	220.00	4,126,000,000
Guatemala*	11.42%	237.54	5.6%	363.00	2,992,770,000
El Salvador*	18.28%	411.31	5.2%	339.00	2,830,200,000
Dominican Republic*	13.35%	271.03	6.4%	176.00	2,410,800,000
Ecuador*	6.01%	136.07	3.9%	293.00	1,800,000,000
Jamaica*	18.33%	622.78	8.2%	209.00	1,651,000,000
Peru*	3.71%	89.21	4.6%	169.00	2,495,000,000
Honduras*	23.09%	244.72	5.8%	225.00	1,762,980,000
Haiti*	34.53%	115.50	6.7%	123.00	985,000,000
Nicaragua*	19.05%	154.91	5.2%	133.00	850,000,000
Paraguay*	8.52%	89.31	9.11%	263.00	550,000,000
Bolivia*	10.17%	93.66	5.6%	235.00	860,000,000
Costa Rica*	2.11%	92.44	9.46%	301.00	400,000,000

Country	Remittance transfers ...				
	and GDP	Per capita	Cost	Average Transfer	Annual Volume
Argentina**	0.2%	7	9.02%	212.00	270,000,000
Panama*	1.36%	61.90	10.50%	196.00	200,000,000
Guyana*	36.89%	359.52	10.14%	179.00	270,000,000
Barbados	4.3%	418	11.66%	220.00	113,000,000
Trinidad and Tobago*	0.77%	70.75	10.41%	200.00	92,400,000
Uruguay**	0.3%	71	11.28%	198.00	93,000,000
Belize*	3.77%	148.70	8.78%	220.00	40,150,000
Suriname*	4.20%	122.49	10.17%	220.00	55,000,000
Grenada**	5.2%	220		220.00	23,000,000
Venezuela, RB*	0.11%	4.64	17.10%	138.00	124,000,000
Chile**	0.0%	1	8.90%	279.00	13,000,000
Antigua and Barbuda**	1.5%	140		220.00	11,000,000
Dominica**	1.5%	56		220.00	4,000,000
St. Kitts and Nevis**	1.2%	86		220.00	4,000,000
St. Lucia**	0.6%	25		220.00	4,000,000
St. Vincent and the Grenadines**	0.8%	27		220.00	3,000,000

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

Table 6: Remittances and other indicators

	Rural areas	Female Recipients (%)	Female Senders (%)	Recipients who spend in Health and Education (%)	Recipients with Bank Accounts (%)	Non-Recipients With Bank Accounts (%)	Senders With Investment (%)	Recipients with Investment (%)
Bolivia		52	71		44	35	4	
Colombia		68	54	84.14	52	45	5	14.5
D.Republic	40	73	45	38.89	66	58	3	21.1
Ecuador	57	74	28	48.01	46	34	1	29.8
ElSalvador	39.5	72	46	50	31	19	3	10.6
Guatemala		80	29	59.41	41	17	2	5.1
Guyana	40	71	48	22.8	62		8	11.7
Haiti	54	53	32	86.4	68.4		25.5	17.7
Honduras			37		34	16	4	4
Jamaica			49		65	60	2	
Mexico	45.7	63	17		29	28	2	
Nicaragua	45	72	44	53.92	10	10	3	27
Peru		46			37	35		

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

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

second group is one wherein the effect of remittances is felt in half of these indicators, and the third group is that which is minimally impacted by remittances.

Table 7: Impact of remittances on Latin American and Caribbean economies

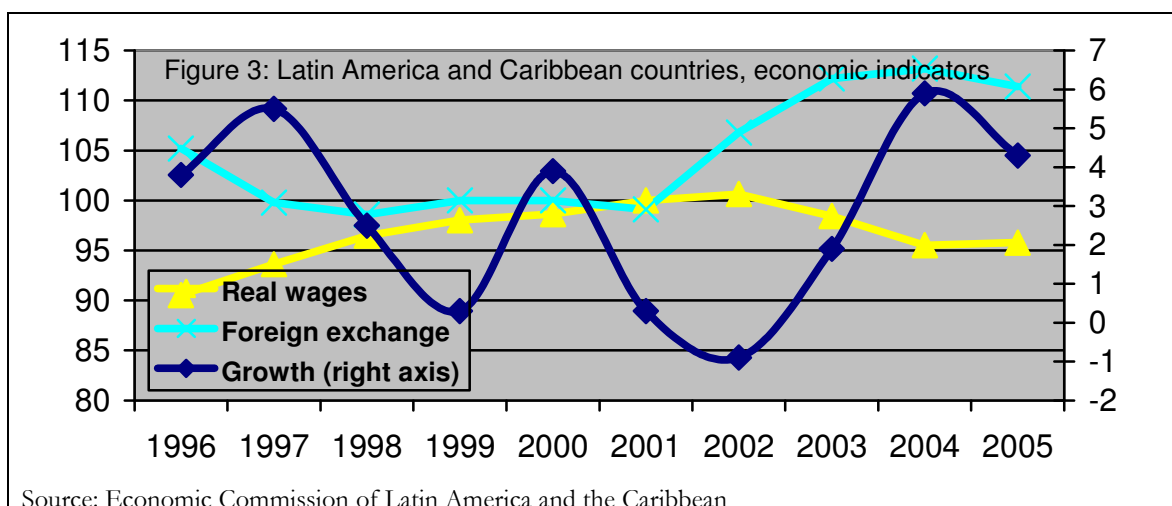
<b>Impact of Remittances</b>		
<b>Strong</b>	<b>Medium</b>	<b>Low</b>
Guatemala	Paraguay	Dominica
Ecuador	Colombia	Panama
Nicaragua	Peru	Antigua and Barbuda
El Salvador	Dominican Republic	St. Vincent and the Grenadines
Haiti	Brazil	Chile
Honduras	Suriname	Trinidad and Tobago
Bolivia	Costa Rica	Argentina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

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

However, despite the inflow of money entering from migrant workers, as well as the effect migration has in reducing the demands for jobs in these countries, there exist no public policies leveraging remittances. What's more, economic growth rates remain low, which in turn can have an adverse effect in the capacity to absorb these foreign savings. This low performance can also be cause for further migration.

## 2. Low economic performance despite remittance flows

Despite a period of macroeconomic stability since the 1990s including the flow of migrant remittances, most of these countries continue to struggle to grow and deliver basic social goods and services to their societies. Partly as a result of persistent income disparities, as well as the negative effects of globalization, economic growth and wages rates continue to be low. In addition, local currencies have remained weak. Overall these economies have not been able to grow above 3.5% a year.



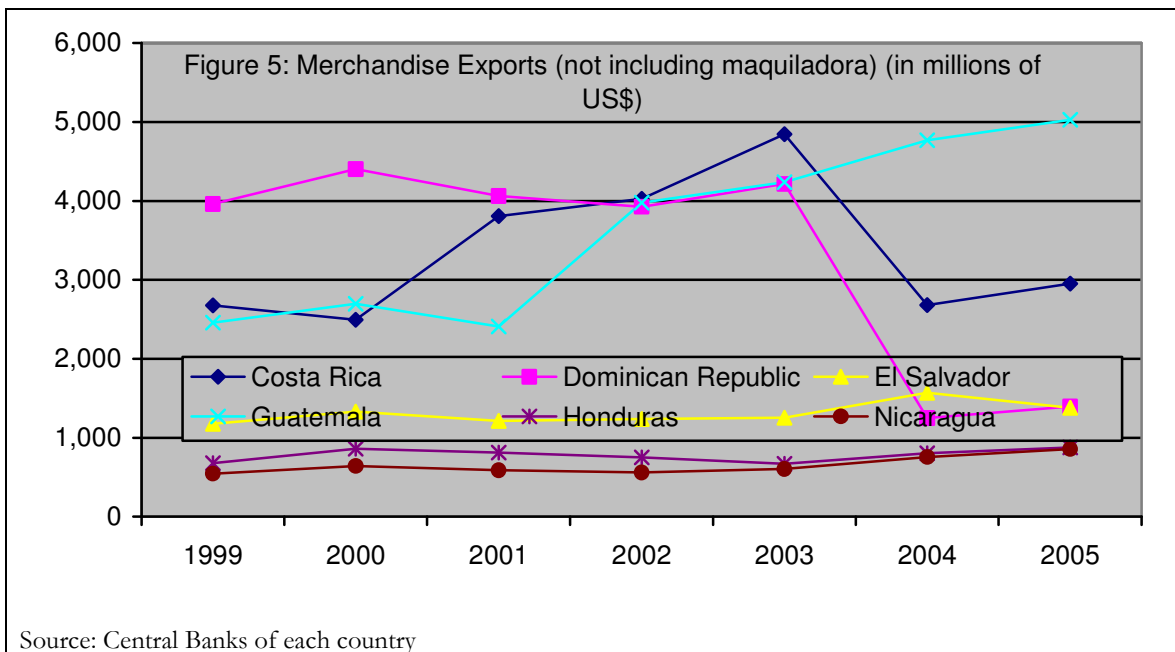
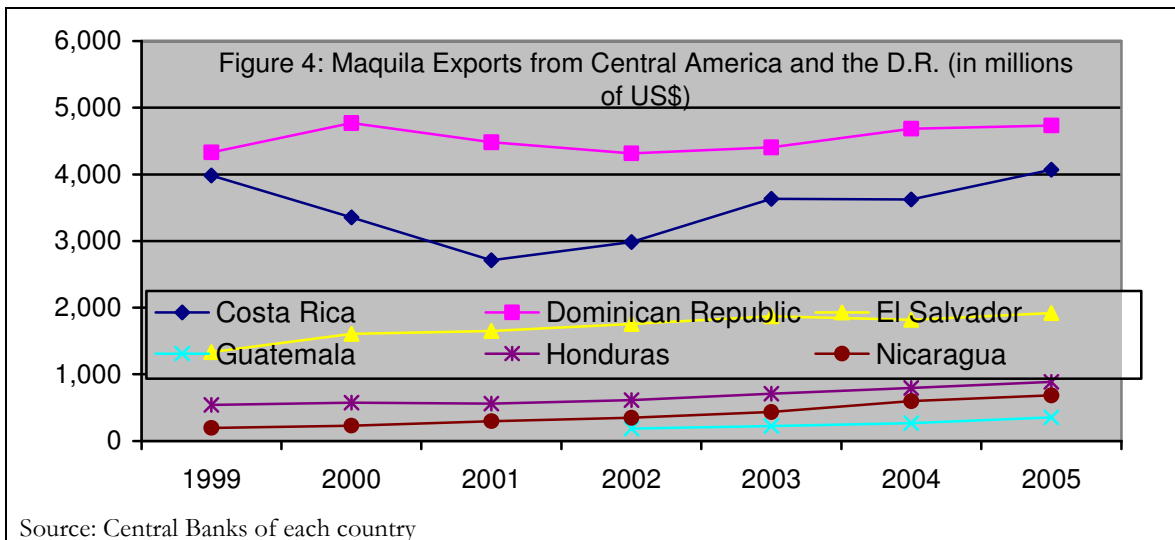
Compounding this situation is the fact that the region has a predominantly young population, bringing its productive force to less than 40%. Moreover, the way in which the region has tried to keep up with the demands of the global economy has not offered opportunities to increase productivity throughout the region, but rather has focused on enclave economies in tourism, non-traditional exports or maquila exports. These sectors are highly vulnerable to external fluctuations that are usually out of the control of these economies and oftentimes exhibit lower distributive effects than other activities with greater value added components.

Latin American and Caribbean countries face additional serious difficulties in competing with global markets that are either subsidized in the industrialized economies, oversaturated with similar commodities or have a demand for high quality, high technology oriented manufacturing. Thus, the way most of the region has kept its global integration mode has been through a few commodities. A stark example took place in the late 1990's when the value of coffee exports declined, resulting also in the commodity's reduced share of total exports.

Table 8: Coffee Exports as Percentage of Total Exports

	1990	1995	1998
Costa Rica	12.3	12	7.3
El Salvador	40.4	21.8	13.1
Guatemala	26.7	26.8	20.7
Honduras	20.2	23.9	21.5
Nicaragua	21.4	24.9	27.9
Panama	3.1	5.8	3.4

Source: ECLAC



Together these factors have not been conducive to sustainable growth rates. Instead, the productive bases of these economies have struggled to cope with increasing costs of living, now more pronounced as energy prices exact a heavy toll on many of these societies.

Many Latin American and Caribbean cities operate on low wages and precarious employment, making them unable to compete even with domestic markets, much less in the global economy. Wages are often one third or one quarter of the cost of living. For example, an agricultural worker in Catamayo, Ecuador, working in sugar cane fields earns US\$150 a month, and a store clerk in Salcaja, Guatemala or Suchitoto, El Salvador earns US\$200 and US\$150, respectively. At the same time, the cost of the basic food basket in these countries ranges between US\$150 and US\$350. This reality makes it difficult for workers to maintain a decent standard of living through their own employment and the gap

between earnings and cost of living has been a key factor in the decision to migrate for many people.

Table 9: Monthly Cost of Living, Income and Remittances

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

Source: Survey of 92 remittance recipients and non-recipients

Finally, natural disasters have also had an adverse effect in many of these countries, particularly in those in the Caribbean Basin. A series of events have severely affected the region in the last few years, including the decline in coffee prices, drought, hurricanes, and earthquakes. These events devastated the local populations and economies. For example, in 2004, Hurricane Ivan hit the southern coast of Jamaica, crippling the agricultural base that supports this region.

Along with the coffee crisis, Central America was hit with a drought in early 2000 that significantly affected four countries in particular: Guatemala, El Salvador and, even more dramatically, Honduras and Nicaragua. According to the United Nations World Food Program, nearly 1.6 million Central Americans were affected, half of them from Honduras. Many Central Americans faced starvation. In Guatemala, more than one hundred peasants died during the first six months of 2001 as a result of the drought. In other countries the death toll was even higher. The main source that help sustain Guatemala during the coffee and drought were remittance transfers (see chart A2 in appendix).

Table 10: Drought in Central America: Population affected

Country	Population affected
Guatemala	113,596
El Salvador	412,064
Honduras	791,970
Nicaragua	187,645

Source: World Food Program, WFO, UN.

Following the drought in 2001, two earthquakes in El Salvador affected the economic and housing infrastructure of more than one hundred thousand households. Five years later, the country is still recovering and rebuilding from that disaster. Between 2002 and 2006, the

region has also faced other natural disasters, which have added to the strains on the economy and increased flow of migrants.

### **3. The local economy and the cost of living**

Is the severity of economic underdevelopment in Latin America a greater stumbling block for remittances' leveraging potential than expected? Is the lack of policies leveraging remittances a factor hindering greater growth prospects? Is there a disconnect between the business and productive environment and the flow of money into the local economies?

In order to assess this situation more closely, a case study analysis was conducted in five in Latin American and Caribbean cities. The selection of cities included in this study represents a range of migration experiences. In the case of Jerez, Zacatecas; Suchitoto, El Salvador; and May Pen, Jamaica, migration has been part of a longstanding pattern dating at back least thirty years. More recent migrant communities were also studied, such as Salcaja, where residents predominantly started emigrating in the eighties during the civil war in Guatemala, or Catamayo, Loja, Ecuador where emigration developed in the late nineties as a result of the economic crisis of 2000. Overall, these communities are illustrative of places where at least one third of the flow of remittances goes within their respective countries: one third of the flow goes to the capital cities, one third to provincial capitals, and one third is captured by these types of semi-rural or rural communities.

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

Table 11: Basic profile of four cities

	Jerez, Zacatecas Mexico	Salcaja, Quetzaltenango, Guatemala	May Pen, Jamaica	Suchitoto, El Salvador	Catamayo, Loja, Ecuador
Population	37,558	14,829	57,332	17,869	27,000
Labor force (%)	41%	37%		34%	31%
Population ages 5-19 (ages 0-14)	34.7%	36.81% (5,459)	32.3% (18,520)	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	58 kms to Kingston	45 kms to San Salvador	36 kms to Loja

These cities operate on low wages and precarious employment, unable to compete with other markets or in the global economy. Wages are often one third or one quarter of the cost of living (refer to table 9 above).

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

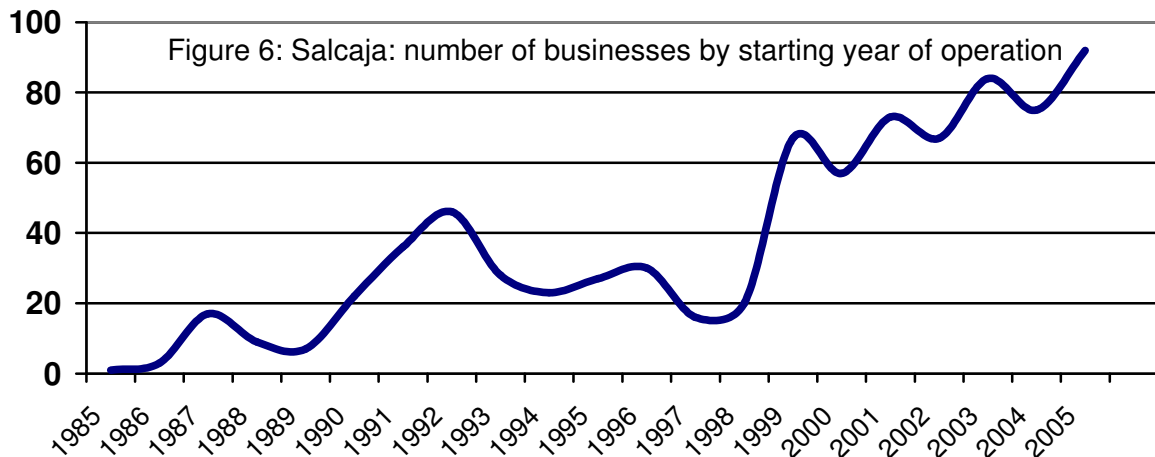


Table 12: Business Activities of local economies (number)

Type	Catamayo	Suchitoto	Jerez	May Pen	Total
Retail Store	18	60	10	126	214
Food market	57	4	23	30	114
Restaurant	41	36	2	16	95
Professional serv	15	17	13	19	64
Other commercial activities	3	39	1	6	49
Other services		36		91	127
Entertainment	13	13	9	15	50
Transportation		20	5	3	28
Construction and Maintenance	2	11	10	10	33
Hardware and Ind. Warehouses	6	2	11	15	34
Auto and repairs	5		11	35	51
Food manufacturer	4	11	4		19
Gas	7	2	6	4	19
Hotel	13			2	15
Financial	6	1	10	10	27
Furniture	2		5	5	12
Bookstore		4		4	8
Media	1		2	10	13
Other industrial activities		3		4	7
Tourism	1			1	2

#### 4. Remittance recipients and the local economy

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

Table 13: Remittance recipient households

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

Source: estimates based on interviews, country census data and survey in Suchitoto

Remittance recipients spend money predominantly on basic food items needed to take care of households composed of six members on average. The majority of the foodstuff

purchased is locally or nationally produced, thus benefiting domestic producers and the economy. Most remittance recipients also spend money on education, health and other services, investing or spending an average of US\$500 a year on health and education. In fact, half of remittance recipients have made repairs on their home or invested in buying a new home in the past five years. One third of those homebuyers did so at the investment request of the relative living abroad. Moreover, half of remittance recipients have invested in some small business activity, most of which was also prompted by the remittance sender. What's more, those who are able to keep some disposable income after daily expenses open savings accounts. This is more prevalent when there are more financial intermediaries available in the community or financial institutions reach out to these costumers. In Catamayo, for example, there are three credit and savings cooperatives and one bank that offer basic financial services to recipients. Similarly, in Salcaja there is one cooperative and two commercial banks. The cooperative, however, is proactive in reaching out to remittance beneficiaries and has several marketing tools to sell financial services to recipients. Banks in Jamaica have generally been successful in enticing recipients to open bank accounts. May Pen is no exception, with six bank branches and one major credit union.

Table 14: Remittance recipients who have invested in a small business or have savings accounts (%)

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

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

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

Table 15: Education, health and finance institutions

	Jerez, Zacatecas Mexico	Salcaja, Quetzaltenango, Guatemala	Suchitoto, El Salvador	Catamayo, Loja, Ecuador	May Pen, Clarendon, Jamaica
Number of high-schools	2	12 (públicas), 8 (privadas)	1 public high school, 1 vocational center	8	4
Number of health centers	3 private hospitals, 4 public hospitals; 31 specialists; 24 general practitioners;	1 (público), 25 (privados)	1 public hospital, 3 private medical clinics	25	1 public hospital, 3 private medical centers, 6 private practitioners
Number of commercial banks	4	2	0	1	6
Number of credit unions or MFIs	1	1	3	3	3

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

Table 16: Type of school obligations (%)

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

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

Table 17: Businesses operating in education related activities

	Jerez	Suchitoto	Salcaja	Catamayo	May Pen
Private schools	11	0	8	4	0
Office supply	0	1	18	7	4
Internet	0	2	9	4	3
Total number of businesses	11	3	35	15	7

Source: data provided by municipalities in every city

#### *Education services*

The average level of educational attainment in these cities is lower than sixth grade, that is, eight years less than levels of educational attainment in the United States. This figure is relatively consistent with the offer of educational services in these communities, which tend to provide more limited options for secondary and post-secondary education than for elementary education. The offer of preschool, kindergarten and primary schools in these cities is fairly good, as is student achievement and retention. For example, student performance at the third and sixth grade levels in Suchitoto is, for the most part, higher than the national average for El Salvador, while test scores in Salcaja reveal that academic performance improved modestly between 1996 and 2001.

However, educational achievement drops at the secondary and post-secondary levels in each of these communities, and the number of high schools and vocational schools remains conspicuously low. In Jerez there are only two high schools in a city of more than 20,000 people, 30% of which are under the age of 18, while only one public educational institution in Suchitoto provides instruction at the high school level and in not a single institution in Salcaja offers a complete secondary school program. In Catamayo, only 12% of students graduate from high school. Opportunities for adult education or extracurricular classes include language classes, computer classes and vocational training, but the supply of these services is extremely limited.

Although in all of the communities studied, remittance recipients report using a portion of these funds on expenses associated with educational services, most often school tuition, transportation, supplies and books, there is little outreach from business or public sector to leverage better quality of education through remittances. In Ecuador, Herrera (2004) found that 43% of remittances are spent on education for children. Of the twenty families interviewed in Salcaja, 65% sent children to private schools either in Salcaja or the department capital of Quetzaltenango, while 45% sent children to private schools just in Quetzaltenango.

In addition to the fees and expenses associated with these private schools in Quetzaltenango, students who commute from Salcaja must also pay for the cost of transportation to and from school, either on private minibuses or via public transportation. These additional costs make the decision to attend school in Quetzaltenango even more expensive for families, but we see that families are still willing to take on these extra costs in order to provide the best possible education for their children. This suggests that many households are willing to make larger investments for high quality educational services, services which they may also be willing to pay for if they were provided locally in their home communities. However, until the quality of educational services at home is improved, families are likely to continue to invest in services that are located outside of the community. As a result, the

community continues to lose out on an opportunity to capture remittances for local investment.

This study shows that those children with parents abroad may also have special needs which are not always met by educational institutions. In Catamayo, for example, the percentage of children with migrant parents is 30%, which far surpasses the national rate of seven percent. In the case of this city, the educational system has not evolved to take into account the unique family situations of children with migrant parents, and may deny some services for lack of an official parent or guardian as a representative. Schools also lack the orientation and counseling services necessary to respond to the psychological and emotional needs of children whose parents are abroad.

#### *Health services*

In all communities surveyed there are public and private health services available in the form of public and private hospitals and health clinics. However, public health care typically lacks supplies, medicine and necessary personnel, and cannot serve all patients or offer all necessary treatments. Although private medical services tend to be better equipped and offer more specialized care, residents in many of the communities travel to larger nearby cities in search of appropriate medical attention, despite additional costs and inconvenience.

With the exception of Catamayo, public health care is more affordable than private care in all communities surveyed. Although the cost of public and private health care differs among communities, private care may cost up to five times that of public care.<sup>5</sup> However, despite the dramatic difference in cost, residents generally prefer private health care as it offers more efficient and effective medical attention. In the case of Salcaja only 2 of 14 families interviewed stated that they used public health care services, which demonstrates the minority of public health care users reflected in all other communities surveyed.<sup>6</sup>

In many of the communities surveyed there are significant challenges to providing the necessary health care to meet the needs of residents. Although both private and public health services are offered in all communities surveyed, in many cases there is still a problem with sufficient access to health care. As was previously stated, residents in Jerez expressed difficulty in gaining sufficient access to local medical facilities, since they are used by all residents in the municipality. Additionally, in this community where the demographics are skewed towards women and the elderly, there is insufficient access to health care specialists who can specifically address the needs of women, their children and the elderly. In Catamayo it was noted that there is no access to specialized health centers that offer HIV diagnosis and treatment or cancer detection, which forces remittance recipients to leave the region and spend their money elsewhere. Seeking access to medical services outside of local sources was also apparent in Salcaja where residents travel to larger cities to receive health care, which alludes again to problems of accessibility to specialized care. In May Pen, the public hospital has responded largely to the demands of returning residents by expanding their services catering to the female population, including an obstetrics/gynecology unit and a mammography service.

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<sup>5</sup> Álvarez Aragón, Virgilio, Julia Gonzáles Deras and Cristhians Manolo Castillo, "Remesas y Mercado de Servicios: Estudio de caso de Salcaja, Quezaltenango." *Inter-American Dialogue*, Washington, DC. June, 2006.

<sup>6</sup> *Ibid.*

A related challenge to that of access to health care is affordability. In many cases where access to health services is available, affordability of such services remains a major hurdle, especially when private health services cost several times that of public care, which is the case in most communities surveyed. However, in the case of Catamayo, interviews did reveal that remittances have been used primarily to provide medical care to the elderly who suffer from chronic diseases and who may require more complicated treatments. Although, as this case also illustrates, when remittances are used to afford health care they are used overwhelmingly for emergency treatments rather than preventative care. Thus, an additional challenge to remittance recipients is the affordability of health services and particularly preventative medical care.

In addition to the challenge of affordability, the issue of appropriate health education represents another challenge in remittance receiving communities. The interviews conducted did not reveal that health education programs are prevalent in the communities surveyed, which may explain in part why little preventative care is sought by residents. Increased education about the importance of preventative medicine is needed and could result in the prevention of disease or more effective treatments. Additionally, moves made towards preventing disease may later result in less remittance money spent on emergency procedures thereby freeing up remittance monies to be spent on other health care services, namely health insurance.

The final challenge regarding health care in the communities surveyed is the lack of medical insurance, which is often unavailable or unaffordable. In some communities health insurance is offered through publicly funded programs to those residents that qualify, but in no case do these programs benefit the majority of the population. Private insurance is also available in most communities; however, it remains unaffordable to the overwhelming majority of recipients and non-recipients alike. In Jerez, the community surveyed where medical insurance is most prevalent, it is reported that 29 percent of the total population receives health care services from the Mexican Social Security Institute (IMSS) or the State Employees Safety and Social Services Institute (ISSSTE). However, of remittance recipients surveyed, 40 percent of homes have access to health insurance offered through IMSS or ISSSTE programs, and the remaining majority of recipients reported purchasing medical insurance either through private companies or government-sponsored programs, such as *Seguro Popular*.

In Salcacha health insurance is available on a very limited basis to the members of *Cooperativa Salcacha*, a local financial institution, and their children. Currently, however, only 15 children are enrolled in the plan and medical insurance remains unavailable to the majority of residents. In Catamayo, where the percentage of uninsured residents is thought to be higher than the 67.1% average for the department, interviews demonstrated that nearly half of the remittance-receiving population is not insured. Similarly, numbers of uninsured are high in May Pen, the exception being adult students and those whose employers provide health insurance. Finally, interviews conducted in Suchitoto illustrated that medical insurance remains limited among the population as well. Additionally, interviews demonstrated that residents often think of remittances themselves as a type of health insurance that will cover medical expenditures in the event of an emergency. Thus, the studies conducted in all communities confirmed that the access to and affordability of medical insurance remains a major challenge in remittance receiving communities.

### *Businesses and financial services*

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

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

Access to finance is also substantially constrained for most citizens, and among those receiving remittances. In some cases, there are exceptions to a proactive role by one institution, but overall, efforts are weak or nonexistent. For populations with more than 20,000 adults, the lack of presence of financial institutions reflects a hindrance to development. The literature on remittances and financial access has shown that these flows increase financial opportunities (Orozco 2005) and have a macroeconomic impact through increases in deposits, but that impact is more pronounced in better developed financial systems and more stable countries. Using balance of payments data on remittance flows to 99 countries over a twenty eight year period, Aggarwal et al (2006), find that remittances have a positive and significant impact on both bank deposits and bank credit to the private sector. Lueth and Ruiz-Arranz (2006), the levels of financial development and economic stability in the recipient country not only enhance remittance flows, they also foster the use of formal channels to transfer remittances, thus increasing their potential development impact.

The case studies conducted here offer a micro perspective on these broader financial issues. For example, Jerez, in line with its high levels of inequity, is a city where a significantly low portion of its residents has access to bank services or makes use of them. The use of loans for personal or business investment purposes is also low. Of the population, approximately 84% lack access to financial services. (Zamora, R.G., 2005, p. 25) This was strongly reflected in the interviews as only one out of the nine remittance recipients, and two out of the ten remittance non-recipients reported having bank accounts. The most frequent response for not having accounts was insufficient money "*No, we cannot save; we only have enough for our living costs.*"

Although six major banks operate in Jerez<sup>7</sup> and three (Bancomer, Banamex and Banorte) have a combined market share of 78% (Zamora, R.G. 2005, pp. 25-26), banks do not conduct any marketing or outreach to attract remittance recipients. In turn, those remittance recipient families with bank accounts expressed preference for smaller banking institutions such as Electra.

In Catamayo the financial sector has taken on increasing importance of remittances. The four financial institutions, the Bank of Loja and three credit unions<sup>8</sup> are payers of remittances and compete with three retail agents. However, most financial institutions have been unable to capture the demand for money transfers and provide special services for remittance recipients. The Bank of Loja, for example, supplies credit for the public in general but does not offer special services for migrants. Nonetheless, many of the applications for credit come from remittance recipients and are mostly invested in real state. The bank estimated a 40% increase in deposits arising from real state investment, which in turn is significantly related to remittance recipient families.

Cooperativa Catamayo extends credit to agriculture workers<sup>9</sup> and is the only legal alternative and competes with “Chulco” a credit practice that charges high interest rates but appears more accessible to people than conventional credit financial institutions. A woman interviewed expressed that she that built her house based on loans from Chulco, paying US\$1 daily as interest but expressed she had no other alternatives. People interviewed agree that credit institutions often provide unreasonable requirements that are in most cases impractical to meet. An interviewed non-remittance recipient stressed that banking institutions “*are disconnected from reality, because there are too many requirements for credit.*” She cannot use a remittance flow as collateral and maintains that a loan above 600 is unrealistic given her circumstances. CACPE’s requirements for credit include a two-year certification of stable income and 30% financing. CoopMego requires a voting certificate, property titles, tax payment certificates, and a utilities payment receipt amongst others. A woman complains, “*To get a loan banks impose too many constraints. When my husband left for Spain, I got a mortgage loan. Back then I used to get credit on the same day, now I wanted to get credit to finish building my house but could not meet the requirements*”. Another example is insurance. At bank Loja, if a customer opens a savings account and maintains a monthly average of US\$500, the Bank provides a life insurance package for accidental death and medical expenses in the event of an accident. However, not many people can afford to maintain such balances.

Salcaja is home to two banks, Banco Rural (BANRURAL) and Banco Quetzal (BANQUETZAL), and Cooperativa Salcaja which seems to command the largest share of the financial services market for the municipality. Each of these financial institutions has partnerships with a money transfer company. BANRURAL works as a payer for MoneyGram, BANQUETZAL as a payer for Western Union, and Cooperativa Salcaja as a payer for Vigo and directly through the Cooperativa Salcaja Corporation, Inc., which handles transactions through Bank of America, and through other remittance agents located in Houston, Texas and in Trenton, New Jersey. These additional remittance options have

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<sup>7</sup> Banco Azteca, Banamex, Bancomer, Banco International, Banorte and Bansefi. (Varela M.C., *Perspectivas del Microfinanciamiento para los Municipios de Jerez y Jalpa, Zacatecas: 2005*)

<sup>8</sup> CACPE Loja, Cooperativa Financiera Vicentina “Manuel Esteban Godoy Ortega” CoopMego, and Cooperativa Catamayo

<sup>9</sup> On a national level agriculture constitutes 27% of the economically active population, yet creditors for this sector amount only to 2%.

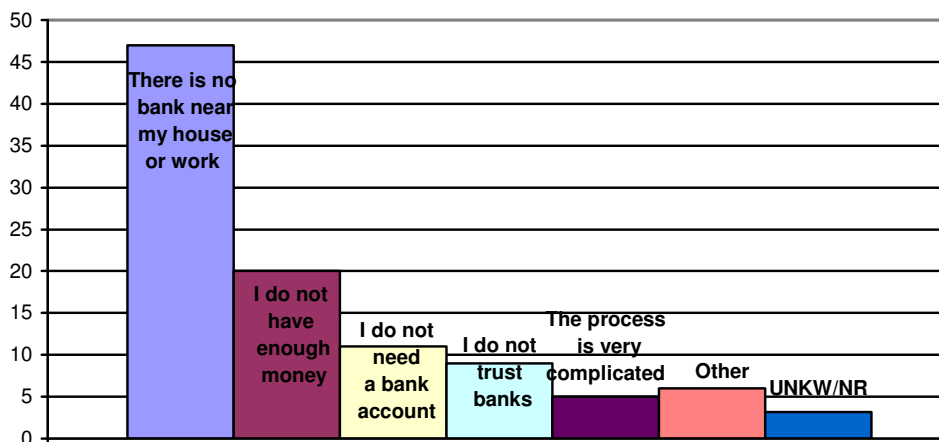
made Cooperativa Salcaja the most affordable choice for money transfers in the municipality, offering transfers at up to 13% less than the cost of money transfer companies such as Western Union.

The cooperative not only handles about 1000 remittance payments a month, but it estimated that fifty percent of remittance recipients in Salcaja were members of the cooperative. The Cooperativa has been proactive in developing innovative products for remittance recipients and non-recipients alike. Products under development with remittance recipients in mind include the creation of a fund or insurance product for the repatriation of migrants' remains, dollar (rather than quezcal) savings accounts, the introduction of a Visa credit card product, and educational payment plans in cooperation with local schools that would allow remittance senders abroad to directly pay school fees.

Despite its relative economic activity, banking services are relatively limited in Suchitoto, there is no commercial bank presence (nor ATMs), though it is served by three cooperatives (ACORG de R.L. and ACAPRODUSCA of R.L. and FEDECREDITO). These institutions offer predominantly financial services to small producers and limited services to individual clients, such as remittance recipients. Residents of Suchitoto have to travel 30 km to San Martín in order to access banking services. Despite the fact that banks are not present in Suchitoto, they handle the majority of remittances, a situation that makes residents travel to San Martin to pick up the money. According to a survey conducted by the author, the three biggest remittance pay-out locations for Suchitoto residents are Banco Cuscatlan, which pays out 27 percent of remittances destined for Suchitoto, Banco Agricola, which handles nearly 23 percent, and Banco Salvadoreño, which handles more than 15 percent.

In terms of financial access, remittance recipients have less access than recipients nationwide. Overall 23% of Salvadorans remittance recipients have accounts, whereas Suchitoto recipients are less than 10 percent. However, remittance recipients have a demand for financial services: some have savings accounts, others small businesses. Thus, despite the fact that most remittances are picked up at a bank, people still are unable to open savings or checking accounts or take out loans. In fact, when respondents were asked to explain why they did not own a savings account, the most common response was their geographic distance from a financial institution.

**Figure 7: Why don't you own a bank account?**



Despite this reality, the cooperatives have been relatively active in recruiting remittance recipient households. The example of ACAPRODUSCA de R.L. is a telling one. This credit union has leveraged remittance flows in order to expand its membership, and saw the amount of money being saved at the institution grow from \$46,666 in 2003 to \$200,000 in 2005. Moreover, the number of deposits continues to grow. In May 2006 they received US\$20,000 in deposits, attributed mostly to savings opened by remittance recipients. Moreover, since 2000, the credit union has grown in membership from 233 members to more than 865 members. Even with the success of ACAPRODUSCA de R.L., banking rates among remittance recipients in Suchitoto are still well below the national average.

## **5. Nodes of success**

Local businesses are generally small outfits unable to grapple with the realities of the global economy and the need to increase their performance and productivity. However, some businesses and sectors have identified the reality of migration and migrant economic interaction as an important opportunity for revenue and growth. Financial institutions, particularly credit unions, have demonstrated strategic visions of how to leverage remittance funds. Individuals with an understanding of migration and development have also successfully leveraged remittances, and municipal mayors or presidents do identify remittance senders and recipients as part of the growth opportunities for their jurisdiction.

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

Three interesting initiatives were also found outside of the realm of financial intermediation, including private schools and car distributors in Salcaja and a health clinic in Catamayo. In the case of Salcaja, private schools identified remittance recipients as a target population, and so did recipients who believed that their children would receive a better education in private rather than public schools. Moreover, Guatemalan migrants from Salcaja started small business ventures bringing used cars into the community and turning their investments into a conglomerate of used car distributors for Quetzaltenango's province while promoting partnerships with local entrepreneurs and expanding the availability of lower cost cars to businesses and individuals. Finally, in Catamayo there is a local private non-profit health care clinic that serves the community and many of its patients are the relatives of migrants. The clinic has identified specific problems associated with migration and has established counseling for the residents. The clinic is now seeking to partner with emigrants in Spain to obtain investment in additional health facilities, including a maternity room.

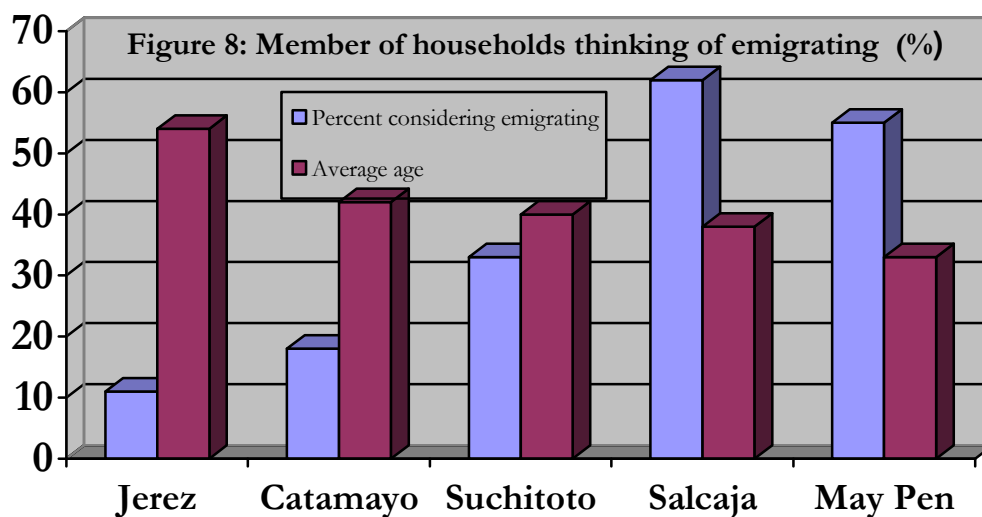
Finally, three out of four municipal presidents are forward looking individuals who visualize the diaspora as an integral part of the growth of the municipality. They keep in contact with emigrants and their relatives and manifest a desire to develop investment projects with them. Similarly, however, they lack the appropriate tools and know-how to translate their vision into programmatic strategies that would produce business ventures.

## 6. Migration and social capital

In addition to facing high costs of living and low availabilities of adequate services, remittance recipient households also face social pressures relating to prejudices and the lack of support networks to help them improve their condition or to cope with the reality of being transnational families. Women, the majority of remittance recipients and caretakers of the household, often face social stigmas.

For example, married woman are seen as those left behind with the burden of the family and just the facade of a marriage because it is said that the husband will eventually find a new partner abroad. In other cases, women who leave are seen as abandoning their children. More importantly, there are no social support networks to provide emotional help to the relatives of migrants as they cope with the reality of separation. We found only one case a clinic in Catamayo, of an institution that has hired a psychologist to the treat children of migrants. In most cases, despite the benefits that communities receive from remittances, prejudice prevails over solidarity.

When factors such as the high a cost of living, the existence of few work opportunities in the city, and limited incentives to invest, are taken into account, some members of these households consider leaving: an average of 20% of households expressed that one member was planning or thinking of migrating. Those percentages varied depending on their places of residence and their ages: younger people were more likely to move. These numbers are consistent with national surveys conducted previously for other studies.



## **7. An urgency to act: accelerating initiatives to leverage financial flows**

Although not everyone wants to migrate, the combined effect of the cost of living, little economic dynamism, and poor business activity creates an unsettling environment among people exposed to other realities and opportunities. Neglecting to leverage remittances with development can lead to worsening economic performance. Central government policies are missing with the exception of Mexico. Local governments are overwhelmed by their duties and resource scarcity, though there is a genuine interest in leveraging remittances, but no proper guidance—this is the case in Jerez, Suchitoto and Salcaja.

The critical point of success in establishing a strategy that modernizes the productive base of the local economy while leveraging resources from migrant foreign savings is the link between feasible investment opportunities, savings creation, local and central government enabling environments, and increased risk propensity among local, national and transnational entrepreneurs.

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

1. Accelerating financial intermediation projects with credit unions and MFIs;
2. Engaging banking institutions more actively by identifying their opportunity costs in rural areas;
3. Supporting projects on feasibility investment schemes to develop investment portfolios, including recommendations on business consolidation where microenterprise is ineffective or inefficient;
4. Link investment opportunities to the transformation of subsistence agriculture;
5. Design projects that include education and health services among range of services offered by MFIs in cooperation with schools, public or private:
  - a. Education funds, tutoring classes, extracurricular activities, internet,
  - b. Health insurance, specialized medicine funds;
  - c. Define goals and standards among community leaders, financial institutions and local governments to raise educational attainment from 6<sup>th</sup> to 12<sup>th</sup> grade levels;
6. Engage local governments and the private sector to review their role as environment enablers to promote investment and increase productivity.

### *Immigration reform in the context of development*

Any analysis and recommendation about leveraging migrant foreign savings as sources for asset accumulation cannot ignore the broader context of migration. Specifically, the context in which migration takes place between the United States and Latin America is a combination of market participation for foreign labor and inefficient government migration management. In turn, the end result is the employment of foreign labor working under precarious conditions, living on low wages and struggling to turn their resources into assets.

Moreover, the local economies and governments in the countries where migration occurs are constrained by unwillingness to leverage foreign savings, uncertainty as to how to proceed, and struggling economies that are barely growing, thus limiting the options for asset building or accumulation. Given the realities of continued transnational migration, a demand and supply for foreign labor, and increasing interest among donors to leverage these flows, managed migration through a guest worker program and legalization of undocumented

workers is of critical importance. One possibility could be a guest worker program based on country quota allocations. This kind of initiative should include two important components tied by a conditionality framework. First, the guest worker program should be accompanied by a foreign assistance package aimed at supporting a local financial and economic base that will encourage immigrants to eventually return. Second, local governments should commit to adopt policies aimed at leveraging remittance flows, while strengthening their ties to the diasporas. In turn quotas should be conditioned to the economic performance of these countries, including their ability to adopt leveraging policies.

*An example of donor initiative: 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 (IADB). The MIF has addressed this issue from a research, advocacy and operational perspective. Since 1999, it has engaged in a series of discussions and studies about the impact of remittances in Latin America and the policy problems posed by high transaction costs. As its research and public discussion ensued, the Fund encouraged movement on this front 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 are microfinance institutions or alternative savings and credit institutions. Table 7 identifies some of the more widely known projects funded and related to remittance transfers.

Table 18: 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 Rep	\$2,500,000
Financial and business services for remittance recipients	Dominican Rep	\$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 Nicaragüense 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
<b>Total</b>		<b>\$41,985,830</b>

Source: IADB-MIF 2004

The Fund has also 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 organizations 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 more 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 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. In addition, BANSEFI forged agreements with several MTOs, including GiroMex, Dolex, Vigo, and MoneyGram. Furthermore, it also linked its network to the FedACH International SM Mexico Service.

Under this scheme the members of L@ Red de la Gente offer 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 made 25,000 transactions a month and had opened accounts for 10 percent of the individuals who had come in for remittance services, an improvement from the 6 percent 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 19: Number of accounts opened by remittance recipient household clients of Fedecaces

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

Source: Fedecaces 2006

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## Appendix

### In-depth household Interviews

Interviews	Jerez, Zacatecas, Mexico	Salcaja, Quetzaltenango, Guatemala	Suchitoto, El Salvador	Catamayo, Loja, Ecuador	May Pen, Clarendon, Jamaica	Total
Remittance recipient households	10	13	15	17	27	82
Non-remittance recipient households	10	8	5	5	9	37

Interviewed businesses	Jerez, Zacatecas, Mexico	Salcaja, Quetzaltenango, Guatemala	Suchitoto, El Salvador	May Pen, Clarendon, Jamaica	Total
Food, Restaurants	1	1		1	3
Clothing	1				1
Financial services			3	3	6
Health and pharmacy services	3	1	1	2	7
Education services	1	1	1	2	5
Construction / Housing	1			2	3
Agriculture/ Cattle	1				1
Other commerce	1	1	3	2	7
Other services	3	3	1		7
Total	12	7	9	12	40