

## Remittances at USAID

---

Revised 8/26/04

Remittances have become a major source of capital for developing countries. Documented volumes of global remittance flows have tripled between 1990 and 2003—from \$30.4 billion to \$93 billion. It is impossible to determine how much of this increase reflects actual growth in volume and how much is due to improved records and the use of formal financial channels, however remittance flows are second only to Foreign Direct Investment (FDI) as a capital flow into developing countries and are significantly larger than Official Development Assistance (ODA).

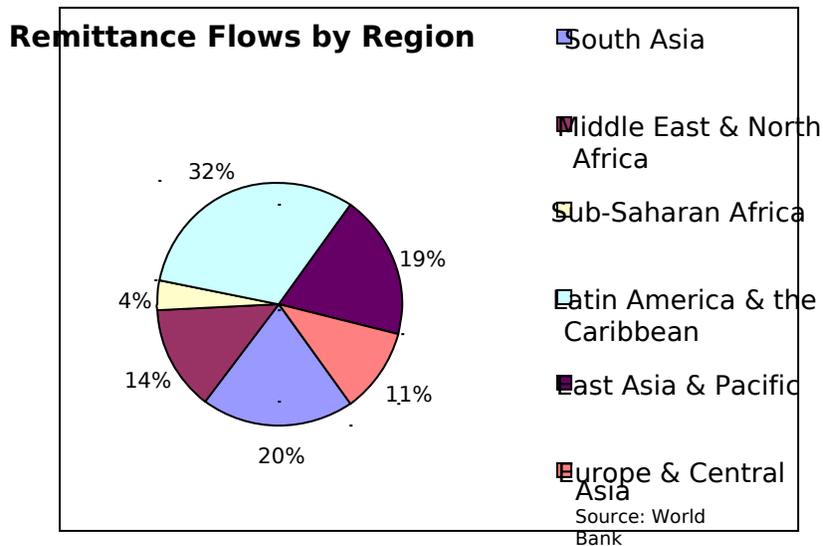
Remittances can be defined as sums of money that a migrant worker sends back to his or her country of origin. Migrants typically remit \$100 to \$200 per month to support and improve the quality of life of their families and communities. Remittance transfers are a crucial source of income to developing country economies as a whole, as well as to millions of individual households, particularly poor women and their children. Unlike aid or private investment flows, they reach the poor directly, and the poor decide how the money is spent (remittance recipients use most of the money to finance daily needs and consumption). Importantly, remittance services also offer a means for financial institutions to increase their outreach and relevance to poorer clients. This is especially important as remitters are allocating funds to savings and investments (e.g. homes and home improvements). With new financial products, they may be able to make their money go further for their own purposes.

Much of the pioneering work in the study of remittance flows and in developing pilot activities has been done in Latin America since Diaspora communities in the United States send large volumes of funds to their home countries. Regionally, Latin America and the Caribbean (LAC) receives the largest share of remittances in nominal terms (\$29.6 billion), with South Asia in Second position (\$18.2 billion).<sup>1</sup> Relative to GDP, however, South Asia is the largest recipient, with remittance receipts amounting to 2.4 percent of GDP (compared to 1.7 percent of GDP for LAC). An estimated 85 percent of the flows to Latin America and the Caribbean come from within the hemisphere, including more than three-quarters of the total, or \$25 billion, from the United States alone. The high volume of remittance flows from the US to Latin America and the Caribbean has triggered congressional questions about the continued need for official USG development assistance.

Africa has received relatively little attention in terms of remittance flows because, unlike Latin America and the Caribbean, African international migration flows have not been as numerous and regionally concentrated. Additionally, data is heavily underreported (close to two-thirds of Sub-Saharan African countries lack data); documented remittance flows to Africa total only 4 percent of total remittance flows.

---

<sup>1</sup> World Bank Data for 2003, as reported in USAID AMAP Newsletter, Vol. 1, No. 1 (August 2004).



## The Donor Community and Remittances

The magnitude of migrant remittances has attracted the attention of USAID and other USG agencies, international donors, policy makers and local governments. These organizations are now engaging in policy discussions about their roles in improving remittance markets where there is an opportunity to do so. At the 2004 Special Summit of the Americas, President George W. Bush, along with other leaders of the hemisphere, committed to reduce the transaction costs associated with sending remittances by 50 percent by 2008.<sup>2</sup> According to the White House, fees associated with sending remittances from the United States to Latin America and the Caribbean average 12.5 percent or \$4 billion annually. Costs are often non-transparent and reduce the impact of remittance flows. The US Department of Treasury is working to address concerns about informal remittances and their potential relationship with illegal transactions such as money laundering and the financing of terrorism. At the Summit of the Americas, hemispheric leaders committed to: promote competition between providers of remittance transfers; eliminate regulatory obstacles and other restrictive measures that affect the cost of sending; and adopt new technologies while maintaining effective financial oversight.

Through a joint working group formed by the Global Development Alliance (GDA) Secretariat, the Bureau for Economic Growth, Agriculture and Trade (EGAT) and the Bureau for Latin America and the Caribbean (LAC), USAID is exploring the options for prudent involvement in improving remittance markets. The working group (Kate McKee, Barry Lennon, Evelyn Stark, Chris Baltrop, Jolyne Sanjak and Dan Runde) is working to better understand how remittance markets work to help improve and expand upon initial pilot activities. The working group responds to requests from missions, coordinates with other donor initiatives, and captures the knowledge being generated by specific remittance activities managed by USAID bureaus. The working group is

<sup>2</sup> White House Fact Sheet on Remittances (January 13, 2004), available at [http://www.americasnet.net/Commentators/others/presidential\\_action.pdf](http://www.americasnet.net/Commentators/others/presidential_action.pdf)

financing a mix of pilot activities in Central and South America, Uganda and Rwanda to better understand remittance markets.

USAID also participates in an inter-agency task force on remittances. Designed by participants of the 2003 international Conference on Migrant Remittances, the task force includes the World Bank, the Department for International Development (DFID), the Inter-American Development Bank (IADB), the International Monetary Fund (IMF) and the US Treasury. The European Commission, Canada, the German development consulting firm Gesellschaft für Technische Zusammenarbeit (GTZ), the International Labor Organisation (ILO) and the Asian and African Development Banks will soon join. The inter-agency task force focuses on collaboration in

- Developing core principles in public policy and private enterprise;
- Improving data and information about remittances;
- Coordinating remittance programs; and
- Exploring the broader development impact of remittances and developing a shared vision of how to engage.

## **Donor Activities Undertaken**

---

Broad categories of activities undertaken by donors in the field of remittances drive the processes discussed at the 2004 Special Summit of the Americas: improving access to financial services, supporting hometown associations, and engaging in research and dissemination of information.

### **1. Improving Access to Financial Services:**

Given USAID's long-standing goal of expanding access to financial services, one of USAID's key goals as they relate to remittances is to "bank the unbanked." "Unbanked" people are those who are not part of any formal financial system due to "mistrust of the banking system, legal or documentation issues, impaired credit or limited knowledge of how banks operate."<sup>3</sup> Remittance programs established by organizations such as the World Council of Credit Unions (WOCCU) build linkages that encourage financial literacy and result in higher banking rates of those previously not incorporated in traditional financial systems. The Inter-American Dialogue has argued that remittances are driving financial democratization. At the same time, these linkages contribute to lowering transactions costs associated with remittances by encouraging competition in the market for remittance services. New alliances, such as that between WOCCU and VIGO (a money transfer operator), are introducing greater competition into the remittance market in many countries, and therefore are having the additional impact of lowering transaction costs of remittance transfers.

---

<sup>3</sup> The House Financial Services Subcommittee on Financial Institutions and Consumer Credit June 25, 2003 Press Release: Bachus Subcommittee to Address Financial Literacy, Access to Financial System; available at [http://www.operationhope.org/AboutOHI/Pressroom/6\\_25\\_03\\_story1.htm](http://www.operationhope.org/AboutOHI/Pressroom/6_25_03_story1.htm). While the US Treasury works on financial literacy and "banking the unbanked" in the United States, USAID works to extend financial services and to serve the underserved in developing countries.

Following is a partial summary of USAID programming designed to improve access to financial services:

- USAID/Mexico and the USAID/EGAT Pillar Bureau support the World Council of Credit Unions (WOCCU) in their work to “bank the unbanked.” The collaboration is financing the joint US-Mexico Partnership for Prosperity, an executive level action plan to promote economic development in Mexico. The Partnership identifies “lowering the cost of sending money home” as a key focus area. This innovative program has already significantly lowered the cost of transmitting remittances through promoting competition in the remittance services market and “banking the unbanked.” WOCCU, through their remittance services, reaches out to “unbanked” migrants and makes them aware of other services they provide. New product development includes assistance to help the Caja Popular Mexicana (the largest credit union in Mexico) engage in remittance transfers from the United States. USAID has helped to foster linkages between WOCCU, U.S. credit unions, and Caja Popular Mexicana to transfer funds at less than half the cost of Western Union. Since 1999, the cost of sending remittances from the United States to Mexico has fallen by 58 percent.<sup>4</sup> USAID has also supported WOCCU’s International Remittance Network (IRNet), which has facilitated transfers through credit unions in six Latin American countries (totaling 353,000 transactions for \$151.5 million).
- USAID/Mexico: Provides technical assistance on remittances and related financial service innovations. This is within a larger microfinance contract. The program seeks to help “bank the unbanked” by fostering innovative financial services and promoting alliances to enhance competition in the remittance market.
- USAID/Jamaica provides support for a partnership program with the Jamaica National Bank (JNB) to encourage Jamaica nationals residing in the U.S. to open accounts at their local JNB bank. JNB will make funds available to relatives in Jamaica via ATMs.
- USAID (CAM and GDA), FINCA International (the Foundation for International Community Assistance), and VISA International have embarked on a two-year public-private partnership to improve the delivery of financial services to entrepreneurial women in developing countries through streamlining FINCA’s operations and value-added services. This will enable cost effective transfer services as well as introduce remittance beneficiaries to banking products such as ATM cards, loans and saving accounts.
- USAID/LAC Regional and USAID/Colombia are supporting five microfinance institutions of the ACCION International network in Bolivia, Colombia, Haiti, Nicaragua, and Peru in the remittances market. The technical assistance program will help analyze MFI’s potential to handle remittances, draft business plans, acquire the necessary technological infrastructure, and develop new financial

---

<sup>4</sup> January 13 White House Fact Sheet on Remittances

products, technologies and services for their entrepreneurial clients. USAID will assist these MFIs in establishing agreements with money-transfer companies and in building ties with migrant communities and hometown associations in the United States.

- In Uganda, USAID/EGAT and the GDA Secretariat are co-financing a partnership between Hewlett Packard and three microfinance organizations to develop a remote transaction device and smart card technology that may permit those organizations to engage in in-country remittance transfers.
- See the Accelerated Microenterprise Advancement Project's Migrant Remittances Newsletter for examples of other activities that are improving access to financial services, including:
  - In 2001, Banco de Brasil completed a \$300 million bond issue securitized with future Yen remittance flows from Brazilian workers in Japan. The bond rating was significantly better than the country's sovereign debt rating. El Salvador, Mexico, Panama and Turkey have also used remittance-backed flows to secure financing. In addition, the Armenian Diaspora community created an SME Investment Fund sponsored by the IFC. Remittances and secured lending provide a useful example of leveraging fin services. Remittances are starting to be considered as a form of collateral for loan securitization and bond issues. Collateral-based loans are difficult to secure for those outside the formal banking process. This is the new area of exploration where donors together with partners in various countries are exploring ways to create new products that allow for remittances to serve as collateral.

## **2. Supporting Hometown Associations:**

Hometown associations are small philanthropic groups of migrants that support a wide range of social and economic projects in the communities of their origin. These community investments, though a minor percentage of all remittances, are adding up to significant levels of money. USAID-supported research indicates that in 2002, Mexican hometown associations alone sent an estimated \$30 million to their communities in support of local projects. These associations leverage broader change and deepen the impact of development assistance while engaging in efforts complementary to USAID's. USAID is engaging these hometown associations in innovative partnership opportunities to leverage even more impact:

- LAC/RSD awarded a grant to the Pan American Development Foundation (PADF) for their project in helping hometown associations make productive investments in their home communities. Current projects are underway in Mexico, Haiti and El Salvador. Much of the work involves establishing methods to leverage remittances for employment generating activities. Examples include supporting the production, processing and marketing of nostalgic agricultural products to migrants, and providing technical assistance to increase the production of other high value crops.

- USAID/El Salvador, together with the Minister of Education launched ALCANCE (Alianza de Comunidades Apoyando la Niñez y su continuación en la educación), an innovative partnership to promote remittances for education in El Salvador. The program seeks to better identify the reasons that rural schoolchildren drop out of school and partially remedies those causes through a scholarship program supported by Salvadoran immigrant communities in the United States and the Salvadoran private sector. The program is managed by PADF, working with Salvadoran home town communities in the US, World Vision, the Salvadoran Foundation for Educational Development (FEPADE), and Banco Agrícola. The twelve month program provides up to 2,000 small scholarships consisting of school materials and other necessities for attending school for children most in need and will provide training and other support to local schools to improve student retention in 40 rural communities in four departments.
- USAID/Haiti is supporting a partnership program with PADF and Unitransfer that would result in a \$1.00 donation for each remittance transfer fee collected by Unitransfer from a New York City pilot area. The donations would help support projects in Haiti with technical assistance provided by PADF. The program would also allow remitters to make additional donations when sending money. Last year, this partnership facilitated the reconstruction of a school in an economically depressed area. The school, located in a target area for USAID education programs, will also receive a package of USAID services to improve educational quality inside the classroom. The mission plans to expand this kind of activity and has a target of seven school reconstruction projects.
- The USAID/Haiti, PADF and Unitransfer program will use some of the proceeds from expanded remittance transfers to support health and education activities in Jamaica. USAID/Jamaica is also working with the Jamaica National Building Society Remittances program ‘building bridges’ to link hometown communities in US back to development projects in Jamaica. Western Union also contributes to this program.
- USAID/Colombia is supporting a local NGO in its creation of a mechanism for Colombians abroad to contribute funds to support grants for development projects in Colombia.

### **3. Supporting Research and Dissemination**

- LAC/RSD has funded research by Dr. Manuel Orozco on the role Home Town Associations play in their home country, what activities are working best and on the role of governments in stimulating investment and supporting Home Town Associations. Reports were submitted on Mexico, Guyana and Nicaragua.
- USAID/Mexico funded a feasibility study by ACCION on opportunities for building further linkages between Mexican microfinance institutions and

remittance transfer companies. Both ACCION and WOCCU are examining the demand for financial products such as savings, mortgages, insurance and debit cards.

- USAID/Guyana intends to support workshops in Guyana to explore ways of channeling remittances into productive ventures, based on the research characterizing remittances and their senders and receivers.
- USAID/EGAT, with its BASIS CRSP mechanism, is working with the USAID/Moldova Mission on a program (similar to USAID/Guyana's) that channels remittances into productive ventures.
- USAID/EGAT Central Bureau supports research on approaches to expanding remittance-related financial products and on legal and regulatory issues.
- The World Bank and the Inter-American Development Bank have designed diagnostic tools to assist central banks in understanding the issue of remittances as it relates to them.

## **Donor Areas of Concern**

---

Donors are working hard to consider areas of concern, including:

- *Improvement of underreported and underutilized data:* Whereas international remittance flows are becoming better documented and analyzed, official statistics as well as unofficial estimates typically neglect intra-regional and especially domestic remittance flows. Intra-regional flows include, for instance, money sent home to Mozambique or Lesotho by mineworkers in South Africa. Domestic remittances are monies sent home to their villages by migrants who moved to capitals or centers with better opportunities for employment but stayed in their home countries. While international remittance flows dwarf domestic and intra-regional remittances in value, studies indicate that particularly domestic transactions are much more common and contribute to more households than international remittances. In addition, donors hope to further document the remittance phenomenon where it is currently underreported.
- *Regulatory reform:* foreign exchange regulations tend to limit remittances to banking networks typically not readily accessible for low income and rural populations, so the poorest are excluded from accessing financial services.
- *Increasing transparency of exchange operators:* Operators often do not fully disclose full costs of transaction, including how exchange rates affect the amount of money transmitted.

## Resources

---

**USAID Working Group on remittances:** Kate McGee (EGAT/PR), Jolyne Sanjak (LAC/RSD), Chris Baltrop (EGAT/EG), Barry Lennon (EGAT/PR), Evelyn Stark (EGAT/PR) and Dan Runde (GDA).

**Migrant Remittances Newsletter:** Quarterly newsletter published by the Accelerated Microenterprise Advancement Project, offering a forum to share information about migrant remittances (databases, new developments or initiatives, new data, case studies, publications) is available through registering at [remittance@bannock.co.uk](mailto:remittance@bannock.co.uk).

**USAID remittances website:** [www.microlinks.org](http://www.microlinks.org); this site will include sample Scopes of Work for USAID Missions to utilize

**Inter-Agency Remittance Task Force:** The World Bank and the Department for International Development (DfID) are co-chairs of the task force. Contacts are Robert Keppler ([rkeppler@worldbank.org](mailto:rkeppler@worldbank.org)) and Douglas Pearce ([d-pearce@dfid.gov.uk](mailto:d-pearce@dfid.gov.uk)).

**G8 Action Plan on Migrant Remittances:** includes actions facilitating remittances to help families and small businesses ([http://www.g8usa.gov/d\\_060904a.htm](http://www.g8usa.gov/d_060904a.htm))

**International Conference on Remittances (London, October 2003):** In collaboration with the International Migration Policy programme and the Department for International Development, the world Bank held an International Conference on Migrant Remittances: Development Impact, Opportunities for the Financial Sector and Future Prospects; the first global meeting of its type on this topic, the conference attracted more than 100 participants from 42 countries—a program, papers, and additional resources are available at: [http://www.livlihoods.org/hot\\_topics/migration/remittances.html](http://www.livlihoods.org/hot_topics/migration/remittances.html)

**MIF Guidelines in LAC:** The Inter-American Development Bank's Multilateral Investment Fund has spearheaded extensive work on remittances in Latin America and the Caribbean and supported many market research studies and pilot activities. For the Lima Statement, with recommendations for the LAC Remittance Market, see [www.iadb.org/mif/v2/files/Statement\\_Lima2004eng.pdf](http://www.iadb.org/mif/v2/files/Statement_Lima2004eng.pdf); for conference proceedings, studies, and other documents, see [www.iadb.org/mif/v2/remittances.html](http://www.iadb.org/mif/v2/remittances.html); for "Guidelines for Remittance Project Proposals," see [www.iadb.org/mif/v2/files/remittances.pdf](http://www.iadb.org/mif/v2/files/remittances.pdf).

**International Remittance Services Qualify for CRA Credit:** US federal banking regulators have agreed that financial institutions should receive Community Reinvestment Act credit for offering international remittance services. CRA requires federal banking agencies to evaluate how regulated institutions meet the credit needs of their entire communities, including low and moderate income neighborhoods.

In a letter dated June 3, 2004, the Federal Reserve Board of Governors (the Fed), the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency and the Office of Thrift Supervision said institutions would receive favorable consideration

during CRA evaluation for providing this service. See  
[www.house.gov/banking\\_democrats/pr060404.html](http://www.house.gov/banking_democrats/pr060404.html)

***White House Fact Sheet on Lowering the Cost of Remittances:***  
<http://www.whitehouse.gov/news/releases/2004/01/20040113-7.html>