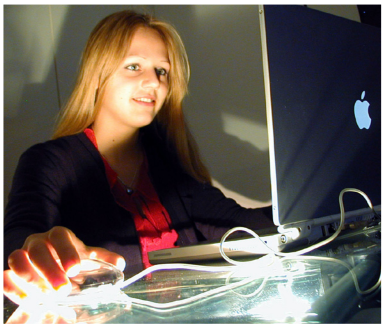
Worker Remittances, Transnationalism and Development



Manuel Orozco
Inter-American Dialogue
June 30th, 2003

Inter-American Development Bank

Worker remittances, transnationalism and development[1]

Manuel Orozco, Inter-American Dialogue,
Washington, DC, morozco@thedialogue.org

Within the framework of globalization, transnational networks have emerged from many factors, including the consolidation of migration ties. These networks are now contributing significantly to the integration of countries into the global economy. There are various levels of economic interconnectedness, most of which have been largely neglected by policymakers and scholars. These connections include immigrant-based donations, small and large investments, 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, especially in rural locations. Moreover, the communication among and between households have generated dramatic revenue flows to businesses in the United States and Latin America, as seen, for example, in the increasing demand for telephone services.

These transnational migration patterns, or the 5Ts (family remittances, tourism, transportation, telecommunication, and nostalgic trade), pose important policy questions about the relationship between transnationalism and development. These relationships are becoming more relevant for development.[2]

Attention has been paid to the positive effect of family remittances on household and national economies. Such attention is slowly translating into development strategies, such as offering financial services to individuals in transnational households.

---

[1] Notes presented at the *International Conference on Migrant Remittances: Development Impact, Opportunities for the financial sector and Future Prospects*, October 9 and 10, 2003, London, United Kingdom.

[2] Development economics has long considered foreign savings as key to increasing a country's capital-output ratio. Within that context, four factors have been considered: foreign direct investment, official development assistance, foreign trade and the transfer of technology.

However, other areas of transnational relations remain underexplored. This paper seeks to address these issues and their relationship to development.

Transnational communities linking homes and countries

Transnational families – defined as groups that maintain relationships and connections with the home and host societies – are resulting from continued international migration.[3]

These practices have an economic context among typical families with a bi-national or transnational nature, and go beyond the scope of remittances. What follows is an analysis based on three surveys conducted among remittance senders in New York, Los Angeles and Miami from ten different countries of origin, as well as a macroeconomic data analysis. The focus of the analysis is on the "5Ts", as well as on the various financial obligations immigrants and relatives have in the remittance sending and receiving areas. As the survey results show, immigrants are much more connected than conventional wisdom would indicate.

Mittelman (2000) explains that the current anatomy of the global political economy is "a spatial reorganization of production among world regions, large-scale flows of migration among and within them, complex webs of networks that connect production processes and buyers and sellers, and the emergence of transnational cultural structures that mediate among these processes." He stresses "that heightened competition among and within regions, mediated by such micropatterns as ethnic and family networks, accelerates cross-flows of migrants" (2000). In turn, this cross-flow of migration produces economic effects in the labor exporting country.

Do these micropatterns have effects in the home country's economic growth? Does the movement of people become an indicator of economic development? The flow of remittances suggests positive answers. Furthermore, when other characteristics of the 5Ts are included in the analysis, the impact may be greater than previously expected.

Central America and the Caribbean have sought to integrate themselves into the world-stage through four dynamics: non-traditional exports, the *maquiladora* phenomenon, immigration, and tourism (Orozco 2002; 2003). As a result, Central America has ceased to be an exclusively agro-exporting region known as an "after-dinner economy" (i.e., an exporter of coffee, sugar, and rum), as it has diversified in at least these four areas.

Central America in the Global Economy, 2002 (in millions of US$)

Sector	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica	D.R.
Remittances	1775	1995	735	600	206	2044
Merchandise Exports (not including maquiladora)	2960	3287	1344	582	5352	719
Maquiladora	373.8[a]	543	546	102.2[a]	1221.8[a]	1875
Official Development Assistance[b]	225	234	677	928	2.15	105
International Tourism	606	254	251	157	936	2609
GDP	22476	14598	6683	2498	16652	21000
R+X+A+T/GDP	26%	43%	53%	95%	46%	35%

Sources: Inter-American Development Bank, country profiles. ODA: World Bank 2003, "World Development Indicators CD-ROM"; CEPAL 2002. [a]Maquila numbers refer to 2000. [b]data for 2001.

In the majority of countries in the region, almost half of the national income depends on these four factors, which at the same time has had a multiplying effect on other areas. Within the context of migration, however, little is known about the effects of the other components of the 5Ts.

As this analysis will show, Central America's economic interdependence operates in part as a function of migrants who reside abroad and serve as the primary source of tourism for countries like Honduras, Nicaragua, and El Salvador. Immigrants generate much of the demand for air travel to the region, and they make their telephone calls to relatives account for the majority of U.S.-Central American telecommunications. They are also the ones who transfer at least $5 billion annually in remittances. These are the four Ts of

[3] There are a range of definitions, for example, "groupings of migrants who participate on a routine basis in a field of relationships, practices and norms that include both places of origin and destination" (Lozano 1999)

Central America's integration into the global economy. A fifth T is trade, or nostalgic commerce, which will be of even greater importance after the negotiation of liberalized trade with the United States.

a) Transportation

One key source of communication among immigrants and their families is the use of air transportation. Relatives in Latin America visit their family members in the United States, or immigrants travel to visit their relatives. The end result is a significant percentage of air travel among family members.

From John F. Kennedy International airport alone, annual flights to Santo Domingo carry nearly 140,000 people. Another 95,000 travel from Miami annually. The majority of these travelers are Dominican tourists and businesspeople actively engaged in the Dominican Republic. The situation is similar in El Salvador. Grupo Taca, an airline carrier that serves Central America, flies 21 times a day from the United States to El Salvador. At least 70 percent of its customers are Central Americans. Air travel to Central America has increased significantly as the demand for flights spreads through the United States. More than six U.S.-based airlines, including American Airlines, Continental, Delta, and United have established daily operations in these countries.

Immigrants sending remittances where asked how often they visited their home country, thirty percent responded that they travel at least once a year. Table x below also shows that there are variations among immigrant groups in terms of travel. Ecuadorians, Dominicans, and Guyanese travel more often than other immigrants. Note that Ecuadorians are among the most frequent travelers to their country, with twelve percent traveling twice a year and forty percent once a year. Over one in ten Dominicans travels three times a year, two in ten travel twice, and one in three travels once a year.

Table Immigrant Frequency of travel to home country

	Three or more times a year	Twice a year	Once a year	Once every two years	Once every three years	I travel little	I have never traveled
Ecuador		12.20%	39.20%	35.10%	4.10%	9.50%	
Dominican Republic	11.60%	24.50%	33.30%	10.90%	3.40%	16.30%	
Guyana	5.80%	12.10%	26.70%	18.40%	10.70%	26.20%	
El Salvador	1.50%	5.60%	20.40%	5.60%	8.70%	23.50%	34.70%
Mexico	2.50%	5.00%	20.10%	4.60%	6.30%	14.60%	46.90%
Colombia	2.00%	7.00%	13.00%	6.00%		15.00%	57.00%
Nicaragua	2.00%	6.00%	11.30%	13.30%	3.30%	12.70%	51.30%
Cuba		2.30%	10.90%	4.00%	1.70%	13.10%	68.00%
Honduras		5.50%	6.80%	12.30%	2.70%	12.30%	60.30%
Guatemala	0.90%	3.70%	4.60%	3.70%	0.90%	15.60%	70.60%
Total	3.00%	8.20%	19.10%	10.10%	5.00%	17.00%	37.70%

The majority of those immigrants who have not traveled back to their country have lived in the United States the least amount of time. Over 60 percent of those living in the United States less than six years have not traveled back to their home country. This statistic is consistent with other research showing that recent immigrants tend to send less money home due to lower incomes and obligations that settling in a new country require.

Frequency of travel to home country and years living in U.S.

	Less than six years	Seven to twelve	Over twelve years	
Three or more times a year	1.6%	2.2%	7.7%	3.0%
Twice a year	5.2%	8.6%	15.0%	8.2%
Once a year	11.9%	24.8%	25.3%	18.9%
Once every two years	5.6%	16.4%	9.5%	10.1%
Once every three years	2.4%	6.8%	8.1%	5.0%
I travel little	11.7%	19.8%	23.8%	16.8%
I have never traveled	61.6%	21.2%	10.6%	38.1%
	46.6%	34.5%	18.9%	100.0%

b) Tourism

Economic connectivity between migrants and their native country has become 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, over 30 percent of tourists visiting the country are Dominicans living abroad, predominantly in the United States. They stay on average more than fifteen days and spend around $65 a day. In the Salvadoran case, well over 40 percent of people arriving visiting El Salvador are Salvadorans. This community has produced a demand for new goods and services that local and international tourism companies are seeking to supply by offering tour packages, trips, and real estate in coastal regions. A similar pattern is observed in the Nicaraguan and Honduran cases. Even the Jamaican economy, which relies heavily on international tourism, reflects a demand from Jamaicans living abroad for tourist services—nearly 10 percent of Jamaican tourism is from the diaspora.

Visiting the home country entails more than staying with relatives. Immigrants who return home to visit are also tourists who spend considerable amounts on entertainment with their families. The visits take place on various occasions, from Christmas and New Year, to Easter and specific patron saint holidays. Other immigrants go on special trips to their hometown for weddings, birthdays or emergencies and family tragedies.

As a result, immigrants spend a minimum of $1,000 per stay, which often lasts three weeks. Ecuadorians again appear as the most notable group, in that they not only travel more often, but also spend the most. Other Latinos tend to spend similar amounts, around $1,000 to $2,000.

Table: How much do you spend in every trip?

	Less than $1,000	Less than $2,000	Over $3,000
Colombia	82.9%	17.1%	
Cuba	50.0%	26.9%	23.10%
Ecuador	9.6%	39.7%	50.70%
El Salvador	43.6%	48.2%	8.20%
Guatemala	51.6%	35.5%	12.90%
Guyana	45.8%	41.1%	13.10%
Honduras	56.7%	33.3%	10.00%
Mexico	33.9%	38.4%	27.70%
Nicaragua	72.7%	21.2%	4.50%

Dominican Republic	35.8%	50.7%	13.40%
Total	43.9%	38.9%	17.00%

c) Telecommunication

Telecommunications have also been spurred with the process of interconnection between the communities living abroad and their home countries. The demand and volume of calls to Central America and the Caribbean increased as the linkages were strengthened, opening opportunities for business expansion and investment in cellular telephony, the Internet and cable. Companies like AT&T, Bell South, Mottorola have set up economic infrastructure to facilitate communication between the diasporas and their homelands, benefiting economic enterprise locally.

The telecommunication contact from home to home phone calls may be responsible for most of the revenue generated in international long distance telecommunications. A survey conducted of Central Americans living in the United States shows that immigrants maintain significant contact with their home countries, and that telephone calls are a major form of transnational family contact. Over 60 percent of Central Americans call at least once a week and spend over thirty minutes a week on the phone with relatives abroad, totaling 120 minutes a month (see tables below).

Table : Frequency of international long distance phone calls made to home country relatives

	Two or more times a week	Once a week	Once every two weeks	Once a month	I seldom call
Colombia	39.0%	38.0%	16.0%	6.0%	1.0%
Cuba	11.9%	35.7%	32.1%	16.7%	3.6%
Ecuador	55.0%	43.0%	2.0%		
El Salvador	23.8%	34.3%	27.6%	11.4%	2.9%
Guatemala	21.1%	34.9%	26.6%	12.8%	4.6%
Guyana	16.6%	25.3%	30.4%	20.7%	6.9%
Honduras	23.0%	33.8%	25.7%	10.8%	6.8%
Mexico	28.3%	44.4%	14.3%	9.0%	3.9%
Nicaragua	29.1%	40.5%	20.3%	8.1%	2.0%
Dominican Republic	60.7%	16.7%	11.3%	8.0%	3.3%
Total	29.1%	34.7%	21.3%	11.2%	3.7%

Source: Orozco, Manuel. Survey carried out by the author.

Table : Average minutes per call

	Less than five minutes	Six to ten minutes	Eleven to twenty minutes	Twenty to thirty minutes	Over thirty minutes
Colombia	2.0%	10.0%	15.0%	32.0%	40.0%
Cuba	4.6%	21.1%	39.4%	21.1%	9.7%
Ecuador		4.0%	45.0%	37.0%	13.0%
El Salvador	0.5%	4.3%	11.4%	22.4%	59.0%
Guatemala		1.8%	9.2%	18.3%	64.2%
Guyana	3.4%	15.3%	39.0%	22.0%	7.6%
Honduras	4.0%	14.7%	20.0%	25.3%	29.3%
Mexico	2.5%	3.2%	7.8%	29.4%	55.7%
Nicaragua	0.7%	9.3%	24.7%	36.0%	26.0%
Dominican Republic	0.7%	6.7%	13.3%	35.3%	44.0%
Total	2.0%	8.9%	22.0%	27.3%	35.7%

Source: Orozco, Manuel. Survey carried out by the author.

When these calls are considered within the total international long distance phone calls between the United States and Latin America, company revenues may be explained by immigrant contacts. As the table below shows, 50 percent of the phone call minutes from the United States to Central America and the Dominican Republic are from household to household calls.

Table : Phone calls between the U.S. and selected Central American countries

Country	Minutes	US Revenue (US$)	Payment to country (US$)	Revenue retained (US$)	Calculated Minutes (a year)	Ratio
El Salvador	298,097,546	180,177,525	70,982,303	109,195,222	179,074,224	60%
Guatemala	233,090,127	146,081,061	68,387,420	77,693,641	93,541,604	40%
Honduras	192,741,833	143,055,592	79,273,468	63,782,124	41,507,361	22%
Nicaragua	89,085,915	59,579,378	27,419,630	32,159,748	37,544,976	42%
Dominican Rep.	110,170,000	650,860,000	168,106,000	91,863,000	162,128,245	67%

Source: Minutes and revenue figures 2000 International Telecommunications Data, December 2001, Federal Communications Commission; Calculated costs: Orozco, Manuel survey of transnational ties.

d) Trade

Another important feature of contemporary migration and links with the country of origin is consumption of home country goods. Migrants have become a new market attracting exports from their home country. Ethnic imports to the U.S., labeled 'nostalgic' trades

and 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 at 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 is that of migrants investing back in their home country to manufacture foodstuff like cheese, fruits, and vegetables. Several migrants residing in the United States have set up businesses back in their home country 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 following years.

Purchasing nostalgic goods is a way of maintaining the cultural traditions from the home country. Latinos were asked whether they buy products from their home country, and the large majority answered positively. Only Cubans offered a lower percent response due to the fact that they travel less and have much less contact with their home country institutions. Moreover, given the U.S. embargo, acquiring home country goods is highly restricted. However, over 70 percent of other Latinos said that they bought goods from their country of origin.

Do you buy home country products?

	Yes	No
Colombia	81.0%	19.0%
Cuba	28.6%	71.4%
Ecuador	95.0%	5.0%
El Salvador	55.7%	44.3%
Guatemala	50.5%	49.5%

Guyana	82.2%	15.7%
Honduras	74.3%	25.7%
Mexico	76.2%	23.8%
Nicaragua	83.3%	16.7%
Dominican Republic	65.3%	34.7%
Total	68.4%	31.3%

When asked what products they bought, most immigrants pointed to six products: rum, cigars, tamales, bread, tea and cheese. However, the list of goods purchased was larger than six. Guyanese immigrants, for example, offered over twenty different items they import from Guyana to serve household needs.

Which products?

	Rum	Cigars	Tamales	Bread	Tea	Cheese
Colombia	9.0%	13.0%	35.0%	26.0%	24.0%	34.0%
Cuba	16.0%	13.7%	3.4%	11.4%	4.6%	7.4%
Ecuador	3.0%		3.0%	81.0%	6.0%	26.0%
El Salvador	6.2%	6.2%	22.4%	38.6%	10.0%	34.8%
Guatemala	6.4%	7.3%	23.9%	24.8%	13.8%	29.4%
Guyana	41.5%	21.2%				
Honduras	21.3%	21.3%	38.7%	30.7%	17.3%	48.0%
Mexico	10.6%	9.9%	37.9%	41.1%	13.8%	48.2%
Nicaragua	12.7%	7.3%	28.0%	28.7%	14.0%	60.7%
Dominican Republic	36.0%	4.7%	2.7%	14.7%	3.3%	32.0%
Average	17.5%	10.7%	18.8%	27.7%	9.6%	30.8%

e) Transfer of remittances and donations

Transfers of remittances have also constituted an important source of economic activity. Latin ethnic stores may constitute about 60 percent of money transfer businesses to Latin America. Competition in many of these countries has been significant and valuable, as the effect of money transfers—which now constitutes about $30 billion to Latin America—has had multiplying results in profit and wealth generation.

Immigrants sending remittances are the key players of transnationalism. With incomes below U.S. averages--$21,000 a year, with 25 percent living below the poverty level—they send at least $2,500 annually as part of a commitment to their relatives. Although these figures vary from country to country, the trend is that they remit at least $200 a

month, or 15 percent of their income. One reason why they have low income relates to their low educational attainment and the types of jobs they hold. In fact, according to the U.S. Census Bureau, 62 percent of Central American and Mexicans have an education below a high school diploma (only 5 percent have a Bachelor's degree or more).

Table . Average monthly amount sent by Latin Americans

Country	2002	2003
Argentina	198	226
Bolivia	276	244
Brazil	376	300
Chile	303	288
Colombia	256	267
Costa Rica	350	348
Dom. Rep.	199	186
Ecuador	295	303
El Salvador	287	394
Guatemala	269	271
Haiti	162	161
Honduras	257	246
Jamaica	263	262
Mexico	378	369
Nicaragua	146	149
Panama	222	208
Paraguay	304	281
Peru	191	173
Uruguay		203
Venezuela	228	161

Source: NMTA.

Table . Household Income by Race

	Household income		
Group	Under $20,000	Between $20,001 and $35,000	Over 35,000
Hispanic/Latino	31.00%	25.00%	44.00%
Non-Hispanic White	21.00%	18.00%	60.00%

Source: U.S. Census Bureau, 2000. http://www.census.gov/population/socdemo/hispanic/ppl-171/tab12-1.xls

As a result of family remittances, a growing financial stream flows from low income individuals to Latin America. This flow is spreading dramatically in both size and scope.

The stream of remittances going to Latin America and the Caribbean has continued to grow year by year. The region, which receives nearly one-third of the global flow of remittances, is the top receiving area in the world. According to the Inter-American Development Bank in 2002, remittances to Latin America amounted to some $32 billion—or about 2 percent of the region's GDP. This amount was also three times greater than it was six years ago. Remittances have more than doubled the total of all foreign aid going to the region, both from direct grants from national assistance agencies.

Table : Remittances, Investment and Foreign Aid to Latin America

	1996 (US$ thousands)			2001 (US$ thousands)		
	Remittances	FDI	ODA	Remittances	FDI	ODA
Mexico	4,224	9,186	287	8,896	24,731	75
C.A. region	1,819	1,102	1,827	3,567	2,018	2,095
Caribbean	2359	733	744	4526	2706	478
S.A. region	1716	9266	809	4021	8170	1047
	10,118	20,287	1,829,620	21,010	37,625	3,704

Source: Remittances, Central Bank of each country, Foreign investment and aid, World Development Indicators. ODA excludes loans from the World Bank or IMF.

Remittances are important for Latin America as a whole. They are most significant, however, for the small and poor countries of Central America and the Caribbean.

Some of the major changes that are taking place in remittance flows refer to scope of countries receiving remittances, the density of flows, and scope of economic links between the home and host countries. The number of countries sending remittances has also increased. The density of flows is relevant, as a greater number of traditional recipient countries are seeing substantive increases in overall amounts. Finally, remittances are becoming part of a broader process of economic interchange.

Scope

Despite economic and political difficulties in the host countries, the flows continue to grow significantly. Continued recession and tightened immigration laws in the United States have not reduced the flow of remittances to the main recipient countries.

Remittance flows have not followed cyclical economic dynamics in either the sending or receiving economies.

Moreover, a greater number of countries are receiving money from their migrant diasporas. The magnitude of these changes is observed in the increased flow into South America. For example, in 2002, Mexico represented a third of all remittances to the region, down from 50 percent just four years ago. The significance of these flows is also reflected in terms of the volumes relative to the immigrant population from each country and region.

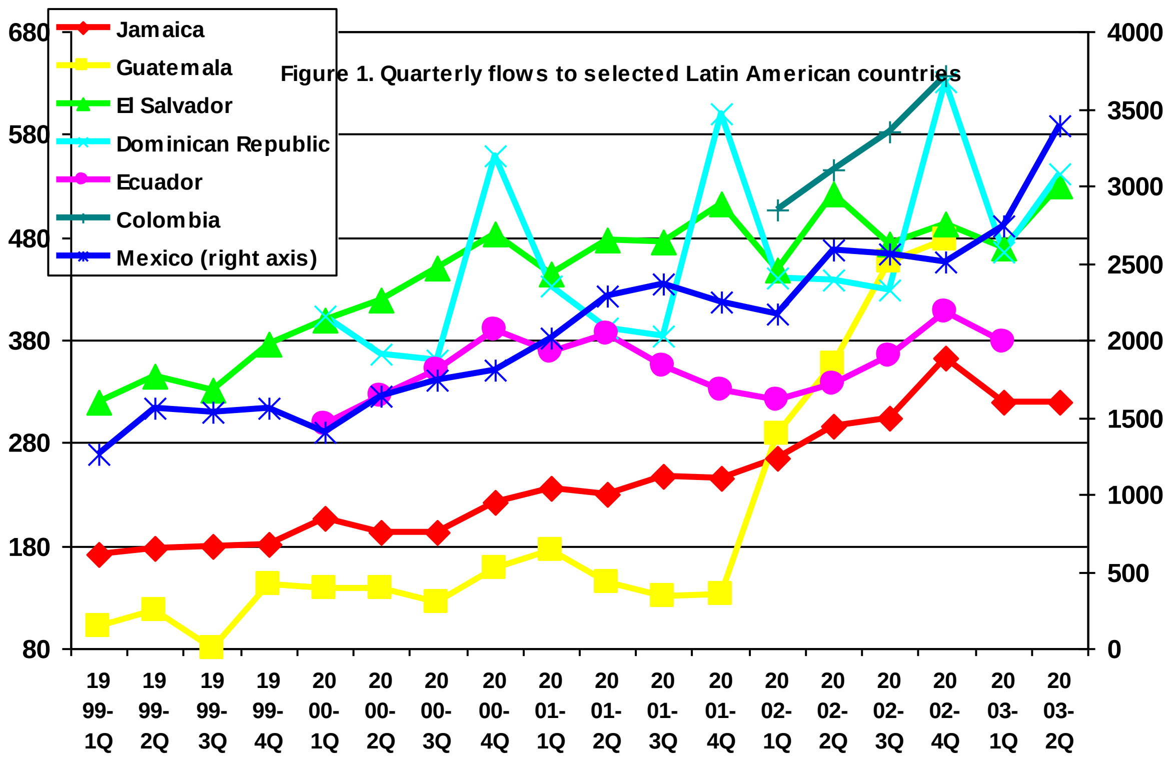


Table : Foreign Born Latinos in the U.S. and Remittances to Latin America

Region	Population	(%)	Remittances	(%)
Mexico	9,177,487	57	10,502,000,000	33%
Caribbean	2,953,066	18	5,749,000,000	18%
Central America	2,026,150	13	5,555,000,000	17%
South America	1,930,271	12	10,202,000,000	32%
Latin America	16,086,974		32,000,000,000	

Source: U.S. Bureau of the Census; IADB estimates.

Three countries that have registered an increased inflow are Colombia, Venezuela and Argentina. Economic and political crises in these countries have prompted a number of nationals to migrate in search of stability and improved quality of life. The case of Colombia is illustrative of a growing trend in which the flow of remittances has surpassed all major sources of export revenue, including oil. Remittances to Colombia grew from $0.5 billion in 1995 to over $2 billion in 2002. Venezuela is also another emerging remittance receiving area, as thousands of Venezuelans have migrated in the past five years. Finally, the economic crisis in Argentina has spurred a massive emigration to Europe (Spain and Italy) and the United States, dramatically increasing remittance flows. Although the Central Bank of Argentina has not been able to understand the magnitude of the flows, at least $200 million are entering the country from the United States. One company alone is likely to be remitting about $130 million from the United States.

Intensity: deepening flows—Guatemala, Peru

Remittances flows are also growing in intensity. Guatemala and Peru are two countries in which such patterns are observed. Guatemala experienced a major increase -- from $600 million in 2001 to $1.6 billion in 2002. A similar case is observed in Peru, where remittance flows grew from $700 million to $1.1 billion. Improved statistical tracking accounts for a large part this growth. However, the increase is also reflected in the increased market opportunities for money transfers and the fierce competition attracting new customers and niches.

In a series of projections made by the Pew Hispanic Center, Lindsay Lowell stressed that "because transfer costs will continue to decline in an increasingly competitive market, it is more likely that per capita remittances will continue to grow. Both the medium and high projections assume that the market will "shake out" in the next five years, after which the level of per capita remittances reached will remain fixed into the future." The author concluded that a most preferred projection is one that will show an annual increase in remittances of over 8 percent.[4]

---

[4] Remittance Projections: Mexico and Central America, 2002–2030, B. Lindsay Lowell1, in *Billions in Motion: Latino immigrants, remittances and banking* Pew Hispanic Center, Washington DC, 2002.

These projections were looking at transfers to Mexico and Central America, but if the emerging flow from South America and the increases reported in some countries are added to the equation, the growth potential for the hemisphere will be superior to what Lowell predicted.

Money transfers, telecommunication, tourism, trade and transportation have opened a range of business opportunities that have enhanced opportunities for trade and investment in the region through the diasporas.

Policy options for donors and governments in linking migration and development

Within the context of the changing dynamics and realities, policy options must be addressed. Nine of these policy options are summarized below and relate 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 the country's diaspora.

i) Cost reduction

Remittances are an important source of income in Latin America, representing between 3 and 20 percent of these countries' national incomes. Fees and commissions to send money are high and are a concern to development agencies, immigrants, and other interested parties. Prevailing advanced technology exists in which money transfers can (and do) cost very little or nothing to the most savvy senders and recipients. How can these advantages be extended to immigrants and their relatives? 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, and transfers from credit union to credit union using the international remittance network.

ii) Banking the unbanked

Only six out of ten Latin American immigrants in the U.S. use, or consider themselves to have meaningful access to, bank accounts. Moreover, in Mexico and Central America, less than 20 percent of people have access to bank accounts. The effects of being unbanked are significant. The unbanked 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. Helping senders and recipients to participate in the banking industry would help ensure lower transfer fees. Some governments and private institutions are already engaged in that effort, and could target a strategy linking remittance transfers with banking options as a way to attract migrants into the financial system.

iii) Investment and micro-enterprise incentives

Studies have shown that on average, between 5 and 10 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) Tourism

Currently, a significant percentage of immigrants visit their home countries as tourists, yet there is no tourist policy aimed at the diasporas. The lack of policy reflects government neglect and a lost opportunity. Governments and the private sector can participate in joint ventures to offer their diasporas tour packages to visit traditional and non-traditional sites to discover and rediscover their home countries. They can also work out investment alliances with diasporas interested in partnering to establish joint ventures relating to tourism.

v) Nostalgic Trade

There is a significant demand for nostalgic goods, and many of the small businesses created by diasporas rely on the importation of such goods. Governments, development agencies, and the private sector, particularly artisan businesses, find a natural opportunity to enhance their productive and marketing skills by locating their products with small ethnic businesses in North America, where a demand exists. As the negotiation process over a free trade area of the Americas progresses, securing these commodities within the negotiating process is a key bargaining and strategic move.

vi) Hometown associations as agents of development

The philanthropic activities of HTAs have development potential. Some of the infrastructural and economic development work performed by these associations provides momentum for development agents to partner in local development. Governments in Central America and the Caribbean could 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.

vii) Enabling policy and regulatory environments

Expanding sending methods, increasing competition, and educating customers about charges, help reduce costs associated with money transfers. In Latin America, money transfers of all kinds need to be facilitated. A comprehensive effort to support senders and recipients should foster an environment in which remittances are less costly and can also have developmental leverage. This includes detecting unfair practices in money transfers.

viii) Reaching out to the diaspora

An outreach policy to the community residing abroad is key to any migrant-sending country's economic strategy. Currently there is no such policy in place in most countries, and governments could gain significantly from such an approach. The Mexican and Salvadoran experience offer important lessons on the effects of reaching out to diasporas.

ix) Remittances and new technologies

A key partnership opportunity among development players and the private sector lies in tying technology to remittance transfers, including through microfinance institutions. One emerging technology, Wi-Fi (Wireless Fidelity) allows the rural sector to place telephone calls through low-cost wireless Internet telephony, using low cost computer servers and terminals. Wi-Fi enabled computers send and receive data securely, reliably, and quickly, through radio technology – indoors and out, anywhere within the range of a base station. A Wi-Fi network can be used to connect computers to each other, to the Internet, and to wired networks. This system has a strong potential to be used for money transfer managed by microfinance institutions. Linking Wi-Fi technology to remittances and microfinance institutions offers an advantage to local businesses and more importantly, opens financial windows for new markets. Remittance-receiving households have a demand for savings and credit, and internationally connected microfinance institutions could provide the necessary service to that sector.

References

Mittelman, James H. *The Globalization Syndrome: Transformation and Resistance* Princeton: Princeton University Press, 2000.

Orozco, Manuel, *Changes in the atmosphere? Increase of Remittances, Price Decline and New Challenges* Inter-American Dialogue, Washington March 2003

______ "Globalization and Migration" in *Latin American Politics and Society*, Summer 2002.

_______ *The Impact of Migration in the Caribbean and Central American Region* FOCAL, Canada, 2003.

______*Worker remittances in international Scope* March 2003, Washington.

INTER-AMERICAN DEVELOPMENT BANK

1300 New York Avenue, N.W.
Washington, D.C. 20577, USA
Tel: (202) 623 - 1000
www.iadb.org