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Case Study

Rural Finance Innovation Case Study

Remittances, the Rural Sector, and Policy options in Latin America

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Introduction

Development economics has long considered foreign savings as key to increasing a country's capital-output ratio.[1] Within that context, four factors were considered: foreign direct investment, official development assistance, foreign trade and the transfer of technology. However, in the past thirty years, significant changes in the global economy spurring migration flows have influenced economic growth and development thought. The relationship between development and migration or movement of people, and the resulting effects of economic ties between diasporas and home country economies (household and business sectors) are becoming more relevant for development policy.

Specifically, the effect of the movement of people is gradually being considered a key factor in enabling economic growth. Labor and migration have become indicators of economic development. First, the share of local labor working in the global economy (maquila, nontraditional exports, other agricultural and industrial exports, technology), is one of the most significant sectors of a country's economy. Second, the networks resulting from the prevailing ties of labor migration have contributed significantly to the integration of countries into the global economy. This latter point is important on various levels, including donations, investment [small and large], trade, tourism and unilateral transfers. For example, the mobilization of migrant (and their relatives') savings and investments at home (in the acquisition of land, property, or small businesses) are spurring economic growth in areas traditionally neglected by the private and public sectors, such as rural parts. Moreover, unilateral transfers, reflected primarily through family or worker remittances, and to a lesser extent through donations made by migrant associations, constitute key building blocks of economic growth and subsistence in many countries.

The current effects of migration through family remittances and other forms of migrant capital pose an important policy option linking financial opportunities in rural Latin America. Specifically, the demand for financial services by remittance receiving households represents the intersection between the role of micro-finance institutions, such as credit unions, and rural sector development.

This paper addresses the policy opportunities that remittances bring to rural areas where migration has taken place. The first and second part addresses the relationship between migration and remittances at global and Latin American scales. The third part looks at rural Latin America as it relates to poverty and inequality. The fourth section examines the intersection between remittances and the rural sector in the developing world, specifically in the cases of Mexico, El Salvador, and Nicaragua. The last part identifies the range of policy opportunities and their feasibility for rural sector development.

[1] Tarp, Finn, *Foreign Aid and Development*, London: Routledge, 1999.

1. The trend of migration and remittances in international scale

In most developing countries, international migration has emerged as a significant trend. Within the context of globalization humans have become more mobile, nomadic, and transient, both physically and technologically. The flows of international tourists from various countries have increased into millions of travelers. People working for transnational corporations have moved into different regions of the world where companies are expanding or intensifying their activities. Refugees escape from natural disasters, wars and conflicts that cause or exacerbate famines, leaving countries and continents. Van Hear calls these refugees 'new diasporas'; these immigrant groups become diasporas as a result of major contemporary economic and political transitions generating transnational changes and migration crises.[2]

At the labor levels, workers continue relocating because of labor demands, usually in northern countries, economic distress in their home countries, or a combination of both. Families are increasingly becoming transnational with relatives living in more than one country, reuniting, visiting regularly and maintaining a transnational network of communication.[3] Migration has become not only transnational but also transatlantic as in the case for example, of Indian, Pakistani and Bangladeshis going to Europe and the United States, or Dominicans, Jamaicans, Guyanese and Ecuadorians traveling to the United States and Europe.

Of the many moving across borders, conservative estimates indicate that every year there are about 200 million people migrating around the world.[4] This number of foreign workers going abroad is significant and indicative of broader changes in the global context. Because of globalization people are able to travel longer distances and reach more countries. A greater number of countries have also increased or expanded their demand for foreign labor. Moreover, the migration flows are not unidirectional, that is from the South to the North. For example, Greeks migrate to Germany and the United States, while Albanians migrate to Greece. South Africans move to Australia and England, while Malawians, Mozambicans, and Zimbabweans travel to work in the South African mines and the service industry as domestic workers.

Global migration flows may be greater than those estimates. Many migrant receiving countries are expanding the number and type of migrants they receive. Moreover, migration is taking place at both levels, skilled and unskilled workers going abroad. As Held, McGrew, Goldblatt and Perraton stress "there has been a steady movement of highly skilled, highly trained professionals, that is, elite migration".[5] These migrations are not only going northward, but have also gone into Southern areas of the world like the Oil producing countries where a demand of skilled labor has emerged since the 1970s.

THE GLOBAL FLOW OF REMITTANCES

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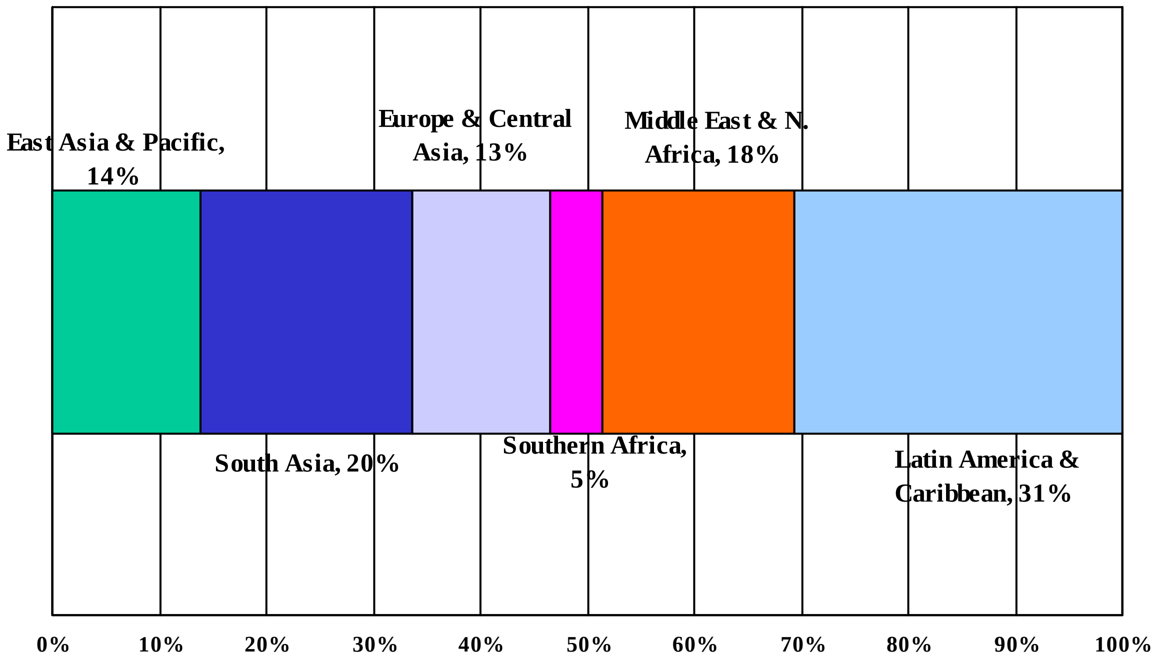
[2] Van Hear, Nicholas. *New Diasporas: The Mass Exodus, Dispersal and Regrouping of Migrant Communities.* Seattle: University of Washington Press, 1998.
[3] Faist, Thomas. *The Volume and Dynamics of International Migration and Transnational Social Spaces.* New York: Oxford University Press, 2000.
[4] Harris, Nigel. *Thinking the Unthinkable: The Immigration Myth Exposed*. New York: I.B. Tauris & Co., 2002.
[5] Held, David; McGrew, Anthony; Goldblatt, David; and Perraton, Jonathan. *Global Transformations: Politics, Economics and Culture*. Oxford: Polity Press, 2000.

One of the manifestations of the effects of international migration is remittances. Total remittance flows continue to increase over time “with an annual average in the previous decade of US$700-1000 per worker”[6], and possibly reaching more than one hundred billion dollars.[7] Estimates of remittances vary significantly. The IMF and World Bank, for example, only reports on eighty countries receiving a total of nearly eighty billion dollars. Despite the lack of significant data, these figures offer a preliminary map of remittances (see Figure 1).

Figure 1. Worldwide flows of worker remittances by region, 2002



As Figure 1 shows, Latin America is the main remittance recipient area in the world, receiving about 31% of the flows. Following Latin America are South Asia, Europe & Central Asia, and East Asia & Pacific with twenty, twenty-one and eighteen percent of the flow, respectively. One interesting feature of the data is that one or two countries comprise over 50% of the total flow in each region. For example, India, the world’s largest remittance recipient country, accounts for 73% of the flow to South Asia. Mexico represents 34% of Latin America and the Philippines 43% of East Asia and the Pacific. (see Table 1).

Table 1: Remittances to Major Remittance Recipient Countries (2000)

Country in region	Share	
	Region	Worldwide
India [a]	73%	15%

[6] Harris, Nigel, p. 87.
[7] Orozco, Manuel. *Worker Remittances in an International Scope* Washington, DC: Inter-American Dialogue, March 2003.

Mexico [a]	34%	8%
Philippines [a]	43%	8%
China [b]	43%	8%
Turkey [a]	27%	6%
Egypt [a]	35%	5%
Spain [a]	20%	4%
Portugal [a]	19%	4%
Morocco [a]	20%	3%
Bangladesh [b]	12%	2%
Jordan [b]	17%	2%
El Salvador [a]	9%	2%
Dominican Rep. [a]	9%	2%
Greece [a]	10%	2%
Nigeria [b]	65%	2%
Yemen [b]	12%	2%
Main countries		75.00%

Source: [a] Central banks of each country. [b] World bank, *World Development Indicators 2002*

2. Remittances to Latin America

Within the Latin American context, worker remittances are becoming increasingly relevant to the economies of many countries. In 2002, Latin America received more than $30 billion in remittances from the United States, Japan, Europe, Canada and Latin America itself. The table below shows the total amounts sent to selected Latin American and Caribbean countries in 2002. The table also shows remittances as a percentage of GDP and exports in selected countries. Especially for the smaller economies of Central America and the Caribbean, remittances represent a significant percentage of these macroeconomic indicators.

Remittances to El Salvador have, on occasion, exceeded the total value of exports, and are over half the value of exports in the Dominican Republic and Nicaragua.[8] Even in countries like Mexico, which has a strong export-oriented market, remittances equal 10 percent of the total value of exports, almost as much as the income from tourism, and about 80 percent of the value of foreign direct investment.

The overwhelming majority of remittances received in Latin America are sent from the United States. The Central Bank of Mexico, for example, estimates that 95 percent of the total remittances originate in the United States. In the case of Jamaica, the United States accounts for 80 percent of the remittances received.

Table 2: Remittances to Latin America and the Caribbean, 2002

Year	Total Remittances (thousands)	IADB remittance estimates	As % of GDP (2000)	As % of Exports (2000)	Average transfer sent per immigrant	Cost to send average amount (%)

[8] Orozco, Manuel, Globalization and Migration: the Impact of Family Remittances to Latin America in *Latin American Politics and Society*, (Summer 2002), V. 44, n.2, pp 41-66.

		(thousands)			($)	
Mexico	$9,815	$10,502	1.7	6.5	378	5
Brazil [a]	$4,000	$4,600	0.4	4	376	
Colombia	$2,272	$2,431	2.1	2.4	256	6
Dominican Rep.	$1,939	$2,206	10	27	199	9
El Salvador	$1,935	$2,111	17	60	287	4
Guatemala	$1,579	$1,689	3.1	16	269	6
Ecuador	$1,432	$1,575	9	20	295	4
Jamaica	$1,200	$1,288	15	30	263	8
Cuba [a]	$1,100	$1,265	5	40		17
Peru	$1,100	$1,138	1.7	10.6	191	
Haiti [a]	$810	$931	24.5	150	162	10
Honduras	$720	$770	7.5	17	257	6
Nicaragua [a]	$660	$759	22	80	146	10
Venezuela	$220	$235	.28	1	228	14
Costa Rica	$200		1.3	3	350	
Guyana [a]	$100	$119	14	14		
Bolivia	$90	$104	1.25	6.71	276	9
Trinidad and Tobago	$50	$59	.76	1		
Eighteen countries	$29,223	$32,044				

Source: Central Banks of each country. [a]Author's estimates, World Bank "World Development Indicators 2002" CD-ROM, and National Money Transmitters Association.

SENDERS AND RECEIVING HOUSEHOLDS

According to the U.S. 2000 Census, over 40 percent of Latinos earn less than $20,000 a year and over 70 percent earn less than $35,000 a year .[9] On average, immigrants in the United States send $260 in remittances at least seven times a year, but these amounts vary depending on the country of origin. Among Latin Americans, Mexicans, Brazilians, and Costa Ricans send the most, while Peruvians, Haitians, and Nicaraguans send the least.

Even considering variations in amounts sent and income levels, remittances represent at least 10 percent of the migrant's income. This proportion can reach as high as 22 percent, as in the case of Mexican immigrants; Mexicans represent the largest share of Latinos in the United States and send more money than other Latino groups (nearly $400 a month).

Income variations may explain the differences in amounts sent. For example, 48 percent of Nicaraguan households in Miami had incomes below $25,000 a year, with an average of $1,821 a month.[10] Because Nicaraguans send an average of $146 a month, remittances represent just fewer than 10 percent of their income. Moreover, according to the U.S. Census, per capita household income among Dominicans in New York and the United States is $9,069 and $11,013 respectively.[11]

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[9] U.S. Census Bureau, http://www.census.gov/population/socdemo/hispanic/p20-535/tab12-3.txt

[10] Fernandez- Kelly, Patricia and Curran 2001 Ethnicities : children of immigrants in America edited by Ruben G. Rumbaut and Alejandro Portes, p. 136.

[11] Rivera-Batiz, Francisco, *The Socioeconomic Status of Hispanic New Yorkers: Current Trends and Future Prospects*, Washington, Pew Hispanic Center, January 2002. Table 8.

Demographically, most remittance receiving persons go to the rural sector and many of their recipients are women. According to the *Consejo Nacional de Población*, the Mexican office of the census, approximately 70 percent of remittance recipients are women.[12] On average, 50 percent of the recipients form part of the economically inactive population. Furthermore, half of the individuals receiving remittances have no other source of income. In Honduras, about one third of the remittance receiving households go to rural areas and at least 80% are poor. [13]

THE MARKET AND THE COSTS TO SEND MONEY

How much does it cost to remit? Intermediation is relevant in the transfer of remittances.

Most immigrants use some form of intermediation, whether formal or informal. They send money through small businesses, large corporations, or even individual entrepreneurs. To a lesser extent, the individual carries money directly to relatives. The formal money transfer costs range from 4 to 20 percent of the value sent to the home country (see Table 2).[14] Such price variation depends on the presence of informal networks, aggregate volume, market concentration and competition, the presence of banking institutions, and technology.

Currently one of the major costs associated with transfers is the exchange rate which is set by the distributing agents in Latin America, which most of the time can be a traditional banking institution. The exchange rate commission applied (the differential between the interbank exchange rate and the one set by the business) averages 3% and is higher than other foreign currency transactions. As the table below shows, over 40% of costs are related to the commission in the foreign exchange. These costs directly affect remittance receiving households because they receive less than what the relative sends.

Table 4. Costs of sending $400 to Mexico by main money transfer business

Company	Fee %	FX Spread %	Fx as percent of total cost	Total Cost %
Western Union	5.00%	2.55%	33.79%	7.55%
MoneyGram	3.75%	1.78%	32.17%	5.53%
USPS Dinero Seguro	5.00%	2.36%	32.05%	7.36%
OrlandiValuta	4.75%	2.17%	31.31%	6.92%
Ria Envia	4.00%	3.13%	43.92%	7.13%
Girosol	3.00%	2.55%	45.97%	5.55%
Dolex	0.75%	5.26%	87.52%	6.01%
Average	3.59%	2.8%	43.8%	6.6%

Source: Data compiled by the author.

12 Conapo….
13 Impacto Socioeconómico de las Remesas: Perspectiva Global Para Una Orientación Productiva De Las Remesas En Honduras. Mexico: Eclac, 1999.
14 Orozco, Manuel, *Changes in the Atmosphere? Increase in Remittances, Price Decline and New Challenges.* Washington, DC: Inter-American Dialogue, March 2003.

Cuba, Nicaragua, and Haiti are among the most expensive countries for remittance transfers. In these three countries, there is a high level of informality, no regulatory environment supporting competition or low cost transfers, and no innovative technologies. In other countries, such as Jamaica and the Dominican Republic, the presence of monopolies or oligopolies explains the prices. El Salvador, Ecuador and Mexico have the lowest transfer costs. For El Salvador and Ecuador, both dollarized economies, costs are lower because receiving households do not face foreign exchange penalties. Overall, fees, rather than exchanges rates, account for more of the cost variation.

More importantly, competition in these countries also affects costs. Mexico experiences a high level of competitiveness among large and small businesses. At least six corporations (*Western Union, Dolex, Vigo Corporation, Ria Envia, MoneyGram* and *Raza Express*) compete and may hold about 80 percent of the remittance market share. A second group of businesses competes to clear the remaining share. Competition is also present in El Salvador and Guatemala. In both countries, most of the remittance flows are handled by fewer than ten companies. In El Salvador, for example, four Salvadoran banks compete with *Western Union* and *Gigante Express*. In Guatemala, three banks compete with King Express and Western Union, but informal transfer is still more common than in Mexico or El Salvador.

Key to the flow of remittances is the destination of the money and its effects on the local economies. Despite the difficulties in costs associated with their transfers, remittances in rural Latin America have had a positive effect. Considering the problems in rural Latin America, remittances have emerged as an alternative form of financial relief for households and productivity.

3. Latin American and the rural context

The rural sector in Latin America continues to represent an important challenge to development players and policy makers. A significant percentage of the Latin American population is rural, sometimes as high as 50%. Rural Latin Americans face significant constraints due to the lack of social and economic modernization, the limited productive activities outside agricultural subsistence, and the reduced value that agriculture represents for a country's economy.[15] Infrastructure and services in the rural sector are relatively scarce and, when available, are costly. Moreover, partly because of underdevelopment levels and deep inequality, poverty rates are higher than in urban areas. While nearly 40 percent of Latin Americans live in rural areas, agriculture—the main source of income in the rural sector—comprised only 12% of GDP on average.

In large part the slow modernization and development of these countries' economies has been unsuccessful in increasing per capita incomes and absorbing rural workers into the industrial and service workforce in urban settings. Thus, large segments of the population remain in significantly undeveloped regions.

Table 5. Economic and Social Indicators of Rural Latin America, 2000

Country Name	Sanitation in rural areas	Water in rural areas	Rural poverty	Rural population	Agriculture as % of GDP	GDPpc
Antigua and Barbuda	94	88		63.2	3.9	9138
Argentina	48	30		10.6	4.8	7933
Barbados	100	100		50	6.3	8282
Belize	21	69		53.5	21.4	3141
Bolivia	38	55	79.1	35.2	22.0	952
Brazil	40	54	32.6	18.7	7.4	4624
Chile	93	66		15.4	10.5	5354
Colombia	51	73	31.2	25.1	13.8	2290
Costa Rica	96	98	25.5	48.1	9.4	3912
Dominican Republic	64	70	29.8	35	11.1	2062
Ecuador	37	51	47	37.6	10.0	1425
El Salvador	78	61	55.7	53.4	10.1	1752
Guatemala	76	88	72	59.6	22.8	1558
Guyana	81	91		61.8	..	941
Haiti	16	45	66	64.3	28.4	367
Honduras	57	82	51	53.1	17.7	711
Jamaica	65	59		43.9	6.5	1785
Mexico	32	63		25.6	4.4	3819
Nicaragua	68	59	76.1	35.3	32.3	466
Panama	87	86	64.7	42.3	6.7	3279

[15] Valdés, Alberto and Johan A. Mistiaen, "Rural poverty in latin america: recent trends and new challenges" in *Food, agriculture, and rural development : current and emerging issues for economic analysis and policy research* Kostas G. Stamoulis, editor. Rome: Food and Agriculture Organization of the United Nations (Food, agriculture and rural development), 2001.

Paraguay	95	58	28.5	44	20.6	1700
Peru	40	51	64.9	27.2	7.9	2368
Uruguay	89	93		8.7	6.0	6115
Venezuela, RB	69	58		12.6	5.0	3300
Latin America	63.96	68.67	51.72	38.51	12.57	3219

Source: World Bank Development Indicators. The years reported on rural poverty data vary from country to country, but all report figures in the 1990s.

Despite these constraints, domestic and international migration has become a mechanism to cope with poverty and the advancing modernization of urban sectors. Many Central American and Mexican migrants come from rural Latin America to the United States. The U.S. Census reports that there are nearly seventeen million Latin American immigrants, fifty percent of whom are Mexicans (US Census CPS 2002 data).

4. Remittances and the rural sector

Moreover, effects of emigration from Latin America to the United States are varied. Some analysts argue that it has adverse impacts, while others claim that family remittances are a positive outcome. The answer, however, varies depending on the specific conditions in each country and area of migration. One important issue is that emigration from rural areas represents to some extent an adversity in so far as those migrating are people with more skills and abilities.

In many towns in Mexico and Central America, emigrants are young males with agricultural skills and the ability to borrow in order to achieve the goal of working abroad. Taylor stresses, for example, that emigration affects agricultural production in various ways. First, there is a decline in the available labor force. But, second, the influx of remittances helps to compensate for the adverse effect on agricultural productivity because the currency generates a demand of goods which in turns has a multiplier effect on the local economy.[16] It is also worth considering that although the decline in the labor force affects agriculture, most of the migration occurs because of a depressed rural economy unable to absorb the local labor force.

Another important relationship between migration and the rural sector refers to the linkages established between immigrants and their hometowns. Partly inspired by the dynamics of family remittances and increasing transnational networks, immigrants have formed community groups to maintain relationships with the country or with local communities. These organizations, known as hometown associations, are part of a growing trend in transnational social movements, influenced by both migration patterns and globalization.

REMITTANCES IN RURAL LATIN AMERICA

A significant flow of remittances go to rural areas. Examples of these cases are Mexico, El Salvador, Dominican Republic, Haiti, and Nicaragua. In the Mexican case, 10 Mexican states

[16] Taylor, Edward. "Migration: new dimensions and characteristics, causes, consequences and implications for rural poverty" *Food, agriculture, and rural development : current and emerging issues for economic analysis and policy research* Kostas G. Stamoulis, editor. Rome: Food and Agriculture Organization of the United Nations (Food, agriculture and rural development), 2001, p. 167-201.

account for the majority of emigration. The *Encuesta sobre Migración en la Frontera Norte de México* (EMIF), published in 1994, showed that over 75% of all migrants leaving Mexico originated in 10 states.[17]

Similarly, the top ten remittance receiving states also come from those states.—Guanajuato, Jalisco, Michoacán, San Luis Potosí, Guerrero, Zacatecas, el Distrito Federal, el Estado de México, Chihauhua and Durango—and receive over two-thirds of all remittances sent to Mexico.[18] See Table 6.

Table 6: Top Ten Migrant Sending States and Top Ten Remittance Receiving States in Mexico

State	Percentage of Total Migrants[a]	Percentage of Remittances[b]
Guanajuato	17.9	13.7
Michoacan	10.9	11.2
Distrito Federal	7.5	4.5
San Luis Potosi	7.4	5.8
Jalisco	6.9	11.4
Coahuila	6.3	..
Durango	5.7	3.4
Chihuahua	5.2	3.6
Zacatecas	4.5	4.5
Guerrero	3.5	4.9
Estado de Mexico	..	3.8
Total	75.8	66.8

Sources: El Colegio de la Frontera Norte. "Problemas y Perspectivas de las Remesas de los Mexicanos y Centroamericanos en Estados Unidos," *Unpublished Manuscript*, El Colegio de la Frontera Norte: Departamento de Estudios Económicos. Mexico: 2002, p. 30; Torres, Federico. "Las Remesas y el Desarrollo Rural en las Zonas de Alta Intensidad Migratoria en México," Naciones Unidas: Comisión Económica para América Latina y El Caribe (CEPAL). Mexico: 2001, pp. 3, 27-28.
[a] 1993-1994; [b] 2000

Except for the Federal District of Mexico, the places of emigration are a combination of rural and urban areas.[19] According to EMIF, 56% of international emigrants are from urban areas while 42.1% came from rural areas. However, remittances play a larger role in rural Mexican economies than in urban ones. In 1996, 10% of all rural households reported receiving remittances while less than 4% of urban households reported receiving remittances.[20]

In El Salvador, the departments which lose the highest percentages of their populations to migration—San Vicente, Cabañas, Chalatenango, Morazán, La Unión and Sonsonante—share

[17] El Colegio de la Frontera Norte. "Problemas y Perspectivas de las Remesas de los Mexicanos y Centroamericanos en Estados Unidos," *Unpublished Manuscript*, El Colegio de la Frontera Norte: Departamento de Estudios Económicos. Mexico: 2002, p. 30.
[18] Torres, Federico. "Las Remesas y el Desarrollo Rural en las Zonas de Alta Intensidad Migratoria en México," Naciones Unidas: Comisión Económica para América Latina y El Caribe (CEPAL). Mexico: 2001, p. 3.
[19] Torres, Federico, p. 4.
[20] [20] El Colegio de la Frontera Norte, pp. 33-37.

characteristics with their Mexican counterparts. Notably, they are the most ecologically deteriorated states, they have the lowest standards of living, and they lack significant infrastructure. In absolute numbers, on the other hand, the urban center of San Salvador sends the largest numbers of migrants abroad, with approximately 22% of Salvadorans in the United States originating in San Salvador.[21] It is thus interesting to note that the geographic distribution of the remittance receiving households in each country is similar. While rural households in each country make up a significant percentage of all remittance recipients, the majority are located in urban areas. See Table 7.

Table 7: Percentage of Remittance Receiving Households in Rural and Urban Areas, 1996

	Mexico	El Salvador
Urban	54.3%	60.5%
Rural	45.7%	39.5%

Sources: El Colegio de la Frontera Norte. "Problemas y Perspectivas de las Remesas de los Mexicanos y Centroamericanos en Estados Unidos," *Unpublished Manuscript*, El Colegio de la Frontera Norte: Departamento de Estudios Económicos. Mexico: 2002, p. 36; García, Juan José. "Las Tendencias de la Migración en El Salvador," FUSADES-PNUD, 1998, p. 10.

Migration and remittances patterns in Nicaragua are also worth noting. Migration from Nicaragua goes predominantly to the United States and Costa Rica. In a nationwide study conducted in June 2001, 42% of those living in Managua reported having a relative abroad, against 35% in the Pacific region and 29% from North-Central Nicaragua. The majority of those reporting outside Managua had relatives working in Costa Rica, whereas those living in Managua had relatives predominantly migrating to the United States.[22]

Receiving households use the vast majority of remittances for everyday expenditures and consumption in both urban and rural areas. For example, Mexican families receiving remittances from abroad typically spend over 75% of that money on their daily needs such as food and clothing. This applies to those that live in extremely small areas of under 2,500 inhabitants and those who populate larger areas.

Nicaraguan and El Salvadoran families also exhibit similar spending patterns. In surveys conducted in each of these countries over three-quarters of the population spent their remittances on food alone. See Table 9.

Table 8: Distribution of expenditures by remittance-receiving households by size of locality, Mexico.

		Population	
Type of expenditure	Total	> 2,500	< 2,500
	%	%	%
Current monetary expenditures	77.1	77.6	76.1
Housing and land	4.0	2.9	6.2
Savings	14.1	14.8	12.6

[21] García, Juan José. "Las Tendencias de la Migración en El Salvador," FUSADES-PNUD, 1998, pp. 7-8.
[22] Orozco, Manuel. "Family Remittances to Nicaragua: Opportunities to increase the economic contributions of Nicaraguans living abroad," Inter-American Dialogue. Washington, D.C.: 2003, pp. 7-8, 20.

Debt	2.0	2.2	1.6
Machinery, equipment & animals	0.2	0.1	0.3
Other	2.6	2.4	3.1

Source: Consejo Nacional de Población. "Migración México-Estados Unidos: Presente y Futuro," Consejo Nacional de Población. Mexico: 2000, p. 176.

Table 9: Remittances and expenditures in Nicaragua and El Salvador.

Expenditures	Nicaragua (%)	El Salvador (%)
Food	75.5	79.4
Clothing	5.8	
School	6.7	
Housing	2.9	
Business	1.8	
Savings	1.4	
Savings and Productive Agricultural Inputs		2.6
Other	3.8	

Source: ENCUESTA NACIONAL SOBRE GOBERNABILIDAD Y ELECCIONES: MODULO SOBRE MIGRACIÓN, USO DE REMESAS FAMILIARES Y AHORRO, Managua 05 de julio de 2001, INSTITUTO DE ESTUDIOS NICARAGUENSES; García, Juan José. "Las Tendencias de la Migración en El Salvador," FUSADES-PNUD, 1998, p. 10.

In the rural sector, a portion of remittances are utilized to purchase land. For example, Table 8 above highlights the higher percentage of remittances spent on land in rural areas. In addition, a survey in Mexico found that remittance recipients in low density populations (mostly rural areas) typically spent more money on machinery and other equipment than did their counterparts in higher density populations.[23] This same study of rural Mexican areas concluded that remittances spent on the purchase of such inputs as land, cattle, and other agricultural equipment allowed rural households to continue these agricultural activities despite no apparent earnings from the agricultural production itself.[24]

SAVINGS MOBILIZATION AND REMITTANCES

Remittances are an alternative source of funding for household survival and for financial activities among small businesses and entrepreneurs. As a form of foreign savings, remittances are influencing not only spending but also investment behavior. As mentioned above, a portion of remittances is saved or invested on education, health or wealth generation.

Therefore remittances are already connected to savings mobilization in many Latin American countries. Remittance receiving households not only save a portion of their money, but they play an investment and insurance function. In the case of investment, immigrants send money back home with the specific purpose of acquiring some investment opportunity. Immigrants buy land, materials to work the land or seed to plant. A recent study on micro-enterprises to Mexico showed that remittances were responsible for 27% of the capital invested in micro enterprises in

[23] El Colegio de la Frontera Norte, pp. 39-40.
[24] El Colegio de la Frontera Norte, p. 127.

Mexico, and 40% of the capital in the major remittance receiving areas of the country.[25] In the insurance case, other studies have also shown that immigrant remittances also operate as a form of insurance to protect before future uncertainties. Specifically, Pozo[26] argues that when remittances continue an incremental trend although immigrants face income risks, the money is sent home "to purchase assets" as a form of precautionary savings (4). She stresses that "older migrants, female migrants, migrants with greater fraction of family members working for pay, migrants who came accompanied by friends/family to the United States, and migrants with greater educational attainment are more likely to remit for asset accumulation" (26). Taylor has also maintained that remittances have a positive effect in the rural sector when they alleviate the restrictions that limit local production due to the creation of employment and its multiplying effects on the local economy.[27]

These, connections, however are spontaneous and often occur under conditions of incomplete information for the entrepreneur about affordable lending opportunities. Within this context, micro-finance institutions and credit unions are poised to play a key role in bringing financial services to an already existing demand of economic transactions.

HOMETOWN ASSOCIATIONS AND DEVELOPMENT

Another important relationship between rural sectors and immigrants are hometown associations. These groups are increasingly taking advantage of the upsurge of family remittances and the need for economic aid in their homelands.[28] HTAs have sought to retain cultural ties and improve their home country communities.[29] They are primarily philanthropic groups whose work sometimes overlaps with economic development. These associations raise somewhere around $20,000 a year to help their communities. Their philanthropic work is instrumental to solidifying relationships with the community and promoting well-being. Moreover, those projects that generate wealth and employment contribute to the economic growth of a community and serve as models.

Infrastructural activities, such as paving roads, electrifying neighborhoods or supporting community areas, can be both philanthropic and developmental. The nature of the development contribution depends primarily on the immediate economic needs of a given town, and the

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[25] Woodruf, Christopher, and Rene Zenteno, Remittances and Micro-enterprises in Mexico, unpublished manuscript.

[26] Pozo Susan and Catalina Amuedo-Dorantes, "Remittances as Insurance: Evidence from Mexican Migrants", July 24th, 2002. Paper presented at the Norteast Universities Development Consortium Conference, Williams College.

[27] Taylor, Edward, p.219

[28] Orozco, Manuel, "Latino Hometown Associations as Agents of Development" in *Sending Money Home: Hispanic Remittances and Community Development*, ed, Rodolfo de la Garza and Lyndsey Lowell, Boulder, Rowman and Littlefield, 2002.

[29] Alarcon, Rafael, 2000, *The Development of Home Town Associations in the United States and the Use of Social Remittances in Mexico*, Washington, DC. Inter-American Dialogue and Tomas Rivera Policy Institute; Eeckoff, Katharine 1997, "Las asociaciones salvadoreñas en Los Angeles y su rol para el desarollo nacional" in Migración Internacional y Desarrollo, Mario Lungo. FUNDE ed. El Salvador: Fundacion Nacional para el Desarrollo, 1997; Mahler, Sarah, 2000, *Migration and Transnational Issues: recent trends and prospects for 2020* in CA2020 Working Paper #4. Hamburg: Institut fur Iberoamerika-Kunde; Orozco, Manuel, 2000, *Latino Hometown Associations as Agents of Development in Latin America*, Washington, DC. Inter-American Dialogue and Tomas Rivera Policy Institute. Popkin, Eric, "Transnational Migration and Development in Post-War Peripheral States: An Examination of Guatemalan and Salvadoran State Linkages With Their Migrant Populations in Los Angeles" *Current Sociology*, Winter/Spring, 2003.

support of an HTA may improve the economic health of that community. The experiences in rural Mexico and El Salvador show that construction in rural areas where there is no basic infrastructure has been important to communities. In many parts of Mexico, for example, infrastructural development precedes any investment strategy, and the donations by hometown associations play a key role. In fact, the large majority of hometown associations from these two countries operate in the countryside, the same places where immigrants send their money. The figure below shows the increase in hometown associations based in Chicago over the past six years.

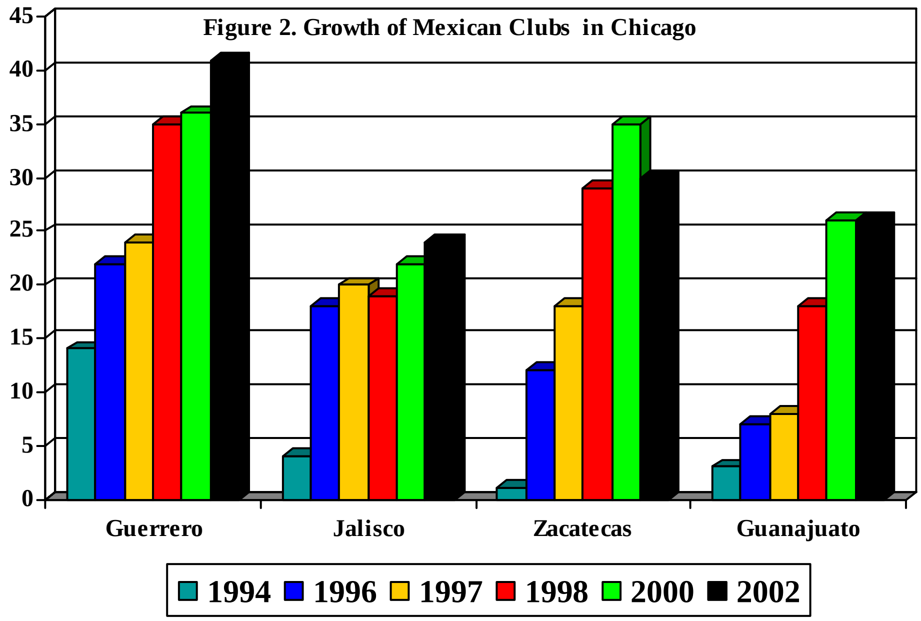

Figure 2. Growth of Mexican Clubs in Chicago

5. Exploring policy options

Within the context of the changing dynamics and realities in Latin America and the Caribbean, alternative policies need to be addressed. In order to be effective, they should have a direct impact on issues relating to reducing transaction costs, leveraging the capital potential of remittances through banking and financing, promoting tourism and nostalgic trade, and establishing a state policy that tends to a country's diasporas. Remittances pose a very important financial stream in rural areas of Latin America. Mexico, Haiti, the Dominican Republic, Nicaragua, El Salvador, Guyana and Guatemala are all countries where at least one quarter of remittances go to their rural areas. If adequately addressed, remittances can become a major form of foreign savings energizing the rural sector into a process of modernization.

i) Cost Reduction

Although remittances are regarded as an important source of income by recipient countries, transmission charges, particularly exchange rate commissions in Latin America, continue to be a concern to development agencies, immigrants, and other interested parties. Increasing competition is key to reducing costs. With prevailing advanced technology in which money transfers can (and do) cost very little or nothing to the most savvy senders and recipients, it is worth asking how these advantages can be extended to common remitting immigrants and recipients. Four options to reducing costs are: the formation of strategic alliances between money transfer companies and banks, and between banks in Latin America and in North America (both employing debit card technologies that rely on automated teller machines), the use of software platforms designed for money transfers, or transfers from credit union to credit union using the international remittance network.

ii) Financial democracy

Only six out of ten Latin American immigrants use, or consider themselves to have meaningful access to, bank accounts. Moreover, in Central America and the Caribbean, only two in ten have access to savings accounts. The effects of being unbanked (either in a commercial bank, a community bank or a credit union) are significant. People are not only susceptible to higher costs and difficulties on a daily basis, but they also lack the ability to establish credit records and obtain other benefits from financial institutions. Assisting senders and recipients to participate in affordable savings and credit markets would help ensure lower transfer fees, and more importantly mobilize savings. Some government and private institutions are already engaged in that effort and could target a strategy linking remittance transfers with banking and credit union options as a way to attract migrants into the financial system.

Of significant importance for savings mobilization are credit union operations in the rural sector. One of the major constraints in development has been the lack of adequate credit to individuals in rural areas.[30] The end result has been that the average citizen, and especially lower income cohorts, have not had access to financial services, nor banks have relied on them to draw assets.

[30] Ray, Debray, Development economics, Princeton: Princeton University Press, 1998.

A recent study on Latin America's income inequality points to the deficiencies of banking institutions as a major source of inequality. "Financial markets are underdeveloped in Latin America and the blame goes beyond the region's history of inflation and financial instability. Weak institutions to support credit market are also at fault".[31] In fact, the study points out that less than 5% of established small business entrepreneurs receive loans from commercial banks, and even small credit unions and micro-finance institutions that emerge to supply a demand of financial services by those outside the preference of commercial banks don't have a large loan portfolio, below 1% of what commercial banks hold in Latin America (164-165).
Financial institutions have traditionally placed a high risk in lending and investing in agriculture and the rural sector. With a recurrent flow of remittances, households have posed a demand for financial services that is not supplied by commercial banks. However, local savings mobilization is placed in the intersection between remittances and local development.

In most places in the rural sector remittances not only take longer to arrive, but recipient households spend time picking up the money in more commercial cities, which sometimes, if not often, are one hour from the hometown. As a result, costs increase for the receiving households. One solution to this situation is the use of finance institutions already operating in the areas, such as micro-finance institutions and credit unions.

The participation of alternative financial institutions throughout remittance receiving areas, such as community banks, savings and credit cooperatives and micro-finance businesses, is critical and becomes a form of financial democracy. These institutions provide access and outreach to lower income communities and isolated rural areas that large commercial banks have traditionally ignored.

Three cases that illustrate the link between remittances, the rural sector and micro-finance intuitions take place in Mexico, El Salvador and the Dominican Republic. One major advantage of the cooperative system in the Dominican Republic is that many of its branches operate in rural areas and sectors less frequented by banks. Moreover, cooperatives also offer a more welcoming environment and approach for remittance recipients, as they seem to be less 'formal' than banks. In places where remittances are transferred through cooperatives, the community also benefits from the association. One such cooperative, San Jose de las Matas, transferred half a million dollars in remittances during a 12-month period. Since cashing money through the cooperative, many remittance recipients have themselves become members. Because of the success in this and other cooperatives, and the existence of remittances going to the rural sector, the Association of Cooperatives in the D.R. is seeking to expand its services by providing ATMs to the cooperative network and by setting up a more effective and inexpensive money transfer system than the one currently offered by remittance agencies.[32]

In Mexico, a successful case refers to the micro bank in the Mixteca region in Oaxaca, *Xuu Ñuu Ndavi* (Money of the Poor People). The residents in this indigenous town have relatives living abroad and remitting money home. Of the $170,000 received in remittances after the first year of operation, the micro bank's 168 members (83 of whom are women) accumulated $160,000 in

[31] IPES 1998/1999: *Facing Up to Inequality in Latin America* Washington: IADB, 1999. p. 6.
[32] Orozco, Manuel, *Attracting Remittances: Market, Money and Reduced Costs* Washington, DC: Inter-American Dialogue, January 2002.

savings. The experience of this bank demonstrated that remittance receiving households have a propensity to save, and when such propensity is motivated, individuals resort to financial institutions, in this case, micro-finance banks. Key to the success of this and similar micro banks is the fact that it operates in the town and has established a level of trust with the local population.[33]

El Salvador's federation of credit unions, FEDECACES, is a well-established and extensive network for low income Salvadorans particularly from rural areas. An estimated 80 percent of credit unions affiliated with FEDECACES are located outside of San Salvador. Once the cooperatives became involved in money transfers from the U.S. the flow of money rose to $22 million in 2002 from less than 2 million in 2001, with a corresponding significant increase in membership that incorporated recipients into formerly inaccessible financial services.

iii) Investment and Micro-enterprise incentives

Studies have shown that on average, around ten percent of the remittance received is saved or invested, and a percentage of people are in a position to use their money for an enterprising activity. Both private sector and development players can insert themselves as credit partners of these potential investors. The effect is the provision of credit, supported with remittances in local communities that lack the presence of active markets and production networks. Tying remittances to micro lending has a development potential to enable the enhancement of local markets.

iv) Hometown associations as agents of development

The philanthropic activities of HTAs also have a development potential. Some of the infrastructure and economic development work performed by these associations represents a momentum for development agents to partner in local development. Governments in Central America and the Caribbean must work with international organizations and HTAs to jointly figure income generation schemes to their local communities. The Mexican and Salvadoran experiences offer important lessons of joint partnership in development.

v) Enabling regulatory environments

Expanding sending methods as well as competition (or levelling the playing field) are factors that help reduce money transfers. Moreover, educating customers about costs and charges is another important method. In Latin America there is a need for the greater facilitation of money transfers of any kind, be they remittance, savings, investment, or consumption. A comprehensive effort to support senders and recipients should foster an environment in which remittances are less costly and can also have a developmental leverage. To that effect, it is important to review prevailing legislation that hinders opportunities in Latin America for savings mobilization in rural areas where there is a demand for financial services.

[33] Interview with Isabel Cruz, head of AMUCSS.