

# FIELD Report No. 19: ASSESSMENT OF REMITTANCES IN HONDURAS

The Role of Remittances Along the *Corredor Seco*

Produced in collaboration with the  
FIELD-Support LWA



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### The Role of Remittances Along the *Corredor Seco*

October 2013

This publication was prepared by Katherine Brogan and Elizabeth McGuinness of ACDI/VOCA and Erwin Alvarez. The paper was prepared under the FIELD-Support LWA managed by FHI 360.

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# Acronyms

AHIBA	Honduran Association of Banking Institutions
BCH	Central Bank of Honduras
COMUPL	Cooperativa Mujeres Unidas Para Progresar Limitada
EGRFH	Survey on Expenses and Remittances conducted over Relatives of Hondurans Living Abroad (conducted semiannually by BCH)
FACACH	Federation of Cooperative Associations of Savings and Credit
FEHCACREL	Federación Hondureña de Cooperativas de Ahorro y Crédito
FICOHSA	<i>Financiera Comercial Hondureña Sociedad Anónima</i>
FGD	Focus Group Discussion
HTA	Hometown Association
IDI	In-Depth Individual Interview
INE	National Statistics Institute
MFI	Microfinance Institution
MTO	Money Transfer Operator
NBFI	Non-Bank Financial Institution
USAID	United States Agency for International Development

# EXECUTIVE SUMMARY

Remittances provide a critical source of income for hundreds of thousands of Honduran households. Honduran migrants sent over \$2.96 billion in remittances in 2012, accounting for 15.7 percent of the country's GDP.<sup>1</sup> This assessment explores the role of remittances along Honduras' *Corredor Seco* ("Dry Corridor"), a geographic region in Western and Southern Honduras stretching from Guatemala to Nicaragua along the El Salvador border.

The Assessment Team conducted in-depth individual interviews with key informants and a series of focus groups with remittance receivers throughout the three western departments of La Paz, Intibucá and Lempira. These departments represent Honduras' most significant concentration of extreme poverty and food insecurity. Our findings, analysis, and recommendations are meant to identify ways to leverage remittances to improve the lives of Honduras' poorest and most vulnerable populations.

Focus group participants were asked a series of questions about the remittances their family receives, the use of financial services in their community, and the household-level decision-making processes regarding use of remittances and other income streams. Participants were also asked about the positive and negative impacts of remittances in their community and the existence or relevance of hometown associations (HTAs)—social networks of migrants directing funds for investment in and development of their communities of origin—for their town or village. Finally, participants were asked to provide basic socio-economic data.

In-depth individual interviews were conducted with key informants from the financial sector (i.e. financial service providers, money transfer operators), government agencies (i.e. local municipalities), and NGOs (i.e., organizations focused on health and nutrition, migration and labor, and/or community development). Key informants were asked questions about remittance flows in their region, the financial behavior of remittance receivers, how remittances could be used productively in their region, and the positive and negative impacts of remittances on their region. They were also asked whether they thought the World Bank's principal factors of migration for all of Honduras also applied to the *Corredor Seco* region (see the section below on Findings, Migration).

## SUMMARY OF FINDINGS

**Food security.** Many poor households in La Paz, Intibucá, and Lempira rely on remittances for a large portion of their income. This zone is characterized by political and economic marginalization, and the majority of the population is landless and lacks sufficient access to markets. These households have few incentives to invest in agricultural production, and instead purchase most of their food, leaving them highly vulnerable to price shocks.

**Migration.** Unable to find a job that pays a living wage, many workers resort to seasonal migration to other parts of Honduras, neighboring Central American countries, and the US. Emigration is high in all three departments. In 2010, emigration from La Paz was equal to 20.2 percent of the population, for Lempira 19.6 percent, and for Intibucá 12.9 percent.<sup>2</sup>

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<sup>1</sup> "Encuesta Semestral de Remesas Familiares." Office of Economic Studies, Macroeconomic Statistics Department, Central Bank of Honduras. January 2013.

<sup>2</sup> INE, 2010.

**Remittance flows.** The remittances market in Honduras is constantly evolving. In 2000, fees were as high as 15 percent of the amount transferred,<sup>3</sup> and have since come down to 5 percent or less<sup>4</sup> for some money transfer operators (MTOs) services. Remittances represent the largest single source of foreign currency reserves, a crucial economic factor in a country with consistently negative net exports. While the absolute value of remittances continues to increase each year, remittances are declining as a percentage of GDP. This is in part due to a slow recovery in the wake of the US housing market bubble and global financial crisis.

Countrywide, 19.9 percent of households receive remittance income.<sup>5</sup> In 2012, the average monthly income for the bottom two quintiles of the population was between USD 71.53 and USD 177.25 per household.<sup>6</sup> This number, contrasted with the average monthly remittance in 2012 of USD 326.80,<sup>7</sup> suggests that many recipient households rely solely on remittance income for their subsistence.

The payment of remittances is almost exclusively through correspondent organizations. Most focus group discussion (FGD) participants reported that they receive remittances at banks or cooperatives where they also have accounts. Sixty percent of FGD participants receive remittances on a monthly basis.

**Focus group profile.** Focus group respondents were predominantly female, married, and living in rural areas. The average age of respondents was 43 years old. Only 15 percent had completed secondary school. Respondents, on average, had 5.6 people (adults and children) living in their household, of which only 1.8 persons earn any income. The financial inclusion of FGD participants was 72 percent; with 72 percent reporting that their household had savings at a bank, MFI, cooperative or *caja rural* while 53 percent of participants reported having an outstanding loan from one of these types of institutions.

**Household-level impacts.** Generally, remittances are just one income source among a range of income streams for households in the three departments. For the vast majority of FGD participants, remittances received from their relatives represent between 25 to 60 percent of their household's income. A high percentage of remittances are consumed; 66 percent of all remittances were destined for consumption, including food, transportation, and home monthly expenses, in 2012.<sup>8</sup> Decisions on the use of household income are made in agreement between the migrant and the receiver. Usually remittances are used to cover basic household needs. In special cases, a percentage goes toward housing and buying land or farms for cultivation of coffee.

Two types of negative impacts were emphasized by all interviewees; these were: the disintegration of the nuclear family and the dependency on remittances as a source of living. Many of the FGD respondents were women whose husbands had migrated. Almost all of these women were exclusively dependent upon their husbands' remittances.

**Greater community and market-level impact.** The consumption of remittances is an important cash flow that sparks local economies. A majority of our interviewees cited the importance of this revenue for the country's foreign reserves. Half of our interviewees also had the opinion that consumption goes even farther into sumptuous purchases, with main examples being the purchase of luxury home appliances and top-of-the-line cell phones and clothes. This behavior was related to negative social implications.

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<sup>3</sup> Honduras Central Bank, "El rostro de las remesas: su impacto y sostenibilidad." 2007.

<sup>4</sup> Haymen, M.L. "Las Remesas A America Latina y el Caribe en 2012: Comportamiento diferenciado entre subregiones." <http://www5.iadb.org/mif/PORTADA/Conocimiento/tabid/523/idPublication/78709/language/es-ES/Default.aspx>

<sup>5</sup> INE, "Comportamiento de la Migración y Remesas Internacionales 2010."

<sup>6</sup> INE, "Indicadores Socio-económicos," Encuesta de Hogares 2012.

<sup>7</sup> Honduras Central Bank. [http://www.bch.hn/publicaciones\\_semestrales.php](http://www.bch.hn/publicaciones_semestrales.php)

<sup>8</sup> Honduras Central Bank. Semiannual Remittance Report for 2012.

Many FGD respondents also said that local economies have been strengthened through increased investments in business, agriculture, and land or farms. In La Esperanza, the departmental capital and commercial hub of Intibucá, 11 percent of businesses are financed by the remittances of returned migrants.<sup>9</sup>

Most interviewees responded to the social aspects with concern that this income produces negative impacts for their societies by creating a false sense of security. Other negative observations included greater social disintegration and increased drug and alcohol abuse. FGD participants cited communities where most families have been left without a household head, and women and wives have been forced to assume this role.

## RECOMMENDATIONS

The research team asked key informants and FGD participants to identify the most pressing development needs in their communities. The areas of commonality across the two research groups are schools and water and sanitation upgrades.

To mitigate the negative impact of remittances, research interviewees recommended the following actions:

- Mitigate high levels of migration with more jobs and opportunities for young people.
- Develop programs and projects for youth and women.
- Develop training programs and provide guidance to families who do not save to help them better control their finances, make better use of remittances and strengthen their investments and savings.
- Conduct motivational programs to develop greater awareness that migrant families go to great lengths to make a living and send remittances back home.

**Hometown associations (HTAs).** The research found that across respondents, people were supportive of the idea of HTAs<sup>10</sup> and the use of remittance income for community development projects on the condition that the projects would be implemented by local organizations, coordinated by a board of directors, composed of recognized and responsible community leaders.

## HOW CAN REMITTANCES BE LEVERAGED TO INCREASE LOCAL INVESTMENT AND REDUCE POVERTY AND UNDERNUTRITION?

**Financial education.** Many of the key informants and FGD respondents strongly recommended financial education for households receiving remittances in order to improve their financial management and increase their ability to productively invest these funds. In addition, financial education should be aimed at increasing the savings rate among remittance receivers to mobilize funds that could be available for local investments. Financial education programs should focus on: saving, debt management, budgeting, and possibly use of insurance.

**Awareness campaign at home and abroad regarding the importance of remittances.** Individual interviews with a range of actors revealed an overall low level of knowledge of and interest in the topic of remittances. Focus group discussions and interviews revealed that family members often have little awareness of the hardships and sacrifices that migrants make in order to earn and send money home. An awareness campaign may assist to increase the savings rate by allowing families to understand not only the efforts of the migrant but how vulnerable they are if they do not develop sustainable livelihoods.

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<sup>9</sup> Isaku Endo, Sarah Hirsh, Jan Rogge, Kamil Borowik. "The U.S.-Honduras Remittance Corridor." *World Bank Working Paper No. 177*. The World Bank. 2010.

<sup>10</sup> Hometown associations (HTAs) are grassroots organizations based upon social networks of migrants that are from the same communities of origin. HTAs support development initiatives both in their communities of origin and the communities in which they currently reside.

**Development of financial products and services.** Financial education should be accompanied by development of financial products designed for remittance senders and receivers. These should include savings and credit products, specific types of investment loans (i.e. for agriculture, land, business, export/import, and micro credit). Publicity campaigns to promote the financial products must go abroad as well to reach migrants.

**Promotion of savings.** Several key informants mentioned that financial institutions should promote savings through reducing remittances fees, making efforts to bank unbanked remittance recipients, and designing better products for remittance receivers. Several views included the use of remittances to save and create seed capital for investment and local entrepreneurship, which can also be leveraged with public funds and other leveraging options. With proper local and international allies, a finance platform could be created (e.g. Kiva or FAST).

**Entrepreneurship training.** Both key informants and FGD respondents recommended that entrepreneurship training be provided to enable people to learn how to start and operate their own businesses.

**Other training and capacity building activities.** Key informants and FGD respondents also recommended a number of other activities, including:

- Counseling for families— to counter the impact of emotional problems due to family separation;
- Capacity building of local organizations to implement social and economic development programs;
- Support for existing community based projects to improve local infrastructure with remittance funds;
- Human development programs through the local government;
- Programs for youth protection and orientation;
- Programs to mitigate alcoholism and stronger alcohol distribution laws especially for underage youth; and
- Policies to promote competitiveness and investment.

## **AREAS FOR FURTHER STUDY**

Finally, while interviews with remittance-sending migrants and US-based Honduran financial institutions were outside of this assessment's scope of work and would have required additional resources, such interviews would have been extremely informative. Focus group discussions and in-depth interviews with key informants revealed that many migrants sending remittances continue to play a central decision-making role in their households back home. Future development activities involving remittances thus need to engage both the senders and receivers of remittances, as well as key institutions in Honduras and the migrant's country of residence.

# BACKGROUND

## ECONOMIC AND DEMOGRAPHIC LANDSCAPE OF HONDURAS

In 2012, remittances accounted for 15.7 percent of Honduras' GDP, compared with 7.8 percent for coffee exports and 3.6 percent for tourism.<sup>11</sup> In the same year, Honduras received over \$2.96 billion in remittances, making it the third largest remittance-receiving country in Central America.<sup>12</sup>

The second poorest country in Central America, Honduras suffers from extraordinarily unequal distribution of income, as well as high underemployment. More than half of the country's 8.4 million people live in poverty and 36 percent live in extreme poverty. Lack of access to land and basic services, a vulnerable environment, and low agricultural productivity are among the root causes of poverty in rural areas. Highly susceptible to natural disasters such as hurricanes, flooding, and landslides, Honduras is classified as one of the three most vulnerable countries in the world to climate change effects.<sup>13</sup>

Poverty rates are highest among rural and indigenous populations in the south, west, and along the eastern border, where extreme poverty conditions affect 50 percent of the population.<sup>14</sup> In rural areas, subsistence farmers make up about 70 percent of farming families. With little access to land, many of them depend on remittances sent from family members living elsewhere and on finding off-farm employment. Small-scale farmers have access to more land and generally produce basic food crops, but many are also forced to seek off-farm work in order to survive. Typically, individuals in indigenous or Afro-Honduran minority group communities (6.5 percent of the population) either work as subsistence farmers or temporary rural workers. Many of them have no land. Poverty rates are substantially higher for indigenous peoples with an estimated 71 percent living below the poverty line.<sup>15</sup> Similarly, rural women are among the poorest and most vulnerable groups in Honduras. The income of households headed by women in hillside areas is about 30 percent less than that of households headed by men.<sup>16</sup>

Rural populations are also at high risk of infection from bacterial diarrhea, hepatitis A, and typhoid fever among other things, due to 21 percent of residents without access to improved drinking water and 31 percent without access to sanitation facilities.<sup>17</sup>

## CORREDOR SECO

The *Corredor Seco* or "Dry Corridor" is a geographic region in Western and Southern Honduras stretching from Guatemala to Nicaragua along the El Salvador border. The Western *Corredor Seco* region, composed of the La Paz, Intibucá, and Lempira departments (see map below), has a combined population of approximately 743,930 people (9.4 percent of the national population) and an estimated 161,724 households. The country's highest concentrations of rural poverty and extreme poverty are found in this Western region. The dominant ethnic origin in the region is Lenca, and even though a high percentage is now in a miscegenation process, practically all the population in the region has a Lenca origin.

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<sup>11</sup> "Encuesta Semestral de Remesas Familiares." Office of Economic Studies, Macroeconomic Statistics Department, Central Bank of Honduras. January 2013.

<sup>12</sup> "Encuesta Semestral de Remesas Familiares." Central Bank of Honduras. January 2013.

<sup>13</sup> [http://www.who.int/countryfocus/cooperation\\_strategy/ccsbrief\\_hnd\\_en.pdf](http://www.who.int/countryfocus/cooperation_strategy/ccsbrief_hnd_en.pdf)

<sup>14</sup> "Honduras." *The World Factbook* 2013-14. Washington, DC: Central Intelligence Agency, 2013. <https://www.cia.gov/library/publications/the-world-factbook/geos/ho.html>

<sup>15</sup> IFAD. "Rural Poverty in Honduras." *Rural Poverty Portal*. <http://www.ruralpovertyportal.org/country/home/tags/honduras>

<sup>16</sup> IFAD. "Rural Poverty in Honduras."

<sup>17</sup> "Honduras." *The World Factbook* 2013-14.

Figure 1. Map of Honduras



## TRENDS IN MIGRATION

In recent decades, Honduras has experienced high levels of emigration. In the wake of Hurricane Mitch in 1998, many Hondurans left in search of better economic opportunities abroad and sent money to help their families rebuild their lives at home. Following the US housing market slump and the global financial crisis in 2008/09, many Honduran migrants lost their jobs and remittance flows fell sharply. The coup in 2009 and ousting of former president Manuel Zelaya caused further economic unrest. Between 2010 and 2012, GDP growth ranged from 2.8 to 3.8 percent, and unemployment remains relatively low at 7 percent.<sup>18</sup> However, economic growth remains insufficient to alleviate Honduras' high poverty rates, and disguised underemployment<sup>19</sup> is estimated to be over 35 percent in rural areas.<sup>20</sup>

There are an estimated one million Honduran immigrants currently residing in the US. In 2008, 91.4 percent of remittance senders were based in the US.<sup>21</sup> Honduran migrants are also found in significant numbers in Spain, Mexico, and Central America. Fifteen years ago, two-thirds of Honduran migrants came from urban areas and only one-third from rural areas; by 2006, the distribution was nearly even.<sup>22</sup> Honduras' youth bulge, high population growth, and limited job prospects will continue to drive emigration over the coming decades. Over 56 percent of Honduras' population is under 25 years old, and annual population growth remains relatively high at around 2 percent. Consequently, rapid growth of the country's young adult population (15 to 29 years old) is projected to continue for the next three decades.<sup>23</sup>

<sup>18</sup> *Ibid.*

<sup>19</sup> This is a technical term used similarly to disguised unemployment. It describes situations when too many people fill too few jobs and worker productivity becomes close to zero. It also describes situations when people are working fewer hours than they want to. It frequently affects informal and agricultural labor markets in developing countries.

<sup>20</sup> CEMLA, MIF, IDB. "International Remittances in Honduras." 2008. <http://www.cemla-remesas.org/informes/report-honduras.pdf>

<sup>21</sup> Isaku Endo, Sarah Hirsh, Jan Rogge, Kamil Borowik. "The U.S.-Honduras Remittance Corridor." *World Bank Working Paper No. 177*. The World Bank. 2010.

<sup>22</sup> CEMLA, MIF, IDB. "International Remittances in Honduras." 2008.

<sup>23</sup> "Honduras". *The World Factbook* 2013-14.

# OBJECTIVES AND METHODS

## PURPOSE

The purpose of this study was to examine the role of remittances in selected Western and Southern departments of Honduras along the *Corredor Seco*: La Paz, Intibucá and Lempira.

## KEY RESEARCH QUESTIONS

The study seeks to answer several key questions around the status of remittance flows into the region and the use of remittances by the target population in *Corredor Seco*.

1. What is the estimated dollar amount of remittances to the *Corredor Seco* region (household and aggregate estimate)? What percentage of an average household's income is from remittances? What percentages do other economic activities (i.e., agriculture, trade, services, etc.) comprise of the remaining income?
2. What is the approximate number of households that receive remittances in the *Corredor Seco*?
3. How are remittances being used by remittance-receiving households?
4. How are remittances sent from the United States, and how are they received in the *Corredor Seco*? What are the related costs?
5. How do remittances positively and negatively influence local economies and socioeconomic dynamics?
6. What are the potential gender implications of household decisions regarding remittances?
7. How can assistance that increases income for the very poor through agriculture diversification and additional non-farm income complement remittances flows? What can be done to mitigate the potential adverse impacts of remittances such as reduced work ethic and increased cost of labor?
8. How can remittances be leveraged to increase local investment and reduce poverty and undernutrition in the *Corredor Seco*?
9. What potential relationships exist between remittances, financial inclusion, and access to finance in the *Corredor Seco*?

In addition to these key questions, the report also examines some of the motivations behind migration and its link to remittances to better understand the dynamic economic changes occurring in the area.

## METHODOLOGY

To address these key questions, ACIDI/VOCA used a combination of primary and secondary research. Primary research involved a field study using qualitative research techniques including in-depth individual (IDI) interviews, focus group discussions (FGDs), and outlier or positive deviant (PD) interviews. Basic socio-economic profile (SEP) data were collected from all FGD participants.

Secondary research or desk research was carried out referencing reports and publications by USAID, the World Bank, the IADB, Inter-American Dialogue, and a number of Honduran sources including the Central Bank (BCH), National Statistics Institute (INE), banks, and other local agencies.

In-depth individual interviews were conducted with a number of stakeholders from the financial sector (i.e. financial service providers, money transfer operators), government agencies (i.e. local municipalities), and NGOs (i.e., organizations focused on health and nutrition, migration and labor, or community development). In total 33 key informant interviews were conducted. (See Table I below.)

Focus group discussions were held with individuals from poor, remittance receiving households residing in the selected areas of the *Corredor Seco*. The target population for the focus groups was drawn from three Western and Southwestern departments (see “Location” below). They were identified and recruited in collaboration with local stakeholders including community-based organizations. In total, eight FGDs were conducted across three departments. (See Table 2 below.)

Outlier or PD interviews were conducted with individuals that exhibited exemplary financial behaviors. A small percentage of Honduran remittance receivers receive and save a portion of remittances at financial institutions. The purpose of PD interviews was to explore reasons behind positive behaviors and identify ways to encourage others to make similar financial decisions. Some of these outlier individuals were identified from among FGD participants; others were identified through key informant interviews. In total, six PD interviews were completed. (See Table 3 below.)

To ensure a deep understanding of the Honduran context, ACIDI/VOCA worked closely with a team of three local consultants based in Honduras with experience in market research, financial services, and economic development initiatives. These consultants gathered information from in-country resources, interviewed key informants, conducted focus group discussions with remittance receivers, and identified positive deviants.

## SAMPLE FRAME

**Table 1.** Individual Interviews (Number of people/institutions interviewed in each category)

Department	Government Agencies	Financial Service Providers	MTOs	NGOs	Total
Lempira	3	7	0	4 (2 Nutrition/Health)	14
La Paz	1	2	0	0	3
Intibucá	0	2	0	2	4
Francisco Morazán	2	3	1	6 (2 Nutrition/Health)	12
<b>Total</b>	<b>6</b>	<b>14</b>	<b>1</b>	<b>12</b>	<b>33</b>

**Table 2.** Focus Group Discussions

Department	Location	Tool #1		Tool #2		Total Participants
		Men	Women	Men	Women	
Lempira	Pinal San Antonio Village	4	7			11
	Gracias			4	4	8
	Bella Vista Village			1	9	10
La Paz	La Osorio Village	1	7			8
	La Florida Abajo Village	2	6			8
	La Florida Arriba Village			3	6	9
Intibucá	La Esperanza				8	8
	Lasorto Village			6	4	10
<b>Total</b>		<b>7</b>	<b>20</b>	<b>14</b>	<b>31</b>	<b>72</b>

**Table 3.** Positive Deviant Interviews

Department	Location	Positive Deviants	
		Men	Women
Lempira	Pinal San Antonio Village		1
	Gracias		1
La Paz	La Florida Abajo Village	1	1
Intibucá	La Esperanza		1
	Lasorto Village	1	
<b>Total</b>		<b>2</b>	<b>4</b>

## LOCATION

The assessment focused on the Western and Southwestern departments of Lempira, Intibucá, and La Paz within the *Corredor Seco*. These departments represent Honduras’ most significant concentration of extreme poverty and food insecurity. We also conducted interviews with key informants in Francisco Morazán.

## RESEARCH TOOLS

All interviews were conducted using semi-structured interview guides which were reviewed by FHI 360’s Office of International Research Ethics prior to the start of the field assessment. All research participants were read a brief informed consent form and provided verbal consent to be interviewed before any interviews or focus groups started.

**In-depth individual interviews with key informants.** Using a semi-structured in-depth individual interview (IDI) guide, key informants were asked questions about the status of remittance flows in their region, the volume of remittances flowing through their organizations, the financial behavior of remittance receivers, how remittances could be used productively in their region and the positive and negative impacts of remittances on their region. They were also asked whether they agreed or disagreed with the six principal factors of migration outlined later on page 18. Separate and specific interview guides were designed for interviews with: local government officials, financial service providers, money transfer operators, and NGOs.

**Focus group discussions with remittance receivers.** Using one of two possible structured focus group guides, FGD participants were asked a series of questions about the remittances their family receives, the use of financial services in their community, the positive and negative impacts of remittances in their community and the existence or relevance of hometown associations (HTAs) for their town or village. The second focus group guide was designed to obtain information about household decision-making around each type of income stream. This focus group guide was found to be too time-consuming during a pilot test in the field. It was discarded and some additional questions were added to the FGD.

**Socio-economic profile data questionnaire for remittance receivers.** A short survey tool was used to collect data on the social and demographic characteristics of remittance receivers participating in FGDs and Positive Deviant interviews. The tool collected information on age, marital status, education and literacy levels, household characteristics as well as data on use of financial services and household assets.

**In-depth individual interviews with positive deviants.** Positive deviants were asked about their use of financial services particularly their saving behaviors, decision-making with respect to remittance funds, the positive and negative impacts of remittances, and development needs in their community.

## LIMITATIONS OF STUDY

The study was conducted using qualitative research techniques. This implies that the findings may not be generalized to the entire population of Honduras or the *Corredor Seco*. However, the assessment was designed in a manner which increases the validity and reliability of the results. Semi-structured interview guides were written, translated into Spanish and then back translated to English (verbally) by the research team. A total of 33 key informant interviews were conducted with different types of key informants allowing the researchers to triangulate results across individuals with different perspectives. A sub-set of questions posed to the key informants, the individual remittance receivers and the positive deviants were similar, allowing triangulation across these three different perspectives. When combined, the variety of perspectives provides a comprehensive response to the research questions. Finally, the research used different field investigators with specialized expertise to conduct the field assessment.

The research was conducted in a short time frame. As a result, the desk research and field research were conducted simultaneously and were unable to inform each other. Ideally, the desk research should inform the field research allowing the latter to better focus on the most salient questions and fill in missing data and information.

The number of focus groups was particularly limited by the lack of time for field research, and focus group participants were identified through consultation with local NGOs. Since focus group findings cannot be generalized due to the non-random nature of the sample process, it is good practice to conduct enough FGDs to increase the confidence in the results. Ideally, it would have been preferable to conduct more FGDs especially given the size and diversity of the *Corredor Seco*. However, responses to many questions were similar across the FGDs, giving the impression that the experience of the FGD participants is fairly typical for similar people in their location.

Additionally, the nature of Honduras' remittance market has changed dramatically within a short period of time, and the market remains dynamic. However, few comprehensive studies have been completed within the last five years, making it more difficult to identify trends specific to the *Corredor Seco*.

Finally, while interviews with remittance-sending migrants and US-based Honduran financial institutions were outside of this assessment's scope of work and would have required additional resources, such interviews would have been extremely informative. Future development activities involving remittances will need to engage both the senders and receivers of remittances, as well as key institutions in Honduras and the migrant's country of residence.

# FINDINGS

## FOOD SECURITY IN THE RESEARCH LOCATIONS

In Honduras, extreme poverty and chronic malnutrition are concentrated in six western departments (La Paz, Intibucá, Lempira, Ocotepeque, Copan, and Santa Barbara). These six departments contain approximately 1 million of the 2.6 million Hondurans living in extreme poverty. More than 50 percent of children under age 5 are chronically undernourished in this region.<sup>24</sup>

Several factors contribute to chronic poverty and food insecurity in Honduras, including: urban growth, deforestation, land degradation, and soil erosion. The poor are highly dependent on the market for staple foods, meeting 25 to 80 percent of their food needs in this way. Middle income households depend more heavily on their own agricultural production, especially for basic grains, and can meet 25 to 80 percent of their food needs through their production.<sup>25</sup>

The three departments in which the research was conducted fall within three livelihood zones identified by FewS.Net.<sup>26</sup> (See Figure 2.)

- The areas along the El Salvador border of all three departments comprise the border remittance livelihood zone (Zone 6). This drought prone zone has a moderate to high risk of food insecurity. The zone is characterized by political and economic marginalization as well as unequal access to land with 70 percent of the population landless. Remittances are an important source of income for the citizens with most households resorting to migration within or outside of Honduras. Access to markets is weak due to long distances and poor roads. As a result transaction costs are high leading to higher prices for goods.
- Further away from the border, parts of Intibucá and Lempira fall within the coffee and potato growers zone (Zone 11). These areas are characterized by moderate risk of food insecurity due to poor growing conditions and limited employment opportunities. Sixty percent of the zone is mountainous (but not necessarily the two departments) with highland areas, particularly in the north, suitable for coffee and potato cultivation. Poor market access however makes agriculture a risky undertaking for poor households. Combined with poor job prospects, this leads to seasonal migration of workers to other parts of Honduras. Rain-fed agriculture can support two crops of beans and one crop of corn and potatoes each year. With irrigation, year round agricultural production could occur.
- The northern part of La Paz falls within the Horticulture with Coffee zone (Zone 3). This area is characterized by moderate to high food insecurity in normal years. Most households are without access to land and poor householders work as wage laborers on larger farms geared to the export market. Poor local roads result in poor market access for local goods. Most households are dependent on the market for food and are thus vulnerable to commodity and food price increases. Many residents migrate seasonally to other parts of Honduras for work.

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<sup>24</sup> USAID/Honduras, Honduras FY 2011-2015 Multi-Year Strategy." 2011. [http://www.feedthefuture.gov/sites/default/files/country/strategies/files/HondurasFeedtheFutureMultiYearStrategy\\_Public\\_2011-11-17\\_FINAL.pdf](http://www.feedthefuture.gov/sites/default/files/country/strategies/files/HondurasFeedtheFutureMultiYearStrategy_Public_2011-11-17_FINAL.pdf)

<sup>25</sup> FEWS.net. "Honduras Livelihood Profiles." [http://www.fews.net/docs/Publications/HN\\_Livelihoods%20Profile\\_EN.pdf](http://www.fews.net/docs/Publications/HN_Livelihoods%20Profile_EN.pdf)

<sup>26</sup> FEWS.net. "Honduras Livelihood Profiles."

**Figure 2.** Honduras Livelihood Zones



Source: [http://www.fews.net/docs/Publications/HN\\_Livelihoods%20Profile\\_EN.pdf](http://www.fews.net/docs/Publications/HN_Livelihoods%20Profile_EN.pdf)

**Programs to combat malnutrition in children.** The research team interviewed four NGOs that work in the nutrition area. Malnutrition of children in the research locations is both acute and chronic. The reasons for this are a diet which is both low in overall calories and low quality. Commonly, the local diet lacks sufficient amounts of protein and fat. Nutrition problems are compounded by poor sanitation and lack of access to clean water. Current programs address malnutrition in children by focusing on feeding, medical evaluations, and educating parents on how to feed their children. Other interventions include childhood immunization programs, family vegetable garden projects, and a World Food Programme (WFP) Purchase for Progress project.

### PROFILE OF FGD SAMPLE

Focus groups were organized in representative communities within the three departments. The sample of participants was selected in collaboration with local NGOs and the criteria for participation were that the respondent should be a remittance recipient or come from a household that receives remittances.

The focus group research interviewed 72 individuals in eight communities within the three departments. The FGD respondents were predominantly female, married and living in rural areas. The average age of respondents was 43 years old. A majority (about 93 percent) of respondents had some schooling. However, only 15 percent had completed secondary school. Respondents, on average, had 5.6 people (adults and children) living in their household, of which 1.8 persons earn any income.

**Table 4.** Profile Indicators for FGD Sample

Indicators		Focus Group Sample
Age	Average	43 years old
Sex	Female	70.8%
	Male	29.2%
Marital Status	Married	59.7%
	Single	37.5%

Indicators		Focus Group Sample
	Divorced/Separated	0.0%
	Widower	2.8%
Education	No formal education	6.9%
	Some Primary School	38.9%
	Primary School completed	29.2%
	Some Secondary School	9.7%
	Secondary School completed	15.3%
Location of Residence	Rural	63.9%
	Urban	36.1% (11.1% Urban, 25.0% Peri-urban)
Average Household Size		5.6 people/HH
Average Number of Income Earners in Household		1.8 people/HH

\*Source: INE, "Indicadores Socio-económicos," Encuesta de Hogares 2012.

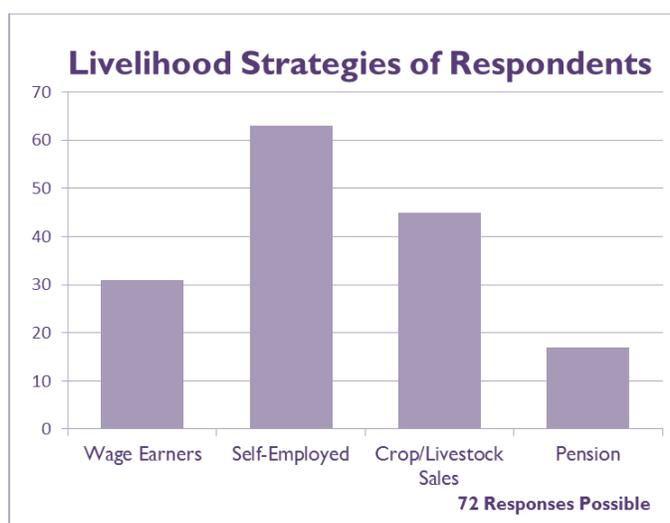
**Table 5.** Household Assets - Indicators of Household Wealth

Indicators		FGD participants
Home Ownership		90.3%
Average Number of Bedrooms in Home		2.61
Flooring material	Dirt	21%
	Cement	58%
	Ceramic Tile	21%
Water supply to home	Pipe	79%
	Well or river	21%

An examination of the reported household assets for the participants revealed that over 90 percent own their own home, although the homes were small on average with only 2.6 bedrooms. Only a minority of homes had dirt floors (21 percent) and a similar share had access to only well or river water rather than piped water. This indicates that close to a quarter of the participants are living in low quality housing.

The FGD respondents and their families earn income in a variety of ways. Respondents reported that they or others in their household had earned income from wage employment, self-employment, crop or livestock sales and pensions (see Figure 3). Overall most participants earn income from

**Figure 3.** Livelihood Strategies of Respondents



production of coffee, vegetables, grains and, on a smaller scale, from livestock. Some were self-employed in trade and services such as local eateries, bakeries, selling eggs and milk products (curd, butter, and cheese), stores and warehouses; all supplemented with remittance incomes.

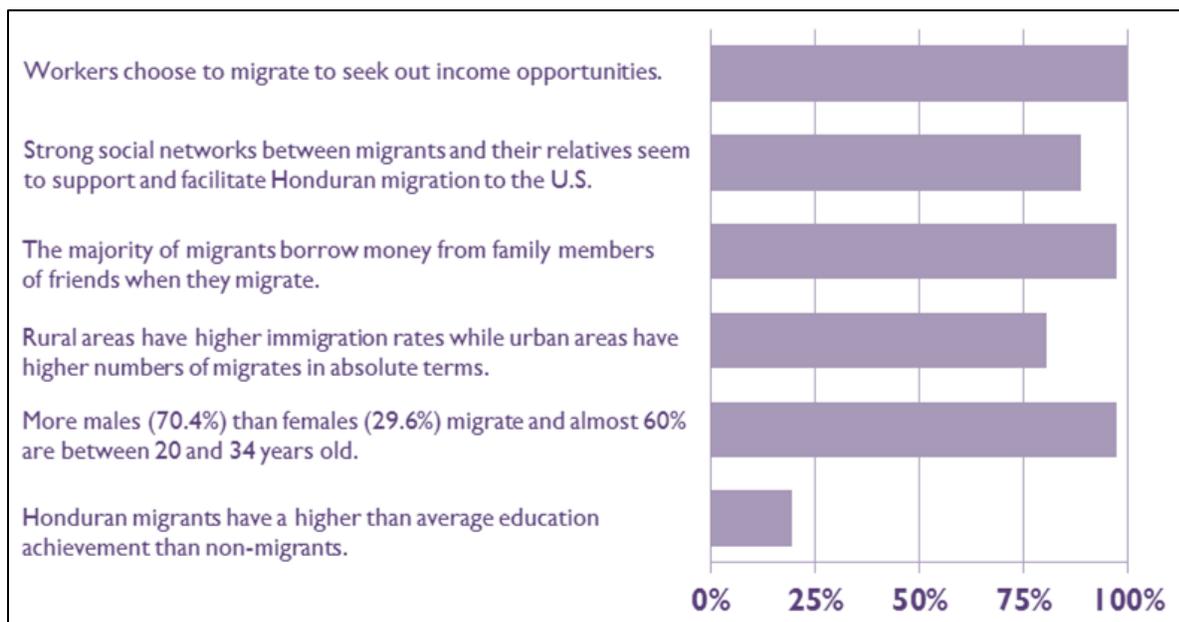
## MIGRATION

In all three departments, the rate of emigration is high; in the double digits as a share of total population. In 2010, emigration from La Paz was equal to 20.2 percent of the population, for Lempira 19.6 percent and for Intibucá 12.9 percent.<sup>27</sup>

As part of the assessment, we sought to determine whether the following principal factors of migration, identified by the World Bank in a countrywide study, also apply to *Corredor Seco* households:

1. Workers choose to migrate to seek better income opportunities.
2. Strong social networks between migrants and their relatives seem to support and facilitate Honduran migration to the United States.
3. The majority of migrants borrow money from family members or friends when they migrate.
4. Rural areas have higher immigration rates while urban areas have higher numbers of migrants in absolute terms.
5. More males (70.4 percent) than females (29.6 percent) migrate and almost 60 percent are between 20 and 34 years old.
6. Honduran migrants have a higher average education achievement than non-migrants.<sup>28</sup>

**Figure 4.** Key Informant Perceptions of Principle Factors of Migration



Focus group participants and key informants were asked various questions regarding migration. Most FGD participants agreed that workers choose to migrate for income opportunities, that more men than women migrate (but no percentages were given) and that most are in their economically productive years. The FGD respondents stated that the majority of migrants in their community are men between the ages of 18-50 years that have lived outside of Honduras for between 8-24 years. Most respondents believed that those with higher education levels tend to migrate internally to large cities, such as San Pedro Sula, Tegucigalpa and La Ceiba. The participants in the FGDs had generally low levels of education, suggesting that their family members most likely are not well-educated either.

<sup>27</sup> INE, 2010.

<sup>28</sup> Endo et al., "The U.S.-Honduras Remittance Corridor."

The assessment asked all key informants interviewed whether they agreed or disagreed with the World Bank statements (see Figure 4) based on their knowledge and observation of Honduran migrants and their families. For the most part, key informants agreed that principals 1, 2, 3, and 5 applied in *Corredor Seco* with principal 4 to a lesser extent. Most key informants disagreed that migrants have a higher level of education than non-migrants (Principal 6). Higher-skilled workers with technical or college-level education tend to find sufficient income options within the country (particularly in urban areas), while many low-skilled laborers (particularly in rural areas) are unable to find jobs in Honduras that pay a living wage and ultimately migrate in search of better wages abroad.

FGD respondents also reported that the cost of traveling abroad is quite high and many migrants resort to informal lenders to finance these trips. The main reason given for migration was mainly the poor socioeconomic condition of local families. Lack of work or work that does not pay a living wage was also cited often. The desire to provide better conditions for the family, especially better diet, health and education for children, was also a common reason. A couple of respondents mentioned that people migrate to earn income to pay back debts or recover from economic losses, such as crop failures.

Respondents also noted the rising percentage of single women and single mothers in the communities, as more men and husbands stay abroad once they become well-established. They also mentioned that remittance flows decrease as time passes and migrants acquire other commitments. This can drastically impact households particularly in cases when the husband or father migrates.

The World Bank report developed this education principal based on data from the 2007 American Community Survey (ACS) of Honduran-born migrants that were living in the US at the time. Interestingly, while the percentage of migrants with less than a high school diploma (48.5%) and those that are high school graduates or higher (51.5%) remained constant between 2007 and 2011, the percentage of Hondurans with Bachelor's or Graduate degrees has fallen, and educational attainment levels among male migrants appear to show a downward trend as well (see Table 6).

**Table 6.** American Community Survey of Honduran-born Migrants in US, Educational Attainment, 2007 and 2011

<b>EDUCATIONAL ATTAINMENT</b>	<b>2007</b>		<b>2011</b>
<b>Population 25 years and over</b>	<b>315,304</b>		<b>403,677</b>
Less than high school diploma	48.5%	–	48.5%
High school graduate (incl. equivalency)	27.1%	↓	25.6%
Some college or associate's degree	13.6%	↑	17.6%
Bachelor's degree	8.2%	↓	6.6%
Graduate or professional degree	2.6%	↓	1.6%
<b>High school graduate or higher</b>	<b>51.5%</b>	<b>–</b>	<b>51.5%</b>
Male, high school graduate or higher	48.0%	↓	45.8%
Female, high school graduate or higher	55.2%	↑	57.4%
<b>Bachelor's degree or higher</b>	<b>10.8%</b>	<b>↓</b>	<b>8.3%</b>
Male, bachelor's degree or higher	9.1%	↓	6.2%
Female, bachelor's degree or higher	12.5%	↓	10.4%

Source: U.S. Census Bureau, American Community Survey, 2007 and 2011.

## REMITTANCE FLOWS IN HONDURAS

As in the rest of Latin America, in Honduras remittances are an essential part of the economy. Historically, remittances represent the largest single source of foreign currency reserves, a crucial

economic factor in a country with consistently negative net exports. While the absolute value of remittances continues to increase each year, remittances are declining as a percentage of GDP. This is in part due to a slow recovery in the wake of the US housing market bubble and global financial crisis.

**Table 7.** Remittance flows into Honduras as a percentage of GDP

	2006	2007	2008	2009	2010	2011	2012
<b>USD (millions)</b>	2,391	2,625	2,869	2,553	2,650	2,860	2,960
<b>% of GDP</b>	21.70%	21.10%	19.60%	17.80%	16.50%	15.80%	15.70%

Source: Central Bank of Honduras

Countrywide, 19.9 percent of households receive remittance income; in urban areas, 21.8 percent of households receive remittances while in the rural areas the share drops to 17.9 percent.<sup>29</sup> In 2012, the average monthly income for the bottom two quintiles of the population was between USD 71.53 and USD 177.25 per household.<sup>30</sup> This number contrasted with the average monthly remittance in 2012 of USD 326.80<sup>31</sup> suggests that many recipient households rely solely on remittance income for their subsistence and have probably improved their socio-economic level through remittances.

## REMITTANCE FLOWS IN THE CORREDOR SECO

Although precise figures of the remittance flows for the three target departments could not be found, the departments' high emigration rates indicate that there should be an equally important flow of remittances to families in the region. The closest figures available to estimate remittance flows in the *Corredor Seco* are the following:

- The five Federation of Cooperative Associations of Savings and Credit (FACACH)-affiliated credit and savings cooperatives that operate in *Corredor Seco* transferred a total of USD 34.3 million in 2012, according to the 2012 remittance report of FACACH.
- To that, one can add USD 8.7 million transferred by COMLESUL (as reported by their general manager in an interview),<sup>32</sup> a member of FEHCACREL (Federación Hondureña de Cooperativas de Ahorro y Crédito).

Both figures total USD 43 million but do not include the commercial banks, which proportionately handle remittance flows several times larger than those of the cooperatives.

**Table 8.** Estimated per capita remittance income

Remittance Income	\$2,960,000,000
Total Honduran Population	8,385,100
Estimated per capita remittance	\$353.01
Estimated Remittance Income for La Paz, Lempira and Intibucá	\$115,750,000
Combined population for La Paz, Lempira and Intibucá	743,930
Estimated per capita remittance in La Paz, Lempira and Intibucá	\$155.59

Using another approach, it is possible to estimate total flows to the region. The weighted average of the share of the population migrating from all three departments is equal to 18.25 percent. Assuming there are 161,724 households in the region, it is assumed that 18.25 percent or 29,515 of them have a migrant member who is sending remittances (in reality, there may be fewer households with migrants, and some households may have more than one migrant sending remittances). With an average of USD 326.80 per

<sup>29</sup> INE, "Comportamiento de la Migración y Remesas Internacionales 2010".

<sup>30</sup> INE, "Indicadores Socio-económicos", Encuesta de Hogares 2012.

<sup>31</sup> Honduras Central Bank, Semiannual Remittances Survey. [http://www.bch.hn/publicaciones\\_semestrales.php](http://www.bch.hn/publicaciones_semestrales.php).

<sup>32</sup> Cooperativa Mixta Lempira Sur Limitada. Interviewed July 5th, 2013.

remittance per month we could estimate a total remittance of USD 115.75 million in remittances flowing to the *Corredor Seco* region each year. These estimates do not include one-time remittances for special occasions such as holidays or for purchasing assets such as cars and houses. One-time remittances for these purposes are frequently much larger than a household's monthly average remittance.

## SERVICES TO SEND REMITTANCES

Previous studies have found that 92 percent of US-Honduras remittances travel through formal regulated channels.<sup>33</sup> Money transfer operators are used by 74 percent of migrants, 21.3 percent send money through bank accounts and 2.9 percent use other formal channels.<sup>34</sup> In general, migrants use multiple channels to send their remittances and the most commonly used are: Western Union, MoneyGram, Giros Latinos, and Vigo.

The sender selects the remittance channel primarily based on accessibility, speed, convenience simple identification requirements and cost. The frequency of sending remittances varies based on the relationship between the sender and receiver and the responsibility assumed by the migrant. Remittances are sent in dollars, but are paid in local currency according to the current exchange rate. If a beneficiary requests dollars he/she is charged an extra commission.

**Table 9.** Cost of remittance services, 2007 and 2012

	2007	2012
Average cost for a cash wire	5.6%	5.0%
Cost for transfer between accounts	N/D	4.3%

Sources: BCH and FOMIN.

**Associated sending costs.** Remittance fees are paid for by the sender and although beneficiaries are unclear what these fees are, they think it could be between 8 to 10 percent per each USD 100.00 sent. Fees have come down over the past several years because of market conditions and increased competition. In 2000, fees were as high as 15 percent of the amount transferred,<sup>35</sup> and have since come down to 5 percent or less<sup>36</sup> for some MTO services. One key informant mentioned that his cooperative, in past years, charged an additional local fee to defray the costs of transportation and cash security, both especially high in the rural areas, but they stopped doing so last year because of growth in the business as well as competition.

## SERVICES TO RECEIVE REMITTANCES

In Honduras, the payment of remittances is almost exclusively through correspondent organizations. Remittance service providers in Honduras include a range of commercial banks, money transfer operators (MTOs), non-bank financial institutions (NBFIs), and credit and savings cooperatives. Interviews with key informants reinforced the official statistics on remittance flows; all non-financial services interviewees answered that remittances are sent through MTOs to local banks or cooperatives in *Corredor Seco*. An interesting insight is that MTOs have little or no presence outside of the main cities of Tegucigalpa and San Pedro Sula. Many MTOs have established agreements with various financial institutions.

Most FGD participants reported that they receive remittances at banks or cooperatives where they also have accounts. Sixty percent of FGD participants receive remittances on a monthly basis. FGD indicated

<sup>33</sup> Endo et al., "The U.S.-Honduras Remittance Corridor".

<sup>34</sup> INE, 2011.

<sup>35</sup> Honduras Central Bank, "El rostro de las remesas: su impacto y sostenibilidad". 2007.

<sup>36</sup> Haymen, M.L. "Las Remesas A America Latina y el Caribe en 2012: Comportamiento diferenciado entre subregiones". <http://www5.iadb.org/mif/PORTADA/Conocimiento/tabid/523/idPublication/78709/language/es-ES/Default.aspx>

that only the receiver of the remittance can claim it, as a password-protected system does not allow any third party to claim the money. Therefore the beneficiary can select where to claim the remittance, and they usually pick financial institutions that they do business with. Other reasons respondents cited for selecting an institution include accessibility, convenience, and more flexible hours. Generally, according to FGD respondents, remittance receivers look for speed, accessibility and security of funds when considering where to pick up remittances. The most common place to pick up remittances was at commercial banks because they offer accessibility, flexible hours, and security. The second most commonly used institution, but to a lesser extent tendency, are credit and savings cooperatives. While they also offer fast and accessible service as well as flexible schedules, they have higher requirements for the beneficiaries, making it a less attractive service. In third place are MFIs which have failed to win the public's confidence in the service they offer, especially in peri-urban and rural areas. FGD respondents noted that informal remittance services are no longer used due to safety reasons, mistrust and speed of service. Informal services included people hired for personal deliveries and family or friends traveling to and from the US and home.

**Associated receiving costs.** In terms of associated costs, one important point is that there is no actual fee for the person receiving their remittance in Honduras. However, claiming remittances involves indirect costs such as transportation, food, and lodging if the community is far from the city. Other indirect costs can include paying a babysitter or losses generated by the temporary closure of a business. Remittance receivers traveling to and from the point of service also incur the risk of assault and theft.

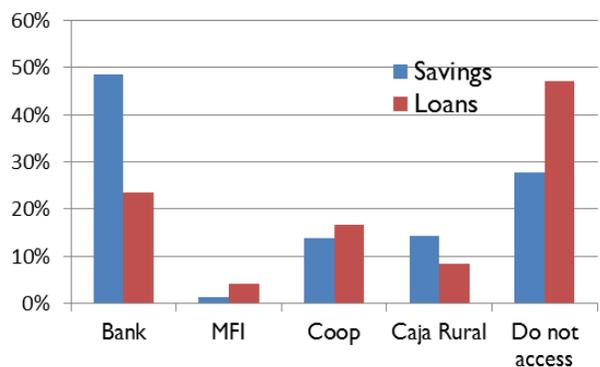
But in the case of choosing between a commercial bank and a cooperative, the remittance receivers will also take into consideration the amount of cash that has to remain on deposit at the cooperative (as savings or an affiliation fee). In this case, these deposits are an opportunity cost to recipients of using the cooperative. The same thing would be true for the banks seeking to open savings accounts for their remittance clients.

## ACCESS TO FINANCIAL SERVICES

The financial inclusion of FGD participants was 72 percent; with 72 percent reporting that their household had savings at a bank, MFI, cooperative, or *caja rural*, while 53 percent of participants reported having an outstanding loan from one of these types of institutions.

In comparison, less than 20 percent of the 1,002 Hondurans surveyed for the Global Financial Inclusion Database in 2011 reported they had an account<sup>37</sup> at a financial institution.<sup>38</sup> Further, less than 22 percent reported they had saved money in the past 12 months, and just 7 percent reported they had borrowed from a financial institution in the past 12 months.<sup>39</sup>

Figure 5. Financial Access of Respondents



<sup>37</sup> The literal question was as follows: “Do you, either by yourself or together with someone else, currently have an account at any of the following places? An account can be used to save money, to make or receive payments, or to receive wages and remittances. Do you currently have an account at a bank or credit union (or another financial institution, where applicable - for example, cooperatives in Latin America)?”

<sup>38</sup> Asli Demircug-Kunt and Leora Klapper. “Measuring Financial Inclusion: The Global Findex Database.” 2012. World Bank Policy Research Working Paper 6025.

<sup>39</sup> Demircug-Kunt and Klapper. “Measuring Financial Inclusion: The Global Findex Database.” 2012.

## SAVINGS

Most of the FGD participants' households that saved money did so at a commercial bank. Banks were preferred as more secure venues for saving due to the insurance on deposits. Cooperatives were the second most popular place to save but about four times as many households saved at commercial banks as at cooperatives. One group mentioned that they wished they had a cooperative in their community so that they did not have to travel so far to the bank. Participants reported that migrants have savings accounts in Honduras for investment purposes and that they do not touch these accounts. The funds are to be used to invest in business when the migrant returns. Of course, 72 percent financial inclusion of FGD households implies that 28 percent of FGD households are not banked and there are cases reported where neither the families in Honduras nor the migrant have savings accounts.

Remittance receivers save for emergencies and sometimes for specific family projects, such as for investing in the house or expanding a business. Often the migrant specifies how the money will be used. Only a few participants mentioned anything about the amounts saved. As one FGD respondent explained, households have "transitional savings" that are for investing in a business, in house construction or the purchase and care of livestock. There is little chance of accumulating permanent savings as the amount of the remittance is only enough to cover household costs.

## BORROWING

FGD participants reported that people in their community can obtain loans from a variety of sources including friends, family, migrants, money lenders, banks, and cooperatives. The source of the loan depends on the amount borrowed and the purpose of the loan.

Migrants borrow from money lenders to finance their trip out of the country using land or other collateral to secure the loan. As a result, the act of migrating can risk the loss of family assets in cases when the migrant is deported or cannot find work. Generally, informal loans were considered too expensive for other purposes. Some participants also mentioned that people can borrow from the consumer lender, Banco Azteca. While it is said to be easy to get loans from this lender as the borrowing requirements are minimal, the cost of credit was considered to be too high.

For agricultural loans, some participants mentioned cooperatives and banks with special windows. One group reported that farming loans can be obtained from the Agricultural Development Bank (BANADESA) which has lower interest rates and focuses exclusively on agriculture. Loans for business purposes can be obtained from financial institutions but the requirements are higher than for obtaining farming loans.

Some FGD participants mentioned that remittances can be used to secure loans from cooperatives. Discussions with key informants revealed that some cooperatives have introduced a special line of products for remittance receivers called UNIREMESAS based on their knowledge of the local communities.<sup>40</sup>

All four of the cooperatives interviewed require remittance receivers to become members through making an affiliation deposit. The cooperatives provide financial education, which is a normal practice for them, through which they teach and induce people to save money and make wiser spending choices. Due to these policies, cooperatives are more able and willing to provide loans guaranteed with the remittance income. As Derma Gonzales, General Manager at COMUPL<sup>41</sup> explained:

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<sup>40</sup> Endo et al., "The U.S.-Honduras Remittance Corridor".

<sup>41</sup> Cooperativa Mujeres Unidas Para Progresar Limitada (COMUPL). Interviewed June 20th, 2013.

*“We began using the UNIREMESAS service on December of 2012, we have been using this for a few months and we are getting wonderful results. People come to save their money with us, they borrow money to purchase land for coffee farms and for their homes. They do this because they trust our cooperative and we give them a personal service, I even go out of my way to speak with our members’ family abroad and explain to them how we work, how we will help them invest their money and they trust us because they realize we are looking after their well-being and that of their family here at home.”*

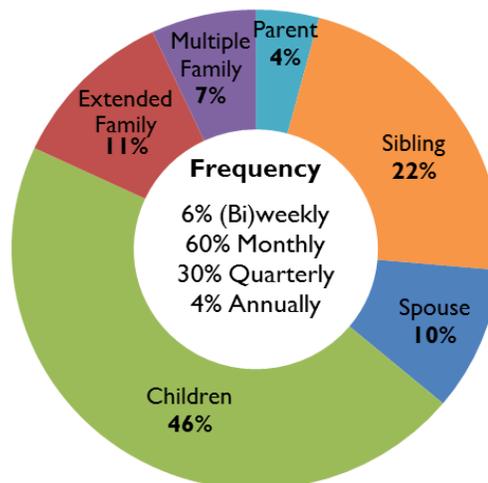
There is little evidence that the banks and other regulated financial institutions lend against remittance income. Most institutions still do not offer financial services especially designed for remittance incomes. This is mainly because a majority of the remittance income goes to cover household’s basic expenditures. Further, in addition to client risk, there are potential legal implications depending on the status of the remitter migrant.

### ROLE OF REMITTANCES WITHIN THE HOUSEHOLD PORTFOLIO

Countrywide, remittances account for the third largest source of income at the household level.<sup>42</sup> Field research and focus group discussions in urban and rural areas of the three target departments indicated that 50 to 75 percent of families living in the communities have at least one relative living outside the country.

Generally, remittances are just one income source among a range of income streams for households in the three departments. For the vast majority of FGD participants, remittances received from their relatives represent between 25 to 60 percent of their household’s income. The share of income provided by remittances depends on the relation of the receiver to the migrant sending the remittance (i.e. son, daughter, brother, sister, husband).

**Figure 6.** Relation of Remittance Senders to FGD Participant & Frequency of Remittances



### HOUSEHOLD USE OF AND DECISION-MAKING RELATED TO REMITTANCES

In Honduras, a high percentage of remittances are consumed; 66 percent of all remittances were destined for consumption, including food, transportation and home monthly expenses, in 2012.<sup>43</sup> Decisions on the use of household income are made in agreement between the migrant and the receiver. Usually remittances are used to cover basic household needs such as health, education, or utility bills. In special cases, a percentage is targeted for investments, such as improvement, construction or purchase of housing, and buying land or farms for cultivation of coffee.

<sup>42</sup> Endo et al., “The U.S.-Honduras Remittance Corridor”.

<sup>43</sup> “Encuesta Semestral de Remesas Familiares”. Central Bank of Honduras. 2012.

## IMPACTS ON HOUSEHOLDS

Across the board, FGD participants reported that remittances have had a positive impact on their families and other families in their communities. Almost every group mentioned increased investment in human capital. Specifically, families are spending more to educate their children and to obtain healthcare. Respondents reported that children of migrants have managed to finish high school and some of them have extended their studies at the university level. In the health area, there is a greater ability to purchase medication when a family member gets sick.

Increased investment in homes was the next most commonly observed positive impact. Participants noted that improvements in water supply, sanitation, and electricity come first and then other improvements to the house or purchases of household assets. Some participants mentioned general impacts like improved living conditions or better food. In addition to these observed changes at the household level, several participants mentioned increased investment in business, agriculture, and land or farms. One group mentioned that agricultural production had increased due to increased purchases of fertilizer. Cooperatives are helping finance these investments in land or houses, for example, COMLESUL in Lempira and COMUPL in La Paz.

Key informants did not report many positive impacts of remittances except for investments originating from remittances and the sense of hope that poor families receive when they are able to provide for all their basic needs, buy family assets, and even spend on entertainment.

Remittances are like a double-edged sword. As much as the FGD participants noted positive economic effects, they also cited numerous negative social impacts of remittances on families. Two types of negative impacts were emphasized by all interviewees, these were: the disintegration of the nuclear family and the dependency on remittances as a source of living.

The disintegration of the nuclear family is in most cases due to the migration of the father who leaves to find a better job in order to provide for the family. But the absence of the father for a long period of time, in many cases several years, affects the marital relations and the children, particularly teenagers. In fact, a series of social effects are unchained by the absence of the father and in a culture with a predominant male figure as head of the house, these negative impacts are worsened. Children in particular are subject to emotional and psychological effects due to the absence of one or both parents. A few participants cited cases where children had been neglected, malnourished, and even abused after being left under the care of other family members. There is a reported rise of materialism among children and even other family members of migrants, and much of this behavior is viewed as wasteful spending. Older children also are said to be rebellious, getting caught up in drugs and alcohol, and neglecting their education. Some relate this to the fact that the youth are not working but relying on the remittances they receive.

The dependency factor is due to the fact that the family and its members become dependent on the remittance income and don't seem to realize how vulnerable they remain to fall back into a precarious situation and level of poverty if this income is suddenly cut off. Many of the FGD respondents were women whose husbands had migrated. Almost all of these women were exclusively dependent upon their husbands' remittances. This can cause great instability to the household if the amount of remittances falls. One aspect of this dependency mentioned by many FGD participants is the lack of initiative to work or run a business. Some key informants mentioned that psychological dependency on remittances actually plays an important role in people's way of thinking and their decision-making about the future. A scenario that our interviewees have witnessed is when a person is deported, or the relationship between husband and wife is deteriorated beyond repair so he or she just stops sending the money. And people feel helpless when they realize they could have secured a livelihood of their own while they still had the remittance income.

Finally, two groups mentioned risks and negative impacts from the process of migration itself. One group mentioned that migrants can die or be exorted on the trip to the US. Another mentioned that if a migrant borrows money to emigrate and he cannot find work, his family will lose their mortgaged property and be worse off than before. This was said to be getting more common in the community that mentioned it.

One key interviewee believes that remittances and the relationships between migrants and their families are responsible for a phenomenon of loss of cultural identity and human talent.

One indicator of the negative impact of migration on households is the fact that women-headed households account for 40 percent of all households in the west of Honduras. Of these households, 68 percent are poor. Women are often the primary decision-makers at the household level for health care, major family investments, and daily purchases. However, women, due to less access to productive assets, extension and financial services, and technology, have lower incomes and greater food insecurity.<sup>44</sup>

## **IMPACTS ON LOCAL COMMUNITIES AND MARKETS**

The high rate of consumption of remittance money as a trend has not changed in the last five years, when the rate stood at 67.8 percent of remittances. During 2012, the absolute amount of remittances estimated to be immediately spent is equivalent to nearly USD 2 billion. This consumption is an important cash flow that sparks local economies—it has even become a necessary engine of growth for some communities. A majority of our interviewees cited the importance of this revenue for the country's foreign reserves. Half of our interviewees also had the opinion that consumption goes even farther into sumptuous purchases, with main examples being the purchase of luxury home appliances and top-of-the-line cell phones and clothes. This behavior was related to negative social implications.

The FGD participants pointed out several positive impacts at the community level. The increased consumer spending power has multiplier effects on local economies through increased demand for goods. The impacts include job creation and growth of towns. Many FGD respondents also said that local economies have been strengthened through increased investments in business, agriculture, and land or farms. These investments increase efficiency and expand the volume of production, resulting in greater local revenue generation. One group mentioned that agricultural production had increased due to increased purchases of fertilizer supported by remittances. In La Esperanza, the departmental capital and commercial hub of Intibucá, 11 percent of businesses are financed by the remittances of returned migrants.<sup>45</sup>

In addition to remittances, the return of Honduran migrants to their communities greatly impacts local economies and markets. In this respect the manner in which they return is an important ingredient to be included in the analysis. According to the Central Bank, the average migrant remains abroad for eight to ten years before returning home. Those who choose to return and do so after accumulating capital come back to carry out a project like building their family home and starting a business. But the reasons for returning may also include health and financial problems and deportation which in turn would bring a negative impact to their family's well-being and the local economy. INE (the National Statistics Institute in Honduras) established in their 2011 report that 72 percent of Hondurans living abroad are illegal migrants but only 20.1 percent have returned to the country due to deportation. The most important reason for returning home for 46 percent of the migrant population was for family reasons.

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<sup>44</sup> USAID. 2010 Feed the Future Strategy and FY 2011-2015 Multi-Year Strategy.

<sup>45</sup> Endo et al., "The U.S.-Honduras Remittance Corridor."

Most interviewees responded to the social aspects with concern that this income produces negative impacts for their societies. Interviewees consider that remittances create a false sense of security and allow people able to work or study to rely on remittances as their only income instead of working toward self-improvement.

Other negative observations included greater social disintegration and increased drug and alcohol abuse. FGD participants cited communities where most families have been left without a household head, and women and wives have been forced to assume this role. Focus group participants believe that land has become more expensive in Intibucá, since those who receive remittances have overpaid when investing in land. Another group discussed the negative impact of immigration (migrants entering Honduras from Nicaragua, El Salvador and other neighboring countries) on the local labor market.

In our interviews several stories were told and exposed both good and bad scenarios, the good ones about people who actually plan with their families the investments and process to return to a better home, a successful business, and overall happier life. But the bad scenarios included those who are deported and come back empty handed to a needy home, unable to provide even for the basic needs. There were also stories of migrants who return for health problems, and even a not-so-rare situation where the migrant mistakenly trusted the spouse or close family but on returning to Honduras finds that all the savings he was supposed to come back to are gone. In this case, financial education and access to investment products would make an important difference and will be discussed thoroughly in our conclusions.

# RECOMMENDATIONS

Remittances will continue to play an important role in Honduras’ economic development. As the US weighs the options for immigration reform, it is clear that the regularization of undocumented Honduran immigrants could significantly increase remittance flows from the US to Honduras over time as migrants gain access to better paying job opportunities.<sup>46</sup>

## LOCAL DEVELOPMENT PRIORITIES

The research team asked key informants and FGD participants to identify the most pressing development needs in their communities. The results are shown in the boxes below. The areas of commonality across the two research groups are schools and water and sanitation upgrades.

Key Informant Priority Development Needs	FGD Priority Projects
<ul style="list-style-type: none"> <li>• Education for children</li> <li>• Agriculture</li> <li>• Housing investment</li> <li>• Jobs or entrepreneurship training</li> <li>• Nutrition or food security programs</li> <li>• Health</li> <li>• WASH (water and sanitation)</li> <li>• Tourism</li> <li>• Irrigation</li> </ul>	<p>Community social projects:</p> <ul style="list-style-type: none"> <li>• Drug and alcohol rehabilitation centers</li> <li>• Schools</li> </ul> <p>Health-related infrastructure projects:</p> <ul style="list-style-type: none"> <li>• Water and wastewater management upgrades</li> <li>• Latrines</li> </ul> <p>General infrastructure projects:</p> <ul style="list-style-type: none"> <li>• Access roads</li> </ul>

To mitigate the negative impact of remittances, research interviewees recommended the following actions:

- Mitigate high levels of migration with more jobs and opportunities for young people.
- Develop programs and projects for youth and women.
- Develop training programs and provide guidance to families who do not save to help them better control their finances, make better use of remittances and strengthen their investments and savings.
- Conduct motivational programs to develop greater awareness that migrant families go to great lengths to make a living and send remittances back home.

**Hometown associations.** Hometown associations (HTAs) are grassroots organizations based upon social networks of migrants that are from the same communities of origin. HTAs can range from informal networks to formalized organizations, and they support development initiatives both in their communities of origin and the communities in which they currently reside. The UN’s Caring and Productive Remittance project is an example of how HTAs can be developed through a project for the purpose of leveraging remittances for development (see box below).

<sup>46</sup> Migration and Remittances Team, Development Prospects Group. “Migration and Development Brief 20.” The World Bank. April 19, 2013. <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationDevelopmentBrief20.pdf>

## HONDURAS CARING AND PRODUCTIVE REMITTANCES PROJECT

The Caring and Productive Remittances project is a joint effort of the Honduran Secretary of Exterior and seven United Nations Agencies (UNDP, UNICEF, UNFPA, FAO, ILO, IOM and UNODC), and funded by UN and Spain International Cooperation. It represents an acknowledgement of the efforts and support that migrants give to their families and hometowns in Honduras, as well as to the country's economy and political stability. The project's goal is to create HTAs of migrants willing to fund social and productive investments, and the project will account for their efforts by duplicating every dollar donated by the migrants and another dollar would come from the government and local organizations willing to contribute to the project. The specific objectives include:

- foster social and productive investment through remittances sent by organized migrants;
- promote efficient use and investment of remittances;
- generate jobs and income;
- stimulate the social attachment of migrants with their hometowns and country;
- discourage irregular migration; and
- improve the quality of life for migrant's hometowns and their families.

The project has two components: 1) fosters migrant organizations abroad; and 2) implements projects in Honduras with each beneficiary community. The Caring and Productive Remittances project is based on Mexico's Programa 3 x 1 Para Migrantes, which creates HTAs and leverages their willingness to help their communities.

Hardly anyone interviewed in *Corredor Seco* was aware of HTAs, and when they were, they did not know of any in Honduras. Only one key informant mentioned a Honduran migrants association in the US that supports Operation Smile and there have been only a few isolated development initiatives in the communities. While it is true that there is a clear trend demonstrated by migrants willing to help, as they have in the case of emergencies or natural disasters, their good will is not reflected in community development as internally and externally there are no organizational structures established to channel funds and implement projects.

During FGDs, the facilitator first introduced HTAs by asking participants whether they had heard about HTAs in their community. The facilitator explained that HTAs are groups of migrants who pool their money and send money to their hometowns for development purposes. For groups unfamiliar with HTAs, the facilitator asked a series of hypothetical questions (i.e. *Do you think HTAs could work in your town? If pooled remittances became available in your community to support development activities, what types of activities should the money be used to support?*). The research found that respondents were supportive of the idea of HTAs and the use of remittance income for community development projects on the condition that the projects would be implemented by local organizations, and coordinated by a board of directors, composed of recognized and responsible community leaders. When we asked if they thought HTAs could work in their community, FGD respondents said:

*"It would be important to have partnership in the communities to ensure smooth operation of the management of the funds..." (Lempira, PSA Village)*

*"There should be a credible local organization community [allied] with foreign associations to manage the funds for development projects..." (La Paz, CO in M)*

Both FGD respondents and to a lesser extent, key informants suggested that these activities should be implemented in a transparent way and according to clear objectives defined by the community. There were differences in opinion about the amounts and frequency with which participants thought they could contribute. Many participants noted they would have to consult with their relatives abroad before committing. During discussions with FGD participants, they implied that it was important that the local organizations responsible for programming the remittance funds have effective leadership and management. This suggests to us that effective leadership and management cannot be taken for granted in local institutions. When we asked FGD participants if they would be willing to contribute some of their remittances to local development activities, they said:

*“There has to be a reliable and serious organization to ensure effective management of funds.” (Lempira, PSA Village)*

*“It would be a good idea provided there was a leader and a promoter to take effective coordination. The community must have a local organization that can manage and arrange the funds...” (Lempira, GC)*

*“Depends on having a local organization responsible for management of funds and implementation...” (Lempira, GC)*

Only key informants mentioned that remittance funds should be matched by public money or that the government should be involved in these associations.

**Prospects for expansion of HTAs.** According to Karla Posas, UNDP project officer and Orlando Sierra, coordinator of the Office for International Economic Management, the Caring and Productive Remittances project envisions the investment on production projects and even establishing mechanisms for individual investment on families. They noted a few key lessons learned during the project’s pilot phase:

- Families use a high portion of their remittances for basic consumption, so taking part of that money for development initiatives could actually hinder their well-being. Using remittances for development requires extra money; therefore, the UNDP project asks migrants to raise that extra money without affecting the family remittances. The co-investment mechanism (\$2 contributed for every \$1 donated by a migrant) is definitely an important incentive for the migrants and their communities to participate in the project.
- Migrant committees or associations can be established to work on a project previously identified by the local community, or the migrants themselves may organize to propose a project they hope to achieve for their community. Partnerships among new and existing associations can also increase project impact. Ultimately, successful migrant organizations unite members from the same community in Honduras, have strong leadership, and rely on sound management systems.
- Development project priorities must be set by the communities themselves.
- Community activities may well require a leading role from the local government to provide planning, management, networking, and general knowledge of development needs on a local and regional level.
- Transparency and good control of budgets are necessary to make successful partnerships between migrant and local public institutions. People have to be able to trust their local government particularly because no formal or legal structures exist. Local project committees that engage migrant family members have had good results in this respect. Nonetheless, trust in local government varies significantly from community to community.

## LEVERAGING REMITTANCES FOR DEVELOPMENT PURPOSES

The research highlighted the ways in which remittances can be leveraged for development purposes. At the household level, local families are using remittance funds to send their children to school, to obtain healthcare, and to upgrade their homes in ways that improve sanitation. In this way, remittances are already being devoted to sound development purposes at the consumer level. At the investor level, some remittances are being invested in agricultural land and, to a lesser extent, better agricultural practices. At this level, remittances could be further leveraged through facilitating market development activities or directing public investments to infrastructure improvements that will increase market access. Investments in roads, for example, would increase market access and reduce the high transportation costs that hamper economic activity. Investments in market development could also be enhanced through access to more appropriate financial products that are tailored to specific business investment and upgrading needs. To boost the leverage of remittances for development beyond this level would require accessing greater amounts of remittance funding through engaging with migrants in other countries.

There is some indication from the key informant interviews that migrants have access to more money than they are sending home, and they would be willing to send these funds if they knew that they would be put to a productive purpose. We need to be cautious in interpreting the results from qualitative interviews based on a non-random sample. However, we have found that the UNDP Caring and Productive Remittances project as well as some local cooperatives have engaged with migrants residing in other countries in order to help direct remittances to particular uses at home.

## HOW CAN REMITTANCES BE LEVERAGED TO INCREASE LOCAL INVESTMENT AND REDUCE POVERTY AND UNDERNUTRITION?

**Financial education.** Many of the key informants and FGD respondents strongly recommended financial education for households receiving remittances in order to improve their financial management and increase their ability to productively invest these funds. Several FGD respondents highlighted that some recipients use remittances wastefully on unnecessary consumer items. In addition, financial education should be aimed at increasing the savings rate among remittance receivers to mobilize funds that could be available for local investments. Financial education programs should focus on: saving, debt management, budgeting, and possibly use of insurance. Some cooperatives and MFIs are currently providing financial education, and the cooperatives report that their efforts working with remittance receivers are paying off and the remittance business is expanding. However, Oxfam Honduras reported that its Trocaire project was unsuccessful because people were unwilling to save remittance money. Therefore, the potential for mobilizing more and significant amounts of savings from remittance receivers is unclear.

Financial education of migrants in the US is also critical but is beyond the scope of USAID/Honduras. However, with the expansion of Ficohsa throughout the US, other Honduran banks and cooperatives are exploring US market opportunities as well. One cooperative with offices throughout Lempira, La Paz, and Intibucá is looking to open an office in the US in 2015 to provide credit and savings services to the Honduran diaspora. These commercially-oriented expansions can serve as the foundation for new development partnerships, and may offer opportunities to further develop remittance networks in the US and link them to existing and future USAID initiatives in Honduras.

**Awareness campaign at home and abroad regarding the importance of remittances.** Individual interviews with a range of actors revealed an overall low level of knowledge of and interest in the topic of remittances. The researchers found that local government officials had a low level of awareness of the volumes of remittances flowing into their area or the impact of these remittances on the local economies. As a result, they were not taking these remittances into consideration in designing economic development plans. Focus group discussions and key informant interviews revealed that family members often have little

awareness of the hardships and sacrifices that migrants make in order to earn and send money home. Respondents indicated that raising awareness of the difficulties that migrants face and the efforts that they make could lead to more careful and productive use of remittances. An awareness campaign may assist to increase the savings rate by allowing families to understand not only the efforts of the migrant but how vulnerable they are if they do not develop sustainable livelihoods.

**Development of financial products and services.** Financial education should be accompanied by development of financial products designed for remittance senders and receivers. These should include savings and credit products, specific types of investment loans (i.e. for agriculture, land, business, export/import, and micro credit). Publicity campaigns to promote the financial products must go abroad as well to reach migrants.

**Promotion of savings.** Several key informants mentioned that financial institutions should promote savings through reducing remittances fees, making efforts to bank unbanked remittance recipients, and designing better products for remittance receivers. Several views included the use of remittances to save and create seed capital for investment and local entrepreneurship, which can also be leveraged with public funds and other leveraging options. With proper local and international allies, a finance platform could be created (i.e. Kiva or FAST).

**Entrepreneurship training.** Both key informants and FGD respondents recommended that entrepreneurship training be provided to enable people to learn how to start and operate their own businesses. Some respondents emphasized the need for technical training while a few emphasized programs for youth. These programs were considered a basic tool to create opportunities and invest in the development of families, enabling them to become less dependent on remittances. Entrepreneurship projects offer a versatile way of shaping development to the context, opportunities, and level of market access within each region and community. These programs could leverage the relationships between migrants and local communities to create commercial bridges and even exploit international market opportunities and treaties like CAFTA.

**Increasing agricultural income through remittances.** The FGD respondents reported that remittance funds are being spent on land, farms, and investment in farming, particularly use of fertilizer. FGD respondents did not recommend agricultural programs as much as they did job and entrepreneurship trainings. Key informants, however, provided several recommendations. They mentioned that development of agriculture should follow a value chain approach and should include value-added activities. To leverage remittances to increase incomes earned from agriculture, they recommended:

- Developing commercial bridges between producers and their countrymen overseas to promote exports
- Investing in agriculture projects that would improve nutrition
- Investing in diversification of agriculture and promotion of high value crops and fish farming
- Providing training and technical assistance on agricultural production
- Investing in coffee (two jobs per acre being lost)

In order to promote agriculture, longer term loans for agriculture investment and improved road infrastructure were recommended. These would require the design and roll-out of new financial products by financial institutions, and substantial public investment in roads, as mentioned above.

## **WHAT POTENTIAL RELATIONSHIPS EXIST BETWEEN REMITTANCES, FINANCIAL INCLUSION, AND ACCESS TO FINANCE IN THE CORREDOR SECO?**

Within the *Corredor Seco* the relationship between remittances and financial inclusion is that remittance receivers go to banks or cooperatives to receive their remittances. Many of these banks and cooperatives require remittance receivers to have accounts at the institution. As a result, we found a higher than expected level of financial inclusion among FGD participants. The relationship between financial inclusion and access to finance is less clear. Some of the FGD participants stated that they had obtained loans based on the stream of remittances they receive serving as collateral. However, this information was not corroborated by many financial institutions. As stated earlier, there is little evidence that banks and other regulated financial institutions in Honduras currently lend against remittance income. Most institutions still do not offer financial services especially designed for remittance receivers. Cooperatives are starting to offer financial products and services specifically designed for remittance incomes, and are willing to lend based on savings on deposit. Future activities should seek to pilot and scale up new and innovative remittance-linked products.

Financial intermediation is one way to make remittances available for economic development in the *Corredor Seco* region. Savings on deposit at banks, cooperatives, and other institutions provide the loan portfolio to be lent out for investment purposes. The more savings that can be mobilized in the region, the more funds will be available for investment. The cooperatives have taken the lead on encouraging remittance receivers to save money. One strategy has been to provide financial education to customers to motivate them to save and to provide them with the skills to be better able to save. We also learned that some migrants have their own accounts at local banks and cooperatives where they can deposit money directly from overseas, enabling them to build up funds for investing into businesses when they return to the country.

**HOW CAN REMITTANCES BE USED TO INCREASE FINANCIAL INCLUSION AND ACCESS TO FINANCE?** Financial inclusion has been increasing in the researched communities and this is partly due to remittances. Families need to go to banks, MFIs, or cooperatives to receive their remittances. The research found evidence of the need for several activities that could boost financial inclusion even further. As discussed in more detail above, these activities include:

- Financial education for adults and children to promote wiser budgeting, spending and saving behavior.
- Campaign to raise awareness of the sacrifice made by migrants to promote wiser spending and more saving.
- Campaign to motivate people to save.
- Innovation of financial products and services to better leverage remittances and support remittance senders and receivers (i.e. loans using mobile technology, longer term loans), Products related to remittances and retirement. These products in particular need to support long-term savings and loans.

## **WHAT CAN BE DONE TO MITIGATE THE POTENTIAL ADVERSE IMPACTS OF REMITTANCES SUCH AS REDUCED WORK ETHIC AND INCREASED COST OF LABOR?**

The adverse impacts of migration and remittances were detailed earlier in the report. Several of the programs that were recommended for leveraging remittances and promoting development will also mitigate these negative side effects, for example financial education or job and entrepreneurship training. In addition to these programs, research subjects mentioned other needs within their communities:

- Counseling for families - to counter the impact of emotional problems due to family separation

- Capacity building of local organizations to implement social and economic development programs
- Support for the few existing community-based projects to improve local infrastructure with remittance funds
- Human development programs through the local government
- Programs for youth protection and orientation
- Programs to mitigate alcoholism and stronger alcohol distribution laws especially for the underage population
- Policies to promote competitiveness and investment