



The Potential Impact of Remittances on the Regional Economy of LAC

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IDB President Luis Alberto Moreno

“Remittances could be leveraged to expand access to micro-credit, mortgages and loans for small businesses, generating more jobs and income in regions that now produce migrants.”



**-Miami Herald
11/7/2005**

Public Opinion Research Projects

- 1. Focus groups with U.S. remittance senders in New York City, Los Angeles, and Miami.**
- 2. Focus groups with LAC remittance recipients in Mexico, Colombia, El Salvador, Guatemala, the Dominican Republic, Jamaica, and Haiti.**
- 3. Executive interviews with transnational families involved in the remittance process.**

Focus Groups – US Remittance Senders



Focus Groups – Remittance Recipients in LAC



Transnational Families



Major Finding

- I. There is substantial evidence from the studies that the remittance process can help millions of Latin American and Caribbean families establish credit and have access to valuable financial services.**



Leveraging Remittances: Positive Factors

Patriotism

- **Most remittance senders living in the United States express sincere love and pride for their native country. They are not only genuinely concerned for their homeland, but they also have a significant interest in their country and its economic future.**

Optimism

- **Most remittance senders see themselves as doing “well” economically in the United States, even though many are considered “poor” by U.S. standards. The vast majority has an optimistic outlook about their future and expect that their economic situation will improve.**

Latin American Dream

- **In contrast to studies conducted in the early part of this decade, there is now a growing number of remittance senders that are considering investments in LAC. Owning a family home and opening a small business in their country are the two most common goals.**

Transnational Trust

- **There is agreement between remittance senders and recipients as to the state of their economic affairs. According to the study of transnational families, the information given by senders and recipients about the financial usage of their remittance and the overall financial situation of the LAC family is substantially similar.**

Class Power

- **At the conclusion of the focus groups in Los Angeles, New York City, and Miami, some participants had a better understanding of the concept that immigrants who send remittances to their native country – as a class or group – could help improve the economies of their countries.**

Leveraging Remittances: Negative Factors

Understanding

- **The key potential barrier to the successful launch of the IDB initiative to leverage remittances is the varied levels of understanding of the financial products that may be offered. The degree to which the financial products tested is accurately understood by the senders and recipients varied greatly from group to group.**

Financial Guarantor

- **There is no apparent financial institution in LAC that could give the financial products offered to families involved in the remittance process the necessary “seal of approval.” There is a great deal of skepticism among senders and recipients regarding financial institutions and transactions. The IDB is not well known among those involved in the remittance process.**

Disconnect

- **It was apparent during the focus groups in both the United States and LAC that senders and recipients find it difficult to understand the concept that their remittance can be utilized to establish credit or to invest in financial products. The first reaction of most remittance senders to this overall concept was that they could not afford to send more money.**

Third World

- **Even though most families involved in the remittance process have a great deal of love and pride for their countries, a majority of senders and recipients have a negative opinion of the economic condition of their country. There is a great deal of concern about the current economic situation, the level of corruption, and the lack of political stability in their countries.**

Movies and Motorcycles

- **Some remittance senders believe their relatives back home are not financially responsible. Even though there are minimal discrepancies between senders and recipients about financial issues, there is anecdotal evidence that at the very least, the perception exists that LAC remittance recipients cannot be fully trusted with a large amount of money.**

Major Finding

II. Insurance and banking investment products were most attractive to remittance senders and recipients in both the United States and LAC. Housing and educational investment products were also of great interest. The preference for financial products varies by region, country and the socioeconomic class of senders and recipients.

Financial Products

Insurance Investment Products

Description

- **Immigrant living in the United States purchases life or health insurance for their family member in LAC.**

Level of Interest Scores

- **Senders 9.1 / 10**
- **Recipients 8.9 / 10**

Insurance Investment Products

Most Popular Among

- **Senders** – Mexico, Central America, South America, Dominican Republic, Haiti, Caribbean
- **Recipients** – Mexico, Central America, Haiti, Dominican Republic, Jamaica
- There was special interest in life insurance policies that cover funeral and burial costs.
- There was also interest in life insurance policies that cover the living expenses of surviving family members.
- There was “universal” interest in health insurance policies.

Banking Investment Products

Description

- **Remittances are deposited into an account in a bank in the name of the remittance recipient and an agreed to portion of each remittance is assigned to the savings account.**

Level of Interest Scores

- **Senders 8.3 / 10**
- **Recipients 9.0 / 10**

Banking Investment Products

Most Popular Among

- **Senders** – Central America, Dominican Republic, Caribbean, Haiti, South America
- **Recipients** – Dominican Republic, South America, Jamaica, Central America, Mexico, Haiti

- **Savings accounts were popular among most senders and recipients because of their familiarity with the concept.**
- **“Control of the savings account” was the only controversial issue about this product.**

Housing Investment Products

Description

- **The remittance history of a recipient serves as collateral for a home mortgage or home construction loan.**

Level of Interest Scores

- **Senders 8.0 / 10**
- **Recipients 8.6 / 10**

Housing Investment Products

Most Popular Among

- **Senders** – Caribbean, Haiti, Dominican Republic, South America, Central America
- **Recipients** – Mexico, Central America, South America, Jamaica, Dominican Republic

- **An overwhelming majority of remittance senders and recipients reported that owning a home in LAC was one of their major goals.**
- **There was also interest in home improvement loans.**
- **There was concern among remittance senders about their financial responsibility for the mortgages or loans.**

Educational Investment Products

Description

- **Immigrant living in the United States makes a direct payment to a university or private school attended by their family member in LAC.**

Level of Interest Scores

- **Senders 7.3 / 10**
- **Recipients 8.4 / 10**

Educational Investment Products

Most Popular Among

- **Senders** – Haiti, South America, Central America, Dominican Republic
- **Recipients** – South America, Central America, Dominican Republic, Jamaica
- There is substantial interest in financing the university education of younger relatives in LAC.
- There was little interest in “university loan guarantees.” Immigrants in the United States were not interested in this financial product.

Microfinance Institution Loans

Description

- **Remittances are deposited into a microfinance institution account. Remittance recipients are eligible for small business loans based on their remittance records.**

Level of Interest Scores

- **Senders 6.0 / 10**
- **Recipients 8.0 / 10**

Microfinance Institution Loans

Most Popular Among

- **Senders** – Haiti, Dominican Republic
- **Recipients** – South America, Haiti, Jamaica, Dominican Republic

- **The major barrier for this financial product was the low level of familiarity about and understanding of microfinance institutions.**
- **There was also distrust about microfinance institutions in LAC because of the negative experience of some senders and recipients.**

Direct Payments

Description

- **Immigrant living in the US makes payments directly to vendors in LAC to cover the basic household bills of their family member.**

Level of Interest Scores

- **Senders 7.7 / 10**
- **Recipients 6.2 / 10**

Direct Payments

Most Popular Among

- **Senders** – Dominican Republic, Central America, Haiti
- **Recipients** – Mexico, Dominican Republic
- This financial product was popular among remittance senders because they were concerned about the level of financial responsibility of their relatives in LAC.
- This financial product was unpopular among remittance recipients because it eliminates their discretionary capacity.
- There were also concerns about the “infrastructure” of the process.

Agriculture Credits

Description

- **Remittances are deposited into a microfinance institution account. Remittance recipients are eligible for agricultural loans or for agricultural “bridge” loans based on their remittance records.**

Level of Interest Scores

- **Senders 4.4 / 10**
- **Recipients 6.2 / 10**

Agriculture Credits

Most Popular Among

- **Senders – Haiti**
- **Recipients – Dominican Republic, Haiti**

- **There was little interest in this financial product because few senders or recipients are involved in agriculture.**
- **There was also strong fear of natural disasters (i.e. droughts, hurricanes, etc.) and their potential impact on the recipient's ability to repay their loans.**

Ratings of Financial Products

<i>Financial Product</i>	<i>Senders' score</i>	<i>Recipients' score</i>
Insurance Investments	9.1	8.9
Banking Investments	8.3	9.0
Housing Investments	8.0	8.6
Educational Investments	7.3	8.4
Microfinance Institution Loans	6.0	8.0
Direct Payments	7.7	6.2
Agriculture Credits	4.4	6.2

Overview of Financial Products

<i>Financial Products</i>	<i><u>Senders</u> Most popular among</i>	<i><u>Recipients</u> Most popular among</i>
<i>Insurance Investments</i>	Mexico, Central America, South America, Dominican Republic, Haiti, Caribbean	Mexico, Central America, Haiti, Dominican Republic, Jamaica
<i>Banking Investments</i>	Central America, Dominican Republic, Caribbean, Haiti, South America	Dominican Republic, South America, Jamaica, Central America, Mexico, Haiti
<i>Housing Investments</i>	Caribbean, Haiti, Dominican Republic, South America, Central America	Mexico, Central America, South America, Jamaica, Dominican Republic
<i>Educational Investments</i>	Haiti, South America, Central America, Dominican Republic	South America, Central America, Dominican Republic, Jamaica
<i>Microfinance Institution Loans</i>	Haiti, Dominican Republic	South America, Haiti, Jamaica, Dominican Republic
<i>Direct Payments</i>	Dominican Republic, Central America, Haiti	Mexico, Dominican Republic
<i>Agriculture Credits</i>	Haiti	Dominican Republic, Haiti