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# ISSUES REGARDING THE SENDING OF REMITTANCES

## HEARING

BEFORE THE

## COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

ON

OVERSIGHT HEARING ON ISSUES REGARDING THE SENDING OF REMITTANCES

FEBRUARY 28, 2002

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# C O N T E N T S

**THURSDAY, FEBRUARY 28, 2002**



**WITNESSES**

# ISSUES REGARDING THE SENDING OF REMITTANCES

**THURSDAY, FEBRUARY 28, 2002**

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
*Washington, DC.*

The Committee met at 10:10 a.m. in room SD–538 of the Dirksen Senate Office Building, Senator Paul S. Sarbanes (Chairman of the Committee) presiding.

## OPENING STATEMENT OF CHAIRMAN PAUL S. SARBANES

Chairman SARBANES. Let me call this hearing to order.

Today, the Senate Banking, Housing, and Urban Affairs Committee again picks up a theme that we addressed with 2 days of hearings earlier this month on the issue of financial literacy.

We are going to turn our attention this morning to the question of remittances. Remittances are the payments sent home from workers, generally immigrants, but not altogether, living in the United States, to family, friends, and communities in their country of origin. Those sending remittances are often subject to exorbitant costs. And we are examining ways in which we can address this situation.

The particular focus of our discussion today will be the findings of three recent studies. One conducted by Sergio Bendixen of Bendixen & Associates, entitled, "Survey of Remittances Senders: United States to Latin America," was based on interviews of Latino immigrants, conducted in November and December of last year. The other two entitled, "Attracting Remittances: Market, Money and Reduced Costs" and "Enabling Environments? Facing a Spontaneous or Incubating Stage" were commissioned by the Multilateral Investment Fund of the Inter-American Development Bank and were prepared by Dr. Manuel Orozco in connection with this week's IDB's Conference Week on the subject of remittances. These reports are just now being released, and so we are pleased that Dr. Orozco is going to be with us this morning.

We will begin by hearing from Congressman Luis Gutierrez, whose long-standing concerns about the remittance market are reflected not only in his interest, but also in a bill that he has introduced requiring full disclosure of all costs to sending remittances.

We also have with us this morning two distinguished academics who are experts in the field—Dr. Susan Martin, the Executive Director of the Institute for the Study of International Migration at Georgetown University, and Dr. Raul Hinojosa-Ojeda, the founding

Research Director of the North American Integration and Development Center at UCLA.

I would like to say just a few words about this subject before I turn to the Congress. Do you have a vote or anything, Luis?

Representative GUTIERREZ. No. They will let me know, Mr. Chairman.

Chairman SARBANES. Good. Immigrants to the United States have traditionally sent financial assistance in the form of remittances to family members who remained in their country of origin.

As the son of immigrant parents from Greece, I am very much aware of this because they, in effect, sent remittances to relatives in Greece.

Until recently, however, the phenomenon has not been systematically studied and its implications have not been fully realized.

The 2000 census shows that 30 million people in this country today are foreign born. That is the largest absolute number in our Nation's history. More than 40 percent of them emigrated in the 1990's. The vast majority are citizens or legal residents.

They make a vital and integral contribution to our Nation's economic and social structures. Over 15 million immigrants, accounting for more than half of the immigrant community, come from Latin American countries. In fact, the 2000 census shows that the Hispanic population of the United States stood at something over 32 million, representing 12 percent of our Nation's population.

As the immigrant population has grown, the volume of remittances has increased dramatically. It is estimated that over $20 billion is remitted annually from the United States to Latin America, and there are substantial remittances to other areas of the globe as well, most notably, the Philippines, which, of course, the United States has a long-standing relationship.

The rapidly expanding market has enormous significance, both to those sending remittances and to the recipients abroad. To cite just a few examples: The value of the remittances far exceeds United States official development assistance to all of Latin America; and in five countries—El Salvador, Haiti, Jamaica, Nicaragua, and Ecuador—it represents more than 10 percent of the Nation's GDP. In Mexico, which in 2001 received an estimated $9.2 billion in remittances, making it by far the largest recipient country, the dollar value of remittances exceeded both agriculture and tourism revenues. Indeed, remittances are obviously a major factor in the economic development of countries to which we have strong ties in Latin America.

Our focus today is the domestic aspect of the remittance market. We will consider the market from the point of view of those sending the remittances and also an institutional perspective. People sending remittances tend to be low-wage earners with modest formal education and relatively little experience in dealing with this country's complex system of financial institutions. Like all people who must make important financial decisions about limited resources, they need important information and understanding to carry out these transactions.

This requires that they be fully informed about the options available to them for sending money home. What fees are charged, what exchange rate is offered, what alternative remittance methods are available, and what percentage of the monies sent will actually be received. The IDB estimates that in a $20 billion remittance market, that $3 to $4 billion of the $20 billion is used in fees and other transaction costs.

The reports before us review these various options. They examine trends in the market and they review transaction fee structures. There is some recent evidence that fees have declined somewhat as the market has expanded, and this is certainly an encouraging development. But much needs to be done and this is one of the important questions we will be examining this morning.

We are very pleased to turn now to Congressman Gutierrez from the 4th Congressional District of Illinois. During his four terms in the House, he has worked very hard on a number of issues, and this is one of them. We are very pleased to have you with us this morning. Before I ask you to give us your statement, I will yield to Senator Shelby for any comments he wishes to make.

## COMMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Thank you, Mr. Chairman. I would just like to listen to the witnesses and then comment later.

Chairman SARBANES. Congressman Gutierrez, we would be happy to hear from you. Thank you very much for coming over to be with us this morning.

## STATEMENT OF LUIS V. GUTIERREZ A U.S. REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Representative GUTIERREZ. Good morning, Chairman Sarbanes and Members of the Committee. It is with great pleasure that I appear before you today. I would ask that my complete statement be submitted as part of the record.

Chairman SARBANES. Your full statement will be included in the record.

Representative GUTIERREZ. I appear before this Committee to share my views on an issue that has been among my top legislative priorities during my tenure—protecting consumers from hideous, and often hidden, practices in the international money transmitting business.

Currently, approximately 28 million foreign-born live in the United States, the majority of whom are making enormous contributions to our stability and security, economic and otherwise. These people came here seeking a better way of life and, indeed, they are making life better for all of us. At the same time, they are also working to make life better for people in their home countries, the relatives who use the money for basic necessities such as food and shelter, often in times of crisis.

During the past 20 years, remittances to Latin American countries has increased not only in volume, but also as a share of the national income and total imports. This year, approximately $9 billion will be sent to Mexico via remittances, representing Mexico's third largest form of foreign income. However, such transfers are costly due to a range of fees, many of which are hidden.

Wire transfer companies aggressively target audiences in immigrant communities with ads promising low rates for international transfers. However, such promises are grossly misleading, particularly for those with ties to Mexico or other Latin American countries, since companies do not always clearly disclose extra fees charges for converting dollars into the local currency.

A few years ago, there was a gas explosion in Guatelejara. You could turn on Univision or Telemundo or the radio and the wire transfer companies were saying, in this time of need, in this time of tragedy, we are waiving the fee. Send money, basically for nothing. What they forgot to tell us is that there was a 15 percent difference in the conversion fee between what they bought the pesos for in Mexico and the actual pesos that people were getting.

If I was a tourist in Acapulco, Mexico, getting a nice tan on a nice beach and wanted to use my ATM card, I would get 15 percent more pesos for my dollars using that ATM than if I were an immigrant worker in Chicago making $5.15 an hour trying to help my family members back in Mexico. I think that is something that we earnestly should address. These are hard-working people, doing the hardest jobs, the longest hours, for the worst pay. And what they are doing is helping their family members back in their countries of origin, many times in moments of crisis.

While large wire service companies typically obtain foreign currency at bulk bargain rates, they charge a significant conversion fee to their customers. Of course, the companies go on the futures market and buy the pesos or whatever currency at the greatest benefit to them and convert, and then later on—so the whole history of, well, it is going to cost them and the fluctuations in the market, I think we all know that if we are converting billions of dollars to pesos, we are going to buy our pesos when they are very cheap in the market. And we have the ability to do that because we have the money to do that.

The exchange rate charged to customers sending U.S. dollars to Mexico routinely varies from the rate set by the Banco de Mexico by as much as 15 percent. And these profits of conversion fees are really causing great harm to immigrants.

This is why I introduced H.R. 1306, the Wire Transfer Fairness and Disclosure Act, a bill that currently has 70 cosponsors in the House. Through the enactment of this bill, we could ensure that each customer who solicits electronic wire transfer of money is fully informed of all commissions and fees charged on all transactions, and has been quoted the exact rate of exchange available to them.

The bill requires full disclosure of all fees involving in any transaction of money wiring services. Finally, the bill would also require companies operating and offering money wiring services to present each customer with a receipt for each transaction.

During 2000, Latin American and Caribbean countries received about $20 billion in remittances from their family members working abroad. Those $20 billion were sent through 80 million separate transactions, each one charging a fee for each transaction and conversion fee. In half of these countries, remittances, as Mr. Sarbanes so eloquently noted, represent more than 10 percent of the GDP of those countries.

The money sent out to the families abroad was money earned through hours of hard work. Their efforts are compensated by seeing that the money they send to their relatives somehow alleviates some of the immediate financial needs of their relatives. For those living abroad, this money is a vital help for food, housing, and education. But a sizable portion of these savings never make it from the United States to these countries. Instead, it is claimed in fees—most in the form of punishing exchange rate fees—that remittance services levy on immigrants who wire money.

The fees accompanying remittances made through wire transfer companies can sometimes reach 30 percent—and I want to underscore, 30 percent—excluding the amount lost through the exchange rates. Remittances create dependence and deepened economic inequality. Most customers, though, have no alternative. Few have bank accounts.

Most remittance companies advertise low service fees for international transfers—but that cost can double because of the hidden fee that is charged when dollars are converted to foreign currency at poor exchange rates. For instance, let's say that it costs 12 cents to buy a Mexican peso. The wire transfer companies, however, charge their customers as much as a penny more for that same peso. The difference, which is called the foreign exchange spread, is pocketed by the companies. With enough transactions, Senators, the money adds up to hundreds of millions of dollars in profits for these companies.

The two biggest companies who offer wire transfers claim almost 90 percent of the $41 billion a year in money transfers. Fueling the profits are hefty fees paid by some of the country's lowest-paid workers. It truly costs them dearly. Using one of the two biggest wire transfer services to send $300 from the United States to Mexico, for example, can cost $41, which is more than a day's pay at minimum wage to transfer the money.

Currently, Wells Fargo, First Bank of the Americas, credit unions, and other financial institutions offer programs to help more immigrants become part of the banking system. These institutions, by accepting identification cards issued by the Mexican consulate, are helping thousands of people around the Nation who would be forced to turn to payday lenders and check cashing vendors, who in most cases, charge outrageous fees for services. At the same time, it protects the unbanked from being targets of crime, robberies, and other abuses.

Finally, we must not forget that by helping consumers from being targets of hidden and excessive fees charged by money transmitting businesses, we are helping them save some cash that could then be used by them as a source of investment and future savings in the United States.

I want to say that there are banks and institutions, Members of the Committee, and we should try to find a way to help our banking system help those immigrants.

Today, in Chicago, we have Banco Populare. In the United States, we have Bank of the Americas. We have credit unions that are accepting the identification card issued by the consulate offices of Mexico. They come to their Congressman's office and we get them a tax ID number from the IRS and they are fully then identified. And I think it is better.

And then what we do is we give them what everyone on this panel would use. I am sure if we wanted to help our mom or our dad or our sister, we would say, mom, sister, I am sending you the ATM card. Here is the number. Go to any ATM in your country and get the best exchange rate you can get from your brother, your sister, your family member here in the United States.

We should find ways to help immigrants. They are working hard, and I know that that is the purpose of this Committee. Thank you all for allowing me this generous time to speak before you.

Chairman SARBANES. Well, thank you, Congressman Gutierrez.

We have been pushing the Treasury to develop this first accounts program, to bring the unbanked into the banking system. And the Treasury has now put out requests for proposals to banks and to community groups to join together in a partnership to approach the Treasury to receive some of these grants which would help underpin the program and to get it launched.

We think that is potentially a very important initiative. Its end objective, of course, is that people who are now outside of the banking system and have to function through a lot of establishments that are not in the center of the financial maintain will be able to actually like everybody else, work through established financial institutions. We very much hope that initiative will take off.

I have no questions. We very much appreciate your testimony. But I will yield to my colleagues.

Senator Shelby.

Senator SHELBY. I appreciate the Congressman appearing here, Mr. Chairman. I think he is on to something. What we are looking for is a little sunshine out there where people can know what is happening to their money, and also competition. The more competition that is out there, the more they will be able to send home. I think you are interested in both, aren't you?

Representative GUTIERREZ. I think sunshine makes America great. Let people know, and the competition will arise.

Senator SHELBY. Thank you.

Chairman SARBANES. Senator Akaka.

**COMMENTS OF SENATOR DANIEL K. AKAKA**

Senator AKAKA. Thank you, Mr. Chairman. I certainly want to thank the Congressman for his statement. He reveals a problem that we have all over the country, including Hawaii. As you know, we have a large Filipino population in Hawaii.

Representative GUTIERREZ. Yes.

Senator AKAKA. They send a lot of money back to the Philippines, so we have that problem, too, and that is my interest in this. I have a statement, Mr. Chairman, to make at the proper time.

Chairman SARBANES. When the Congressman leaves, I will yield to my colleagues for statements. We missed that in the beginning and I apologize for that.

Senator Carper, do you have any questions?

**COMMENTS OF SENATOR THOMAS R. CARPER**

Senator CARPER. Just a word of welcome, thank you for joining us this morning.

Representative GUTIERREZ. Thank you.

Senator CARPER. It seems to me in listening to your testimony, and reading about it beforehand, there are any number of ways that people who are living in this country can send money back home, through avenues that are fair to them and to their loved ones at home.

Most of the people I understand who are sending money back to their families and relatives actually have banking relationships that are established here in this country. I understand that if they were to more frequently use those existing banking relationships, that they and their families would be better off?

Representative GUTIERREZ. They should, but many of them are part of the unbanked of America. They do not use banking facilities, and many of them, needless to say, are undocumented workers here in this country. The people who pick the apples that we have for breakfast or the clean dish that we eat it from, or the clean floor that we walk on—and they are afraid of the system. So there is a fear.

What I have seen is, as banking institutions come forward, so do they. There is a part of outreach that has to happen, both from the banking institutions and the community. Let's face it, there is a lot of fear many of them are undocumented. There are between five and eight million undocumented workers in this country sending money back to their relatives in their countries of origin.

Senator CARPER. Thank you. Thanks for joining us this morning.

Chairman SARBANES. Senator Miller.

**COMMENTS OF SENATOR ZELL MILLER**

Senator MILLER. Thank you, Mr. Chairman, for holding this very timely and important hearing.

Something has to be done about the outrageous costs of these wire service transfers. I appreciate Representative Gutierrez for helping us and leading us toward a solution.

My question is, is it true that the families back in Mexico do not know the original amount that the person in the United States intended to send?

Representative GUTIERREZ. Yes, that is true. Let me just briefly share with you.

There was a resident of Chicago in Mexico who called his wife and said, honey, send me $300. I need $300. His wife promptly took the money down and she paid the $18 that was supposed to be the wire transfer fee. So she gave $318. She said, my husband is going to get $300. He called her back furious and said, honey, I did not ask you to send me $250, I need $300. When he got back home and saw the receipt, he could see the exchange rate in front of him.

Senator MILLER. Right.

Representative GUTIERREZ. He said, my wife must not have sent me the $300 that I asked for. He in turn filed, along with others, a lawsuit which was settled out of court, in which MoneyGram and Western Union settled. They gave money to the Mexican-American Legal Defense Fund and they gave money to numerous organizations. They are promising to pay back millions of dollars. Their advertising has changed somewhat. And when it went to court, it was settled and the companies recognize it. We have to stay on top of them.

I think Senator Shelby's point about sunshine is a very good point because then, Senator Miller, people would know what they are getting charged, and then they can move around, as we get more sophisticated as consumers.

Senator MILLER. Thank you.

Chairman SARBANES. Well, Congressman, thank you very much.

Representative GUTIERREZ. Thank you.

Chairman SARBANES. I do want to note for the record, this initiative you undertook in Chicago with your citizen workshops, to help prospective citizens really meet all the various legal requirements. I gather that model is now being followed or copied by a number of your fellow Congressmen in other cities across the country. I think that was a terrific innovation and I did not want you to leave without commending you for it.

Representative GUTIERREZ. Thank you, Senator. I think we all know as public officials how hard it is.

I have a townhall meeting on housing or on Social Security or on Medicare and I say, come on down. And people do come down, 40 or 50 of them. Yet, 3 weeks ago, Senator, I had a townhall meeting on becoming a citizen and 700 people showed up. Seven hundred people with $250 checks, and another $15 to take their pictures. When was the last time anybody called a community forum and people showed up with $265 to attend a community forum of a politician.

They do. Why? Because they are dying to become citizens of this country and all you have to do is extend a hand and say you are ready to help and they come forward. And I think that is one of the greatest American traditions that we have and one that obviously you exemplify, Senator Sarbanes, and so many of us here in the Congress of the United States.

Thank you so much for having me this morning. I look forward to working with each and every one of you.

Chairman SARBANES. Thank you very much.

If we could now go to our next witness. I think that we will take everyone as one panel. There may be votes. And that way, we can get people's testimony in before that occurs. We had originally been thinking of doing two separate panels, but I think this makes more sense.

Senator Akaka, do you have a statement you would like to make?

Senator AKAKA. Yes, Mr. Chairman.

Chairman SARBANES. We would be happy to hear from you.

Senator AKAKA. Mr. Chairman, I want to thank you very much for conducting this very important hearing.

As we know, we have discovered the importance of financial literacy and education for people in our country, and particularly, today for remitters. And so this is a very, very important hearing.

Today, we will examine remittances and issues raised during the Committee's initial hearings on financial literacy.

Immigrants nationwide often send a portion of their hard earned wages to relatives in their communities abroad. In many cases, the total cost of remittances can be 10 to 20 percent of the value of the transaction. People who send remittances are often unaware that the fees and exchange rates used in the transaction reduce the amount to the recipient.

The State of Hawaii, as I mentioned earlier, is home to significant numbers of recent immigrants from many nations, including the Philippines. And in Hawaii today, Filipinos represent the third largest group. The Philippines is one of the largest destinations for remittances from the United States. The gross value of remittances to the Philippines is presently at $3.7 billion, and a large portion of that amount comes from the people of Hawaii.

The examination of the issue of remittances is extremely timely as immigrants have less money to send to their families during the current economic recession. Consumers cannot afford to be uneducated regarding financial service options and fees placed on their transactions.

Remittances can be used to improve the standard of living of recipients by increasing access to health care and education. Funds are also collected by voluntary hometown associations and used for community development projects, as we will learn more about during this hearing.

Many immigrants are unbanked, as was mentioned, and lack a relationship with a mainstream financial services provider. The unbanked are more likely to use the check cashing services, which charge an average fee of over 9 percent. They are also more likely to utilize the services provided by payday and predatory lenders. The unbanked miss the opportunities for saving and borrowing at mainstream financial institutions. If unbanked immigrants use the remittance services offered by banks and credit unions, they may be more likely to open up an account.

I thank the witnesses for appearing today and look forward to hearing their recommendations. Again, Mr. Chairman, thank you for conducting this hearing.

Chairman SARBANES. Thank you, Senator Akaka, and it is a very important perspective you have brought.

Senator Carper, did you have a statement?

Senator CARPER. No, thank you, Mr. Chairman. I just want to thank the witnesses for being with us today.

Chairman SARBANES. Senator Miller.

Senator MILLER. I have no statement, Mr. Chairman, thank you.

Chairman SARBANES. All right. We are happy to turn to the panel. We will hear first from Mr. Sergio Bendixen, President of Bendixen Associates, a public opinion polling firm.

He has overseen hundreds of studies, many involving the Latino population. Before he began his career in polling, Mr. Bendixen was Political Analyst for Telemundo/Univision and for CNN, the Spanish Services CNN.

Prior to that, he worked here in the Congress as Chief of Staff and Press Secretary for Congressman Lehman of Florida, a very dear friend to many of us. And I also want to note that he was the National Campaign Manager for our colleague, Senator Alan Cranston, who served with such great distinction on this Committee for many years and Alan's presidential campaign.

We are very pleased to have you here this morning, sir. The full statements of our witnesses will be included in the record, and we very much appreciate the effort that has obviously gone into that.

If you could summarize in, say, 5 to 10 minutes, then we can get all of the presentations in. We will have some time for questioning as well. So please go ahead.

**STATEMENT OF SERGIO BENDIXEN**
**PRESIDENT, BENDIXEN & ASSOCIATES**

Mr. BENDIXEN. Thank you very much, Mr. Chairman, and Members of the Committee, for the opportunity to testify on an issue that is so important to millions of immigrants, Latin American immigrants, that live in this country, and to the economic future of Latin America.

The poll that I am going to talk about today was commissioned by the Multilateral Investment Fund of the Inter-American Development Bank. I want to assure you that the highest standards of public opinion research were adhered to.

We talked to 1,000 Latin American immigrants during late November, early December of last year. The margin of error for the poll was 3 percent and we did everything in our power to simplify the questions as much as possible. We tested and retested the questions to make sure that this universe, this sample, which comes from a low socioeconomic level, understood every question. The poll, as you can see here, is made up of 100 percent adults 18 years or older. They were all born in Latin America, now living in the United States, and they all had family in Latin America.

Let me summarize the major findings. I should also mention the countries of birth and that 67 percent came from Mexico. The other third came from almost every country of Central America, South America, and the Caribbean, very similar to the census.

We can be pretty certain that this is a very representative sample of Latin American immigrants living in the United States. Of course, we did not interview Puerto Ricans, who did not have this type of a problem in terms of cash remittances.

My first major finding, and this may not be a great surprise to you, but there is a large percentage of Latin American immigrants who belong to the lowest socioeconomic level in our society.

As you can see from this graphic, 41 percent, the largest group, make less than $20,000 a year. That is about $300 a week that they have to live on. Another 23 percent make between $20,000 and $30,000. Only 21 percent we might consider to be middle class and lower middle class at that, making a little more than $30,000 a year.

Chairman SARBANES. What are the dates of this poll? Did you say at the outset?

Mr. BENDIXEN. Late November, early December of 2001.

These people work in menial jobs, the least attractive jobs, as hotel maids, parking attendants, restaurant busboys, day laborers, agricultural workers. Latin American immigrants are some of the hardest workers in the country, yet receive some of the lowest wages.

Point number one, this is a very low socioeconomic group, and as you can see here, they also have a very low level of education. Only 10 percent of them have a college degree and 71 percent have a high school diploma or less.

We asked this sample of 1,000 respondents representative of the Latin American immigrants in the United States whether they sent money to their family in Latin America. Sixty-nine percent said yes, 7 out of 10. A little more than 2 out of 3 said, yes, that they sent it. This represents about 10 million people, 10 million Latin American immigrants that are involved in this process. And as you can see from this graphic, the people that send the most money are the youngest—73 percent of those 18 to 34 say they send money to their family—and the poorest. It's remarkable.

The ones that make less than $20,000 a year send more money to Latin America than the ones that are now basically middle class, the ones that make over $40,000. It is the youngest and the poorest that are sending the most money, and the money most often.

As you can see from this graphic, they send it pretty regularly. Our analysis of the results show that the average Latin American immigrant sends money to their family seven times a year. And almost half, 44 percent, send it every month religiously to their family. It is very, very impressive.

As you all can imagine, this is not something that just started recently. Fifty-four percent of those that we interviewed, a little more than 5 million people, say that they have been doing this for 5 years or more. So this is something that has been happening now for quite some of time.

Finally, we asked them, how much do you send every time that you send money?

The average figure that we came up with was $200 every time that there is a cash remittance sent. That is how much they send. That is the average or the mean remittance. And as Dr. Orozco will tell you in his report, which analyzed the whole matter from a more academic point of view, basically, he came up with the same results in terms of the $200 and in terms of the seven times a year. I think we can be pretty certain that these results reflect what is going on in terms of the cash remittance process.

How do they send this money to Latin America? Forty-one percent said that they use the international money-transfer companies—Western Union, MoneyGram, were the companies that were mentioned the most. Another 29 percent said that they use international couriers, special delivery systems, and sometimes even their families or their friends that travel back to Latin America. But only 20 percent said that they use the more traditional financial process. In other words, banks and credit unions.

We have 80 percent of the people sending money to Latin America through either the money-transfer companies or through couriers or special delivery companies.

It is fascinating to see that cost is a major factor here. People that send their money through the international money transfer companies, when they send $200, most of them know how much they are paying in fees here in the United States. Forty-two percent said that they were paying between $10 and $20. The small group that sends their money through banks and credit unions, are paying a lot less. They are paying less than $10 every time they send $200. There is a huge cost differential between the people that use the money-transfer companies and the banks and the credit unions in terms of the initial fee.

Now, we go to what I think is the most significant finding of the study. An overwhelming majority of Latin American and Hispanic immigrants are unaware, they do not know, as Congressman Gutierrez was pointing out, that their families in Latin America receive less money than what they send from the United States. And when these Latin American immigrants are informed that their families get a lot less than what they send because of the exchange rates, because of the surcharges, the fees, the commissions, when they are told the truth about what is going on, they feel that the costs are excessive and it is unfair.

Let's look at the numbers quickly. Fifty-eight percent of the people we interviewed that send money regularly to their families in Latin America said that they thought that their families, when they pick up the money, they get the full amount. And another 9 percent just did not know. Only one third of the people we interviewed knew that their families got less than what they sent. But the other two-thirds are ignorant—they just do not know.

As the Congressman was saying, full disclosure is such an important issue.

Chairman SARBANES. This is less after they paid the fee. They know they are paying the fee.

Mr. BENDIXEN. Everybody knows about the fee.

Chairman SARBANES. So the fee is over and above what they are sending. Correct?

Mr. BENDIXEN. The specific question was, when your family picks up the money in Mexico or Peru or Ecuador—we plugged in the name of the country where they were from—do they pick up the full amount, the $200 that you sent—we again plugged in the amount of money that they said that they sent—or do you think that they get less?

And 58 percent thought they received the same amount. Only 33 percent thought they got less. As you can see, there is a big difference between the country of origin. Mexicans seem to be better informed. Almost half knew that their family gets less money when they pick up the money in Mexico.

But Dominicans, Central Americans, South Americans, 10 percent or less knew that their families, their moms, their wives, pick up a lot less money when they pick it up in those countries.

There is a very great difference in terms of the level of information that exists in terms of the amount of money that is paid. And here's the question about, when we informed them about the fact that they not only pay their fee, the initial fee here in the United States, but that they also, that there are extra charges and lower exchange rates in Latin America. We asked, do you think it is fair? Do you think the costs are excessive? Or do you think the service is worth it because the money arrives fast and it is safe? While 59 percent said it is not fair, the costs are excessive. Only 25 percent thought it was fair.

Finally, the last major finding, only 56 percent of Latin American immigrants residing in the United States have a bank account. The other 44 percent do not. This is interesting. It is high compared to Latin America, where only 20 percent of people have a bank account. But, as you know, it is much lower for the general population in the United States, where it is 85, and higher, in terms of people having a bank account.

Let's see who has one and who does not.

It is the noncitizens who do not have it. Fifty-four percent do not have a bank account. The younger immigrants, 68 percent do not have a bank account. The poorest ones, the ones that make under $20,000, that do not have a bank account. And if you remember, those are the people that send the most remittances.

As you might remember from when we were looking at that point, it was the young and it was the poor and it was the noncitizens that send the most money, the most often.

There is a tremendous relationship and an important relationship or correlation between the people that have bank accounts and the methods that they use to send money to Latin America.

The last graphic—"Why do not you have a bank account?" Most people told us that they did not think they needed one because they do not have anything to put into it. Unfortunately, they need more information because there is a lot of other things that you can do with a bank account. Others brought up process issues—they did not have proper documents, the process was too complicated, they do not speak English, and they do not trust banks.

I think some of the Argentineans we interviewed said they do not trust banks.

[Laughter.]

To finish up, let me give you very quickly a couple of my recommendations, having looked at this study.

Latin American immigrants should be informed accurately about the full cost of transferring money to their home countries. This should be done in a way that is easy for them to understand, keeping in mind the low educational level.

Full disclosure should unleash market forces that hopefully will result in a significant reduction in the cost of sending money to Latin America.

It is unconscionable to me, and I am giving you my personal opinion, that the poorest of the working poor in our society, most of them making less than $300 a week, are paying somewhere between 10 and 15 percent surcharge every time they send money to their family in Latin America.

The second one, and I know that your Committee is working on this, the banking community of the United States should seriously consider funding a massive PR campaign to inform the Latino immigrant community of the benefits of opening a bank account, including the significant savings in the cost of money transfers to their home countries, if they use the banking system.

Hopefully, the banking industry can also look at some of the process issues that make it difficult for immigrants to open up a bank account in the United States.

Again, thank you so much for the opportunity to present my testimony, and of course, I will be here for questions later.

Chairman SARBANES. Well, thank you very much. Those charts are very useful and helpful.

We will next hear from Dr. Manuel Orozco, who received his doctorate from the University of Texas, in Austin. He is currently the Project Director for Central America for the Inter-American Dialogue, and before he was a Professor of Political Science at the University of Akron. We are very pleased to have this author of some very important studies here with us today. Dr. Orozco, we would be happy to hear from you.

**STATEMENT OF MANUEL OROZCO, PhD PROJECT DIRECTOR FOR CENTRAL AMERICA INTER–AMERICAN DIALOGUE**

Mr. OROZCO. Thank you very much, Mr. Chairman. I am very happy to be here to discuss this particular issue, which is of relevance to millions of immigrants and relatives.

I guess the way to start this is perhaps starting with what Senator Akaka mentioned regarding financial literacy. This is an issue that deals with what I call economic citizenship. Financial literacy is one component that is very relevant to this issue.

But, in general, as you mentioned before at the beginning of this discussion, remittances have signified a significant value for the recipient countries in many ways. You mentioned that in some cases, in some countries, the value of remittances represents about one-tenth of the national income of different countries. It is not only the issue of the aggregate volume of remittances that bears significant relevance, but also, what it signifies in many ways.

In this sense, it is important to realize that remittances have been a major component of the process that has been taking place in Latin America, especially in Central America and Caribbean countries. And it is through that labor migration and through remittances that these countries have been able to incorporate themselves into the global economy in a more sustained manner sometimes than in cases of foreign trade. And the issues that the remittances have this relevance at the level of the national economies, but also it is a flow that continues growing in a steady manner.

If we look at the process on a month-by-month basis, we will find out that it is something that continues significantly for various countries. This is just a sample of the monthly flows that have been going from remittances, from 1999 to the present. And it is something that has been going on for many years.

But, I guess more importantly is the issue that, on the one hand, we are talking about, as Sergio mentioned, low-income people, people who earn $20,000. This is on average. The average income of Latinos is about $25,000 a year. They are sending about 10 percent of their income to their home country. Yet, the money-transfer process, the process of sending money continues to be costly, but also imperfect. There is a strong relationship here with the issue that this is an imperfect market in which cost is penalizing the sender, but it is also penalizing the recipient.

We did a study basically of about a hundred companies sending money to Latin American. We dropped a few companies, about 20 of them, because they were out of the market by the time we did the study. So we ended up with about 70 or 80 companies.

Some of the findings showed very important issues. One of them has to do with, definitely, there has been a decline in the cost of sending money. Three years ago, it used to cost about $30 to $40 to send the average amount, which is $200.

We paid attention to three amounts to send two remittance types—$150, $200 and $300—and then we paid attention to the $200 figure because that is the average that people say that they send. There we saw that there has been a decline. However, the range of the cost continues to be high.

First of all, the range goes from $7 to $26 for sending $200. We have seen that fee charges decrease with competition, and this varies from country to country. For example, in the case of Mexico, where competition has been growing significantly, there has been a decline in charges. We also see that banks and credit unions are getting involved in the money-transfer system. However, they are still relatively engaged in the process, and there are different reasons why this is taking place.

But it bears paying attention, particularly when we are talking about that half of the population is unbanked. And in other cases, we have seen that the percentage of people unbanked is probably higher than that. Yet, the costs continue to be high.

If we look at about nine different countries that immigrants send remittances to, as you can see in the chart, the cost of sending remittances is significantly high—it is on average—and this is important to stress, the average amount is 10 percent, the value of the principle.

Yet, if we look at the fact that the companies that have the largest market share happen to be also the companies that charge the highest fees, the fees that go above the average, we are talking about. But, as you can see, the most expensive country in this case is Cuba. There is a strong relationship between market and cost here. There is a monopoly over the money-transfer process on the receiving end. Only the state of Cuba is the one in charge of distributing the remittances.

But we see in other countries that costs continue to be high, and this is an important issue. We can ask, in relationship to what is this high? Because some people can say, well, sending home $200 for $20 might not be very expensive, but first, if we think in terms of the sender, who is earning about $1,500 a month, at the household level, and has to incur $20, that is a lot of money.

Second, that the real cost, the operating cost of sending remittances for about a $200 figure ranges from $2 to $5. Then there is a $15 differential that we do not know where it is going. In relation to that, we have the exchange rate issue, which is also of significant importance.

I am an immigrant, too, and I send money to my parents once a month. We send them remittances. My mother doesn't know that she is being penalized, not only by the exchange rate, but sometimes by other fees through the way in which we are sending her the money. They are middle-class people, and yet, they do not know, and many Latin Americans do not know how much they are being penalized by these costs.

There are different kinds of hidden costs that people do not realize. In the rural areas, for example, you are charged sometimes an extra fee because it is in the rural sector. The other issue is that if you are sending money in places, for example, like Wyoming, the cost of sending remittances is far higher than sending it from California. So this issue is of major importance.

The other issue is that, definitely, money-transfer companies are the ones that charge more money. As you can see here, 60 percent of banks or credit unions charge under $10. But yet, they are the least involved in the process.

On the other hand, we see that over 60 percent of money-transfer companies charge about 10 percent of the value of the remittance to be sent. So there is a major cost incurred by the sender.

The question is, what can we do about these issues? I think there are different ways to approach this problem. I think the point of departure deals with the banking component. Definitely, we need to find ways to bank the unbanked. But not only to deal with the unbanked. The reality is that even the 50 percent group of people who have bank accounts do not know that they can get better deals through their financial institutions. And again, this is an issue of financial literacy that applies not only to the unbanked, but also to the banked.

We do not know as Latinos—actually, not only as Latinos. I think as minorities—we really know very little about the benefits of banking. And there are different reasons why. Sometimes banks really do not care very much about the little people. But also, there is a lack of education.

The most important institution that could help migrant communities, credit unions, are still unfamiliar, relatively speaking, with the process of attracting or reaching out to migrants to get into the credit union system.

So, we need to focus in ways and with strategies to bank the unbanked. There are other strategies that we can think of. One of them that is very important is that we need to oversee money-transfer companies.

As I say, this is an issue of financial literacy of economic citizenship, but it is also an issue of corporate responsibility. Large companies that send money abroad through their businesses often charge accounts charges that they do not even report to you about the exchange rate, and this is a very serious problem.

I think it is about 1 in 10 companies that really reports the exchange rate that they are applying in the money transfer.

There are other issues that bear importance. One of them has to do with establishing bank liaisons between U.S. banks and banks on the receiving side.

Finally, we did some projections about what would be the impact in terms of the effect in reducing transaction costs. And just to give you an illustration of that, we want to pay attention with the first point, which is that if we were to reduce the charges of sending money by 50 percent or reducing it to $7, the flow of remittances could increase by 7 to 10 percent. This would amount to about 1 to 3 percent of the GDP of the recipient country. So this is quite significant. We are talking about hundreds of millions of dollars. I am talking here about the receiving side. But the sending side would also benefit once it would be incorporated. You would be able to save more money, definitely, from the charges, but also, you would be able to enjoy the benefits of being banked.

Thank you very much.

Chairman SARBANES. Thank you. Very interesting testimony.

We will now hear from Dr. Raul Hinojosa-Ojeda, the Founding Research Director of the North American Integration and Development Center at UCLA. Previously, he worked with Representative Esteban Torres to create the North American Development Bank. Dr. Hinojosa received his Doctorate in Political Science from the University of Chicago, and he has worked with many community and immigrant groups focusing on financial education, particularly on this issue of remittances.

We are very pleased to hear from you, sir.

**STATEMENT OF RAUL HINOJOSA–OJEDA, PhD**
**PROFESSOR OF INTERNATIONAL AND REGIONAL DEVELOPMENT**
**UCLA SCHOOL OF PUBLIC POLICY**

Mr. HINOJOSA-OJEDA. Thank you, Senator. And I really commend the Committee for this work that they are doing right now. I think it is extremely important, and I would like to make three points.

One of them about the importance that I think this issue of remittances is going to increasingly play on a worldwide scale as we begin to confront the issues of global poverty. I would like to say something about that.

The two other questions, one is, while disclosure and cost reductions I think are important, I think the focus really has to be on this financial intermediation, the increased banking and strategies for that. And I would like to point out some strategies that we are working on in California with Mexico and Central America that could help us move in that direction.

First of all, in terms of the importance of this issue, we are now launching a new world trade organization round on trade liberalization where most of the argument is that it is going to be able to reduce poverty through increased trade. And that is true, in fact.

A lot of the work that I have done as a professor at UCLA is comparing relative impacts of trade liberalization to other policy approaches, such as movement toward improved immigration laws and the intermediation of remittances. I can report to you that our research is showing that we have been seriously underestimating this important area for policy, especially when you compare it to perspectives like trade liberalization as an attack on poverty.

Migration and remittance is a more direct way to attack poverty worldwide and to improve the conditions in immigrant sending regions and to reduce the pressures for low-wage migration.

An example right now is that there are 30 million immigrants here in the United States. If you do a full accounting of that, that really turns into close to $1.5 trillion of value-added. That is, in a sense, one of the largest countries in the world right there. And if you add up all the immigrants worldwide, this turns into actually one of the third largest countries in the world collectively.

The policy alternative, and in my testimony, there is much more detail on that, that I think we have to continue to focus on, is legalization of status, moving immigrants out of the shadows is good for both the United States as well as the immigrant-sending regions. And orderly, legal process of growth of immigration based on the demand that we have in the United States and other developed countries is extremely beneficial, both to us, as well as these developing regions. That right there produces a much bigger kick in terms of global growth directly toward poverty than all trade liberalization discussions.

Finally, the improved intermediation and development leveraging through remittances, which I think we are only beginning to scratch the surface on, is much more significant than the types of financial flows that will come through direct foreign investments and multilateral institutions directly helping the poor.

Having said that, I turn to the issues specifically about remittances and their costs and intermediations. And although I completely support Congressman Gutierrez's approach, we have been doing this in California for a number of years, trying to pass this type of legislation that would increase the disclosures and lower the costs, the key issue is increased banking and intermediation.

I commend the Committee and the work that they have done on first accounts. I think we need to go beyond that. Let me tell a little bit about what I think.

The real key issue here is that the banking community itself, and even the credit union community, I do not think have yet understood the full extent of the business opportunity that this represents.

We are trying to set up an accounting system of the migration and remittances between the United States and Latin America. The full savings amounts that would be represented by remittances is highly under-estimated. Most people think that remittances are really just a quick pass-through for consumption. The reality of it is, if you do the accounting properly and you create institutions to capture this flow, it actually produces quite a large amount of money available for securitization that banks on both sides of the border could very much look at as a business opportunity. The other issue is in terms of the financial services that are potentially offered.

Most of the survey instruments that are quoted say that remittances, only about 1 percent of them are used for investments.

Well, actually, that is a mischaracterization. Our research is showing, it depends on how you ask the question. The real issue is, and we are doing household surveys at community levels in the immigrant-sending regions in Mexico and Central America—two issues.

First, if you did not have the remittances, most of them will say, how do you use it? Yes, I spend it on consumption. What it does not tell you is that that frees up a lot of other resources for investment purposes and for other types of economic activity.

The second is what it does for the community as a whole. This increases flows of funds into these immigrant-sending regions, which are very much available for investment. So what we are seeing now is that in some communities where better financial intermediation occurs in places like Mexico, remittances over the last 10 years have significantly reduced poverty and marginalization. In some they have not. The key issue is what type of financial intermediation institutions are available.

Another quick point is insurance. In fact, what we know now theoretically and on the research is that most migration occurs primarily for the purposes of gaining some savings and investment for the future, as well as insurance to reduce volatility that most people experience in the immigrant-sending regions. These are avenues and opportunities for financial institutions. Some banks are finally beginning I think to get at that.

Let me turn to my third point. And that is, these new policy alliances out at UCLA that we are trying to develop in two areas. One is new financial mediations and another is the leveraging of development funds through the hometown associations.

On the first issue in terms of new transnational banking alliances, we are working with California-based credit unions, as well as California-based banks. The Citicorp just recently bought Bonamex, for example, and they have a unit called the California Commerce Bank from which all the research that we have shown actually has the cheapest mechanism available, which is you set up an account on the United States side and you set up an account on the Mexican side. And the transfer from one account to the other is on the order of about $5.

Wells Fargo just set one up with Bancomo. They are charging $10. And actually, if you go into the technology of this, there is still quite a bit of reduction that is still available.

But that model where you create bank accounts on the United States side and on the Mexican side or on the Central American side, linked, I think is clearly what meets the objective that we want to achieve, which is getting people into financial intermediation on both sides of the border and then really making this a leverage possibility for savings and investment.

And we are working with hometown association networks in California to work with the banks and the credit unions. The credit unions—people like them. They can potentially also reduce costs. But they are actually not very involved at this point in this market. There really needs to be a great deal of interest. I think your Committee pushing light on this could make a big effort on that.

Finally, something that Manuel mentioned in his excellent paper, is the increasing role on the organized immigrant networks in the United States. In fact, history, we even know that this was very important, back in the last century with the Italians, and you mentioned the Greeks.

The Spanish networks in Europe, through their credit unions, was fundamental for why we now in Spain have closed the income gaps dramatically within Europe. Whereas, in North America, they have remained exactly as unequal as they were 40 years ago. So this issue of working with the immigrant networks and helping improve their financial opportunities is fundamental, both for the rich countries, as well as the immigrant-sending countries.

The hometown associations are taking the lead and showing how to do this. They are raising money at unprecedented rates. In California, we are now estimating that there has been in the last 5 years over $50 million raised by the hometown associations directly mobilizing social investments and increasingly productive investments in their immigrant-sending regions, in their hometowns, their villages.

Which, actually, if you compare, they outstrip government support for many of these projects by a 10:1 margin. In fact, governments are now turning in Latin America to these financial flows as something that they want to leverage and they want to match on a 3:1, 2:1 basis, to try to increase these types of activities.

This is something that the United States should be thinking about as well. In fact, when Senator Bob Graham was Governor in Florida, he created something called the Florida Association for Volunteer Action Corps in Central America and the Caribbean, a long name. But what they were able to do is actually match U.S. NGO's that want to work with the immigrant-sending regions.

I think that this is an interesting model that has been supported in Republican and Democratic Administrations in Florida, something that we should look at at a Federal level that I think would make a lot of sense in terms of putting light on these types of new initiatives, as well as new financial institutions.

The IDB I think is doing a phenomenal job in terms of leading the way in terms of how the Washington international financial institutions can also play a role.

But I think it is something that is going to be a major interest of the developed countries in the future if we are going to deal with the fundamental challenge of this century, which is the closing of these large income gaps between developed and developing countries.

Chairman SARBANES. Good. Thank you very much.

Our concluding panelist will be Dr. Susan Martin. She is the Executive Director of the Institute for the Study of International Migration at the School of Foreign Service here at Georgetown University. Dr. Martin also served as the Executive Director of the U.S. Commission on Immigration Reform. She has taught at Brandeis and at the University of Pennsylvania. She actually is a leader in the subject of global migration and has had a particular focus as well on the remittances issue.

Dr. Martin, we are pleased you are here with us this morning.

## STATEMENT OF SUSAN F. MARTIN, PhD
## INSTITUTE FOR THE STUDY OF INTERNATIONAL MIGRATION
## SCHOOL OF FOREIGN SERVICE, GEORGETOWN UNIVERSITY

Ms. MARTIN. Thank you. Well, the difficulty of being the fourth in a line-up of experts is that many of my points have been taken. But I think part of my role here has been to——

Chairman SARBANES. We put you there because we figured you would be the clean-up hitter.

Ms. MARTIN. I will try.

[Laughter.]

I will also try to place some of what we have been hearing about Latin America into a global perspective.

Chairman SARBANES. That would be very helpful, yes.

Ms. MARTIN. According to the most recent statistics from the International Monetary Fund, globally, remittances now exceed $100 billion per year. Remittances flow either in terms of transfer of funds back to home countries or actual compensation of foreign workers into home country banking accounts. Sixty-two percent of that $100 billion now go to developing countries.

I agree completely with my colleagues about the importance of remittances as a potential tool for development of those countries. For many of the countries, it exceeds foreign direct investment, foreign trade, and clearly exceeds very significantly foreign development aid that is provided on a government-to-government basis.

During the course of the last decade or so, I have looked at the remittance flows and their impact on countries as diverse as Mexico or the Dominican Republic in this hemisphere; the Philippines, where it clearly is one of the most important inputs and financial resources, Yugoslavia, where in the rebuilding of Serbia after the fall of Milosovich, remittances are again coming up as a very important issue, and in Africa. I have looked at it in places like Mali, very recently, just a few weeks ago, in fact, and Somalia and Somaliland, over the course of the past decade. So it really has an impact that is very significant, and not just in this hemisphere, but globally.

And while we are one of the major sources of remittance flows, many of these countries are receiving remittances from the European countries, Canada, Australia. So it is a global source of transfer, both in terms of where the immigrants are who are sending money back, as well as their families in developing countries.

I would argue that this is likely to increase in the future, this remittance flow, largely because, as I see it, immigration will increase. International migration will be increasing in the future.

The International Organization for Migration, in some work that I have done for them, has estimated that, currently, there are more than 150 million international migrants in the world today, again, spread pretty much over the globe. That number has doubled in the last 30 years or so, so we have already seen a significant increase.

Why I think it will go up is because of the type of economic integration that we clearly have seen emerging, that is bringing labor markets together and making it much more likely that companies will be recruiting from a global labor market rather than just from a domestic labor market.

This is combined with the transportation and communications revolution that we have also seen that allows people to move themselves much more cheaply and easily than ever before.

They know what opportunities exist elsewhere and they now have greater capacity for acting on that knowledge. Those same factors also will affect more directly the remittance flows because with the ease of transportation and communications, migrants who move to other countries, whether they are thinking about it as temporary movement or as permanent relocation, are able to maintain ties with their families and with their communities for much longer periods of time than was possible before they were able to communicate as cheaply as they are able to do today. Those ties are what keeps the remittance flows coming because migrants have the emotional and social ties that require them to keep sending funds.

So, as I said, I think that this phenomenon that is now emerging as an important issue will grow in importance in the years ahead.

Within the research community, there has been some marked shift in our thinking about remittances. If you looked at any of the literature from even 10 years ago, it was mostly negative. It mostly talked about the problems of remittances, the heightened dependency in communities that received remittances on this flow, the need for sustaining migration in order to be able to keep the flow of funds coming in, the inequalities that remittances created and the excessive consumerism that was associated with that, as families that received remittances were able to buy more and to have bigger houses, have more opportunities than their neighbors. The development impact—the possibilities for increased economic opportunities from remittances—was dismissed as almost nonexistent.

I agree with my colleague that we are now seeing that the effects are much more complicated and that there are many more positive elements. Even when remittances are used for consumerism, if people are buying products locally, that is stimulating local markets. It is stimulating local production of goods, and it is providing multiplier effects that can stimulate economic development in the receiving communities that are getting these remittance transfers.

We are also seeing, as Raul mentioned, a lot more communal transfers of funds through hometown associations. And this is not just an American, Western Hemisphere phenomenon. When I was in Mali a few weeks ago, I visited health centers and schools that had been built by migrant remittances from hometown associations—in this case, of Malians living in France who were sending their remittances back in order to support the infrastructure of their home communities. We are also seeing increased used of these funds for supporting income-generation activities—small factories and other types of opportunities.

What we hope is that people will be able to make the choice in these communities as to whether they would stay in a good economic situation or migrate, and they would not be forced into migration as the only way in which they can sustain their own family lives. To make remittances a better tool for development, we need to build on the positive aspects and to deal with some of the problems that my colleagues have talked about, particularly in terms of the high transfer costs.

If these remittances are to be a vehicle for development, I think we have to keep in mind that it is one of the most regressive ways in which we can promote development because it means the poorest people here and in other developed countries are the ones who are providing the support to developing countries for economic opportunities, and it is coming out of the pockets of people who, frankly, just do not have that many resources to spend.

And it is well to ask what they are not spending their money on here in terms of education, in terms of opportunities that they might build on here to increase their economic activities and their economic status.

I think it is very important that we keep this issue in balance and try to reduce the cost to the migrants. Remittances transfer is something that they are going to do in any case. Reducing transfer costs will leave them more money for investment here, so that it is not just a large outflow of what might be a quarter or so of their income.

So let me go to some of the recommendations that I would make for being able to lower transaction costs, but also increase the reliability of the transfers that are occurring.

Certainly, more competition is an essential ingredient of this entire process. But there is a danger that some of the increased competition will be on less-than-reputable companies entering a market that is growing. These companies may not have the financial reserves, the actual ability to transfer the funds. Such competition will create greater abuse rather than lower costs if the new companies are not actually reliable in their transfer. We have to be very careful that our increased competition does not hurt the consumer rather than help them.

Certainly getting credit unions and banks into the process is a good step so that we are bringing in the already-regulated, reputable institutions. These actions can help lower costs and increase the development potential since they can invest in the developing countries to which the funds are being sent. That is not a very easy process, though, and will require not only getting those institutions here involved in it, but also strengthening the banking system and credit unions in the developing countries to be able to be the counterparts in receiving the funds.

A lot of my interviews with migrant communities overseas have shown that they are not using the banking system because the banking system either does not exist or is so corrupt in their home countries, that they are afraid to have their money enter that system. We have to think about the strengthening of the banking system on that end, not just getting them involved on our end.

Financial literacy is clearly also an ingredient that we need in order to be able to pull more people into the banking system. There are very good models that have already been tried. We should be building on those models. And they are sometimes in very unexpected places. We have been working with a group in Rogers, Arkansas, a bank there that has an extremely good financial literacy program. It has gotten the agreement of corporations that are hiring migrants in Arkansas to be able to provided the classes onsite at no cost to the worker.

It has helped the companies to anchor their workers in these communities in Arkansas. It has helped the bank that has the financial literacy to have the lion's share of the immigrant business and increase its profits. And it certainly has helped the migrants to be able to avoid predatory lenders to buy homes and to remit at lower costs. So it has a lot of benefits all around on that.

The truth-in-transfer, the sunshine provisions, again, I would recommend as well. It is important that people have the information that they need in order to remit. It is important that that information is available at the other end of the line, again, so that you have the circle completed. Not only will people know what they are sending and what it is costing to send, but they also know what they have received and can make the comparison.

In addition to these things, which are to increase reliability and to reduce costs, I think that there are things that we could be doing to encourage greater development use of the remittances.

The hometown associations that we have talked about are a very good vehicle for using remittance transfers. There is great need for technical assistance to ensure that the money is being invested properly in things that have the biggest bang for the bucks. Often, the hometown associations will provide an ambulance to their local village. But there are no spare parts to repair the ambulance once it breaks and, therefore, the villages are no better off after having had this investment.

The Inter-American Foundation is doing some very good work in providing that technical assistance. Support of those programs I think would be an important ingredient.

And finally, I think we could be applying more pressure on some of the wire transfer companies to invest part of their profits in the economic development of the communities here that are sending remittances and the communities abroad that are receiving the remittances. As good citizens, they should be contributing much more to the economic development of the consumers that are providing their profits.

So, I think there are a variety of things that can be done to increase reliability, reduce cost on the transfers, and also to increase the development potential of the use of remittances.

Thank you.

Chairman SARBANES. Thank you very much, Dr. Martin.

This has been an extremely helpful panel. I have a couple of questions to ask, and then I am going to yield to my colleagues. I want you to lay out for us a clear picture of how this works. Let me pose this question. Is the enterprise here that receives the money from the immigrant that is being sent—I take it usually in cash. Is that correct?—The same enterprise that then pays out the money in the receiving country?

Mr. OROZCO. Yes. Let me use one institution just for the sake of an example: Western Union. The agency has a network of agencies in the United States and then establishes a network of agents, or what is called a distribution network of agents, in the recipient side.

For example, you go to Adams Morgan, where there is a cash checking office and a Western Union office. Western Union offers you the cash checking and you pay $10 to cash your paycheck, and then the money that you just cashed, you are going to send it in remittances and pay $20 to do that. Then the money arrives in the home country at a Western Union agency and then the customer usually comes to pick up the money to the Western Union agency, and that is where they get—for example, $200, they get $190, $195, because of the exchange rate which they are not aware of most of the time.

Chairman SARBANES. Do they get fees charged in the country to which the remittance has been sent as well, or is there just the fee charged—as you say, I am the immigrant. First of all, I get hit by cashing my paycheck. I have to pay a fee to cash my check, and that is combined in the same office, I take it.

Mr. OROZCO. Yes.

Chairman SARBANES. Then I say, all right, I want to send $200 to Mexico. And they say, well, that will be $20 fee to send that. So, I give them $20 and the $200. Now my relative goes to pick this money up at the office in Mexico. Is there another fee taken out at that point to do that?

Mr. OROZCO. No. The only fee is the exchange rate. The only penalty that you get is the exchange rate. However, for example, in El Salvador, with the disorganization of the economy, a bank was charging a $1 commission fee because in lieu of the exchange rate.

In other places, if you are in a remote area, you are likely to pay as a customer another extra amount of money in addition to whatever fee you pay here.

Chairman SARBANES. Now suppose I have a bank account. I am an immigrant. I have a bank account and I am going to work through the banking system. How does that work?

Mr. OROZCO. Well, in theory, the way it works is, say, I want to transfer $200 on a monthly basis to my mother's bank.

Chairman SARBANES. Well, first of all, I go to the bank, I deposit my check. So that goes into my account. I do not pay a fee to get the money reflected by the check moving through the system.

Mr. OROZCO. Yes.

Chairman SARBANES. So, I do not do that. Okay. Then say I want to send $200 out of my account to such and such a person at such and such a place. What happens?

Mr. OROZCO. Well, that is when it gets tricky. The way things stand right now, if you go to a bank, you might be charged about $30 to $40, because banks generally do not do these kinds of small money transfers.

First, they are going to ask you what is the identification number of the bank in relation to the bank account of the recipient side. An immigrant will be overwhelmed by the whole thing.

So, instead, that is why the immigrant goes to a money transfer because they think it is more convenient. However, if the bank has a relationship with a recipient bank—for example, Harris Bank in Chicago has a relationship with BancoAmer Mexico. You go to any two branches in Chicago. The branches are bilingual and you have an account there and you want to send $200. You only pay about $10 to send it. That is half of the average amount, and it goes straight into BancoAmer. The person receives the money in their account or they can cash the money immediately.

Mr. HINOJOSA-OJEDA. The key thing here, and I agree with Manuel, is that the possibility of how these bank-to-bank transfers can work are very rarely being taken advantage of right now. Most of it is from one bank account to another. If you do it individually, the banks, it is a hassle for them. They do not want to do it. They will charge you a lot of money.

A couple of these instances are occurring where they are making you create an account on the United States side and then they will create an account on the Mexican side, which is a very cheap transaction for the banks. They will on average charge you $10 from one account to another.

Like I am saying, the review that I have done, Bank X charges $10, which is the cheapest one that you can get. What can also happen if you have an ATM card attached to that bank account in the United States, you can directly withdraw from that account, which is what Representative Gutierrez was talking about, being on the beach in Acapulco. You and I, we would only be charged $1.50 for taking money directly out of our bank account in the United States. Some people are beginning to provide that type of direct service through ATM, but then they do not have an account on the Mexican side.

That architecture, however, is potentially there for these linked accounts. There is new technology that is available to make that occur, as was at the point of purchase. But rarely are we seeing banking institutions at this point competing for providing that service.

Chairman SARBANES. I want to ask about that, but I will come back to that.

Senator Akaka.

Senator AKAKA. Thank you very much, Mr. Chairman. Again, I want to thank the witnesses for the information. It will be valuable to this particular Committee.

The charts shown were interesting. In Mr. Bendixen's survey, it showed that 56 percent of immigrants have bank accounts, and yet, only 20 percent of remittances are sent through banks or credit unions. This is my interest.

Further, Dr. Orozco's study shows that this is forwarded by evidence that you have and that it is cheaper to send remittances through banks and credit unions. Again, why do immigrants with access to banking systems not rely more heavily on banks to send their remittances? That is my question.

Mr. BENDIXEN. Let me try to answer quickly. First, remember, the youngest of the immigrants and the poorest of the immigrants who send the most money most often are the ones that are in the 44 percent who do not have bank accounts. So that is part of the answer.

The other answer, I think Dr. Orozco alluded to it and spoke about it. Many of the banks, and correct me if I am wrong, are not really ready, do not offer the cash transfer process to customers for smaller amounts.

So it is a combination of the two. The people that send the most do not have the bank accounts, and the ones that do have the bank accounts, their banks, many of them, are not really in the business.

Senator AKAKA. Is that possibly due to traditional ways of handling money? I mean, it appears that the older people do not send as much, and possibly, it is because they do not bank their money. They keep it at home and use what is called a cash-and-carry way of handling their money.

Mr. BENDIXEN. I think a lot of the older people and the people that actually make more money are people that have been here a longer period of time. And even though I think Latin Americans tend to be concerned about their families back home on an ongoing basis, definitely it is the more recent arrivals, the younger and the poorer that send more. That is part of it.

Senator, if I may, I wanted to add one piece of information to what was said by my colleagues to your question. It is a very interesting fact that I learned at the IDB conference on Tuesday.

In Spain, there are tens of thousands of Ecuadorans who send money back to their country, basically through a relationship between credit unions in Spain and in Ecuador. The cost of sending \$200 from Spain to Ecuador is \$3. The cost of sending \$200 from the United States to Ecuador is about \$25.

So without being an expert on the process itself, there must be a way to do better.

Ms. MARTIN. Could I add one element to it?

Senator AKAKA. Dr. Martin, please.

Ms. MARTIN. Part of the problem in terms of the banking system is the weaknesses on the other end.

If you go to almost any village, almost any place in the world, the chances are that you will see a Western Union sign. They are all over the place. The most remote town in Mali has a Western Union outlet. And it is reliable and people can go to an agent here and then their families can pick up the funds where they live very readily and with a great deal of reliability. The funds will be there very quickly. On the other hand, if you go through a bank, you won't find an ATM in most of these communities. And there won't likely be a banking outlet there, either.

It becomes much more difficult for the receiver of the remittances who are more likely to be the parents, the wife who has been left behind, the children, to actually get physical control of the funds. So until the banking system becomes much more vibrant in these countries, it is going to be very difficult to be able to use banking universally as the mechanism for the transfer. It will grow, and I think the technology is going to be seen increasingly, and we probably would not be having this same conversation 10 years from now. I think it will be markedly different.

There is a transition period that we are going to have to go through. Migrants say all the time that if they have a regular transfer, they will often use informal channels because they know that those can get there. If they have an emergency, they use Western Union. And even the banks in many developing countries say, we cannot compete at this point with either the informal mechanisms or with the Western Unions or MoneyGrams. They just do not have the reach.

Senator AKAKA. Dr. Orozco.

Mr. OROZCO. Thanks. Actually, let me get back a little bit to your question.

Although the service shows 20 percent, which I think is a very representative sample, what the respondent is saying actually is not specifically that they are using their banks to transfer money. In many cases, they are referring to foreign banks operating as money-transfer agencies that charge less money, but still, you are not using your credit union or whatever. So the actual percentage of people who are using their banks to transfer money might be estimated at 5 percent, much lower, significantly lower.

But then, again, you get back to the issue that Susan was talking about, that the banking issue has to do with financial literacy on both sides.

We do not use the service here. First, because we do not know, for lack of better knowledge. If we knew that there were better ways to do it, we would be using banks. Second, the banking institutions are generally not migrant-friendly and it is very intimidating for an immigrant who speaks with broken English and says, I would like to send an remissa, and the bank teller gets annoyed. The forms that they ask you to fill out might be extremely intimidating, and there is another reason. And that has to do, unfortunately, with culture.

The banking industry in Central America, the Caribbean, and Mexico is an oligarchic banking industry. It doesn't care about the little people. So, they never cared to educate in financial literacy those people.

Now that they have migrated, they come with that baggage and the relatives, as well as the people here do not really get to trust much in the banking. So it is a very cumbersome problem and that is why banks do not get involved. They really don't care. But yet, for example, in El Salvador, Western Union is not the largest. It doesn't have the largest market share. It is the banks, operating here as money-transfer agencies.

Yet, over there, they do not offer any incentive to the recipient to use the banking industry. So that is a major problem. They are profiting, yet El Salvador transfers $2 billion. The banking industry in El Salvador is transferring about 60 percent of that. Western Union is only getting 20 percent of the pie.

Yet, they do not create any incentives for people to bank. And it is true that there are difficulties in getting into the rural areas to get into a banking institution. There are many institutions like credit unions in the developing countries that do offer some access to it. We need to create the network basically here and there.

Senator AKAKA. Mr. Chairman, my time is up. I have another question, but I will wait for the second round.

Chairman SARBANES. All right. I will go to Senator Miller.

Senator MILLER. I want to thank you again for your testimony. It has been both enlightening and disturbing. There is no doubt that we have a problem of major proportions here. I want to talk about what we do exactly, where do we head?

I want to talk about financial literacy in general. I think there is strong general agreement that we have to have more financial literacy programs for newcomers to the United States.

My first question is, is there already a system or entity in place that could run such a financial literacy program? Is this something that should be run by a private entity? Or a public entity? Where do these programs come from? You mentioned the one that is working so well in Arkansas, Dr. Martin. But what is the role of the Government in this?

Mr. OROZCO. Excellent question.

Mr. HINOJOSA-OJEDA. Well, do you want to tell us about Arkansas? I will tell you about California.

Ms. MARTIN. Right. Let me start with the curricula that are available. And there is enough experience now that we do not have to reinvent the wheel in terms of what the components are.

The particular Arkansas situation was an interesting one. The background is that, if you looked at the 1990 census, Rogers had very few foreign-born. By 2000, it is I think maybe 15 or 20 percent foreign-born. And if you looked at the school-age kids, it is even higher. There has been a major influx of immigrants into that particular area, largely following employment and in the poultry processing, meat processing areas.

It was a very transient community, lots of backlash within the native community about these young men who had no ties, no roots in the community. Some of the community leaders got together and they tried to figure out how to deal with the new population and how to get it more anchored and reduce some of the transients.

It happened, and this is the circumstance. Sometimes things are very unplanned. But one of the few Spanish-speaking people who were already in the community had come from Cuba many years ago and was a bank officer. His concept was that if more of the workers could buy houses and bring their families, they would anchor. And it was really a homeownership project, initially.

And they decided to support his interest and a number of corporations agreed to have him come in and provide financial literacy classes. So this was a totally private-sector.

The Federal Reserve has actually become very interested in the concept, as has the regulators for the savings and loans and other banking institutions. And they are now talking about ways that they can support a similar curriculum in other communities.

So, I think that this is an area where a public/private partnership would be extremely useful. I was interested in hearing about the Treasury Department having grants because I think that if more of the grants were ones that involved community-based organizations, financial institutions, and businesses, so that you get the three partners into this, then you are more likely to have greater effect than if any one component tried taking it on because there is a lot of complexity to the issues.

I think you need the expertise of the financial institutions, but you need the contacts that the community groups and the businesses have with the actual recipients of the training.

Senator MILLER. Let me ask my other question before my time runs out. I thank you for that response. It is along the same line.

Dr. Orozco recommended an oversight board to guarantee this corporate transparency and accountability that we need to have on a nationwide basis. And Dr. Martin, you talked about a regulatory framework that would better insure wire-transfer companies. They have adequate resources and better procedures and that thing for conducting business.

Again, are we talking about something like a self-regulating organization, an SRO, private companies, or are we talking about some kind of Federal entity on this? What is your thinking on that, anyone that wants to address that?

Ms. MARTIN. Do you want to start it, or shall I?

Mr. OROZCO. Well, I am a strong believer in free markets and I think we need to start by allowing the institutions to self-regulate themselves. But more importantly, to make, for example, the Better Business Bureau, more aware of this process, of the money transfer. They are very unaware of what is happening.

So, we need watchdogs from both sides, from civil society, NGO's working on these issues. There are many NGO's working on financial literacy, by the way.

You do that, but you also encourage the money transfer companies to self-regulate themselves. If there is no compliance to the rules and the standards that will ensure an accountable process, then we should move to the next stage, which is getting the Government involved in some kind of regulation, enforced regulation.

Senator MILLER. We nudge, not legislate.

Mr. OROZCO. I beg your pardon?

Senator MILLER. We push or nudge instead of legislating.

Mr. OROZCO. Yes, I think so.

Ms. MARTIN. I would agree that that is probably the stage we are at now, to see whether self-regulation will help. I am frankly skeptical that if the trend toward greater competition were of companies entering continues, that it will be very easy to deal with some of the potential abuses.

I refrained from raising this very directly, but given the activities in terms of some of the money-transfer companies also transferring funds for terrorists and the connection to drug laundering as well, the Congress may want to develop a regulatory framework to address all these issues. There is a major crisis in Somalia now because remittances are not coming in. And they are not coming in because the companies that were used by just normal migrants were also the ones that were being used by al Quaeda.

We have a problem in that respect and that might be a vehicle for ensuring the integrity of the companies that are established, some of which we frankly just do not know very much about.

Mr. HINOJOSA-OJEDA. I would like to say, Senator, the nudging, it is a very relative term. I actually think that the threat of legislation in California has clearly focused their attention a great deal. I think that the threat or the formulating of clear guidelines of what is being articulated through the legislature and the demands should definitely go forward. And I think that we do not necessarily want to create huge bureaucracies, but I think that the pressure has to be kept on.

The lawsuits that were raised have done a great deal, and there are a couple of different ways. I think it has attracted a great deal of new players into the field, that they recognize that while they are making that much money, maybe I can. Hopefully, that is a temporary process. So, I would not give up on a strong Government role during this transition period.

Senator MILLER. So a strong nudge.

Mr. HINOJOSA-OJEDA. Yes.

Mr. BENDIXEN. From another point of view, the Latin American immigrant to the United States may be the easiest constituency in the country to communicate with. According to the IDB study, they get 90 percent of their information from television, and we are talking about two networks—Univision and Telemundo.

So depending on what you all decide to do, I think a public information campaign through Spanish-language television would be a way to get to these 10 to 15 million people in a fairly efficient way.

Senator MILLER. Excellent idea. Thank you very much.

Thank you, Mr. Chairman.

Chairman SARBANES. Senator Akaka, would you like to ask other questions.

Senator AKAKA. Mr. Chairman, I am glad my colleague brought up financial literacy. I was going to ask Dr. Martin further about that since that is one of the reasons for our hearing today. As we look at how to reach, maybe through television, these folks out there that need to learn more about how to do these things, we should look at ways where they do not have to pay out so much money.

A recent symposium, the Chicago Federal Reserve Bank on the subject of remittances, concluded that: “Significant marketing and financial literacy efforts are needed to introduce emerging remittance vehicles to low-income immigrants." I think that is very, very significant. So let me just throw out a question. Do you agree with that statement? And if so, do you have any ideas as to how we can approach and even achieve that? And I am talking about emerging remittance vehicles that can be introduced.

Mr. HINOJOSA-OJEDA. Well, I wanted to say one thing, Senator. I think that part of what is happening right now is, we need financial literacy on both sides of the equation, if you will, both among the immigrant communities and, frankly, among the banking communities. So, I think that part of the issue right now, we are in a very interesting period where new initiatives are just emerging, new products are in the process of being developed every day.

That is why I like the first account's approach. And maybe in the next round would be more focused on remittances, it could be a very useful thing where you would encourage the bringing together of particularly like the type of thing that we are trying to do—bring hometown associations who are very committed to this, who study this as much as I do, where we are putting together focus groups with the credit unions and teaching the credit union management as to what are the needs of the immigrant community.

This type of cross-fertilization to develop new products is I think the type of thing that right now is really needed and could be very useful. And then we have some really good products that could then distribute through Telemundo and Univision. They could be very useful in getting this type of word out.

But, frankly, we still do not have the products out. We need to get the banking community sitting with the clients and even beginning to understand that much more than we have, and take advantage of a lot of new technologies which are now available. All of this I think is really still uncovered territory.

Senator AKAKA. I am glad you are talking because I was going to ask you a question about globalization and public goods from below. Particularly, I was interested in the leadership of hometown associations. I do not know whether we will have time for comments on that, but I think that certainly leads into these new vehicles that can be for the future.

Mr. HINOJOSA-OJEDA. Very briefly, I would agree entirely with what Susan said, that the critical issue at this point is to bring in technical assistance to help this, what we are calling social capital, transnational social capital, to really become much more effective. And they are ready to do that.

We have set up what you are referring to as a grant from the MacArthur Foundation where we work with institutions in Mexico and Central America and in the United States to work with the networks on both sides of the border and provide them the technical assistance from local institutions. They can be an incredible vehicle and we have a lot to learn from them. They can be much more efficient.

Yes, I think that has to be part of the strategy. It is much more difficult to pull off. The biggest issue is the Inter-American Development Bank, for example, can lend or provide grants, but only on the Latin American side.

The U.S. Treasury has first accounts, but it can only do it on the United States side. Whereas, these are transnational networks. So the governments have to catch up in terms of how to provide this type of support in a collaborative fashion. Maybe something Treasury–IDB jointly in terms of making these types of transnational grants available for these partnerships, would make sense.

Senator AKAKA. Dr. Martin, do you have a thought?

Ms. MARTIN. Yes, on both points. I agree completely on the point on the training of financial institutions. We have had a grant over the last few years to develop best practices in financial institutions in dealing with immigrant homeownership issues because immigrants tend not to have credit ratings. They cannot afford the normal mortgage packages that are available.

We have been looking at ways to overcome some of those barriers so that immigrants can buy homes at a much higher rate. And that largely is a project that the Fannie Mae Foundation is funding that is aimed at the financial institutions themselves.

We are developing a training curriculum right now for them as to what are these best practices that other banks have been using in order to be able to interact. And almost all of the things that are in it are things that would also apply in terms of remittances.

It is the relationship with the immigrant community. Simple things like having some bilingual staff that can communicate with the new population. But it is also creating new, more affordable packages and creating the relationship with the consumers.

I think that is an extremely important component and something that this Committee could really be very helpful in terms of encouraging the financial institutions to be the recipient of this type of information because they do not even know often enough to know that they need it.

In terms again of the hometown associations, this is an extremely exciting area because it is a way that you actually have people-to-people development rather than imposing ideas from on top that this is the best strategy for building this dam or this major infrastructure development kind of thing.

Rather than having an imposed concept, this is really letting the people in these communities figure out what it is that they need for their economic development with assistance that you are both talking about.

I think it is a much more lively vehicle for making foreign aid actually work. I would love to see more matching from our end of these resources as a way to actually stimulate economic development. I think the money goes a lot further. It has a lot more community-level impact, much less likelihood of it being diverted into unnecessary purposes because the communities are actually taking control of it.

And I think what the IDB is doing right now is extremely valuable. As I mentioned, the Inter-American Foundation is also trying to support some of these activities.

The more that we can do as a Government to stimulate it, to support this type of development activity, I think that we can sell it to the American public that this is matching people's resources and it is not likely to be wasted and can really have a lot of bang for the bucks.

Senator AKAKA. Thank you very much, Mr. Chairman.

Chairman SARBANES. Let me ask just a couple of questions and then we will wind up.

Why doesn't some financial institution look at all of this and say, there is a lot of money involved here? The way it is all being done now, there is a considerable spread. We could come in there and we could do all of this at a lesser cost and still make a lot of money for ourselves. Why doesn't one of them pick up on that and say to the immigrant community in California, Chicago, wherever, where there is a sizable community, come to our institution. This is how we do it. We are going to benefit out of this. Why doesn't that happen?

Mr. OROZCO. I get at least one phone call a week from a bank, and like three phone calls from money-transfer agencies. They are all interested in it. Citibank is going to come up with something very powerful, apparently. VISA is also very interested, et cetera.

The issue is that it comes to the know-how. How are we going to market the product to this population group? We have the means, but we do not know how to do it.

I think this is what they are talking about, hometown associations can provide the linkage. Also, assistance organizations like immigrant rights groups that are the ones that definitely offer this kind of financial literacy programs, can link up with the private sector, with banks, in order to channel and educate them that that is the way they should go.

Definitely the potential is there and banks are interested. They just have not reached that second stage of getting involved in a liaison with an institution that can explain to them how to do it.

Chairman SARBANES. I was interested in the Spanish-Ecuador example. I wonder if any of you could submit to the Committee some models of how it is done elsewhere and how a system works that results in a higher percentage of the remittance passing through to the recipients, because I think Dr. Martin in particular pointed out that this is a worldwide phenomenon and a lot of other countries have significant immigrant populations that are engaged in sending remittances. And for all I know, they may do it somewhat differently and perhaps more successfully.

Mr. HINOJOSA-OJEDA. Well, this Ecuadoran situation is actually something that is being supported by the Inter-American Development Bank. They are actually doing another very interesting support for a Japanese-to-Brazil transfer. There are a couple of these.

The issue is not that the technology is not available or even that the techniques are not available. I think what is really significant here is that, from the U.S. banking point of view, I think that the problem that you mentioned, Senator, is one that these financial flows are only beginning to appear on their radar scope, and you would be surprised—I am surprised, anyway—at how slowly the bureaucracies have been in these institutions to figure out how to approach this problem.

We still have a long way to go because I think that if we see this as a quick-buck market opportunity that says, well, let's set up our own Western Union type operation, which, by the way, I agree with Susan Martin, is not an easy thing to do. They have spent a lot of money on the infrastructure to do that.

Chairman SARBANES. Yes, I think that is important, and I am glad that you mentioned that because it adds to the situation. It is a very complicated situation and I think your point is well taken, that they have all these outlets out there that provide for easy accessibility.

Mr. HINOJOSA-OJEDA. The key issue that the banks have to focus on, and actually, some of the small banks in Central America, because it is a much bigger business of theirs, have actually thought about this, is what we are really talking about here is life-cycle financing for the migrant stream that starts with remittances, but people then eventually have a great deal of other financial services needs that they are going to be evolving into over time.

It is that broader perspective which is the market where banks come in. They do not set up banking institutions in the United States just to do check cashing. They want to be providing a whole range of financial services.

What I think that people are only now beginning to understand is that there is a demand for this broader range of financial services, as I was trying to suggest, for investment, for insurance, and that we are only scratching the surface when we are saying money wire transfer. That is only one part of this business of what is going to be growing into the future. And to the extent that the banks get interested in that, then that is where the investment comes in, which I think, frankly, we in North America set up a very poor path of the development of remittances through this check cashing operation and wire transfers.

A lot of money was spent on that infrastructure. But if you look at how other countries did it, they went directly to some type of credit unions or some types of banking institutions directly investing for the long term in those populations, and we ended up with much more efficient institutions in other parts of the world than in North America, which I think we ended up with a very expensive, bloated and, in the end, something that is not really very efficient for the long term needs of either the sending or receiving communities.

Chairman SARBANES. I have one question on the hometown associations and that type of investment. It is a complicating factor. Suppose someone said to AID, well, you should gear your aid programs to these hometown associations because you will get a match. You will get some leverage. You will have community interest. Presumably, they best judge what the local community needs, although I guess that could be argued.

But what does it do to an overall development strategy? And to what extent does it skew where the development goes? So if you have a good hometown association who has some people over here in this country who want to put it together, they want to send money back and everything. Then your government policy moves in the direction of matching that. What happens to all those communities that do not have hometown associations which may, in fact, be in greater need of the development program?

Ms. MARTIN. I was by no means suggesting that it is a substitute for other forms of development aid. I think it can be a complement to that aid.

In giving other countries as examples, the French government has established a new agency that they refer to as the codevelopment agency, the agency for codevelopment. And what they mean by it is that it is French funds matching migrant resources to help in development.

It is one component of development. It is not a substitute for other ways in which they interact. But there are annual consultations between the French government and, for example, the Malian government, to talk about what are the various development needs in the particular regions that have produced large-scale immigration to France.

Then they have discussions with the hometown associations in Paris and elsewhere with regard to their interests. And they try to combine their support in a way that addresses the needs that the government has identified, but also works with the local communities in France to do it.

It is an evolving model. There are some weaknesses to it. It is not something that you would just apply. But I think that there is a lot of thinking going on now as to how international development agencies can work with the remittance streams to promote development, again, not as a substitute, but as a complement to other development activities. Overall, we spend so little money on foreign aid and economic development, that I think we should be adding on, certainly not substituting.

Mr. HINOJOSA-OJEDA. The hometown associations understand exactly your point, Senator, so now the real term is going beyond the specific hometown associations. We have created federations in California and nationally that are now federations of hometown associations for the State of Ohaka.

They are now beginning to look at the regional issue and, in fact, pooling resources precisely for these types of things where the decision of where the money goes is becoming more sophisticated. It is not only tied to make sure that my family benefits, but also there is a need that people are recognizing that there is a regional issue.

But the key thing here is keeping it very close to the ground, people who understand the problematic and who have come out of that problematic, getting them involved. That is what everybody says is crucial in the development aid game. Here we have them living, our constituents, in the United States. It is an incredible resource to be able to work with them.

Chairman SARBANES. Does anyone want to add anything?

Mr. BENDIXEN. Very quickly, one of the fascinating things about the Latin American immigrant in the United States, for good or for bad, they do not believe in the melting pot theory. They are hanging onto their language, to their culture, to their sports. And because of that, you would be amazed at the breadth and the reach of these community organizations, these municipal organizations. Almost every community from Latin America is represented by one of them. So your question about whether some people would be left out, not a lot would be left out. They are tremendously well organized. It is one of the ways that they hang onto their culture.

Chairman SARBANES. Well, this has been a very helpful panel. I think it is important to get some appreciation of the dimensions of this issue. Some of those figures that have been produced here are absolutely staggering, the total amount, how much it represents in the GNP of particular countries. The amount of flows are really quite large, indeed. And as Dr. Martin points out, when you compare it with our aid flows, the aid flows——

Mr. OROZCO. There is no comparison.

Chairman SARBANES. Yes. They just pale into insignificance.

Thank you very much. You have been a very good panel.

Mr. OROZCO. Thank you.

Mr. BENDIXEN. Thank you.

Ms. MARTIN. Thank you.

Chairman SARBANES. The hearing stands adjourned.

[Whereupon, at 12:15 p.m., the hearing was adjourned.]

[Prepared statements for the record follow:]

## PREPARED STATEMENT OF SENATOR PAUL S. SARBANES

Today the Committee returns to the question of financial literacy, which was the focus of 2 days of hearings earlier this month, and takes up the issue of remittances. Remittances are the payments sent home from workers, generally immigrants, living in the United States to family, friends, and communities in their country of origin. Those sending remittances, remittors, are often subject to exorbitant costs; if remittors had more financial education they would be able to send remittances at a fraction of the costs they currently pay.

The particular focus of our discussion today will be the findings of three recent studies. One, conducted by Sergio Bendixen of Bendixen and Associates, entitled "Survey of Remittances Senders: United States to Latin America," was based on interviews of Latino immigrants, conducted in November–December of last year. The other, entitled "Attracting Remittances: Market, Money and Reduced Costs" and "Enabling Environments? Facing a Spontaneous or Incubating Stage" were commissioned by the Multilateral Investment Fund of the Inter-American Development Bank (IDB) and were prepared by Dr. Manuel Orozco in connection with this weeks IDB's conference week on the subject of remittances. These reports are just now being released, and we are very pleased to have Dr. Orozco among our witnesses.

We will begin by hearing from Representative Luis Gutierrez, whose long-standing concerns about the remittance market are reflected in his bill requiring full disclosure of all costs to sending a remittance, and we will conclude our discussion with two distinguished academics who are experts in the field: Dr. Susan Martin, Executive Director of the Institute for the Study of International Migration at Georgetown University, and Dr. Raul Hinojosa-Ojeda, the founding research director of the North American Integration and Development Center at UCLA.

Immigrants to the United States have traditionally sent financial assistance in the form of remittances to family members who remained in their country of origin. Until recently, however, the phenomenon has not been systematically studied and its implications have not been fully realized.

The 2000 census shows that 30 million people in this country are foreign born, the most in our Nation's history. More than 40 percent immigrated in the 1990's. The vast majority—22 million—are citizens or legal residents.

They make a vital and integral contribution to the Nation's economic and social structures. Some 15.4 million immigrants, accounting for more than half of the immigrant community, come from Latin American countries. The 2000 census shows that the Hispanic population of the United States stood at something over 32 million, representing 12 percent of the U.S. population.

As the population has grown, the volume of remittances has increased dramatically. It is estimated that over $20 billion is remitted annually from the United States to Latin America, and there are substantial remittances to other areas of the globe as well, notably the Philippines. The rapidly expanding market has enormous significance, both to remittors in the United States and recipients abroad. To cite just a few examples: the value of remittances far exceeds United States official development assistance to all of Latin America; and in five countries—El Salvador, Haiti, Jamaica, Nicaragua and Ecuador—it represents more than 10 percent of GDP. In Mexico, which in 2001 received an estimated $9.2 billion in remittances—making it by far the largest recipient country—the dollar value of remittances exceeded both agriculture and tourism revenues.

Our focus today, however, is the domestic aspect of the remittance market. We will consider the market from a remittor's and also an institutional perspective, and we will do so against the background of the testimony presented at our earlier hearings on financial literacy. Remittors tend to be low wage earners, with modest formal education and relatively little experience in dealing with this country's complex system of financial institutions. Like all people who must make important financial decisions about limited resources, remittors must have the financial literacy that enables them to grasp the crucial details of their transactions. But that requires that they be fully informed about the options available to them for sending money home—what fees are charged, what exchange rate is offered, what alternative remittance methods are available, and what percentage of the money sent will actually be received. In a $20 billion market, the IDB estimated between $3 to $4 billion was lost in fees and other transaction costs.

The reports before us review those options, examine trends in the market and review transaction fee structures. There is recent evidence showing that fees have declined somewhat as the market has expanded, and this is certainly an encouraging development. But there is clearly much to be done. This is one of the important questions we look forward to reviewing with our witnesses, to whom we now turn.

## PREPARED STATEMENT OF LUIS V. GUTIERREZ

A U.S. REPRESENTATIVE IN CONGRESS

FROM THE STATE OF ILLINOIS

FEBRUARY 28, 2002

Good morning, Chairman Sarbanes and Members of the Committee. It is with great pleasure that I appear before this Committee today to share my views on an issue that has been among my top legislative priorities during my tenure in the Congress: Protecting consumers from hideous—and often hidden—practices in the international money transmitting business.

Currently, approximately 28 million foreign-born live in the United States, the majority of whom are making enormous contributions to America's stability and security, economic and otherwise. These people came here seeking a better life and—through their hard work, their wages and, I should add, their taxes—these people are making better lives for all of us in America. At the same time, they are also working to make life better for people in their home countries, for relatives who use that money for basic necessities such as food and shelter—often in times of crisis.

During the past 20 years, remittances to Latin American countries have increased not only in volume, but also as a share of national income and total imports. This year, approximately $9 billion will be sent to Mexico via remittances, representing Mexico's third largest form of foreign income. However, such transfers are costly due to a range of fees, many of which are hidden.

Wire transfer companies aggressively target audiences in immigrant communities with ads promising low rates for international transfers. However, such promises are grossly misleading, particularly for those with ties to Mexico or other Latin American countries, since companies do not always clearly disclose extra fees charges for converting dollars into local currency.

While large wire service companies typically obtain foreign currency at bulk bargain rates, they charge a significant conversion fee to their customers in the United States. The exchange rate charged to customers sending United States dollars to Mexico routinely varies from the rate set by the Banco de Mexico by as much as 15 percent. The profits from these "currency conversion fees" are staggering, allowing companies to reap millions of dollars more than they make from service fees.

This is why I introduced H.R. 1306, the Wire Transfer Fairness and Disclosure Act, a bill that currently has the support of 70 members. Through the enactment of this bill, we could ensure that each customer who solicits an electronic wire transmission of money is fully informed of all commissions and fees charged on all transactions, and has clearly been quoted the exact rate of exchange available to them.

This bill requires full disclosure of all fees involved in any transaction of money wiring services, including the exchange rate being offered by the company wiring the money. The disclosure shall be made public and posted in all windows and exterior and interior signs, as well as in all advertising. Finally, the bill will also require companies operating and offering money wiring services to present each customer with a receipt for each transaction, clearly stating the rate of exchange rate being offered by the company.

During 2000, Latin American and Caribbean countries received about $20 billion in remittances from their family members working abroad. Those $20 billion were sent through 80 million separate transactions, each one charging exorbitant amounts in transaction and conversion fees. In half of these countries, remittances represent more than 10 percent of the GDP.

The money sent out to the families abroad was money earned through hours upon hours of hard work. It was saved with a great deal of sacrifice by mostly low-income taxpayers of the United States. Their efforts are compensated by seeing that the money they send to their relatives somehow alleviates some of the immediate financial needs of their relatives.

On average, Latin American migrants wire home around $250 a month. Depending on the cost of the service they use, their relatives may receive as little as $200. For those living abroad, this money is vital to help pay for food, housing, education, to start new businesses, and save for the future. This will enrich communities in other countries, creating a steady income and jobs for people who might otherwise migrate to the United States to find work.

But a sizable portion of these savings never make it from the United States to these countries. Instead, it is claimed as fees—most in the form of punishing exchange rates—that remittance services levy on immigrants who wire money. Mexico, for instance, which receives more than a third of the remittances from the United

States, or many other developing countries rely on wire transfers from abroad as a key source of domestic income.

These remittance's fees made through wire transfer companies can sometimes reach 30 percent, excluding the amount loss through the exchange rates. Remittances create dependence and deepened income inequality. Most customers, though, have no alternative. Few have bank accounts. Immigrants that use banks or credit unions to transfer their money benefit from lower wages.

One's inability to enter the banking system results in a higher cost of borrowing, a lack of access to home mortgages and other basic services, and a range of problems. Without access to banking services, the unbanked are forced to turn to payday lenders and check cashing vendors, who in most cases, charge outrageous fees for services.

Most remittance companies advertise low service fees for international transfers—but that cost can double because of hidden fees, charged when dollars are converted to foreign currency at poor exchange rates. For instance, let's say it costs about 12 cents to buy a Mexican peso. The wire transfer companies, however, charge their customers as much as a penny more for that same peso. The difference, called the foreign exchange spread, is pocketed by the companies. With enough transactions, the money starts adding up.

The two biggest companies who offer wire transfers claim almost 90 percent of the $41 billion a year in money transfer business. Fueling the profits are hefty fees paid by some of the country's lowest-paid workers. The vast majority are immigrants who send money back home to families they have left behind. And it truly costs them dearly. Using one of the two biggest wire transfer services to send $300 from the United States to Mexico, for example costs $41—which is more than a day's pay at minimum wage. It is important to note that the same transaction done through the International Remittance Network (Irnet), which is an electronic funds transfer service for credit union members, costs only $14.

Currently, Wells Fargo, First Bank of the Americas, credit unions, and other financial institutions offer programs to help more immigrants become part of the banking system. By accepting identification cards issued by the Mexican consulate, these institutions are helping thousands of people around the Nation who would be forced to turn to payday lenders and check-cashing vendors, who in most cases, charge outrageous fees for services. At the same time, it protects the unbanked from being targets of crime, robberies, and other abuses.

Finally, we must not forget that by helping consumers from being targets of hidden and excessive fees charged by money transmitting businesses, we are helping them save some cash that could then be used by them as a source for investment and future savings.

Thank you, again, Mr. Chairman, for giving me this great opportunity to be here today. I welcome any questions you and the other Members may have.

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## PREPARED STATEMENT OF SERGIO BENDIXEN

PRESIDENT, BENDIXEN & ASSOCIATES

FEBRUARY 28, 2002

Thank you, Mr. Chairman, for the opportunity to testify this morning on an issue that is of great importance not only to millions of Hispanic immigrants in the United States but also to the economies of most Latin American nations.

My name is Sergio Bendixen. I own a public opinion research company based in Miami, Florida that specializes in polling Latinos in the United States. I have 20 years of experience in the field. I was retained last year by the Multilateral Investment Fund of the Inter-American Development Bank to conduct a national survey of Latin American immigrants residing in the United States on the subject of cash remittances to their home countries.

### Poll Methodology

One thousand respondents were interviewed by telephone during November and December 2001. They were all Latin American immigrant adults residing in the United States with family in their home countries. Even though a large majority of the poll respondents were from Mexico, immigrants from 17 other countries in South America, Central America, and the Caribbean also participated in the study. The margin of error for the full sample of the study is approximately 3 percentage points. *It should also be emphasized that a special effort was made to simplify and pretest the polling instrument so that immigrants with little formal education clearly understood each question.* More than 90 percent of the interviews were conducted in Spanish.

**Major Findings**

1. *A large plurality of Latin American immigrants belong to the lowest socioeconomic group in our society.* Our poll indicates that 41 percent of our representative sample has a pretax annual family income of less than $20,000. Another 23 percent has an annual income between $20,000 and $30,000. Only 21 percent can be considered to belong to the middle class with an annual income above $30,000. The remaining 15 percent did not answer the poll's income question. The educational level of Latin American immigrants is also low. Forty percent have not completed high school and only 10 percent are college graduates. These immigrants work mostly in minimum wage jobs and receive few benefits from their employers. They work in the least attractive and most menial jobs as hotel maids, parking attendants, restaurant busboys, agricultural workers, etc. *Latin American immigrants are some of the hardest workers in our society; yet receive some of the lowest wages.*

2. *Sixty-nine percent of all Hispanic immigrants send money to their family in Latin America according to our study.* Even though census numbers are somewhat inaccurate for this population, we calculate that there are 10 million Hispanic immigrants in the United States that are involved in the cash remittance process. It is important to note that the younger immigrants (18 to 34 years of age) and those from the lowest socioeconomic group (annual income below $20,000) are much more likely to send cash remittances than older immigrants or those that have achieved middle-class status. *The study also reveals that the average Latin American immigrant sends cash remittances to his family seven times a year.* Moreover, 44 percent told our interviewers that they send money to Latin America every month. And as we all know, this is not a new economic phenomenon. Fifty-four percent of our sample reported that they had been sending money to their home countries for more than 5 years. *Finally, our poll indicates that the average cash remittance is approximately $200.* Our study's estimate of the total annual amount of cash sent by Latin American immigrants to their families is $15 billion.

3. *The largest segment of the Latino immigrant community—41 percent utilizes the best-known international money transfer companies—Western Union and MoneyGram—to send cash remittances to their countries of origin.* Another 29 percent use the smaller money transfer companies or couriers that specialize in deliveries to Latin America. Many also send their cash with friends or family members traveling back home. Only 20 percent utilize the more traditional financial institutions—banks and credit unions—to send money to Latin America. Ten percent of our sample did not answer this poll question. It is also important to note that most of the poll respondents accurately answered that the transfer fee paid in the United States to Western Union or MoneyGram to send $200 to Latin America is between $15 and $20. *The study also reveals that immigrants that use banks or credit unions for their money transfers benefit from lower fees.* This group reports spending less than $10 to send $200 to Latin America through their bank or credit union.

4. *An overwhelming majority of Hispanic immigrants are unaware that their families in Latin America receive less money than what they send from the United States.* About two-thirds of them are ignorant of the additional commissions and fees charged and of the lower exchange rates used in Latin America that result in their family's receiving a lesser amount of money than what they send to them. Fifty-eight percent told our interviewers that their family receives the full amount sent from the United States. Another 9 percent said that they do not know whether their family receives the full amount or less. Only 33 percent of Latino immigrants seem to be aware of the extra charges that are discounted from their cash remittances to Latin America. Mexican immigrants are the only group that is somewhat well informed on this issue. Forty-eight percent are aware that their family receives a lesser amount. But more than 90 percent of South Americans, Central Americans, and Dominicans are ignorant about the "exit charges." *When these immigrants were informed that besides a fee paid in the United States, international money transfer companies often provide unfavorable exchange rates or discount additional commissions or charges in Latin America, a large majority of them felt that the fees paid for the service are excessive and unfair.*

5. *Only 56 percent of all Latin American immigrants in the United States have a bank account.* Even though this rate compares favorably to rates in Latin American countries (about 20 percent have bank accounts), it is considerably smaller than the rate for the general population of the United States (over 80 percent). The

percentage with bank accounts shrinks to 46 percent for immigrants that are not U.S. citizens, to 38 percent for those with annual incomes below $20,000 and to 32 percent for Latino immigrants between the ages of 18 to 24. It is important to remember that these are the immigrant demographic groups that are most heavily involved in the cash remittance process. Latino immigrants mention that the main reasons they do not have a bank account are: "Do not have proper documents." "The process is too complicated." and "Do not speak English."

**Recommendations**

1. Full disclosure. Latin American immigrants should be informed accurately about the full cost of transferring money and of the services provided by the international money transfer companies. This should be done in a way that is easy to understand for a population that does not have a high educational level. Full disclosure should unleash market forces that, hopefully, will result in a significant reduction in the cost of sending cash remittances to Latin America through international money transfer companies. *It is unconscionable that the poorest of the working poor in our society—most of them making less than $300 per week—are paying approximately a 12.5 percent surcharge every time the send money to their family in Latin America.*

2. The banking community of the United States should seriously consider funding a massive public relations campaign to inform the Latino immigrant community of the benefits of opening a bank account—including the significant savings in the cost of money transfers to their home countries. The banking industry should also study and consider reforming some of the "process" issues that make Latino immigrants reluctant to open a bank account in the United States.

Mr. Chairman, that concludes my testimony and I would be happy to respond to any of the Committee's questions.

Thank you very much.

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**PREPARED STATEMENT OF MANUEL OROZCO, PhD**

PROJECT DIRECTOR FOR CENTRAL AMERICA
INTER–AMERICAN DIALOGUE

FEBRUARY 28, 2002

**Introduction**

Like other people, Latin American immigrants have and fulfill family obligations. One important duty is provide a financial assistance to their relatives in their country of origin. Therefore, using a money transfer mechanism is vital to immigrants. However, for these immigrants and for the Latin American remittance recipient relatives, money transfer charges as well as exchange rate differentials generally continue to be very high, seriously constraining how much support immigrants can offer their families.

Fees charged and exchange rates incurred to send and receive remittances can add up to 15 percent of the amount sent. It is in the interest of nations and families receiving remittances to increase the quantity and flow of remittance monies. Increases can be achieved in part by reducing the share lost to transaction costs, and in part by increasing the gross flow of migrant remittances and investments.

Competition among both existing financial service companies and potential new remittance transfer entrepreneurs needs stimulating. Greater competition lowers prices and increases 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. More importantly, remittances can serve as an instrument to incorporate migrants into the financial and banking system.

**Background**

The majority of Latin American immigrants residing in the United States, honor a commitment to their families and communities by sending them remittances. Latino immigrants who earn less than $25,000 a year tend to send somewhere around $200 a month, that is, nearly 10 percent of their income. Thus, the cost of remitting money is of great significance to migrants. Moreover, money recipients, who are generally families earning below average incomes, also value the remittance they receive and are affected by any cost incurred through unfavorable exchange rates.

Today's total remittances from the United States to Mexico, Central America, and the Caribbean are estimated to be at least $15 billion annually. In comparative terms, remittances tend to be more than 10 times greater than United States foreign aid to these countries; they are equivalent to 5 percent of Mexico's exports, 70 percent of El Salvador's exports and nearly one quarter of Nicaragua's national income. El Salvador, the Dominican Republic, Jamaica, and Guatemala are among the major remittance recipients in the Caribbean Basin. In 2001, the combined amounts remitted to these four nations added up to over $5 billion, which is equivalent to 50 percent of those countries' trade through the Caribbean Basin Initiative.

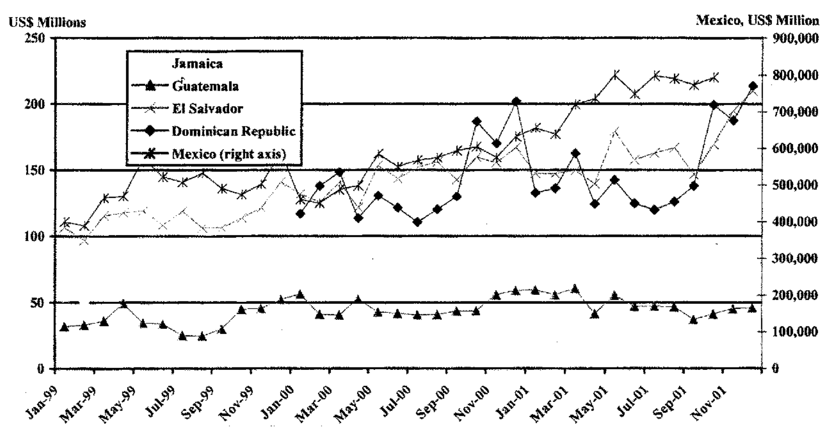
**Table 1. Remittances to Latin America, 2001**

| Country | Remittances (in dollars) | As percent of GDP | As percent of exports |
|---|---|---|---|
| Colombia | 600,000,000 | | |
| Cuba | 800,000,000* | 5 | 40 |
| Dominican Republic | 1,807,000,000 | 10 | 27 |
| El Salvador | 1,972,000,000 | 17 | 60 |
| Guatemala | 584,000,000 | 5 | 16 |
| Honduras | 400,000,000 | 7.5 | 17 |
| Mexico | 9,273,747,000 | 1.7 | 6.5 |
| Nicaragua | 600,000,000 | 22 | 80 |
| Jamaica | 959,200,000 | 15 | 30 |
| Ecuador | 1,400,000,000 | 9 | 20 |
| Total | 18,295,947,000 | | |

Source: Central Banks of each country except for Cuba (ECLAC), Colombia (World Bank) Ecuador (*The Economist,* January 2002), Nicaragua (author's estimates). *Data for 1999.

Remittances continue to flow to Latin America without showing signs of decline. As Figure 1 shows, monthly flows of remittances in selected countries have continued an escalating trend in the past 3 years. Within this context, governments and businesses are important agents in stimulating the flow of remittances. Businesses sell services facilitating the transfer of remittance funds, but transfer charges to consumers continue to vary.

Figure 1. Remittances to Five Latin American Countries, Jan. 99-Dec. 2001




## Reducing Charges on Sending Remittances

The players within the remittance industry constitute a crucial piece in the puzzle of economic development. This testimony is based on a report that analyzed more than 70 money transfer companies. Data gathering was conducted to estimate fees charged, exchange rates used, services offered, and types of distribution networks in place. Money-remitting companies in nine different countries were studied, but central focus was placed on four countries: Guatemala, El Salvador, the Dominican

Republic, and Jamaica. The other countries that were analyzed were: Mexico, Haití, Colombia, Nicaragua, and Cuba.

This report's findings show that:

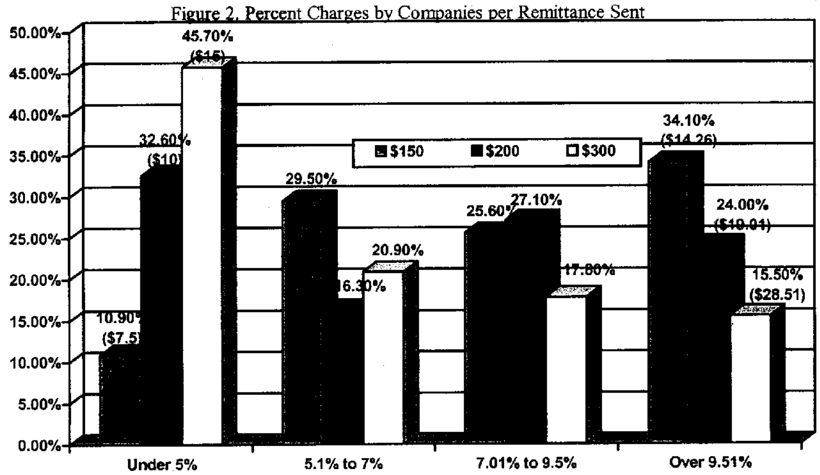
- In the past 3 years, charges have declined significantly in some countries.
- Transfer costs incurred by customers range from $7 to $26 for sending $200.
- Fee charges decrease with competition. Remitters to Mexico, El Salvador, and Guatemala charge lower fees than companies sending money to Jamaica and the Dominican Republic. For countries, like Cuba or Haití, where there are more market restrictions, charges are higher.
- Distribution networks demanding lower commissions tend to promote the decline in charges. The use of electronic interfaces also helps in reducing costs.
- A growing number of companies offer money transfers in dollars. This practice does not guarantee that received remittances will be not involve disadvantageous exchange rate charges as banks can sell dollars at adverse exchange rates. (This topic requires further study and is beyond the scope of this report.)
- Banks, credit unions, and credit and savings cooperatives are increasingly opening money transfer franchises and are offering some of the lowest charges at about $9. However, these institutions continue to have a small and limited reach. In some cases, the home country distribution networks are not well established within the credit union system.

*Transfer Charges: Changes and Challenges*

Perhaps one of the most significant changes in the remittance market is the decline in transfer costs. Three years ago the cost of sending remittances to different Latin American countries averaged about 15 percent of the amount sent. Those transfer costs have now declined. In 1999, for example, Western Union charged $22 for transferring up to $200. By 2001 that charge was dropped to $15.

Although there is a relative decline in the price for customers, fees plus the exchange rate applied to the amount received in local currency still show a wide range in prices. For example, immigrants pay from $6 to $26 to send $200. Figure 2 demonstrates the wide fee range incurred by senders and recipients. One important aspect appearing in Figure 2 is price elasticity. Remittance charges decline with volume sent, and particularly observed in charges for amounts ranging from $150 to $300. This finding is important as it shows that prices tend to decline when customers send greater amounts; only 15 percent of companies charge over 9.5 percent for $300. However, the majority of customers send less than $200 a month in remittances and therefore do not enjoy the benefits of price elasticity in the $300 amount (See Table 2). This means that the majority of senders tend to pay over $15 in fees. Table 3 shows the fee per amount sent.

Figure 2. Percent Charges by Companies per Remittance Sent



### Table 2. Percent Distribution of Remittances Sent by Immigrants

| Amount sent | Percent of senders |
|---|---|
| Up to $150 | 42.2 |
| $151 to $250 | 22.4 (22% sends $200) |
| $251 to $300 | 17.0 |
| Over $300 | 18.4 |

Source: IADB Survey on remittances.

### Table 3. Fees Charged on Amount Sent

| Amount | Fee Charge Scale: Over $15 (percent) | Between $10.01 and $15.00 (percent) | Under $10.00 (percent) | Total (percent) |
|---|---|---|---|---|
| $150.00 | 24.8 | 37.2 | 38.0 | 100.0 |
| $200.00 | 35.7 | 31.8 | 32.6 | 100.0 |
| $300.00 | 54.3 | 24.8 | 20.9 | 100.0 |
| | 38.2 | 31.3 | 30.5 | 100.0 |

Source: Data compiled by the author.

These charges represent a significant cost to clients in the money transfer industry, where senders tend to be relatively poor Latin American immigrants, for at least three reasons. First, Latino immigrants are generally low-income people. According to the U.S. Census nearly 33 percent of Latino (or Hispanic) households earn less than $20,000 a year. Second, about 46 percent of Latin American immigrants are not incorporated into the financial systems through banks. About two-thirds of immigrants cash their salary checks in check-cashing stores that charge exorbitant fees. Many of these same immigrants then use what remains of their income to send remittances back home. In this common scenario, immigrants are penalized in both receiving and sending their earnings. Third, the real cost of sending money is not higher than $6. This means that costs of receiving and sending income remains a challenge to the majority of immigrant remittance senders.

### Table 4. Household Income by Race

| Group | Household Income: Under $20,000 (percent) | Between $20,001 and $35,000 (percent) | Over 35,000 (percent) |
|---|---|---|---|
| Hispanic/Latino | 32.5 | 24.9 | 43.0 |
| Non-Hispanic White | 11.3 | 16.6 | 72.1 |

Source: U.S. Census Bureau, CPS March 2000.

The companies that charge above 9.5 percent tend to have a significant market share in the recipient countries. Specifically, while only 24 percent of companies charge fees above 9.5 percent of the principal, they have the largest market share. Therefore, these fees affect a larger number of immigrants. According to the IADB survey on remittances, 41 percent of senders used Western Union and MoneyGram.

**Table 5. Remittance Companies Charging Over $15 on $200 Remittance**

| Charge | Company |
|---|---|
| Over $20 ........................... | Uno Money Transfers; Ria Finance Service; CAM; Caribbean Airmail; Grace Kennedy Remittance Services/Western Union (Jamaica) Western Union; Vimenca/Western Union (D.R.); Remesa Agil; RIA Express; BPD International (D.R.); Jamaica Air Express Couriers; Paymaster/MoneyGram (Jamaica). |
| Between $17.51 and $19.99. | MoneyGram; La Nacional/Caribe Express (D.R.); Mateo Express (D.R.); Pronto Envio; Quisqueyana (D.R.); Gigante Express (home delivery) (ELS, GUA); Girosol; Jamaica National Overseas; King Express (to the Interior). |
| Between $15 and $17.50 .. | (GUA); MoneyGram—Bancomer (MX); Rapid Remittance/Vigo (MX); Ria Enviaw/Banco Mex (MX); Ria Enviaw/telegrafo (MX); ServiMex (MX). |

*Country Differences*

The price of sending remittances varies significantly from one recipient country to another, and the level of market competition for sending money to a specific country serves as a key determinant of that country's average price range. When the results are disaggregated by country, the price of sending ranges from $7 to $26. Mexico is the country with the lowest fees among the nine countries studied. It is also the country with the greatest market choices for customers. The competition in Mexico ranges from small businesses to large corporations. Significantly, among the reasons for expanded competition is the entrance of the banking industry into the remittance market. Bancomer, Banamax, and Bancomex are major competitors in the industry, offering direct money transfer services (like remittance agencies) and/or working jointly with money transfer companies such as MoneyGram and Ria Envia. The major competitor, Western Union, has gradually lost its market share in Mexico due to the entrance of many new competitors. The competitive market may make it more difficult for remittance companies to survive. As prices have gone down in Mexico, many companies have been unable to stay in the competition.

Following Mexico is El Salvador, which also exhibits greater competition and is the second largest remittance recipient in the Hemisphere. While Western Union remains a dominant player for El Salvador with about 15–20 percent of market share, it also has to compete with other companies. Its first major competitor is Gigante Express, a courier company that mostly sells and sends money orders, and which has also nearly a quarter of the market share. Second, competition exists with commercial banks. BanSol, BanComercio, Banco Agrícola, and Banco Cuscatlán operate in the United States as money transfer agencies and compete with Western Union and Gigante Express. Banco Agrícola, the largest bank in El Salvador, has about 10 percent market share. The bank offices in Los Angeles transfer nearly $200 million a year. BanComercio has almost the same market share as Banco Agrícola.

The Dominican Republic has more than 15 well-established companies remitting from the United States. These companies are grouped into a conglomerate through an association named the Associación Dominicana de Empresas Remesadoras de Divisas, Inc. The members of this association generally have similar prices. As Table 8 shows, remittances to the Domincan Republic tend to have relatively higher prices than other countries with similar characteristics (high volume, significant competition, and immigrant demographic concentration). These companies generally offer two kinds of charges: $8+5 percent (when sending in dollars) and $5+5 percent (when sending in local currency) of the amount sent. Remittance companies in the Dominican Republic usually offer a home delivery service as part of their fees. In other countries, home delivery generally incurs an extra dollar fee. The Asociación claims that their charges offset price fluctuation. This claim is bolstered by the fact that the standard deviation of the fees is the lowest among the different countries studied, that is, $3.7. In other countries the standard deviation is over $5, except for Mexico.

In Jamaica, money transfers also tend to be more expensive. Western Union, through its arrangement with the local firm Grace Kennedy, controls the majority of Jamaica's remittance market. With about 200,000 transfers a month coming from the United States, Grace Kennedy, manages somewhere between 65 percent and 70 percent of the market share. Another competitor with operations in the United Kingdom and the United States is Jamaica National Overseas, which is part of Jamaica National Building Society. In 2001, Jamaica National Overseas transferred $95 million from the United States, which amounts to 10 percent of the market share. These results show that there are differences among countries for the charges to transfer money. Competition among remittance sending companies is a key variable explaining the country differences. However, there may also be other factors involved, such as the type of institution participating in the money transfer process or the technologies employed.

*Difference Between Sending In Local and Foreign Currency and Exchange Rate Issues*

Charges vary depending on whether money is sent in local or foreign currency. Money transfer institutions tend to charge more when the amount is sent in U.S. dollars (as the company loses the ability to profit with the foreign exchange). Conversely, if the money is sent in local currency at lower fees, the recipient loses a percentage of the remittance in the foreign exchange rates.

**Table 6. Fee Charged and Type of Currency**

| | Fee Charge Scale | | | |
|---|---|---|---|---|
| | Over $15 (percent) | Between $10.01 and $15.00 (percent) | Under $10.00 (percent) | Total (percent) |
| Local currency | 22.6 | 49.1 | 28.3 | 100 |
| Dollars | 56.3 | 18.8 | 25.0 | 100 |
| Dollars | 56.3 | 18.8 | 25.0 | 100 |
| Did not want to provide an answer | 28.6 | | 71.4 | 100 |
| Did not want to provide an answer | 28.6 | | 71.4 | 100 |
| Money Order | 33.3 | 66.7 | | 100 |
| Money Order | 33.3 | 66.7 | | 100 |
| | 37.7 | 34.2 | 28.1 | 100 |
| | 37.7 | 34.2 | 28.1 | 100 |

According to company officials in different countries and businesses, most remitters request the money be sent in the country's local currency. Because of the exchange rate losses, remittance recipients' relatives receive less than the (monthly average) $200 that is sent to them. On average, recipients lose nearly $60 a year from the unfavorable exchange rates. Since the average household income for Central American and Caribbean families is below $200 a month, the price of sending and receiving remittances amounts to more than an additional month's income.

**Table 7. Average Fees Charged to Send $200**

| Country | Local C. | Dollars |
|---|---|---|
| Mexico | $11.60 | NA |
| El Salvador | $15.06 | Same |
| Guatemala | $15.17 | $18.00 |
| Dominican Republic | $17.56 | $19.50 |
| Nicaragua | $18.71 | Same |
| Haití | $20.60 | $21.00 |
| Colombia | $16.67 | Same |
| Jamaica | $19.25 | NA |
| Cuba | $25.58 | NA |

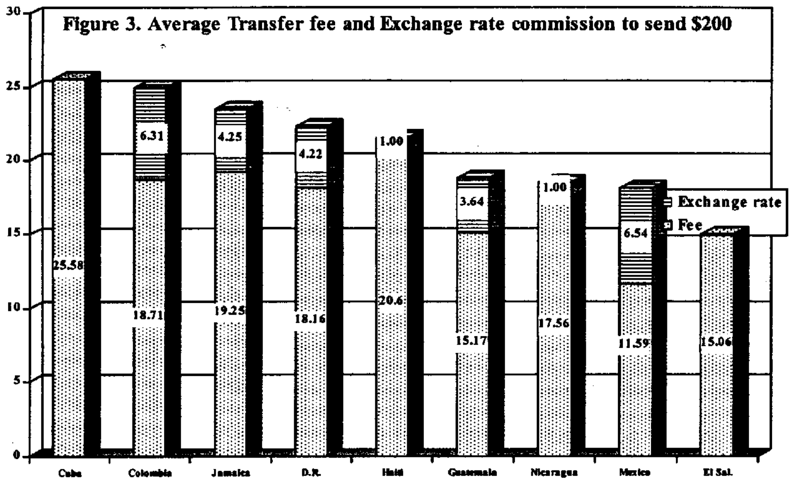


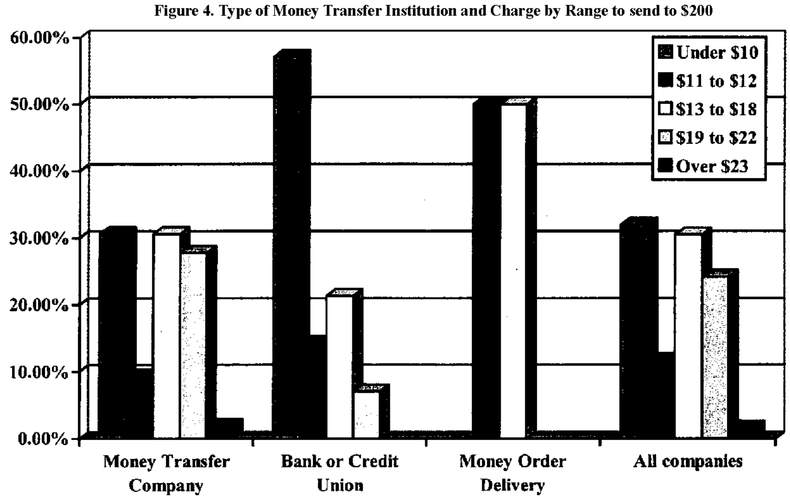

**Figure 3. Average Transfer fee and Exchange rate commission to send $200**

*Remitting Institutions*

Despite average prices of over 8 percent of the amount sent plus over 2 percent in the exchange rate applied, there are some businesses that offer lower priced transfers (i.e., 4 percent of a $200 remittance). Banks, for example, tend to charge less than $10 for transfers, whereas money transfer companies charge more. Nearly 60 percent of banks but only 30 percent of money transfer companies charged $9 or $10 for any transaction under $200 (See Figure 4). These companies tend to be located in El Salvador, Mexico, and Guatemala, the most competitive markets.

There are numerous reasons why banks offer lower charges. The home country offices of banks involved directly in money transmission: (a) are generally the largest banks in the country, (b) have the capacity to acquire capital upfront to back the outflow of transactions, (c) have an already-existing distribution network, (d) are better known by the sending clientele, and (e) concentrate on attracting volume from demographically concentrated areas where migrants of the bank's country reside. Smaller players such as money transfer companies often have to find an investment partner as well as banking or other financial institutions to arrange distribution schemes and are therefore likely to incur extra costs.

**Figure 4. Type of Money Transfer Institution and Charge by Range to send to $200**



Nevertheless, the availability of banking institutions involved in money transfers is limited and in most cases banks do not provide an inexpensive service, merely a cheaper one. In addition, banks often respond to the presence or absence of competition, and do not necessarily offer a lower fee service. For example, Jamaica and the Dominican Republic have banking institutions with branches operating as money transfer companies in the United States. However, their charges are not necessarily lower than the other nonbanking institutions remitting to these countries (See Table 8).

**Table 8. Financial Institution Charging Less Than $10 for a $200 Remittance**

**[as percent of total charges]**

| Country | Money Transfer Company | | Bank of CU | |
|---|---|---|---|---|
| | Under $10 | Above $10 | Under $10 | Above $10 |
| Colombia | 25 | 75.00 | NA | |
| Cuba | | | NA | |
| Dominican Republic | 8 | 92.00 | | |
| El Salvador | 27.27 | 73.73 | 75 | |
| Guatemala | 42.86 | 57.13 | 100 | |
| Haití | | | 100 | |
| Jamaica | 16.66 | 83.33 | | |
| Mexico | 41.17 | 58.83 | 66.66 | 33.33 |
| Nicaragua | 36.36 | 63.63 | | |
| All countries | 25.53 | 74.47 | 57.14 | 42.86 |

As noted, prices set by companies vary significantly. Operating costs to transfer money include service to the customer through a point of sale with an agency; use of the electronic interface to transfer the amount; availability of capital to back the money upfront, establishment of a distribution network on the receiving side; and customer service. Generally for money transfer companies, the cost of executing an individual transaction runs somewhere between $3 to $6 per transfer (some analysts argue the costs are even lower). Banks already have an infrastructure in place in the home countries, therefore their costs may be lower. One company which charges $10 to remit to Mexico and Central America explained that their company spends 40 percent on transfer costs and the agent, another financial institution, retains 50 percent of the fees. In addition to the remaining 10 percent, this company uses the foreign exchange rate as a source of profit. Their primary means for this business to increase profits was to increase volume and keep costs down. In contrast, other companies share less than 50 percent of the fees with the agents. Furthermore, some remittance businesses cut out the need to pay agents by opening their own agencies and only need to cover overhead expenses. These entities are likely to have lower expenses.

At least one third of companies transfer remittances at $9 and $10, and some offer $7 transactions, which still make a profit (even without including the exchange rate applied). Companies charging more than $10 and often over $14 per remittance transfer cannot explain why their costs are considerably higher. Western Union generally argues that their charges are higher by virtue of offering a "premium service," that is a service that is 100 percent guaranteed in terms of location, speed, reliability, and safety. Western Union does have a sophisticated and widespread company infrastructure. They have agencies throughout the United States and partner companies in Latin America. This capacity has rendered this company the remittance institution with the highest revenues in the Western Hemisphere. Latin America is Western Union's most important market after the United States, Canada, and Western Europe, and represents over 20 percent of the company's revenues. The company does appear to have two advantages over many of its competitors. First, are Western Union's extensive geographical locations. Second, but more ambiguously, Western Union may offer better customer services than some of the competition. For example, Western Union operating as Vimenca or Grace Kennedy notifies recipients that their money has arrived and provide toll free numbers to their clients so that they can inquire about the status of a transaction. However, other companies have proven capable of offering very similar services to Western Union while charging lower fees.

**Conclusion and Recommendations**

Although remittances are regarded as an important source of income by recipient countries, charges continue to be high. With prevailing advanced technology in which money transfers can (and do) cost very little or nothing to the most savvy senders and recipient, it is worth asking how these advantages can be extended to common remitting immigrants. For example, a person with a U.S. bank account could allow his or her relatives in the home country to withdraw cash with an ATM debit card sent by the account holder while only paying for the use of the ATM.

Expanding sending methods as well as competition (or leveling the playing field) are factors that help reduce money transfers. Moreover educating customers about costs and charges is another important method. In Latin America there is a need to greater facilitate money transfers of any kind, be they remittance, savings, investment, or consumption. A comprehensive effort to support senders and recipients should foster an environment in which remittances are less costly and can also have a developmental leverage.

*Motivate Unbanked Migrants in the United States to Use Formal Financial Institutions*

Only six out of 10 Latin American immigrants use, or consider themselves to have meaningful access to, bank accounts. The effects of being unbanked are significant. People are not only susceptible to higher costs and difficulties on a daily basis, but also they lack the ability to establish credit records and obtain other benefits from financial institutions. Helping migrants to enroll in the banking industry would help ensure lower fee transfers. Some Government 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.

*Create a Board That Provides Oversight for Remittance Companies, and in Particular Their Fees and Exchange Rates*

As with a large range of organizations, oversight boards are important institutions that help guarantee corporate transparency and accountability as well as compliance with standards for products and services. The United States needs such an institution on a nationwide basis for money transfers. A remittance oversight organization could include representatives of money transfer companies as well as customers and other independent and knowledgeable parties. It could serve as or establish an independent board that reviews practices and other issues relating to remittances to Latin America (and elsewhere).

*Establish a Customer Rights Office on the Recipient Side to Educate Recipients About Costs and Better Measure Effectiveness and Efficiency of Services*

Remittance recipients are seldom aware of many of the practices and methods of the remittance companies. For example, many senders do not know about the different exchange rates that prevail among many companies. Furthermore, there is no independent research or checks on effectiveness or efficiency of the various services. Nongovernmental organizations could contribute significantly by educating money recipients about being informed customers.

*Money Transfer Company Partnership with Small Banks and Credit Unions*

The experience of Quiesqueyana, Vigo, and RapidMoney of partnering with small banks and credit unions points to important options to help reduce costs (see annex). These three companies offer an alternative to remittance recipients that enhance their use of this income source through lower fees or access to an ATM for cash or a VISA debit card for purchases. Expanding these alternatives will also increase market competition and improve an imperfect remittance market.

*Bank Partnership with Banks and Credit Unions*

Another important strategy to help lower charges is to increase bank-to-bank agreements in the United States and Latin America regarding money transfers. Currently, banks generally charge over $30 for an international wire transfer. However, when the prospect of increased volume is considered, banks often show interest and are prepared to lower these fees. Harris Bank and Wells Fargo are important examples of this type of initiative. These banks arrange money transfers through Mexico's Bancomer. Money recipients in Mexico are also encouraged to use the banking industry by the mere act of receiving their currency at a bank rather than at a money transfer agency.

*Expand Debit Card Use and Motivate Recipients to Open Dollar Accounts*

Debit card access to shared bank accounts is one way to greatly reduce transfer charges. But it is important that credit unions and banks encourage money recipients to have credit union or bank accounts as well. Credit unions and other banks can enhance the welfare of remittance recipients by encouraging them to opening accounts and earn interest on their money. The percentage of Central American and Caribbean people with bank accounts is generally below 20 percent (except in Jamaica which has a much higher percentage). Banks and financial institutions are key development agents and, as they reach out more to society, the multiplying effect on development increases.

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## ATTRACTING REMITTANCES: MARKET, MONEY AND REDUCED COSTS

REPORT COMMISSIONED BY THE MULTILATERAL INVESTMENT FUND OF THE INTER–AMERICAN DEVELOPMENT BANK

JANUARY 28, 2002

### 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 United States-based migrants to support at least 10 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.

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 50 interviews in the four countries. Government, private sector, and nonprofit 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

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

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.

**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 United States 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 (HTA's), 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 40 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 15 days and they spend around $65 a day. From the 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 40 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 United States, 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 $1 million to $3.3 million between 1999 and 2000. By October 2001, exports had increased to $3.5 million, and promised to reach $4 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 of 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.

**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 nongovernmental 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 United States 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-à-vis migrant opportunities to economically engage countries of origin.

*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 in 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 HTA's 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 | 60,355 | 7 |
| Fish farms | 56,690 | 2 |
| Gardens | 27,500 | 6 |
| Handcraft | 10,500 | 1 |
| Organic | 10,500 | 1 |
| Other | 12,700 | 2 |
| Vegetables | 9,200 | 1 |
| Social | 18,500 | 2 |
| Fruit | 10,800 | 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 U.S. 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 United States, 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, the Fedecaces transferred $483,068. Because of its new expanded reach, remittance transactions in the last 3 months of the year were almost double those of the previous 9 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.

*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 Domimicans 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 Dominican Republic 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 nonbank 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 40 percent of tourists who traveled to the Dominican Republic 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 United States. 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 United States. Customers in the United States 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 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 ATM's 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.

*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 also 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 nonlegal 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 United States 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, that is, through television and radio programming.
- Provide trade-related assistance to Jamaicans overseas to increase capital flows to Jamaica, that is, 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 other banks that provide remittance services. These institutions use MoneyGram in the United States 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.

*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 Banks in Guatemala**

| 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.

**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.

*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. Nongovernmental organizations could contribute significantly to the improvement of the market by ensuring that migrants approach the money transfer companies as informed customers.

*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, policymakers from the United States 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.

*An Expanded Role for Latin American and United States Civil Society Organizations*

Implicit in many of the above recommendations, and indeed in much of the report, is that the nonprofit, nongovernmental 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 United States and home countries.

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## PREPARED STATEMENT OF SUSAN F. MARTIN, PhD

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Mr. Chairman, Members of the Committee, thank you for providing this opportunity to testify at this hearing on worker remittances. During the past decades, remittances have grown significantly in scale and impact. The 1999 International Monetary Fund's Balance of Payments report shows that countries in the Western

Hemisphere received more than $16 billion per year from workers residing abroad. Worldwide, the flow of remittances exceeds $100 billion per year, with more than 60 percent going to developing countries. Having stated these statistics, it is worth noting the weaknesses of existing data on remittances. These numbers likely under-represent the scale of remittances by billions of dollars since many countries have inadequate processes for estimating or reporting on the funds remitted by foreign workers. Correcting for under-reporting, the Inter-American Development Bank (IDB) estimates that total remittances in the Western Hemisphere now likely exceed $23 billion per year.

Remittances will likely continue to grow in size as international migration continues to grow. During the past 35 years, the number of international migrants has doubled from 76 million to more than 150 million worldwide.[1] The Western Hemisphere has seen a comparable increase in the number of international migrants living and working abroad, growing to about 40 million across the whole hemisphere. Almost three-quarters reside in the United States. Of these more than half come from other countries in the Americas.

There are a number of reasons that international migration is likely to continue to grow in the future, and with this growth, will come continued growth in remittance flows. Under classic theory, immigration occurs when there is a combination of push/supply and pull/demand factors, as well as networks to link the supply of migrants with the demand of employers and families in receiving countries. Economic globalization and integration is fueling all parts of this equation. On the demand side, businesses, particularly but not exclusively multinational corporations, press for access to a global labor market for their recruitment of personnel. This pertains to both skilled and unskilled labor. On the supply side, when rising expectations for economic advancement are not met quickly enough, migration is tempting for workers who can earn far more in wealthier countries. Generally, those most likely to migrate have some resources to invest in the move.

A second, related factor stimulating increased migration involves the transportation and communications revolution that makes it easier to move and keep contact with one's home community. Increasingly, trans-nationalism is becoming a reality for today's migrants. Although circular migration has always been present, with migrants living sequentially in the source and receiving country, migrants can now live at one and the same time in two different countries. Even those who permanently relocate are able to keep in touch with family members at home far longer and more easily than in the past. Not only do such contacts reinforce the networks that produce future migration, but they also mean that many migrants will continue to send remittances to parents, siblings, and other community members even after they permanently resettle themselves.

Increased immigration generally means increased remittances, to return more directly to the topic of this hearing. Until relatively recently, researchers and policy makers tended to dismiss the importance of remittances or emphasize only their negative aspects. They often argued that money sent back by foreign workers were largely spent on consumer items, pointing out they seldom were invested in productive activities that would grow the economies other developing countries. They also feared that those receiving remittances would become dependent upon them, reducing incentives to invest in their own income-generating activities. Moreover, what was considered to be excessive consumerism, they argued, would lead to inequities, with remittance-dependent households exceeding the standard of living available to those without family members working abroad. Often, government attempts to encourage or require investment of remittances were heavy-handed and led to few economic improvements. Over time, the critics pointed out, remittances would diminish as the foreign workers settled in their new communities and lost contact with their home communities. Sometimes, wives and children would be left behind, with the all-important remittances no longer contributing to their livelihood.

Many of these problems still exist, but recent work on remittances show a far more complex and promising picture. Perhaps because the scale of remittances has grown so substantially in recent years—it quadrupled in the Western Hemisphere during the past decade—experts now recognize that remittances have far greater positive impact on communities in developing countries than previously acknowledged. Such experts as Edward Taylor at the University of California at Davis argue that even consumer use of remittances stimulates economic activity, particularly when households spend their remittances locally.[2] The multiplier effects of remittances can be substantial, with each dollar producing additional dollars in economic

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[1] International Organization for Migration, World Migration Report: 2000, Geneva: UN Publications, 2000.
[2] Ibid.

growth for the businesses that produce and supply the products bought with these resources.

The microeconomic effects of remittances can also be important. Important contributors are the hometown associations (HTA's) of migrants abroad who send communal resources to the villages from which they emigrated. Collected through a variety of means, these resources have helped villages improve roads, water and sanitation systems, health clinics, schools and other community infrastructure. The HTA's often start with small resources but they have the potential to grow to significant size. According to one study: "Consider the Salvadoran 'United Community of Chinameca': Their first largesse was $5,000 to build a school, and then they built a septic tank worth $10,000. Later they constructed a Red Cross clinic at a cost of $43,000, and bought an ambulance worth $32,000."[3] Some State and local governments match the resources from HTA's in order to magnify their impact. There has been a recent trend toward encouraging the HTA's to invest in small businesses and manufacturing activities, in order to produce new jobs for villagers. These are truly grassroots initiatives that involve community-to-community development.

With the new recognition of the importance of remittances has also come greater understanding of the challenges brought by the large-scale transfer of money. HTA's and their home communities may not have the technical expertise to determine the best ways to invest in community development. The strength of a grassroots initiative can become its weakness if HTA's and local villages disagree about the best use of the remittances or if they invest the funds poorly. There are some initiatives underway to provide technical assistance and training in this regard. For example, the Inter-American Foundation funds such assistance through the Fundacion para la Productividad del Campo, also known as APOYO, in several Mexican states. The Inter-American Development Bank has held several conferences and regional workshops to stimulate discussion of mechanisms to increase the development payoff of remittances.

Also, remittances are often used to help families address emergency needs that could, perhaps, be better addressed through other means—or prevented altogether. For example, many households use some portion of their remittances to deal with emergency health care needs because they lack access to routine health care and do not have insurance coverage. The Mexican Migration Project asks respondents how their family members use remittances. According to one research study, "the largest single reported use of remitted or saved funds was health care expenses for family members. Among those who remitted (approximately 60 percent of respondents) fully three-quarters reported that some share of the funds were used for health care expenses."[4] At the same time, many migrants do not take advantage of an initiative by the Mexican government that enables them to purchase health insurance for families in Mexico for a very low rate per month. Such cross-border health coverage, purchased in the United States for relatives at home, could be a more effective use of remittances than the funding of emergency care. Since many migrants return periodically to their home communities, such cross-border programs could also provide the largely uninsured U.S. residents with a source of health care as well.

The cost of transferring remittances is another issue that needs to be addressed. These transfer costs can be exceedingly high. One study found that many Mexican migrants lose as much as 25 percent of the value of their remittances through fees and poor exchange rates.[5] In some cases, one or a few wire transfer companies have a lock on distribution points for purchasing or receiving money orders. The market appears to be responding to this situation, with greater competition leading to lower transfer costs, but more needs to be done in this area. In particular, it is essential to regulate the new companies to ensure that they have the capacity and resources to transfer the funds. In this regard, it is also necessary to monitor the companies to guard against fraud and the use of legitimate remittance transfers for money laundering purposes.

Immigrants often mention that they use a few well-established companies because of their greater reliance. To date, though, the business is dominated by wire transfer companies rather than financial institutions that offer a wider range of services to customers. The greater entry of banks and credit unions could help reduce costs and abuses even further. To the extent that credit unions, for example, reinvest transfer

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[3] B. Lindsay Lowell and Rodolfo O. de la Garza, The Developmental Role of Remittances in United States Latino Communities and in Latin American Countries, Washington: Inter-American Dialogue, June 2000.

[4] Louis DeSipio, Sending Money Home . . . For Now: Remittances and Immigrant Adaptation in the United States, Washington: Inter-American Dialogue, January 2000.

[5] Binational Study.

fees in the remittance receiving communities, the development potential could be increased still further. There are new initiatives in this area. The Inter-American Development Bank's Multilateral Investment Fund supports programs to enable the transmission of remittances through financial institutions that work with the low-income clients, such as credit unions and microfinance institutions.

Greater financial literacy among remitters, as well as clearer information about the actual costs of transferring funds, would also reduce abuses in this area. Financial literacy programs have many benefits for both immigrants and financial institutions. A particularly useful initiative was pioneered in Rogers, Arkansas. The curriculum covers such issues as basic banking services, how to write checks, how to establish a credit history, how to buy a house, and retirement planning. The training program is offered by a local bank, in cooperation with corporations in the area. With greater financial literacy, the largely immigrant workforce has become more savvy consumers who are less likely to be victims of abusive and predatory financial practices, while the bank that has offered the courses has significantly increased its customer base for a number of bank products—a win-win situation for both.

It is well to remember that it is often the poorest residents of the United States and other wealthy countries that are sending remittances abroad. Latin American migrants tend to have low incomes, often living in poverty, yet they remit billions of dollars to their home countries. While beneficial to the families and societies at home, it is well to ask if the remittances come at a cost to those settling abroad. What trade-offs are they making to save sufficient resources to remit? Are they unable to make investments in education and skills upgrading, for example, in order to send the billions home? Are there ways, perhaps through community-investment programs supported by remittance transfer companies, to invest some of this lost income in development activities in their new places of residence? Are there programs that could help remitters make better-informed decisions about remittance transfers to reduce the transaction costs they incur?

As these brief remarks show, the growth in remittance flows requires better answers to some fundamental questions: For example, how can governments best estimate the actual flow of remittances; how precisely are remittances used, and are there alternative mechanisms to gain more "bang-for-the-buck"; to what extent can the multiplier effect of remittances be increased by initiatives to encourage local purchase of locally produced goods; how best can transfer costs be reduced to maximize the level of remittances reaching local communities; and how best can governments and international organizations help HTA's and home villages make the most effective use of the communal remittances for development without impeding local initiative. Given the scale of remittances today, and their potential as a tool for development, these issues are clearly deserving of attention.

While I will not try to make recommendations today about the full range of issues that I have raised, I will offer some suggestions about approaches that Congress could adopt or encourage:

- Encourage financial literacy programs for newcomers to the United States, many of whom do not understand the U.S. banking and wire transfer systems, so they will be better consumers of these services.
- Require companies transferring remittances to provide a "truth in transfer" statement that shows fees and exchange rates, as well as the actual amount that will be received at the other end of the transaction.
- Establish a regulatory framework that will better ensure that wire transfer companies have adequate resources and proper procedures for conducting business here and overseas (such regulations will also ensure that these companies are not using their remittance business as a cover for money laundering for drug cartels, terrorist organizations, or other illegal operations.
- Encourage companies that transfer funds to invest a portion of their profits in economic development projects in communities in the United States and home countries that send or receive substantial remittances.
- Support technical assistance initiatives to help boost the development potential of individual and collective (hometown association) remittances, as well as to stimulate competition and enable financial institutions that work with low-income populations to participate in remittance transfers.

Thank you for providing me this opportunity to testify. I will be pleased to answer any questions you have.