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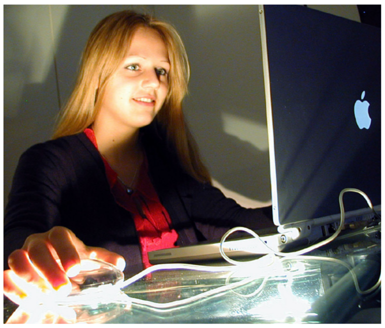


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Enabling environments: Facing a spontaneous or incubating stage

Executive Summary

This report analyses four Central American and Caribbean countries from the perspective of what governments and other actors are doing to promote an enabling environment conducive to economic exchange between immigrants residing in the United States and their homeland. Although there is a growing interest among government and private sector groups to reach out to migrants as economic agents, there are very few or no policy initiatives supporting an environment that fosters economic exchange.

The report examines which policies and practices are most conducive to enabling an environment that attracts foreign currency to Latin America while keeping the expense of the money transfers as low as possible from the perspective of the senders, recipients, and developing countries.

An enabling environment is one that facilitates with ease economic interaction among players. Five factors that enable a particular economic environment are:

- the presence of a significant number of economic players;
- communication and networking efforts;
- readily available information about transactions;
- policy, business initiatives, and ventures aimed at key economic sectors; and
  - resource availability to enhance initiatives and motivate players.

The report found that for the most part no major obstacles for migrants exist to transfer resources (remittances, donations, or investments), or for companies to engage with their Diaspora. However, there exist few initiatives to increase and enhance the quantity, range, and value of economic flows between migrants and their countries of origin. Consequently, there is a need for greater outreach and marketing of economic opportunities to migrants. In most countries, there are no outreach strategies in place, while private sector initiatives are in the nascent stages and involve few players.

Although all the countries examined suffer costly remittances services and weak economic ties to their respective diasporas, each has tried to address this situation to varying degrees and through different programs.

El Salvador

Programs aimed at migrants as investors and other outreach efforts to build economic relationships with the diaspora are encouraging but too often suffer from lack of follow through. Dollarization and economic liberalization, on the other hand, are more lasting reforms that seem to have increased flows of dollar savings to the country. Increasingly, government relationships are being established with Hometwon Associations to facilitate investment or donations to specific development projects. The money transfer industry is competitive, and dominant money transfer companies are forced to compete with new entrants from the financial services industry. While both banks and credit unions provide

cheap services, banks often fail to offer incentives for migrants to open accounts and credit unions are not very widespread.

Dominican Republic

Although the government acknowledges the great economic potential that lies in building relationships with the diaspora in the U.S., no coherent policy or any specific programs are currently engaging this community. Despite the high volume of remittances sent to the Dominican Republic, fees for this service are surprisingly high. Banks have begun to enter the market, but there is still much they can do to welcome senders and recipients into the larger financial system. To date, the interest of cooperatives is not matched by their participation in the market.

Jamaica

As reflected in its general policy objectives, Jamaica recognizes the importance of connecting with its various communities abroad, but this interest has yet to translate into specific policies. A single company largely controls the remittance industry in Jamaica, although banks, building societies, and credit unions are making efforts to enter the market. However, the private sector has shown little initiatives to engage with its diaspora.

Guatemala

The private and publics sectors have also expressed interest in engaging the population abroad, but very limited efforts have been made. Through their presence in Los Angeles, banks are participating in the money transfer industry and beginning to engage migrants.

Recommendations

A comprehensive effort to support senders and recipients of money transfers should foster an environment in which remittances are less costly and can exert developmental leverage. This report recommends that the players surrounding the remittance market:

a) Establish customer rights offices to educate both senders and recipients about costs and how to better measure effectiveness and efficiency of services.

b) Create a task force on remittances and development to explore concrete possibilities for sending and recipient countries.

c) An expanded role for Latin American and U.S. civil society organizations

Introduction[1]

This report analyses four Central American and Caribbean countries from the perspective of what governments and other actors are doing to promote an enabling environment conducive to economic exchange between immigrants residing in the United States and their homeland. The report examines which policies and practices are most conducive to enabling an environment that attracts foreign currency to Latin America while keeping the expense of the money transfers as low as possible from the perspective of the senders, recipients, and developing countries. As the report explains, there is a growing interest among government and private sector groups to reach out to migrants as economic agents. To that effect efforts are being made to establish an environment conducive to economic exchange.

Central American and Caribbean countries are gradually being integrated into the global economy. Migration, mostly to the United States, has significant economic effects in these countries. In particular, worker remittances flow continuously from U.S-based migrants to support at least ten percent of the households in Central American, Caribbean, and other countries. This influx of foreign capital is of enormous benefit to entire societies, however, and not just the direct beneficiaries. Some of these wider benefits can be seen in the consumer spending they encourage and the foreign currency they provide to governments.

Governments are important agents of economic change and through policies and regulations can attract migrant capital and decrease the price of remitting money. Governments need to consider what policies they might adopt to achieve these goals. These may include increasing migrant understanding of alternative sending methods, encouraging or requiring the market to offer cheaper methods to transmit remittances, and developing policy initiatives that enable and encourage an environment that attracts more worker remittances or investment.

[1] Many thanks to Kenneth Blazejewski for research support in the preparation of this report.

From the business perspective, competition among both existing financial service companies and potential new remittance transfer entrepreneurs needs stimulating to lower prices and increase services offered to actual and potential customers who send remittances abroad. The private sector transferring remittances can contribute to increased remittance flows by lowering transaction costs, and offering development alternatives to individuals and groups through their services.

Four countries are studied in detail for this report on enabling environments. These countries are El Salvador, the Dominican Republic, Jamaica, and Guatemala. The study is based on more than fifty interviews in the four countries. Government, private sector, and non-profit sector institutions were consulted and their representatives interviewed to assess the extent to which regulations, policy and private initiatives, and other incentives have been put into motion to transfer migrant currency (in the form of remittances, savings, investment, or donations) to home countries more cheaply and/or efficiently.

The future scenarios to better attract and increase foreign migrant currency look positive for most of these countries. There are a number of initiatives in the making, many of which will materialize in ways that will enable an environment to transfer remittances at lowered charges and expand economic activities in savings and investment by migrants. The first section of the report analyses the continued trend of contact between migrants and their home countries. The second section analyses whether there is an environment that allows migrants to economically engage their home country, or to at least send foreign currency at low costs. Finally, the report offers concrete recommendations to further enable and promote the environment for remittance transfers.

1. Background

In addition to sending remittances, migrant workers provide other important sources of revenue and economic stimulation to their countries of origin. This first form of economic engagement has historically been remittances. However, these cash flows are by no means the only benefit to the countries of origin. There are at least three other forms of economic support. First, in addition to cash, migrants bring consumer goods to their families and communities. Second, nationals living abroad visit their home

countries, often regularly, expanding or revitalizing the tourist industry and related economic sectors such as airlines and other forms of transportation. Third, immigrants purchase products from their countries of origin while in the U.S. thereby stimulating growth in the so-called ‘nostalgic industries’. Fourth, immigrants may and sometimes do invest in businesses in their native lands, including but not exclusively in the nostalgic industries. Finally, many migrants provide financial support to facilitate development and philanthropic initiatives through Home Town Associations (HTAs), which donate cash, goods, and in-kind services to communities in the countries of origin.

In most of the countries under study, economic connectivity between migrants and their native country is a recurrent process. Tourism for El Salvador and the Dominican Republic has a strong component of nationals living abroad. In the Dominican Republic, for example, nearly forty percent of tourists who arrive in the country are Dominicans living abroad, predominantly in the United States. Their average length of stay is more than fifteen days and they spend around $65 a day. From John F. Kennedy airport alone, annual flights to Santo Domingo carry nearly 140,000 people. Another 95,000 travel from Miami (See Table 1 below). The situation is similar in El Salvador. Over forty percent of people arriving into the country are Salvadorans. Grupo Taca, an airline carrier that serves Central America, flies 21 times a day from the United States to El Salvador. The same pattern is observed in countries such as Nicaragua and Mexico. At least 20 percent of tourists arriving to Mexico are Mexicans residing in the United States. The wealth generated by these flows is significant.

Table 1. National Origin and International Tourists

	Total tourists	Nationals	Percent	Year
Dominican Republic	2,169,977	845,102	0.38945	1999
Jamaica	2,231,765	103,379	0.04632	2000
Mexico	9,793,900	2,203,100	0.22495	1997

Source: Banco Central, Republica Dominicana, http://www.bancentral.gov.do/; Bank of Jamaica, Statistical Digest October 2001, Table 36.1; Banco de Mexico, www.mexico-travel.com.

Moreover, in a smaller proportion perhaps, migrants have become a new market attracting exports from their home countries. Ethnic imports to the U.S., in the above-mentioned nostalgic industries, including items such as local beer, rum, cheese, and other foodstuffs, have gained more attention among producers in Central America and the Caribbean. For example, exports to the United States of El Salvadoran beer tripled from one million dollars to $3.3 million between 1999 and 2000. By October 2001 exports had increased to $3.5 million, and promised to reach four million by the end of the year (USTR 2002). In many cases, home country producers have also established businesses in the United States to cater to the migrant community.

Another important development in the nostalgic trade industries is migrant investment in their home countries to manufacture foodstuff such as cheese, fruits, and vegetables. A number of migrants residing in the United States have set up businesses back in their home countries to establish stores of various kinds. One particular example of such a company is Roos Foods, Inc., a food manufacturer that produces and sells processed milk products in Central America and to Central Americans and Mexicans residing in the United States. Roos Foods operates in the United States but with franchises in Nicaragua and El Salvador. This trend of migrant investment in home countries will likely continue in the coming years.

Moreover, investment is not limited to individual enterprises. A recent survey of migrants residing in the United States commissioned by the Inter-American Development Bank asked how interested they were "in investing in a fund that would benefit the economic development" of their country. Thirty-eight percent of respondents said that they were somewhat interested or very interested (IADB 2001). These patterns of continued and increasing economic interaction bring into focus the need to examine the extent to which there exists an environment that facilitates a relatively uncomplicated process through which migrants can strengthen their relationships with their home countries, starting with a low cost method to transfer remittances. Specifically, are there factors facilitating or enabling an environment for migrants to work as active economic agents? Is there an enabling environment that helps businesses compete in the remittance

market and lower transaction costs? The following sections seek to answer these questions.

2. An Enabling Environment

With increased labor migration, governments, civil society, and the private sector are now faced with the prospect of attracting more worker remittances, migrant association donations, migrant capital investment, as well as trade opportunities. Governments and businesses need to ask themselves what they can do to help lower the costs of remittances and attract more money. What policy and regulatory changes would be most helpful? What stands in the way of those changes? Would regulation of courier agencies and other remittance transfer businesses reduce costs? Can governments and financial institutions help channel greater amounts of remittances through the banking system?

An enabling environment is one that facilitates with ease economic interaction among players. Five factors that enable a particular economic environment are:

- the presence of a significant number of economic players;
- communication and networking efforts;
- readily available information about transactions;
- policy, business initiatives, and ventures aimed at key economic sectors; and
- resource availability to enhance initiatives and motivate players.

Within this context, governments and businesses (as well as non-governmental groups, which lie largely beyond the scope of this report) can promote initiatives that not only address cost reduction in the transfer of remittances, but also enable other elements of an economic environment that is attractive for migrant transfers of various kinds. Factors that may hinder or enhance migrants' decisions to increase, diversify, and strengthen the impact and value of transfers include (but are not limited to) the following:

- Cost and delivery. These factors are affected by many forces, including prevailing monopolies or ineffective oversight over money transfers.
- Exchange rates.
- Banking regulations. For example, allowing those working in the U.S. to keep dollar accounts with favorable interest rates in their home countries would likely

increase remittance flow as well as enhance how those remittances are used, encouraging savings and investment.

- Granting trading licenses to individuals who already have enough foreign exchange to import or export commodities. These initiatives can attract savings coming from remittances received by local entrepreneurs.
- Nonexistent or insufficient incentives to attract immigrant investment and/or donations. Governments can create incentives through policies such as facilitating favorable loan interest rates to migrant groups or reducing import duties for hometown associations' donations. Banks and credit unions can offer strategies to attract remittances, savings, and other investments to their institutions and support the development of the receiving community.

This project reviewed current policies governing foreign currency transfers to Latin America, as well as the outreach efforts to migrants by the banking industry in selected Latin American countries. The report finds that, overall, there are no major obstacles for migrants to transfer resources (remittances, donations, or investments), or for companies to engage with the diaspora. On the other hand, however, there are few major or widespread initiatives to increase and enhance the quantity, range, and value of flows. Among other concerns, there is a need for outreach and marketing to migrants. Except in El Salvador where a nascent program exists, and in Jamaica where a new trade policy links the country to its diaspora, there are no strategies in place. Private sector initiatives to engage their fellow compatriots also offers promising opportunities, but they are in their early stages and involve few players. The report now reviews the state of the environment vis a vis migrant opportunities to economically engage countries of origin.

a) El Salvador

According to U.S. census figures, there are at least one million Salvadorans in the United States. The Central Bank of El Salvador estimated that Salvadorans sent nearly $2 billion in remittances in 2001. In addition, as noted above, Salvadorans travel to El Salvador frequently and maintain an economic relationship with their families, communities, and country whenever possible. El Salvador's economy was dollarized on January 2001, which has reduced speculation in worker remittances. Nevertheless, the costs of money transfer remain high overall.

Government institutions as well as the private sector and civil society are seeking initiatives and strategies to enable an attractive environment for migrants to engage economically with El Salvador. Helping to reduce costs and attract more remittances are among their priorities. The government's priority is to draw economic resources and investment to El Salvador, including those of migrants, rather than to focus on remittances. The business sector remains focused on extending and enhancing the remittance business in its own right.

Government initiatives—Central Bank authorities stress that there are few regulations about foreign currency, particularly since El Salvador adopted the dollar as the country's legal tender. Individuals can open dollar accounts, and banks are allowed to do so both for nationals or foreigners. One significant change has been that dollar deposit accounts increased by 6 percent since early 2001. The Central Bank must keep records of incoming foreign currency and identify its sources. To that effect the Bank uses a procedure to review foreign currency operations, which compiles figures from reports provided by banks, foreign exchange businesses, and other institutions authorized to carry out international financial operations.

The Salvadoran government has sought to reach out to its diaspora, but the efforts do not always have the necessary follow-through. In 2000, the Ministry of the Economy sought to adopt a strategy aimed at cultivating migrants as potential investors. The Ministry created a 'trading cluster' with the purpose of linking Salvadoran enterprises with diasporic business partners. This strategic alliance approach serves as a departure point to promote trade at larger scale. By January 2001, the strategic alliances emerging from the Ministry's initiative had reached monthly deals of $100,000 to purchase agricultural goods such as beans. Later in the year, however, such efforts seemed to have lost momentum. The Office of Competitiveness at the Ministry stressed that these were important efforts and El Salvador should think of these strategic alliances as economic beachheads. Nevertheless, as of late 2001, there were no continued initiatives in place and that no follow-up to the previous effort.

The Foreign Affairs office also engaged in outreach efforts with expatriate Salvadorans as part of an initiative emanating from the Vice-President of the Republic. The Dirección General de Atención a la Comunidad en el Exterior (hereafter, the Directorate) created in January 2000, is an office that coordinates with other government agencies outreach efforts with Salvadorans living abroad. The objectives of the office have been to link the Salvadoran government with the community living abroad, carrying out initiatives that strengthen the relationship between the diaspora and El Salvador. The office has paid attention to four areas: economics, cultural issues, community organizing, and migration. Much of the office's work has involved networking with the diaspora, particularly with hometown association leaders. It has also promoted development in a number of areas. One initiative was to promote diasporic assistance to housing reconstruction following the early 2001 earthquake that devastated parts of the country. Another project has been the office's role in facilitating communication between hometown associations and local governments in order to engage the former in small development projects. To that effect the Fondo de Inversión Social para el Desarrollo Local de El Salvador, a government agency, has linked with hometown associations to carry out small development projects in rural sectors of the country. Construction projects have been at the core of this relationship in which hometown associations participate as joint partners providing material for basic infrastructure and assisting with property acquisition. Other efforts by the Directorate have been to facilitate the tax-exempt status of goods donated by Salvadorans living abroad.

In 2002, the Directorate will promote a portfolio of development projects identified with the assistance of the Ministry of Agriculture. These are generally low-budget investment projects involving less than $30,000 (and which average about $10,000). These projects would be an attractive incentive to migrants interested in either investing or donating capital. Another important initiative is the creation of a $300,000 matching fund to implement joint partnership activities with hometown associations. This matching fund represents an incentive to attract HTAs to engage in or expand development initiatives for their communities of origin.

Table 2. Projects proposed by the Outreach Directorate

Project	Amount	No. of Projects
Chicken farms	60355	7
Fish farms	56690	2
Gardens	27500	6
Handcraft	10500	1
Organic	10500	1
Other	12700	2
Vegetables	9200	1
Social	18500	2
Fruit	10800	2

Source: Outreach directorate

Private sector initiatives—Businesses in El Salvador have recognized the value of remittances as an economic instrument that enhances a company's profits. However, there remain significant areas for businesses to improve the products and services they provide to both migrants and recipients. For example, the banking industry in El Salvador has significant international operations and many banks already offer money transfers. The four largest banks in El Salvador (see Table 8) have branches in the United States. Money transfers to El Salvador are competitive and a leading company, Western Union, despite controlling a significant portion of the market with 254 agencies, competes regularly with the banks and courier agencies.

Although many banks offer remittance services, banks have largely failed to offer recipients opportunities and incentives to open bank accounts and save their money. As in most countries, there is an assumption among some banks that because most money recipients are low-income individuals who predominantly use the money for consumption, they are not potential bankable customers. That belief impedes banks from offering sufficient incentives to senders and recipients or training them to use the banking industry.

Table 3. Top 10 Banks in El Salvador

Bank	Assets in 2001 (in US dollars)	Branches in the U.S.
Agricola S.A.	2,546,526,000	BancoAgricola, branches in California and Washington
Cuscatlán de El Salvador S.A.	1,931,919,000	New York
Salvadoreño S.A.	1,405,586,000	BanSol, branches in California and Washington
De Comercio de El Salvador, S.A.	923,568,000	Bancomercio branches in California and Washington
Scotiabank El Salvador, S.A.	401,220,000	
Hipotecario de El Salvador S.A.	253,488,000	Works with Western Union
Capital S.A.	237,593,000	
Credomatic S.A.	205,365,000	
De Fomento Agropecuario	172,439,000	Works with Western Union
Citibank N.A.	165,366,000	

Source: Estrategia y Negocio, Diciembre 2001 – Enero 2002.

Despite this assumption of 'unbankability', most bankers agree that some of those receiving remittances open bank accounts at some point in their economic lives. For example, in Banco Hipotecario, bank officials estimated that 20 percent of money recipients open accounts and enjoy the benefits of banking. Banco Agricola estimates that 30 percent of remittance senders and 10 percent of recipients have bank accounts. Banco Agricola offers three services to senders; remitting to a savings account through agencies in the U.S., remitting to a relative's account (or providing a cash payment), and bill payments. However, neither of these banks has incentives to actually attract recipients into the banking industry or to offer them or the sender standard banking benefits, such as housing loans or other types of financial opportunities.

Cooperatives have more initiatives and outreach to remittance senders and recipients, but the cooperatives are less widespread than the banks. The Federation of Salvadoran Savings and Credit Cooperatives (Fedecaces) initiated the IRnet system, which provides international wire transfers among credit unions, in coordination with the World Council of Credit Unions. This important initiative, which has enormous potential benefit to senders and recipients of remittances (as well as others), continues to be limited due to

lack of resources. Two major impediments are the small number of people who are members of credit unions and the need to develop computer software that would allow for a more efficient money transfer system. Despite these constraints, the program has been able to attract clients into its money transfer system. Fedecaces has also made use of 26 points of service in El Salvador in addition to its central offices and the participation of 18 cooperatives.

Fedecases' relationship with other financial institutions underscores arguments this report makes about best practices and the advantages of enabling environments that facilitate flows, customer empowerment, and related economic and social benefits. Originally, Fedecases would only transfer remittances from a U.S. based credit union such as L.A.-based Comunidades. In order to expand its service in the United States, it then arranged to send money through three money transfer companies; Vigo International, Rapid Money, and Viamericas, all companies which charge lower prices than their business competitors. Fedecases' remittance service tripled from the moment in expanded its activities with the money transfer companies. Prior to this expansion, between January and September 2001, Fedecaces transferred $483,068. Because of its new expanded reach, remittance transactions in the last three months of the year were almost double those of the previous nine months, resulting in a year-end total of $1,203,583. Also notable is that the average remittance transaction was $400, which is about double the usual transfer amount. Fedecaces' approaches are apparently consolidating their customer base as Fedecaces' officials report that every month 10 percent of recipients decide to associate with the cooperative.

Other institutions have explored opportunities to engage with their home-country diaspora. Two examples are the Banco Multisectorial and an NGO, Infocentros. Banco Multisectorial is an organization that provides funding for housing and other development projects, usually through other institutions. It has provided credit to sell homes in El Salvador to Salvadorans living abroad. However, partly due to the lack of outreach and marketing strategies and partly due to Banco Multisectorial's lack of knowledge about the Salvadoran population abroad, only $2 million was financed. Infocentros is a Salvadoran NGO that offers training to use and access to the Internet.

They have ‘infocentros’ which are computer centers like internet cafes, and an infrastructure already in place. This organization is exploring using its infrastructure and expanding its offices throughout the country to offer money transfer services through low-cost, internet-based, transactions to Salvadorans residing abroad. This initiative could offer other important benefits to the recipients such as educating the recipient community about new technologies.

El Salvador is clearly working to build a better economic relationship with its diaspora. However, banking institutions need to better explore the opportunities of attracting migrant capital as well as making efforts to bank the unbanked in El Salvador. Overall, positive efforts and initiatives are being set in place, but further dialogue on economic interaction with Salvadorans living abroad needs to take place between private sector entrepreneurs and government.

b) Dominican Republic

There are nearly one million Dominicans in the United States, the majority of them residing in New York and Florida. In 2001, these Dominicans sent $1.8 billion in remittances to their home country. Despite this volume, the third largest amount among Latin American countries, charges for transfers are higher than for El Salvador, Guatemala, and Mexico. Moreover, there are no specific initiatives in the Dominican Republic to establish linkages with the Dominican diaspora, although government officials and private sector groups are eager to initiate such economic schemes. Greater knowledge and understanding of the money transfer market and the development of policy initiatives by the government could stimulate active engagement with Dominicans living abroad.

Government initiatives -- Government officials in the D.R. value remittances as an important source of income for the economy. Central Bank analysts estimate that between 1995 and 2000, after tourism, family remittances represented the second source of foreign currency earnings, reaching $7.3 billion, or 8 percent of the country’s GDP. Central Bank officials also maintain that since the onset of economic liberalization, dollar transfers may be made freely and regulations on foreign currency only occur for

transactions above $5,000. Foreign exchange businesses and money transfer companies must comply with regulations when handling transfers exceeding $5,000. Bank obligations are limited to verifying that transactions are registered as remittances and both banks and non-bank financial institutions must report the remittances they handle.

Notwithstanding the enabling provisions of economic liberalization, the government and private sector could do much more to promote a money transfer environment that is effective, inexpensive, and attractive to migrants as well as implement other measures to enhance economic relationships with expatriate Dominicans. Tourism is a case in point. Despite the fact that nearly forty percent of tourists who traveled to the D.R. in 1999 were Dominicans who spent an average of $741 during their typical 15 day stay, the Tourism office has no program in place to reach out to this sector. Although tourism officials recognize that promoting 'internal tourism' for Dominicans living abroad would bring important benefits to the country, they admit that their approach is to promote 'international tourism'.

More broadly, there is no government consensus as to how to interact with and relate to Dominicans overseas. In the Foreign Affairs Ministry, for example, an official was concerned about the difficulties and risks of having an economic strategy targeting migrants living abroad. Nevertheless, an outreach policy is considered necessary and to that effect, the Foreign Affairs ministry created an Overseas Affairs Office. Moreover, the Office of Investment Promotion in the Dominican government has a clear understanding that partnering with Dominicans living abroad will enhance the country's development opportunities, but has no policies in place to define an appropriate strategy or orientation. In other words, the recognition by this office that the government and private sector must create conditions to attract migrant capital investments has yet to translate into policy or practice.

Private sector—Generally, Dominicans suspect that the costs of sending remittances may be high. However, the Associación Dominicana de Empresas Remesadoras de Divisas, Inc. has an effective public relations campaign that contends that their prices are fair. Moreover, though some businesses in the Dominican Republic are aware of current

market behavior and high prices, they often feel they should not get involved. Remittance companies themselves could also offer development contributions to the communities receiving remittances, such as donations or joint ventures with communities living abroad. Vimenca, Western Union's representation in the Dominican Republic, with near a 30 percent market share, explains that they offer various charity donations and would be interested in participating in other projects. Mr. Freddy Ortiz, president of the Remittance Association agrees on the importance of the developmental contribution that the Association's member companies can provide.

Although banks are relatively uninvolved in the remittance business, there are some exceptions. Banco Bancredito is involved in the money transfer system but only to a very limited extent and with a small number of customers who are remittance recipients. Although Bancredito has 51 branches throughout the Dominican Republic, it only received a little less than $4 million a year in remittances from the United States. Most of these transfers arrive into dollar savings accounts kept by Dominicans living in the U.S. The bank recognizes that it could seek to attract or offer incentives to new customers to have dollar accounts. Banco Mercantil, which works mostly with trade, is interested in the remittance market and offers a money transfer scheme through a debit card in conjunction with Quisqueyana, a remittance company with offices in the U.S. Customers in the U.S. go to Quisqueyana offices and transfer the money to the bank, while the recipient in the Dominican Republic receives a card, referred to as a CashPin, that can be used regularly to withdraw remittances. This new venture represents an important advance in money transfers because it enables recipients to not only to cash their money at any ATM but also to buy goods at commercial establishments through its relationship with Visa.

Two other banks more involved in money transfer are Banco Popular (BPD International) and Banco Hipotecario Dominicano. BPD International, whose Dominican counterpart is the largest bank in the country, has various money transfer operations, including remittances (see Table 9). They also have arrangements with other money transfer companies. Banco Hipotecario remits significant amounts through its branches in New York and its market share could reach 14 percent. This bank also offers other packages

to senders and recipients of remittances. The company has a tourism office that is seeking to attract the Dominican market living abroad. Hipotecario's business strategy emphasizes attracting recipients into the banking system as well as providing housing loans to both senders and recipients.

Table 4. Top 10 Banks in the Dominican Republic

Bank	Assets as of June 2001	Branches in the U.S.
Popular	2,263,825,210	New York
De Reservas	1,755,155,500	
Intercontinental	1,169,223,960	
B.H.D.	959,072,170	New York
Nacional de Credito	719,812,480	
Del Progreso	672,601,000	
Citibank	377,483,630	
Mercantil	339,626,600	Quisqueyana
Scotiabank	263,290,980	
Osaka	165,044,670	

Source: Estrategia y Negocio, Diciembre 2001 – Enero 2002.

Nevertheless, there is still much the banking industry and other business sectors can do and offer to money senders and recipients. Important contributions would include providing or expanding interest bearing dollar accounts, housing or construction loans, regular savings accounts to low income recipients, retirement packages to senders, and other financial opportunities. These could enhance both business interests and the needs of the remittance sector.

Finally, as in El Salvador, a nascent interest in money transfers has emerged among the cooperative system and is reflected in the initiatives of the Association of Cooperatives, known by its Spanish acronym AIRAC. 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. Cooperatives also offer a more welcoming environment for remittance recipients, as they seem to be less 'formal' than banks. In places where remittances are transferred through cooperatives the community also receives benefits from the association. One cooperative, San Jose de las Matas, transferred half a million dollars in remittances during a 12-month period. Many of the recipients have joined the

cooperative since they began receiving their remittances through it. Thus remittances can play a developmental role among low-income recipients by functioning as a resource that over time can be saved. AIRAC is seeking to expand its services by providing ATMs to the cooperative network and set a more effective and inexpensive money transfer system than that currently offered by remittance agencies.

The increasing participation of banks and cooperatives in the Dominican money transfer system has led to new opportunities for improvement. In addition, the government's interest in addressing policy options for migrants living abroad may also be a positive indicator for the emerging enabling environment. Within that context, there is a need to discuss current costs as well as opportunities to improve services and available options for senders and recipients.

c) Jamaica

Jamaica is a very different country from other Latin American and Caribbean countries, not only by virtue of its language (as there are other English-speaking Latin American countries), but because it is the Latin American country with the largest proportion of its population living abroad. The Jamaican diaspora is spread out around the world. Jamaica has a population of only 2.5 million people, but has 800,000 immigrants in the United States alone. These 800,000 Jamaicans sent $900 million in remittances in 2001. Another distinctive characteristic of Jamaica is that one single company, Western Union, through Grace Kennedy Remittance Services Ltd, manages the majority of the money transfer market. Grace Kennedy/Western Union controls about 65 percent of the market. It also has some of the highest remittance sending fees in the region. As in the Dominican Republic, awareness of the high relative cost of money transfer is limited in the government and society. An enabling environment that better facilitates money transfers is needed in Jamaica, as is recognized in some sectors of Jamaican society and reflected in some government policies.

Government—Officials at the Bank of Jamaica, the central bank of Jamaica, believe money transfers to Jamaica flow smoothly. The bank's primary interest to date has been limited to monitoring the quantity of financial flows, rather than broader enabling (or

disadvantageous) factors that may promote or inhibit those flows. There are currently no restrictions on foreign exchange capital flows. There currently are, however, conversations about money laundering regulations with the Ministry of Finance and the Banking industry in order to increase monitoring of money transfers that may arrive into the country for non-legal purposes. While officials interviewed were not aware of any complaints or concerns about the remittance transfer companies and systems, they, like their Dominican counterparts, did express concern when informed of the fees and exchange rate markups remitting Jamaicans incur.

Outside the money transfer business, government officials at the Ministry of Finance recognize that there is no strategy to attract migrant currency earnings. There is only a general strategy to promote investment. There have been some outreach attempts, but in general these have been isolated efforts. Through one such initiative, the National Housing Corporation encourages Jamaicans in the U.S. to build homes in their homeland.

In contrast, one area in government where there is a serious focus on Jamaicans living abroad is in foreign and trade policies. This strategy recognizes the need for Jamaica to "be proactive in shaping the new rules of the international trading environment rather than passively allow these rules to be shaped by other countries." In that context, one area of attention consists of attracting the support of Jamaicans living overseas. Under this policy, the government established the following objectives. It aims to:

- Implement the *Charter for Returning Residents*
- Operate as an information center and contact point for Jamaican overseas organizations and communities- activities should focus on information gathering and analysis of overseas asset creation activities
- Promote policy to support the interests of Jamaican communities abroad through political and economic activities
- Encourage and mobilize Jamaicans abroad to assist in national development
- Encourage mass communication with Jamaicans overseas, e.g., through television and radio programming
- Provide trade-related assistance to Jamaicans overseas to increase capital flows to Jamaica, e.g., marketing networks, cultural activities. (Jamaica's New Trade Policy)

This strategy linked a previous effort (formalized in 1993) with the creation of the Department for Jamaicans Overseas. This department originally worked to assist Jamaican returnees, and later expanded to maintain links with its diaspora. The new policy of the government has been read as an important step in its recognition that the country's integration in the global economy depends in significant part on its relationship with its diaspora. Yet, given the absence of specific projects, there is also recognition that the government has yet to move from this policy agenda into policy implementation. Despite these shortcomings, the government has expressed enthusiasm over linking up with Jamaicans living overseas. Officials are also interested in learning from other countries' experiences in creating an environment that facilitate greater contact.

Private sector—The private sector is clearly aware of the importance of the diaspora, and it looks to the United Kingdom, Canada, and the United States as the places where Jamaicans are residing. It is also aware of the importance of family remittances coming into the country. As one chief bank official expressed it, "there is no debate that dependence on remittances is strong and does not constitute a bad thing; it is a reality we need to adapt to." Banking institutions like commercial banks and building societies participate in money transfer to some extent. However, there is little concern over the control that one company, Grace Kennedy, exerts over the remittance market. Grace Kennedy's greatest competitor is Jamaica National, a building society that transfers 10 percent of the remittances that come into the country. It charges $15 for any transaction, as compared to $22 by Western Union/Grace Kennedy.

Aside from Jamaica National, there are some of other banks that provide remittance services. These institutions use MoneyGram in the U.S. and charge similar or slightly lower fees than those of Grace Kennedy. No bank examined identified a strategy to enable an environment more conducive to attracting migrants' foreign currency for other economic purposes.

The credit union system is seeking to implement a nationwide strategy to offer remittance transactions and use the earnings from the transfer charges to implement educational packages to its members. One credit union that transfers money from Florida through a

Cayman Island bank has demonstrated the benefits of money transfers by suggesting that their revenues have increased significantly since working in the remittance service sector.

The recognition of the importance to increase interaction with the diaspora is a significant step for the Jamaican government. One concrete strategy for this country should be to identify the needs of the remittance sending and recipient populations, including lower fees, facilitating new economic opportunities, and providing other financial services.

d) Guatemala

Unlike the other three countries reviewed here, Guatemala has a relatively small population living abroad. Census Bureau estimates that there are less than 500,000 Guatemalans in the United States. Nevertheless, in 2001 these Guatemalans sent nearly $700 million to their country of origin. The government has generally recognized the importance of Guatemalans living abroad and has expressed interest in engaging with its population. In practice, however, limited efforts have actually been made. The private sector is beginning to engage migrants by entering the money transfer business.

Government—According to the Guatemalan Central Bank, the law allows transfers in dollars. However, some officials fear that the free negotiation of foreign currency could lead to increased exchange rate speculation. Guatemala does not have higher markups in the exchange rate than other countries under study. There are some impediments to people opening dollar accounts, but these are not related to banking regulations but to commercial banks' policies. In particular, many banks in the country require a $500 deposit to open dollar accounts, and customers are also required to have an account in Quetzales.

Private sector—The banking industry in Guatemala has established money transfer offices in the United States to offer services to Guatemalans. The majority of banks have offices in Los Angeles, which function to transfer remittances. These bank offices compete among themselves to attract market share by offering low fees. A new large bank, G & T Continental, plans to enter the U.S. remittance market in May. The bank's strategy will be to offer more than one service: in addition to transferring money, it will

provide basic information about issues of concern to Guatemalans such as migration and legalization, as well as low income housing opportunities in Guatemala.

Table 5. Top 10 Guatemalan Banks

Bank	Assets as of June 2001	Branches in the U.S.
Industrial	1,003,543,590	
G & T Continental	974,531,670	Los Angeles
Del Café	630,943,330	
Agromercantil de Guatemala	527,635,130	Los Angeles
Reformador	419,877,690	
De Occidente	404,530,770	Los Angeles
De Desarrollo Rural	386,592,820	
De Exportación	253,788,460	
Internacional	241,104,490	
Crédito Hipotecario Nacional	176,557,690	

Source: Estrategia y Negocio, Diciembre 2001 – Enero 2002.

4. Recommendations

The countries studied are still thinking about how to enable an environment by which money transfers can occur without complication and at lower cost. In Latin America there is a need to enable an environment that facilitates money transfers of any kind, be they remittances, savings, investments, or consumption. However, since the most tangible and costly interaction between migrants and their home country is remittances, priority must be paid to this particular issue. Current efforts to enable an adequate money transfer environment are in their early phases and international support could provide valuable input to help expand and improve the current reality.

A comprehensive effort to support senders and recipients of money transfers should foster an environment in which remittances are less costly and can exert developmental leverage.

a) Establish customer rights offices to educate both senders and recipients about costs and how to better measure effectiveness and efficiency of services.

Remittance recipients are not aware of many of the practices and methods of remittance companies. For example, many senders do not know about the different exchange rate markups that prevail among different companies. Furthermore, there is no independent research or checks on effectiveness or efficiency of the various services. Non-governmental organizations could contribute significantly to the improvement of the market by ensuring that migrants approach the money transfer companies as informed customers.

b) Create a task force on remittances and development to explore concrete possibilities for sending and recipient countries.

Players in the remittance market can further enhance and enable the remittance environment by acting in three strategic areas: helping reduce money transfer fees, expanding financial opportunities to recipients and senders, and leveraging the developmental potential of remittances. To that effect, a task force of key players should be established to formulate agendas and policies that can improve the value, flow, and

use of remittances. [and their effective management.] The task force would also help formulate strategies that leverage the developmental potential of remittances and other migrant earnings. Members of the task force would make recommendations to the United States and Latin American governments as well as international organizations regarding key development practices influenced by remittances. Task force membership should include key players in the remittance process such as business officials, policy makers from the U.S. and Latin America, leaders of Latino hometown associations, and international organizations. The task force would need to meet in the United States and Latin America, and help shape a strategy on cost reduction and economic development. One important role of the task force would be to highlight important developmental strategies as identified in studies and the task force meetings. The task force's main objective would be to draw attention in the Inter-American community to the role of remittances in development and to support specific policy options and proposals that facilitate development.

c) An expanded role for Latin American and U.S. civil society organizations

Implicit in many of the above recommendations, and indeed in much of the report, is that the nonprofit, non-governmental organization (NGO), or civil society sector has a very important role to play in promoting a better remittance system, from encouraging lower fees to empowering citizens to use mainstream financial institutions, to promoting the developmental and investment potential of remittance flows. Examples of such civil society participation range from the customer rights NGO in Honduras to the invaluable and innovative role of credit unions, themselves nonprofit organizations. Nevertheless, a full discussion of the role of the civil society sector – both what it currently offers, and what it can offer immigrants, their families, and their communities through international financial flows – is beyond the scope of this study, which was commissioned to focus on government and business. An important area of future policy study is how to promote the enabling and enhancing role of the NGO/nonprofit sector in the US and home countries.

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