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# DEVELOPMENT AND REMITTANCES TO GUATEMALA:

ISSUES, CHALLENGES AND OPPORTUNITIES FOR U.S.  
COOPERATION

**February 2005**

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Development and Remittances to Guatemala: Issues, Challenges and Opportunities for U.S. Cooperation Contract  
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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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## INTRODUCTION<sup>1</sup>

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Guatemala is a major recipient of migrant worker remittances, registering \$2.6 billion in 2004. More than 50 percent of this flow has gone into rural areas and socially disadvantaged sectors where access to income and financial opportunities is scant. This flow is among the most significant forces of economic growth for Guatemala, yet it has received minimal policy attention.

Although remittances are sent primarily to the poor, this flow alone cannot solve the structural constraints of poverty. Remittances provide temporary relief to family poverty but are seldom a permanent route to financial security. Thus, concrete policies need to be adopted to leverage remittances in their sustainable development role. Any strategy on this front will require considering the players involved — in particular immigrants, their families, and financial intermediaries (Orozco 2004 OAS).

Although a number of donor institutions consider the migration-development nexus important — and see remittances at the intersection — there is currently no foreign assistance to implement any program of this nature in Guatemala. This briefing identifies potential opportunities to leverage the development impact of remittances in Guatemala. The briefing is based on interviews and data analysis on transfers to Guatemala, and provides recommendations in several areas relating to U.S. aid. Specifically, we recommend a three-pronged strategy consistent with millennium development goals and macroeconomic policy linking: a) remittances and microfinance<sup>2</sup>, b) economic investment and migrant capital, and c) diaspora outreach, financial education, and regulatory issues.

This briefing contains five parts: The first section looks at the broad profile of remittances and their relationship to development. The second section analyzes financial intermediation and remittances. In the third section, we identify the challenges and solutions raised by financial institutions. Fourth, the briefing looks at various government agencies' approach to their immigrant communities and remittances. The last section of the report offers a set of recommendations to the USAID mission for a three-year period.

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<sup>1</sup> We thank the individuals interviewed and their institutions for the information provided. We also thank Rachel Fedewa's research assistance in parts of this report, and Michelle Lapointe for logistical and editorial support.

<sup>2</sup> Although we consider Banrural and Bancafe to be non-specialized MFIs by virtue of their microcredit products, due to the size of their assets and diverse loan portfolios, they are discussed separately as commercial banks.

## I. REMITTANCES TO GUATEMALA: PROFILE AND RELATIONSHIP TO DEVELOPMENT

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Remittances are related to development in five areas. First, remittances represent an obligation and commitment to family needs. Second, remittances result in the distribution of finances to households and sectors that tend to be economically disadvantaged. Third, remittances have a macroeconomic impact, and generally remain constant or increase in the face of economic downturns. Consequently, they may offset or stabilize the ups and downs of financial cycles. Fourth, these large financial transfers have the potential and capacity to generate wealth in the home and the community where they are sent. Fifth, remittances have multiplying effects, in part through fostering the “Five Ts” of global economic integration: tourism, (air) transportation, telecommunications, (remittance) transfers, and (nostalgic) trade (Orozco 2005).

The effect of remittances in Guatemala is significant. First, remittances have a direct impact on family household income: the average monthly amount sent, \$270, represents 1.23 times the country’s per capita GDP. In per capita terms, remittances are greater than the income earned by the bottom 40 percent of the population. (Orozco 2004). Furthermore, as the number of dependents increases, so does the amount sent (Orozco 2004 survey).

Second, the distributive effect of remittances is not only at the household level. Around half of the money goes to vulnerable sectors: According to the most recent International Organization of Migration (IOM) survey in 2004, 60 percent of recipients of remittances live in rural areas, 55 percent are women, 40 percent are under 15 or over 65 years of age, and 60 percent have only a primary education (IOM 2004). Adams (2004, 15) also shows that remittances have an impact in reducing the severity of poverty.

Third, these volumes respond to specific economic trends in Guatemala. When analyzing remittances within the context of a country’s basic economic determinants, including inflation, interest rates, unemployment, export earnings and foreign exchange, the statistical results show that migrant earnings respond positively and significantly to inflation above any other indicator. The impact of remittances on GDP growth is also significant.

Fourth, the wealth-generating capacity of remittances is associated with basic access to financial institutions. According to the Inter-American Development Bank, 40 percent of remittance recipient households develop a relationship with a banking institution, compared to 17 percent of those who do not receive remittances. (The IOM survey showed that 24 percent of remittance recipients have a bank account.) Remittance recipients tend to use savings and credit when the opportunity arises.

Fifth, recipients are in significant contact with their relatives, spurring other economic effects in the home country. Moreover, from a civil society perspective, there are over 150 organized Guatemalan associations in the United States that send donations for social projects.

Although these relationships and the effects they have in home countries are important in themselves, they also demand strategies that have a direct impact on development. For example,

transmission fees are costly to both senders and recipients. In addition, these are generally cash to cash transactions that, unless linked to financial institutions, lose value over time.

The banking industry handles over 50 percent of remittance transfer volume, making the lack of access to bank accounts among remittance recipients even more problematic. Bancafe, Banrural, Banco Industrial and Banco de Occidente are the major remittance payers in Guatemala, yet the majority of those who receive remittances at these banks do not have a more extensive financial relationship with them. This situation is even more acute in rural areas. Microfinance institutions do not yet cater to remittance recipient households in rural areas.

It is thus important to explore a range of issues relating to reducing transaction costs, leveraging the capital potential of remittances through banking and financing, promoting tourism, nostalgic trade, and investment, and establishing a state policy that attends to the diaspora (Orozco 2004 UN report).

In this report, therefore, we focus on how banks and alternative financial institutions service remittance recipient households and the policy role of the state in regulatory and other areas such as economic policy.

## 2. SCOPE OF THE INTERSECTION OF REMITTANCES AND FINANCIAL INTERMEDIATION IN GUATEMALA

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Despite the significant volume of worker earnings, many people in remittance-receiving societies lack access to the formal banking system. For example, in El Salvador, Guatemala and Honduras, fewer than two in 10 people have access to bank accounts. This number is slightly higher among remittance recipients, but in general they do not benefit from wider financial services and are not offered other products through cross-selling when retrieving their remittance.

**Table 1: People with bank accounts (remittance recipients and non-recipients)**

	Guatemala	Honduras	El Salvador	Mexico	Ecuador
Recipients	41%	34%	31%	19%	46%
Non-Recipients	17%	16%	19%	16%	34%

**Source:** Multilateral Investment Fund-Inter-American Development Bank, *Receptores de Remesas en México*, Octubre 2003; *Receptores de remesas en Guatemala, El Salvador y Honduras*, Septiembre 2003; *Receptores de Remesas en Ecuador*, Mayo 2003. Washington, D.C.: MIF-IADB/FOMIN-BID.

Among the effects of being unbanked are a greater susceptibility to higher transaction costs and the inability to earn interest from personal savings, establish credit history, or obtain credit. Remittances have emerged as alternative source of funding in the absence of the banking system, providing capital for different forms of investment, insurance, and precautionary savings.

Moreover, recipients manifest a demand for financial services. Although only 10 percent of remittance recipients have bank accounts, nearly 50 percent of the same group has expressed interest in obtaining some form of credit (IOM 2004). This is particularly relevant in rural Guatemala. Although remittance recipient households demand financial services, there is little banking presence in those areas: 50 percent of Guatemalan banks operate in the capital alone.

It is important, therefore, to analyze the extent to which there is a positive intersection between financial intermediation and remittances. In other words, we need to assess whether banking and non-bank financial institutions, such as savings and credit cooperatives and microfinance institutions — which have a greater presence in rural Guatemala — have a direct or indirect relationship to remittances.

This relationship pertains to at least three areas, namely, whether the institutions are aware of a remittance recipient market, whether that market has specific demands and preferences for financial services, and whether the institutions are currently tailoring financial services to serve this market. These three issues are relevant because they point to the ability of financial institutions to leverage the flows of remittances by increasing the institution's and local community's savings rates, thereby mobilizing savings for credit and investment. Leveraging just 10 percent of remittances as savings will increase the opportunity for investment in many rural areas. Moreover, the daily float (the remittance cash flow yet to be withdrawn) emerging from such transactions constitutes another source of financial intermediation that could generate additional capital for on-lending.

Ten institutions were interviewed, including three banks, three MFIs, and three cooperatives. These institutions were asked three broad set of questions, specifically: a) whether they provide remittance services or know that their clientele or community receives remittances, b) what obstacles and solutions have their institutions found in providing remittance transfers (and other financial services to recipients), and c) whether they consider it important for USAID to become involved with remittances, and, if so, how. This section focuses on the first topic. Section three addresses obstacles, solutions, and recommendations as suggested by those interviewed.

### *Remittance transfers and financial institutions*

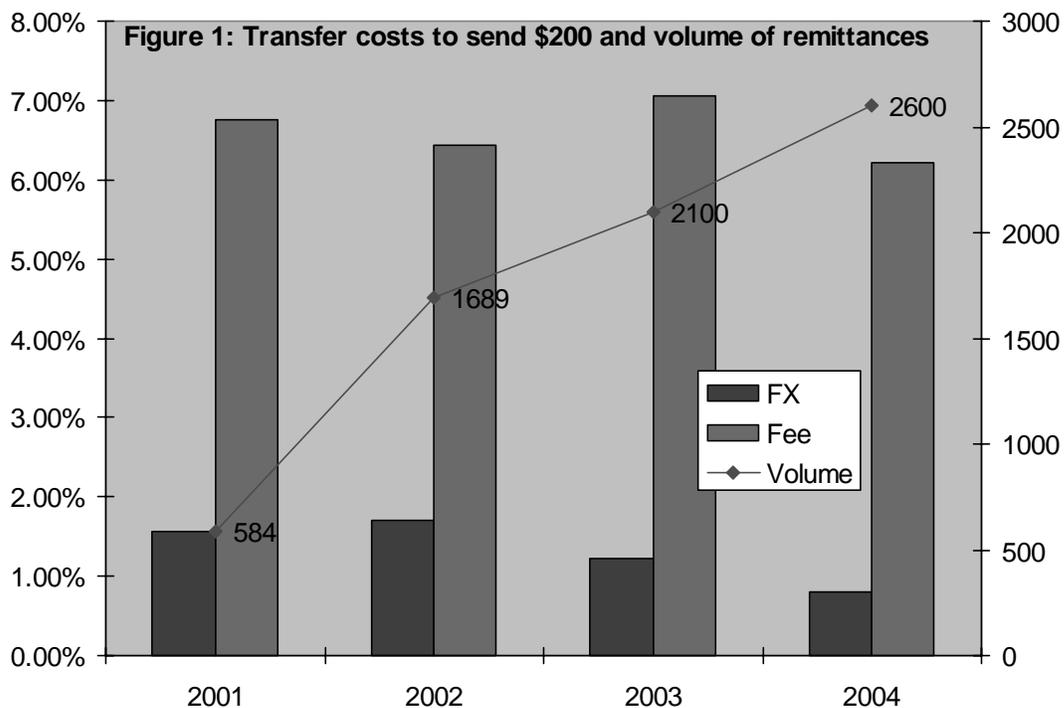
The remittance industry in Guatemala developed recently, but it has become a dynamic market with growing competition. Participation of local banks in money transfers has led to much of the increased competition. At least six banks are involved in transfers, including *BanRural*, *Bancafe*, *Banco Metropolitano*, *Banco de Occidente*, *Banco Industrial*, and *Banco GyT*.

These banks have corresponding contracts with several money transfer businesses, such as *Western Union*, *Vigo*, and *MoneyGram*. One of the leading companies in the industry is a money order business, King Express, which has a significant share of the market — nearly 40 percent in 2004) — and is redefining its scope and involvement. King Express has an alliance with Banco Industrial, which has handled nearly a third of King Express’ transactions.

**Table 2: Players in remittance transfers to Guatemala**

<b>MTO</b>	<b>Payer</b>
King Express	Banco Industrial
MoneyGram	Bancafe
Western Union	Banrural, Airpak and others
Vigo Corporation	FENACOA
Banco de Occidente	Banco de Occidente
Gigante Express, Lealon Express, etc.	Gigante Express
Other smaller players	Banrural, retail businesses

Costs to send money to Guatemala (7 percent) are slightly more competitive than the average prices in Latin America (7.5 percent), and may continue to decline as these institutions consolidate their positions in the market. However, it remains expensive to send and receive money.



## Banks

At least six banks conduct money transfer operations in Guatemala. Three banks were interviewed: Banco Industrial, Bancafe, and Banrural. Questions pertained to the offer of remittance and other financial services to remittance recipients.

In late 2002, Banco Industrial established an alliance with King Express, a U.S.-based courier and money order company. Banco Industrial acts as a complement to the services, offering value-added services. Through the alliance, remitters can go to King Express to buy a money order, which will be immediately paid out to beneficiaries in Guatemala by presenting the money order and a form of identification. The alliance with King Express for remittances has been very successful; about 90,000 clients of King Express (30 percent of its total distribution network) withdraw their money from Banco Industrial (Shrader interview).

Banco Industrial promotes the service by marketing the immediacy of the money order retrieval, the fact that it does not require a bank account to use remittances services, and that it offers a better market exchange rate. Marketing strategies include direct mail, open advertising, raffles on occasions such as Christmas and Mother's Day, and participation in community events where bank branches are located. King Express is responsible for marketing on the U.S. side, where it utilizes its large database for direct mail marketing. King Express also has a close relationship with the community, participating in many social events at restaurants and clubs frequented by Latin Americans. It also puts on promotions at Guatemalan organizations in cities with large expatriate populations like Chicago, Miami, New York, and various parts of California.

When clients enter the bank to use remittance services, the bank offers its other services. The bank tends not to bombard clients with many products at once, but instead takes a gradual approach. Savings accounts are usually the first product that remittance recipients select. The bank teaches the client how to manage the account and about the financial institution. Banco Industrial offers special promotions for opening accounts through gift items and the chance to participate in a raffle for prizes like home appliances. It has had satisfactory results in turning remittance clients into full bank clients, but it still has a long way to go. According to bank officials, 30 percent of clients who use remittances also hold a bank account. Advertising remittances, rather than other financial services, has proved a much more successful way to attract clients (Rivera interview).

A survey of 200 remittance recipient clients of Banco Industrial showed that the majority withdraw the money in urban areas and that 80 percent of recipients are women. Although the average withdrawn is \$250, 46 percent receive less than \$150 a month. Forty percent have a savings account, and 24 percent have a checking account, half of whom hold their accounts with Banco Industrial.

**Table 3: Remittance received by customers of Banco Industrial**

Less than \$50	3.5
\$51 to \$100	35
\$101 to \$150	8
\$151 to \$200	19
\$201 to \$250	3.5
\$251 to \$300	12
More than \$300	19

**Source:** Orozco, Manuel. Survey commissioned to Borge & Asociados, 2004.

Another bank holding alliances with a major money transfer company is Bancafe. Historically well known, this bank has recently faced financial difficulties. The bank's remittance model is similar to that of Banco Industrial. It operates as a payer for MoneyGram through an exclusive agreement. Currently the bank is making 60,000 transactions a month. One area of innovation in Bancafe is the offer of a debit card, which is currently used by five percent of recipient clients, a percentage it hopes to increase.

Unlike Banco Industrial and Bancafe, Banrural is one of the largest microfinance service providers as well as an active remittance payer, which has alliances with more than one money transfer company. The bank is currently distributing more than 150,000 transfers a month in association with more than 80 money transfer companies operating in the United States. The bank is satisfied with the remittance service, but from a development perspective, it perceives that its desired impact is yet to be realized.

According to the IOM's 2004 remittance survey, 35 percent of remittance recipient households with bank accounts receive their remittance through Banrural. The bank, however, does not have a commercialization strategy linking remittances to other financial products. In that sense, it perceives that such an offer could be vital to have a development impact. Those receiving remittances through Banrural represent somewhere around 10 percent of their total customer base.

### **Cooperatives—FENACOAC**

The Federación Nacional de Cooperativas de Ahorro y Crédito de Guatemala (FENACOAC) is an institution composed of 26 member cooperatives and 104 branches. It currently has a money transfer alliance with Vigo Corporation and is concluding negotiations for a similar contract with MoneyGram. In total FENACOAC makes 30,000 transactions a month, totaling more than \$150,000,000 a year. Three member institutions — Coosadeco, Guayacan, and Salcajá — were also interviewed. Together they manage over 12,000 transfers a month.

Coosadeco, operating in Western Guatemala, currently processes 8,000 transactions a month at an average of \$250 per transfer. They have a savings promotion strategy that consists of matching 10 percent of the amount saved by a recipient household. Less than 5 percent of recipients currently have savings, however, the cooperative has had a 70 percent success rate in recruiting clients to become members.

Guayacan Cooperative, with 50,000 members, makes 3,500 transfers a month. The cooperative has three objectives with regard to its remittance services: 1) increase the volume (for increased profitability), 2) foment a savings culture and expand captured savings, and 3) increase cooperative membership.

SalCajá Cooperative is an MFI that operates in rural Quetzaltenango and has developed a relationship with Guatemalan hometown associations in Chicago and Oxnard, California. It currently serves 14,000 clients, makes 1,000 transactions a month, and has a \$10 million portfolio.

The MFI is working also with FLACSO in a working group on “Microfinanzas, desarrollo sustentable, region y migración internacional.” This group involves eight MFIs, two credit unions, two NGOs, a group of donors, and FLACSO. The working group has been meeting for over a year and has been designing a project that links remittances and development through microfinances in Guatemala's highlands in the area of Soconusco, with Quetzaltenango as the main city.

This area of Guatemala is among the most impoverished in the country (more than 70 percent of people are poor) and receives about seven percent of national remittances (the area represents 20 percent of Guatemala's population). In many of the 300 communities that belong to 19 municipalities, 50 percent of males have emigrated, and about 20 percent of households receive remittances. This translates to average communities receiving up to \$2 million annually for an estimated total of \$200 million for the region (Dardon interview).

The working group has already carried out a preliminary diagnosis of the relationship between migration and development problems in the area. They have entered a new stage in which they identified the strengths, weaknesses, and opportunities to link MFIs in remittance transfers. The working group is interested in presenting a proposal that will address a diagnosis for community development.

Meanwhile, SalCajá is interested in working directly to offer financial products that include: pension funds, education scholarships, life insurance, medical insurance, small business credit, home equity funds, and savings packages.

### **Microfinance NGOs**

Microfunding institutions in Guatemala are an important sector that caters to underserved rural and urban communities. Despite their importance, they provide services to fewer than 300,000 clients (Lowenthal interview). However, they are located in many remittance receiving areas. None of the three microfinance institutions interviewed—Génesis Empresarial, Fundación de Asesoría Financiera a Instituciones de Desarrollo y Servicio Social (FAFIDESS) and the Fundación para el Desarrollo Empresarial Agrícola (FUNDEA) —offers remittances services, but all are interested in exploring the market.

Génesis Empresarial is among the largest and most sustainable MFIs in the country, serving 40,000 clients. Although it does not offer remittance services, the institution conducted a study of the internal market for transfers among its clients. Its 2004 survey of five percent of its clients found that 33 receive remittances (Zamora interview) of an average of \$250 per month.

The institution is currently exploring the possibility of negotiating agreements with money transfer companies. Their strategy consists of offering efficient client service transfers at no cost to recipients, and other financial services of interest to recipients, such as insurance and education funds.

FAFIDESS, an MFI with 9,000 women clients, is currently negotiating with Microfinance International Corp. (MIFC), a Washington, D.C.-based company, to begin offering remittance transfer services during the coming months. Although FAFIDESS recognizes the relevance of remittances, its executives are less aware of the extent to which their clients or areas of operation intersect with remittance reception. The institution has not conducted any market research in this area. A similar situation is observed with FUNDEA, which serves 12,000 clients in rural areas mainly for agricultural credit. The institution has limited knowledge of the scope of remittances in Guatemala or among its clients and areas of operation. They also stress that developing a business strategy for remittance transfers depends on the “international connections that one has.” (Balsells interview).

Although Guatemala represents a significant market for money transfers and other financial services for recipients, competition is a relatively recent development, and banking financial intermediaries dominate the transfer industry. However, as competitors seek to enter and expand their presence across the country, MFIs will be positioned strategically as partners in the short term. Specifically, because the level of competition is shifting from exclusive agreements to low-

cost transfers and multiple contracts, the industry will look for partners that offer value-added to their customers, thus finding MFIs as ideal partners, comparable to commercial banks.

The table below displays the institutions interviewed, which are relatively representative of those in the remittance and finance industries. Together these institutions interviewed are processing 60 percent of transfers out of a monthly total average in 2004 of \$830,000.

**Table 4: Basic Facts about Institutions Interviewed**

Type	Remittance Market position	Institution (no. branches)	Members/clients	Microcredit clients	Monthly remittance transactions	Active microcredit portfolio (US\$)
Cooperatives	Consolidating	Guayacan (10)	47,000	7,865	3,500	16.6
		Salcajá (4)	14,981		1,000	NA
		Coosadeco (13)	66,000	7,069	8,000	14.3
		FENACOAC (104)		NA	30,000	NA
MFI	Start up	Génesis (55)	40,000	40,000 +	None	18.3
		FUNDEA (10)	12,500	12,500	None	4.4
		FAFIDESS	9,000	9,000	None	NA
Bank	Mature	Banrural		33,715	190,000	50.9
		Bancafe		11,190	75,000	17.0
		Banco Industrial			200,000	NA

**Source:** Estrategia y Negocios, 2002, Boletín Financiero y Estadístico, Microfinanzas 2003, interviews.

### **3. CHALLENGES, SOLUTIONS AND RECOMMENDATIONS IN WORKING WITH REMITTANCE TRANSFERS**

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In the majority of cases, the institutions identified problems dealing with competition, a lack of understanding of remittance sending and recipient market, marketing strategies that offer financial products tailored to recipients (particularly savings products), and education on financial literacy. They proposed solutions that addressed product design and market research strategies.

#### **a) Challenges met on remittances and financial intermediation**

##### **Competition**

Executives of these institutions agreed that dealing with exclusive agreements curtails their capacity to expand their share of the remittance market. Bancafe's officials identified two challenges: first, to increase their market share, and second, to offer other financial products, particularly their debit card. The first obstacle is mostly connected to the exclusive agreement with MoneyGram, which they are renegotiating, in order to find other options. Banco Industrial expressed similar sentiments. In most instances, Banrural's experience was identified as an example of a successful business strategy.

A key challenge the cooperatives stressed was their ability to conduct speedy negotiations with other companies. FENACOAC's executive director as well as the three executives of the cooperatives interviewed agreed that concluding negotiations with MoneyGram was an important yet slow process.

MFIs for their part also agreed that exclusive agreements were not in their interest. Génesis Empresarial, for example, stressed that they had had conversations with Western Union but chose not to work with them due to the nature of the agreements. Similarly, Guayacan, which had been an agent for WU, also decided in 1998 to discontinue its relationship with the company.

Everyone also agreed that competition is growing and offering remittance services will become more difficult. The MFIs stress that while entering the market is important, especially for their strategic locations, they will be competing with bank branches in the areas in which they operate. Moreover, Génesis noted that cash flow is a very significant obstacle. Because most MFI branches do not manage daily cash, they must work to change their system—and guarantee this service—in order to provide an efficient transfer to their recipients. Specifically, the remittance transfer process is very different from issuing microcredit: remittances are transferred in real time. This and other differences require additional capacity building, as well as a new communication infrastructure that will ensure that no delays occur in the system (Zamora interview).

## **Understanding the market and designing products**

A consensus was also found regarding the limitations of knowing the remittance recipient and sender markets, as well as their market preferences. Banco Industrial, for example, which has its set of financial products, realizes that recipients have different preferences and that these are often connected to those of the sender. The cooperatives also expressed a similar position. For example, one Salcajá representative expressed that while they enjoy the respect of the community, they still need to find ways to understand recipients in order to offer remittance related services to the community. As of yet, the representative noted, “we have not found an appropriate channel” (Pisabaj interview).

The lack of understanding of the remittance marketplace affects these institutions’ ability to tailor financial products to the preferences of recipients and senders. Some institutions have identified demands such as housing, burial insurance, and education funds, but there is no systematic assessment of the needs of this market. Everyone interviewed agreed that recipients have predominantly a demand for housing, which translates in investment in construction, repair, and property acquisition.

## **Financial education and culture**

Perhaps the most important agreement among those interviewed related to savings and education. All institutions agreed that remittance transfer business is not an end in itself but a means to offer a range of services to recipients, and possibly senders, starting with the opening of savings and checking accounts, the offer of credits and loans, and other services like debit cards.

However, these institutions concurred in the difficulty of recruiting remittance recipients as new clients or members with a financial relationship beyond cash withdrawal. For example, Coosadeco’s approach to turning recipients into members has not yet translated into financial customers beyond five percent of the target group. The reasons explaining these problems are varied. Several executives argue that people lack understanding of how to use their money. In their view, the sender needs to be more conscious of how the recipient is using the money. Similarly Coosadeco and Salcajá executives argue that clients do not perceive the importance of savings or investment and focus entirely on consumption.

Others stressed that Guatemalans are risk-averse and “do not possess a business mentality.” Salcajá wants to be able to discern and somehow bridge the divide between those who do not have an interest in productive activities, and those who do not possess the capacity for productivity. To them, the challenge lies in figuring out how to channel the trend toward increased consumption into strengthening the local market and generating jobs.

The acknowledgement of this problem is typical in most remittance recipient societies and stems from the fact that until very recently, these societies (including the sender, recipient, and intermediaries) have not viewed remittances as an inextricably financial resource, or a foreign saving. This situation coincides with financial institutions’ limited knowledge of the remittance marketplace, which in turns affects their product design strategies. One interviewee conceded

that “connecting remittances to microfinance is such a new theme,” and involves a better understanding of problems and solutions.

Thus an important effort lies in strengthening the link between remittances and finances through education and financial training, from a supply and demand approach.

### Other problems and challenges

Three other problems highlighted dealt with the uncertain future of migration, the logic of remittance industry, and the regulatory environment. Some institutions stressed that uncertainty about the lifespan of the migration cycle and insecurity resulting from undocumented migrants reduces the institutions’ ability to forecast or plan new strategies. Coosadeco, for example, would reduce uncertainty if they had a better sense of how much longer remittance flows will continue.

Another perspective offered a critical approach to the banking system and its involvement in remittances, stressing that not only has the banking system been uninterested historically in banking low income individuals, but also that in managing most of the transfers without offering other financial products, it is motivating a cash-based culture of consumption.

Finally, MFIs highlighted the recent changes in fiscal reform of these institutions that now tax their activities. MFIs believe that these changes may impact their performance in future operations, such as pricing remittance transfers.

**Table 5: Challenges faced with remittance transfers**

Institution	Comp.	MR&PD	Educ.	Other
Guayacan (10)	/	/	/	
Salcajá (4)	/	/	/	/
Coosadeco (13)		/	/	/
<i>FENACOAC (104)</i>	/		/	
Génesis (55)	/	/		
FUNDEA (10)	/			/
FAFIDESS				/
Banrural		/		
Bancafe	/	/		
Banco Industrial	/	/		

### b) Solutions and recommendations to USAID

Recommendations were offered as areas in which donors like USAID could provide assistance. Some of these solutions deal with the allocation of resources and technical assistance on market research, product design, marketing or product commercialization, and technological and information systems upgrades.

## **Financial education**

All those interviewed stressed financial education programs that motivate a savings and investment culture. However, little specification was made about the content of such programs as outreach strategies.

## **Market research**

Market research is a central strategic solution that links remittances to financial intermediation. This requires an understanding of the clients or members who use remittances, the remittance recipient cohorts in a given community, and the preferences of those already withdrawing remittances through their institutions. Support in market research thus depends on the stage at which the institution finds itself in the remittance business.

For example, FAFIDESS and FUNDEA are not aware what percentage of its clients may be remittance recipients. An assessment of their clientele would provide enough information to begin approaching the remittance business.

As part of a two-pronged approach, Génesis supports assistance in redesigning its financial products for remittance recipients. However, to them it will require market studies and investigations both in Guatemala and among migrant workers in the United States, that allow a greater understanding of the market base they would be working with. Their preliminary systematic approach, which estimated the percent of recipients, offered a first step to understanding their internal clientele and minimal market base.

Banco Industrial, Bancafe and Banrural, on the other hand, are interested in deepening their knowledge of the U.S. market and learning about the preferences of the Guatemalan community abroad, including the kinds of products in which they would be interested in investing.

## **Product design**

Designing a financial product attractive to immigrants and their families is another way of addressing the challenge of a poor link between remittances and financial intermediation. Research has consistently shown that both senders and recipients a) save; b) need working capital to invest in small businesses; c) need capital to build home equity (home improvement or purchasing); d) use remittances for health and education purposes; e) intend to treat surplus remittances as a future investment.

However, despite the existence of these products, the financial services market has seldom offered products that meet the market preferences of immigrants. Listed below are some of the products for which immigrants express a demand. The successful offer of these products depends, however, on a sound marketing and commercialization strategy (see Annex I for an elaboration of each item):

- a) Saving packages
- b) Certificate of Deposits
- c) Pension funds
- d) Medical insurance
- e) Life insurance
- f) Housing credits
- g) Small business credits
- h) Special foreign currency deposit accounts
- i) Tourism packages
- j) Telephone and telecommunication offers

Most of the institutions interviewed identified some product that required design to market to recipients. For example, Salcajá identifies some solutions in product design. Among those ideas is a strategy that finds a correspondence between needs and wants in the community. One example is in the area of education. Salcajá is interested in financing educational programs that are more in tune with the needs of the community, specifically, in encouraging the creation of more vocational-technical career tracks, while simultaneously stimulating the private sector-driven employment in corresponding sectors.

Salcajá has considered how they might maximize the community's strength in handicrafts and locally produced textiles. They know that most of the raw materials (fabric, thread and dyes) are imported, and they have even considered trying to stimulate local production (e.g., setting up a local dye laboratory and production facility). However, no formal market studies or pre-business plans have been conducted to test the viability of these projects.

In terms of savings options, Salcajá has designed special programs such as CRESCO and PAI (*Plan de Ahorro Infantil/Juvenil*), specifically designed for parents looking to finance their children's education. Their aim is to focus on the pre-teens and teens, those most likely to want to emigrate once they reach 18-25 years of age.

Coosadeco is seeking creative ways to stimulate savings and has considered matching short-term savings accounts. FAFIDESS, on the other hand, suggested issuing micro-insurances (*micro-seguros*) to enhance the stability of loans based on remittance payments (Walter interview).

## **Marketing**

In addition to designing specific products, many argued that supporting marketing strategies is a significant step to participating in the industry. For example, Guayacan's cross-selling efforts include radio spots, a mobile unit, flyers, brochures, cards and a newsletter. But they need to strengthen their training on *promotores* in order to expand their savings education as a marketing tool.

Moreover, as part of diversifying its marketing strategy, Coosadeco wants to increase its services for utility payments, which most clients do not take advantage of because they are accustomed to making these payments directly themselves. Coosadeco is working on a campaign to educate people about the various options available to them.

## Information systems upgrade

Given the fast pace of telecommunications and information technology, there was a consensus that getting up to speed on equipment and training is central to achieving a competitive edge. Guayacan Cooperative, for example, stressed that it would benefit from more technical assistance in data management and training. Even an institution like Coosadeco expressed that it does not possess a strong client management database.

**Table 6: Solutions and recommendations to challenges**

Institution	MR	FE	PD	IT
Guayacan (10)	/	/	/	/
Salcajá (4)	/	/	/	/
Coosadeco (13)	/	/	/	/
FENACOAC (104)	/		/	/
Génesis (55)	/	/		
FUNDEA (10)	/			
FAFIDESS	/			
Banrural	/	/		
Bancafe	/	/	/	
Banco Industrial	/	/	/	

**Note:** MR: Market Research; FE: Financial Education; PD: Product Design; IT: Information Technology.

#### **4. GOVERNMENT POLICY ISSUES: CENTRAL BANK, VICE PRESIDENCY, AND FOREIGN AFFAIRS**

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Although there is no state outreach or development policy linking to the diaspora, the government has recently expressed significant interest in this area. Vice President Eduardo Stein, former head of the Guatemalan office of the International Organization of Migration, has been the most active official in discussing the relationship between remittances and development. His office has discussed with IOM the elaboration and design of a low-cost housing plan for remittance recipient households and communities (Stein interview).

The IOM team is actively working toward implementing a strategy that deals with housing markets. Specifically, IOM is seeking to use remittances as credit history for remittance recipient households and to provide funding for those interested in buying a new home. The program involves the Guatemalan government, Bancafe, IOM, and immigrant organizations. The housing project has two different models: one for rural Guatemala, which would sell subsidized housing for \$3,000, and another one for more expensive housing in urban areas (IOM interview).

Their interest is in raising enough capital to begin offering mortgage services. Fondo Guatemalteco de Vivienda (FUGUAVI) is the government institution in charge of implementing the construction project, while IOM would promote the program and Bancafe would facilitate the financing. The project is promising, but needs greater clarity and assessment of long-term expectations.

The Planning Ministry has sought to maintain a ministerial level discussion on remittances, migration, and development. The effort has met with confusion among officials in the foreign affairs office, as they perceive that diaspora affairs fall within their jurisdiction. In fact, there is an innovative but ill-funded government initiative within the Ministry of Foreign Affairs. The government created the Office of the Vice Ministry of Migration and Human Rights, which is run by Marta Altolaguirre, a well known human rights expert. Her office was given the task to act as a go-between with the Guatemalan diaspora, understand its needs, and build a relationship with this community. The office, however, is understaffed and does not have a significant mandate (Altolaguirre interview).

Nonetheless, that office has identified a significant number of community leaders in contact with Guatemala. It has a directory of 164 organizations based mainly in California, New York, and Illinois, and has established contact with many of them. The office has also sought to develop a policy and learning exercise to educate the government about the diaspora. Providing technical assistance to this office would be an important contribution to the government's efforts to link with its diaspora.

**Table 6: Guatemalan organizations in the U.S.**

State	Number
California	38
New York	23
Illinois	19
Florida	10
Virginia	10
Massachusetts	9
Maryland	7
Delaware	6
New Jersey	6
Oregon	5
Other	31

**Source:** Registro de Asociaciones Guatemaltecas en los Estados Unidos

### **Guatemala's Central Bank**

The Central Bank is another important player in this area of remittances. From a regulatory, educational, analytical and statistical standpoint, this is a premier institution on which to focus attention. As Banrural rural executives stress, the lack of reliable statistics about the volume of remittances entering the country adds to the uncertainty about developing a sound strategy. The increased volumes in remittances are not well explained (or explained at all by the statistical office or the balance of payments division). For example, it is uncertain whether electronic wire transfers are growing or money orders (traditionally handled by King Express and Gigante Express) are decreasing.

The Central Bank would benefit significantly from technical assistance at various levels. For example, on some occasions senior bank officials have stressed that remittances have a tendency to influence foreign exchange rates in the country, thus adversely affecting the economy, but they lack any studies to prove this.

In conversations with balance of payments and statistical division of the Central Bank, we looked at this issue more carefully. After observing that the increase in remittances coincided with the decline in coffee exports, we conducted an analysis of this trend. Using data on certain macroeconomic variables such as unemployment, inflation, foreign exchange, coffee exports and interest rates, we ran a regression model for remittance transfers.

The analysis looked at these issues using data from January 1999 to December 2003 to analyze the possible patterns between remittance transfers and economic factors such as unemployment in the sending country, inflation, foreign exchange or interest rates in the receiving country. We looked at the period before Guatemala entered into an economic recession connected to the decline in tourist and coffee revenue. We employed a multiple regression model using the OLS method to estimate the effect on remittances by the above mentioned variables. The main equation is presented as follows:

$$R_{GUA,t-1} = CPI_{GUA} + HispUn_{US} + FX_{GUA} + IR_{GUA}$$

(+)            (-)            (?)            (-) [Expected sign in the statistical relationship]

Where,

- $R_{GUA,t-1}$  = Monthly remittance transfers to Guatemala (lagged values)
- $HispUn_{US}$  = Monthly unemployment in the U.S. among Latino immigrants
- $CPI_{GUA}$  = Consumer price index in Guatemala
- $FX_{GUA}$  = Foreign exchange (nominal) in Guatemala
- $IR_{GUA}$  = Interest lending rate in Guatemala

The analysis looks at log lagged value of remittances with a month's difference that explores how monthly flows respond to the previous month's indicators. The results are reported in the table below. The regression results show that current price index, interest rates and foreign exchange rates are statistically significant. This result indicates that immigrants mostly respond to economic conditions that directly affect daily activities, such as price changes in everyday expenses. This result is consistent with evidence that the majority of remittances transferred go to cover basic household needs.

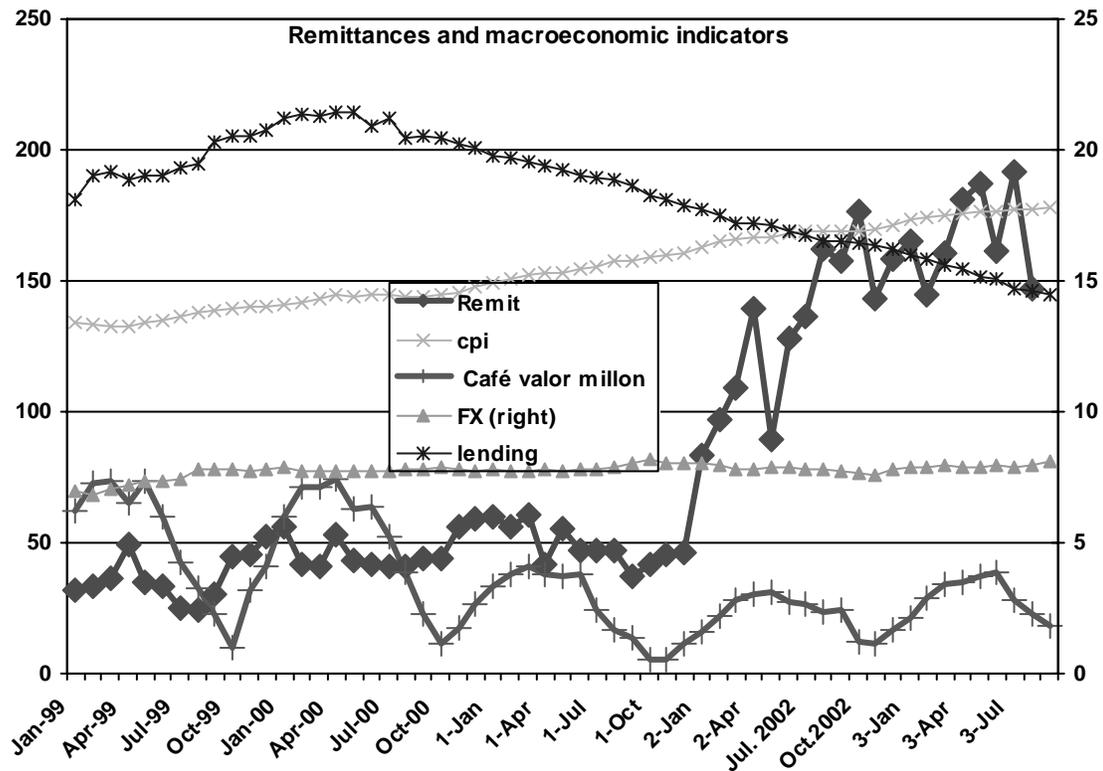
**Table 8: Model Result for Remittance Determinants**

	Beta	t
(Constant)	-26.211	0.239 (*)
Hispanic Unemployment	.03	.75 (-)
Foreign exchange	-6.300	-4.74 (*)
<b>Current Price Index</b>	6	<b>15.6 (*)</b>
Interest Lending Rate	-.366	-.003 (*)

Dependent Variable: REMLAGMNTH; adjusted R2 = 0.85 NOTE: \* Significant at 1 percent level; + significant at 5 percent level; — significant at 10 percent level and 'marginally significant (estimated coefficient is larger than standard error); 51 observations.

However, the result found in interest rates may suggest that immigrants are also seeking to put their money into some kind of investment and may be looking at bank rates in their country. The negative statistical relationship between remittances and foreign exchange may support the Central Bank's hypothesis insofar that in the absence of remittances, foreign exchange would have dropped even further. However, the critical issue of the interplay among inflation, foreign exchange and interest rates suggests that there is a money supply of foreign currency that responds to consumption and investment, even though there is no savings mobilization strategy that would capitalize on the demand on investment by these remittances.

Another area of importance relates to a learning process about the various clearinghouse mechanisms that Guatemala could share with the United States. The vice president of the Central Bank is very interested in receiving technical assistance to learn about greater tools for automated clearinghouses between the United States and Guatemala. Bank officials expressed the need for assistance to modernize their payment systems.



Finally, financial education, which is one of the Bank’s responsibilities, was stressed as a key area of importance. Currently the Bank distributes financial literacy pamphlets through more than 100 bank libraries around the country. These informational materials targets predominantly younger Guatemalans about spending and savings, or *el gasto y el ahorro*.

One possible strategy discussed was to create a commission on remittances and financial intermediation, composed of relevant NGOs, financial institutions, donors, and the Central Bank, whereby workshops on financial education could be set nationally and specific goals on ‘bancarization’ of remittance recipient households could be set. The vice president of the Central Bank, Garcia Lara, was particularly interested in such an initiative.

## **5. SECTION RECOMMENDATIONS TO USAID: IDENTIFIED INTERSECTING ISSUES ON REMITTANCES AND FINANCIAL INTERMEDIATION, AND GOVERNMENT POLICY**

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As suggested in the first section, remittances are a resource that satisfies many needs of families, and thus impacts development. Remittances, for example, have a direct effect on most of the main objectives of the Millennium Development Goals. Remittances reduce poverty, finance education, and help empower women. Moreover, when tied to financial intermediation, it can have the function of enabling a development environment.

To that extent, USAID can support a program oriented toward a more systematic strategy linking remittances to development by strengthening the link between financial intermediation and remittance recipient households. Through this approach, senders and recipients become development partners with other players. Lack of access to quality financial services is a major stumbling block for development, limiting most Guatemalans' ability to build assets and equity through savings or credit. Remittances, however, posit themselves as a potential leveraging component of financial development in communities where the money arrives.

Specifically, it is important to consider that where savings and credit institutions provide remittance and other financial services to senders and recipients, the opportunity to mobilize savings increases dramatically. By supporting microfinance institutions and financial education, and helping the GOG strengthen its institutional capacity to leverage the development role of remittances and its relationship with the Guatemalan diaspora, USAID can advance these linkages.

### **a) Microfinance institutions and remittances**

The majority of MFIs in Guatemala operate in rural areas, particularly in places where remittances arrive. At least 40 percent of the volume goes to the rural sector and between 10 and 30 percent of MFI clients receive remittances. Consequently, with assistance MFIs could attract at least five to ten percent of the total remittance market, while increasing the development impact of these flows through the provision of a wide range of financial services. Turning them into competitive providers may increase their capability even further.

Rural Guatemala receives at least US\$1.0 billion in remittances. Implementing a strategy aimed at MFIs distributing US\$100 million of that volume could yield a 10 percent increase in savings among recipients. In turn, this capital can be mobilized in rural communities for investment.

To achieve that goal MFIs, (savings and credit cooperatives, or NGOs), would need to attract 30,000 transfers monthly through contracts with U.S. money transfer companies. This requires investing in technology, market research, product design, commercialization and financial education programs for MFI clients. These are five key components that guarantee an MFIs' place as a competitor in the market offering a remittance product with a value added component (financial services like education funds, pension funds, insurances, personal loans, or business loans).

USAID may also want to consider supporting partnerships between financial institutions and organizations, such as Agexpront, that provide export assistance, for purposes of carrying out a wealth generation assistance program. Through such partnerships MFI clients would have access to business development services, including market and investment feasibility assessments, business planning, product design, and labeling, to help them turn remittances into productive investment. These services could be designed by Agexpront, or similar organizations, and financed by remittances and/or cost-share schemes between MFIs and their remittance receiving clients. The end result would be a comprehensive approach to assist in the production cycle linking remittances to savings and wealth generation.

Finally, it is recommended that USAID consider a strategy that incorporates both regulated and unregulated MFIs as remittance agents to maximize the development impact. The advantages of working with regulated, deposit-taking institutions are clear. These institutions can offer a wider range of financial services, thereby fulfilling the diverse financial needs of remittance receiving households. In addition, regulated institutions generally serve a larger clientele than do unregulated institutions, and are able to sustainably reach significant scale through deposit mobilization.

However, in Guatemala, as in other countries, the unregulated NGO MFIs generally have deeper outreach, and a presence in more remote areas. Moreover, although regulated, deposit-taking institutions are critical to the sustainable expansion of financial services on a massive scale, NGOs such as Génesis Empresarial have reached impressive scale using group lending and other methodologies. Consequently, by working with both types of institutions it may be possible to achieve both a broad and deep development impact.

In addition to the technical assistance needs highlighted above, USAID may also wish to consider broader technical assistance initiatives to help MFIs effectively manage the growth made possible by entering the remittance market or expanding activities in this area. In particular, it is likely that most MFIs would benefit from financial management training.

## **b) Institutional capacity on remittances and development**

To increase the development impact of remittances, it is also important to consider strengthening the government's institutional capacity to systematically address issues of remittances and senders. Support should be considered in three areas: technical assistance for the Central Bank, formation of a taskforce on remittances and development, and technical assistance on an outreach strategy for the diaspora.

USAID should support the Central Bank in two particular areas. First, the bank could improve its mandate on banking the unbanked by identifying tools and opportunities to improve its international payment system with the United States, including the possibility of developing an Automated Clearinghouse. Second, USAID could fund financial education packages for nationwide distribution that stress the relationship between remittances and financial intermediation. These packages can be distributed through the bank's own network, but also among those institutions providing remittance payments.

To stimulate dialogue, USAID can support the creation of a Taskforce on Remittances and Development in Guatemala. The taskforce would be led by civil society organizations, such as the IOM, and integrated by banks, community leaders, diaspora associations, MFIs, government agencies, and other sectors. This taskforce would play a critical role in helping banks view remittance recipients as a potential target market, and motivate them to adopt financial service strategies conducive to increasing savings and investment in local communities. The Taskforce could also serve as a venue for encouraging banks to consider securitization of remittances for development.

Finally, because the government has sought to connect with its diaspora and is exploring best practices to do so, it will be important to assist the Guatemalan government in formulating a policy agenda that contains an outreach action plan. The GOG needs technical assistance to identify a preliminary strategy that assesses costs in human and physical resources, as well as assistance in project implementation to reach out to the diaspora.

### **Policy Alternatives on Remittances and Development: On Product Design**

Although the volume of remittances is significant, the greater value of this money is not fully realized because of a series of problems. These problems include the high costs of sending, underutilization by savings and credit institutions, limited competition, lack of accounting, and inadequate or absent leverage of its potential in local communities. These are transnational problems that affect both senders and recipients. However, these problems can and should be addressed through a series of policy changes.

A central policy improvement requires recognizing the link between remittances and finance, and the subsequent potential for leveraging that relationship. Below are a series of policy alternatives that have been explored in other reports (Orozco 2004)<sup>3</sup>:

1. *Market competition: market structure and technologies*
2. *Financing and banking: commercial and nonprofit opportunities*
3. *Regulatory environment*
4. *Data measurement*
5. *Cross selling of financial products*

#### *5. Cross selling remittances and other financial products*

The focus here is on cross selling. Cross selling is a typical strategy aimed at the offer of a bundle of financial products that reflect the market preferences of financial costumers. The sale often occurs as a package of products or as an independent stand alone offer. Sending and remittance recipient households have a demand of different financial services and products that can be supplied by savings and credit institutions.

Research has persistently shown that both senders and recipients: a) save; b) need working capital to invest in small businesses; c) need capital to build home equity (home improvement or purchasing); d) use remittances for health and education purposes; e) intend to treat surplus remittances as a future investment.

However, despite that these products exist, the financial services market has seldom provided an offer for products that meet the market preferences of immigrants. Below are listed some of the products that immigrants would express a demand for, this demand, however, depends on a sound marketing and commercialization strategy:

- a) Saving packages
- b) Certificate of Deposits

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<sup>3</sup> Orozco, Manuel. *Remittances to Latin America and the Caribbean: Issues and perspectives on development*, report commissioned by the Organization of American States, September 2004.

- c) Pension funds
- d) Medical insurance
- e) Life insurance
- f) Housing credits
- g) Small business credits
- h) Special foreign currency deposit accounts
- i) Tourism packages
- j) Telephone and telecommunication offers

### *Savings*

Immigrants as well as remittance recipients do save. Receiving households save at least 5 percent of their remittance, although they don't take it to financial institutions, whether these are commercial or nonprofit. These institutions can offer affordable savings products in order to attract greater resources that can be reinvested in the local community, and thus increase the availability of capital for productive and competitive market activities.

### *Pension funds*

Immigrants believe in returning to their homeland at a maturing point in life. Moreover, 30 percent of relatives receiving money are also above 50 years of age or near the age of retirement from the labor force. Both immigrants and relatives having access to an investment on 20-year pension fund can secure a comfortable cushion at the age of 70.

### *Medical insurance*

The demand for medicine and health treatment is greater among poorer individuals. Moreover, with increased inefficiency in health management in Latin America, the demand for better treatment has increased, and remittance recipient households invest at least 10 percent of their income in medicine and medical visits. A medical insurance plan financed by a microfinance institution or a health care provider would reduce costs and secure a more reliable treatment.

### *Life insurance*

Like pension funds, immigrants and their relatives consider it important to leave their relatives with a financial cushion to protect them for the future when the main provider is no longer able to help. Life insurance products are varied and can be an attractive investment incentive that enables people to understand the future value of their money.

### *Housing and equity*

Most people receiving remittances at some point have a demand of capital to build equity from existing property or one they want to acquire. Central to this demand is the fact that a remittance sender and recipient have an ability to earn enough to obtain a line of housing credit. Senders or recipient can show remittances as a proof of a stable source of income (credit history) that renders them an asset: immigrants send money for an average of 10 years. Providing credits for housing is a cornerstone strategy to build equity, add value to remittances, and enable people to have a better quality of life.

### *Small business credit*

Some remittance recipient households like to invest a portion of their money in a small business, be this in the service or productive industries. Financial institutions, commercial or nonprofit, can offer a line of credit depending on the competitive landscape in the local economy and the entrepreneurial capacity of the potential borrower. However, as in mortgage lending, borrowers can use remittance receivables as proof of stable payment.

### *Travel and Tourism packages*

At least 30 percent of senders and 20 percent of recipients travels to meet with their relatives. Financial institutions can offer affordable financing to provide the means to travel with regularity. Offering these incentives will also increase the desire to earn more income and expand the horizon of economic activities.

### *Foreign currency accounts*

Recipients have an interest in saving their money and have shown a preference to do so in dollars. Providing incentives to senders and recipients to have attractive foreign currency accounts would be key winning propositions for senders and recipients, financial institutions and local communities. The dollar available can be invested in other market activities.

These and other activities are central to income generation and the improvement of the material circumstances and quality of life of people and communities. However, any finance strategy needs to be accompanied with a sound understanding of what are the market financial preferences of households and individuals, what their prior history for consumption and investment looks like and what wants do they express for the future.

## ANNEX II

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### List of Individuals Interviewed and Institutions

Name	Institution
Juan Bernardo Riviera	Banco Industrial, Guatemala.
Erwin Rubén Pirir Barrios, Gerente General	Guayacan
G. Rumaldo Pisabaj Flores, General Manager	Salcajá
Luis Rodolfo Zamora Stremes, Finance & Administrative Director	Génesis
Edgar Ramiro Bucaro Rosales, Executive Director	Génesis
Carlos Vasquez, General Manager	Coosadeco
Sincrito, Cifuentes, Director	FENACOAC
Edgar Balsells Conde, General Manager	FUNDEA
Reynold O. Walter P., Executive Director	FAFIDESS
Walter Sergei	Banrural
Ariel Estuardo Camargo, President	Bancafe
Juan Carlos Maldonado	Bancafe
Isabel Duran	Bancafe
Mario Garcia Lara, (Vice-President)	Banco Central
Maria Pascual	Agexpront
Marta Altolaquirre, Vice-Minister	Foreign Ministry
Gunther	IOM
Jacobo Dardon	FLACSO
Arno Lowenthal	GTZ

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