

MIGRANT Remittances

EDITORIAL

From the New Editors

As the new editors, we welcome you to *Migrant Remittances* newsletter. Each quarter, we give you:

- The latest worldwide remittance news and trends;
- Analysis of business and donor initiatives aimed at improving welfare and financial access;
- A guest article by an expert writer in the policy, nongovernmental, academic, or business world;
- Information on recent publications and upcoming events; and
- A review of a key topic in the ever-growing body of remittances research.

This issue presents the latest news on remittance flows based on new research from Germany, Serbia, and the United Kingdom. Policy interest in remittances grows unabated, with dialogue among members of the Group of Eight and at the United Nations. Changing regulation of international financial transfers may have implications for migrants and businesses in Europe and the United States. From a commercial perspective, too, the financial industry evolves apace, developing new services and products to target migrants. Our guest writer, Elizabeth McQuerry, explains the role of automated clearinghouses in international money transfers. In the Research Note, we review some of the literature that explores the differences between men and women when it comes to sending remittances.

We welcome feedback and encourage readers to send us information about initiatives in which you are involved and publications of interest.

Manuel Orozco and Anna Lindley
remittances@dai.com

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Worldwide Trends in International Remittances

Trends in International Flows and Policy Issues

■ While remittance flows to well-known recipient countries such as Mexico, the Philippines, and India have increased in 2006, the significance of remittances in other countries, such as Serbia, is being recognized. According to a World Bank report released in May 2006 (Martinez, et al.; see "Publications"), Serbia received US\$2.4 billion in remittances last year, accounting for 12 percent of its national income. The report shows that at least 20 percent of those flows come from Serbs living in Germany. Serbian policy makers see the large volume of remittance transactions taking place outside of the formal financial system as a major challenge: the study estimates that informal flows represent at least 50 percent of all flows.

■ Knowledge of the remittance behavior of migrants in less well-researched locations is gradually improving, with a recent DFID-commissioned survey on the remittance patterns of people of ethnic minority origins in the United Kingdom. The largest survey of its kind in the United Kingdom to date, with more than 1,700 respondents, it reveals that one third of people of ethnic minority origins sent money abroad in the past year, on average £874 per year—3–4 percent of their income. The average remitter was 36 years old and 60 percent were employed full time. In general, Black Africans were most likely to remit, with 17 percent of remitting households surveyed sending money to Nigeria. Regarding the amounts sent, the Asian remitters sent the highest average amounts in remittances, and among this group people of Pakistani origin sent the most. For more information, visit www.dfid.gov.uk.

■ The nexus between international migration and development is an issue of great interest to governments, donors, and an increasing number of nongovernmental organizations, as illustrated by regular policy discussions occurring worldwide. The United Nations, for example, is organizing a high-level dialogue (scheduled for September 14 and 15, 2006) to discuss the multidimensional policy aspects of international migration and development. Several preparatory meetings have also been scheduled, including discussions about ways to leverage remittances for development.

■ Along this same line, the Group of Eight (G8) Finance Ministers reiterated on June 12 of this year the importance of financial inclusion as well as reduced remittance transfer transaction costs. The G8 called for "efforts at the country level to remove obstacles preventing access to financial services, including lowering the costs of remittances."

Continued on page 2

Contents

- 1 Worldwide Trends in International Remittances
- 2 Remittances and Financial Intermediation
- 3 Guest Article: Are Binational ACHs Important for Crossborder Payments?
- 3 Research Note: Gender and Remittances
- 4 Events
- 4 Publications

Competition in the Remittance Transfer Industry

■ The Inter-American Development Bank released its first remittance industry scorecard on May 12 in Washington, D.C., offering a snapshot of the remittance industry based on data for more than 50 companies with operations in the United States and 14 Latin American countries. The study includes information on pricing, customer satisfaction, financial sector intermediation, and geographic coverage. The scorecard reveals that remittance transaction costs have dropped from 15 to 5 percent since the year 2000 and that customer satisfaction with remittance services is generally high overall.

■ The intermediation market for remittance transfers has pursued mechanisms to innovate, increase competition, and penetrate new markets. One key development was MoneyGram's introduction of card-based transfers as an additional product in its global transfer market. The agreement with TSYS Prepaid offers real-time loading for TSYS-processed prepaid Visa® and MasterCard® cards at MoneyGram's 26,000 money transfer locations in the United States. Other companies have also identified measures to penetrate the market with traditional or alternative instruments. In May, Houston-based PreCash launched a joint venture with two of China's largest mobile communication service providers, China Mobile and China Unicom, to offer money transfer services to immigrants and other unbanked consumers, including bill payment, prepayment for wireless telephone airtime, and stored value credit cards.

■ The banking industry has also continued to establish a footprint in this market. Recently, Mexico's Grupo Financiero Banorte acquired UniTeller Holdings Inc, a U.S.-based remittances company with worldwide operations. The \$20 million deal will give Banorte access to UniTeller's network of more than 1,000 remittance agents in 41 U.S. states and to UniTeller's partners in the Philippines and 18 Latin American countries. The purchase also gives Banorte the licensing authority to provide direct remittance services in the United States, which should better position the bank to take over a greater share of the U.S. remittance market in the future. Banorte already commands about 5 percent of this market.

Regulatory and Tax Issues

■ Recent policy-related activities regarding remittances have dealt with the regulatory and taxation environments. In June, in the United States, the Financial Crimes Enforcement Network (FinCEN) released a statement proposing a threshold change in the rule requiring banks and nonbank financial institutions to collect, retain, and report information on the transfers of funds. The current requirement applies only to money transfers of \$3,000 or more; lower thresholds are under discussion. The results of a policy change in this area are unclear: they may represent a potential benefit to law enforcement or an added burden for money remitters and other financial institutions.

■ Meanwhile, in Europe, the European Parliament released a draft legislative resolution on a proposal to assist in anti-money-laundering and terrorist financing efforts. The proposal seeks to assist authorities by ensuring them access to basic information on those who conduct fund transfers and by harmonizing rules on the information that must accompany such transactions. This will have implications for remitters in all EU countries, and *Migrant Remittances* will follow this issue closely in the coming months.

■ A number of governments have recently instituted new domestic taxes or tax increases for remittance senders or recipients. A new transaction fee was imposed on remittances received in Cuba, increasing the fee for receiving money transfers from \$20 to \$23. This increase is known as the "margen comercial." In the United States, several states have proposed to tax remittances; for example, the state of Georgia tried to pass legislation taxing undocumented migrants. In Puerto Rico, the Chamber of Deputies proposed a 10 percent tax on remittances, which would affect migrants remitting into the Dominican Republic, whose flows amount to \$540 million, as well as Puerto Ricans who transfer funds to the United States to children studying on the mainland. ♦

Remittances and Financial Intermediation

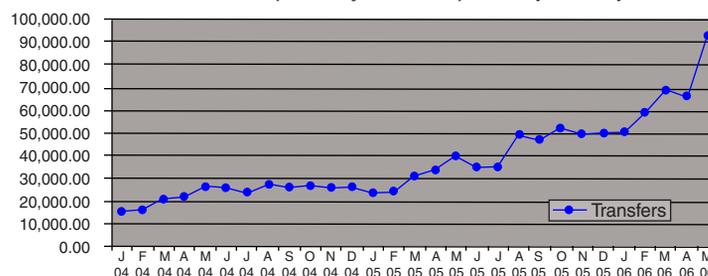
■ The trends discussed above have developed alongside growing attention to the link between remittances and financial intermediation. One important development is the recent passage of the Financial Services Regulatory Relief Act of 2006, by the U.S. Senate. This bill, if approved by the House of Representatives, will permit credit unions to target the unbanked by allowing them to provide basic check-cashing and wire transfer services to anyone in their field of membership.

■ Consumer banks and credit unions in the United States continue to emerge to target the Hispanic community. Security One Bank opened in May in suburban Washington, D.C., and will initially target the Hispanic market. U.S. Bank, which offers money transfers in partnership with money transfer organizations, has grown to 18,000 transactions a month and continues to expand its clientele. Another development in this area is the release by the Innovation Network for Communities of a business plan for the development of a new entity, Diaspora Capital Services, "which would act as a culturally sensitive 'social broker' to establish three-way partnerships between immigrant communities in the U.S., financial institutions in the U.S., and financial institutions in the immigrants' home-country for the purpose of increasing immigrant use of financial services and creating philanthropic funds controlled by the immigrant community." Discussions are under way for a prototype of this model with the Brazilian bank Caixa, and the Boston-based Brazilian Community Fund. Latin American immigrants in Massachusetts alone sent US\$448 million in remittances last year.

■ In two years, Mexico's BANSEFI (the National Savings and Financial Services Bank)—with a network of more than 1,200 distribution centers called La Red de la Gente that includes popular banks, microfinance institutions, and credit unions—has increased its number of transfers to 100,000 a month. The payment operations have facilitated financial access to at least 20 percent of recipients who pick up remittances at Red de la Gente offices.

■ In May, Venezuela's Bank of Credit launched a new rechargeable electronic card, "Plata," as part of a debit system aimed at unbanked individuals. The card allows holders to transfer money from one card

La Red de la Gente (monthly transfers) January 04–May 06



to another via text messaging. Moreover, other key players among Latin American banks are expected to invest more than \$200 million in card technologies to increase use of products such as Europay, MasterCard, and Visa (EMV) smart cards, which facilitate the global standard for payment systems.

■ The Asian Development Bank, in cooperation with the European Bank for Reconstruction and Development, has begun a regional study on remittances and poverty in Central Asia and the South Caucasus to examine the impacts of remittances on economic development and poverty reduction in Armenia, Azerbaijan, Kyrgyz Republic, and Tajikistan. According to official central bank statistics, remittances may account for as much as 27 percent of gross domestic product (GDP) in the Kyrgyz Republic and 20–50 percent of GDP in Tajikistan. A preliminary meeting took place on July 13 in the Kyrgyz Republic; a final report is expected to be released in early 2008.

■ The International Fund for Agricultural Development has partnered with the European Commission to create a new fund that will connect innovative remittance services to wider economic opportunities for the rural poor. The Promoting Innovative Migrant Remittances Systems program plans to issue a call for proposals to select projects that will promote linkages between formal financial institutions and remittances. Micro-finance institutions and migrant groups, such as hometown associations, are especially encouraged to submit proposals for eligible projects benefiting their communities of origin. ♦

GUEST ARTICLE

Are Binational ACHs Important for Crossborder Payments?

by Elizabeth McQuerry, Federal Reserve Bank of Atlanta

If you receive payments such as payroll, chances are you benefit from the existence of automated clearinghouses, or ACHs, though you may not have heard of them. ACHs provide secure, low-cost, and efficient payments across an electronic network. Thus, an ACH can be an ideal vehicle for lowering the cost of cross-border payments in general and remittances in particular.

The existence of ACH systems throughout North America and Europe, as well as in some countries in Latin America, provides a theoretical global network waiting to be connected. There are more possibilities considering the greater number of countries, including many African and Asian nations, that have Real Time Gross Settlement Systems (RTGS), which could also be linked with ACH platforms.

The U.S. Federal Reserve has invested in several global connections over the past decade, linking with Canada, Mexico, and a payments hub in Europe that provides access to five countries there. Directo a MéxicoSM links the U.S. ACH with the Mexican RTGS and allows U.S. banks to send transfers of any amount for a fee of only \$0.67 each.

Of course, there are technical challenges in linking payments platforms—but that is the easy part. The real challenge is to change the way consumers make transfers and to have banks offer financial services needed by immigrants. For example, many Mexicans in the United States stand in line at the bank to cash their checks and then walk across the street to a money transfer company. And the banking industry—which is reluctant to change its habits and cautious about regulatory compliance—has yet to catch on to offering transfers. More focus is needed on bringing these two groups closer together.

But what is to gain by linking ACH systems across borders? Currently, Directo a México processes approximately 27,000 transfers per month. If you add the amount saved on origination fees and the extra peso value received in Mexico, it frees up \$3.7 million per year to be consumed or saved in both countries. Imagine the societal value gained if these types of connections were more widely used. ♦

RESEARCH NOTE

Gender and Remittances

It is well-known that women and men often have different opportunities for migration and contrasting experiences in foreign labor markets, but to what extent do their experiences differ—and how—when it comes to sending remittances? In this issue, we review a selection of recent studies on the often over-looked topic of gender and remittances. While many studies present data disaggregated for gender on specific issues, relatively few conduct a systematic analysis of the role of gender in remittance behavior.

The studies that do focus on gender show that there is substantial variation in remittance dynamics across cultures, but there are some common findings.

Patterns relating to gender, migration, and work have been changing. International migrants have traditionally been men, but in more recent years, with more women participating in the labor market globally and more women migrating for work, analysts have come to talk of the “feminization of migration.” Like male migrants, women abroad tend to participate in the lower-paid segments of the labor market; like other women, female migrants tend to earn less than their male counterparts.

Men and women tend to have different remittance patterns and relationships. Men tend to remit larger amounts—as already highlighted, they tend to earn more money—but women often remit a greater proportion of their income. Gender interacts with life-cycle and family situation to shape people’s remittance habits. Men tend to send money to their wives for the care of the children. In contrast, women tend to remit to a wider range of relatives, in some cases reflecting the fact that women who migrate are more likely to be single and those who have children may leave them in the care of mothers or sisters. Some studies also suggest that male and female recipients tend to use remittances differently. Men seem more likely to invest remittances directly in local income-generation—perhaps responding to greater social expectation and opportunities to work outside the home. In contrast, female recipients tend to spend remittances more on so-called “family needs,” including education, and are more likely to depend entirely on remittances for their income.

In some respects, men and women relate differently to migrant organizations and money transfer services. Men take leadership roles in hometown associations, reflecting traditional patterns of community leadership, and women in some contexts prefer to send money with couriers so they can also send photos, gifts, and medicine and obtain news of their relatives—reflecting women’s traditional roles in keeping family connections alive and addressing health and other needs.

Gender and household relations may be altered as a result of particular migration and remittance configurations. Where men are suffering high levels of unemployment locally, migrating for work and sending money home can offer a way to reclaim their status as household head and breadwinner. Women who migrate and remit may become the main breadwinner and so acquire a great level of power within the household. In some contexts, female recipients are empowered to make resource allocation decisions that were previously the preserve of their male relatives, but the money they receive may still ultimately be controlled by the same people. Where there

Continued on page 4

is large-scale female migration, men left behind may take on new roles and responsibilities in the home, or they may try to delegate these roles to other female relatives.

Recent studies on gender and remittances include:

- De la Brière, B., and E. Sadoulet, et al. "The Roles of Destination, Gender, and Household Composition in Explaining Remittances: An Analysis for the Dominican Sierra." *Journal of Development Economics* 68(2): 309–28, 2002.
- Orozco, M. *Gender and Remittances: Preliminary Notes about Senders and Recipients in Latin America and the Caribbean*. Notes presented to the panel on Gender Dimensions of International Migration at the United Nations, March 2, 2006.
- Ramírez, C., et al. *Crossing Borders: Remittances, Gender and Development*. United Nations International Research and Training Institute for the Advancement of Women, Working Paper, 2005.
- Santillán, D., and M.E. Ulfe. *Destinatarios y Usos de Remesas. ¿Una Oportunidad para las Mujeres Salvadoreñas?* Serie Mujer y Desarrollo 78. CEPAL: Santiago de Chile, 2006.
- Semyonov, M., and A. Gorodzeisky. "Labour Migration, Remittances and Household Income: A Comparison between Filipino and Filipina Overseas Workers." *International Migration Review* 39(1): 45–68, 2005. ♦

Events (July–September 2006)

- Second Seminar on Central Banks and Remittances, July 11–14, Mexico City. www.cemla-remesas.org
- Ibero-American Encounter on Migration and Development, July 18–19, Madrid. www.segib.org
- Second Regional Forum on Remittances in Central America: Best Practices and Ideas for Development, August 15–16, Tegucigalpa. www.remesasydesarrollo.org
- International Congress on Migration and Development, August 21–23, Santo Domingo.
- Sending Money Home: Migration, Remittances and Reality, September 8, Washington, D.C. www.migrantremittances.org
- Global Consultation on Private Sector's Role in Remittances and Development, September 8, New York. The outcome of this consultation will be presented to the General Assembly at the UN Secretary General's High Level Dialogue, September 14–15. ♦

Publications (since April 2006)

- Bracking, S., and L. Sachikonye. *Remittances, Poverty Reduction and the Informalisation of Household Wellbeing in Zimbabwe*. ESRC Global Poverty Research Group Working Paper 45. www.gprg.org
- Catrinescu, N., et al. "Remittances, Institutions and Economic Growth." Institute for the Study of Labor, Bonn. Discussion Paper 2139. [ftp://repec.iza.org/RePEc/Discussionpaper/dp2139.pdf](http://repec.iza.org/RePEc/Discussionpaper/dp2139.pdf)
- Comunidad Andina. *Estadísticas de Remesas en Los Países de la Comunidad Andina, 2000–2005*. www.comunidadandina.org/estadisticas/SGde143_R1.pdf
- de Haas, H. *Engaging Diasporas: How Governments and Development Agencies Can Support Diaspora Involvement in the Development of Origin Countries*. Study for Oxfam Novib. www.imi.ox.ac.uk
- European Investment Bank. *Study on Improving the Efficiency of Workers' Remittances in Mediterranean Countries*. www.eib.eu.int/publications/publication.asp?publ=244
- Faal, G. *Remittance Investment Funds: A Call for Remittance Tax Relief*. London: AFFORD. www.afford-uk.org
- Fagen, P.W. *Remittances in Crises: A Haiti Case Study*. Overseas Development Institute, HPG Background Paper. www.odi.org.uk/hpg/publications_background.html
- Farrant, M., et al. *Migration and Development: Opportunities and Challenges for Policymakers*. Geneva: IOM.
- Ghosh, B. *Migrants' Remittances and Development: Myths, Rhetoric and Realities*. IOM: Geneva.
- LatinFinance, et al. *The LatinFinance Guide to Remittances*. www.latinfinance.com
- Lindley, A. *Migrant Remittances in the Context of Crisis in Somali Society. A Case Study of Hargeisa*. ODI, HPG Background Paper. www.odi.org.uk/hpg/publications_background.html
- Martínez, J., et al. *The Germany-Serbia Remittance Corridor: Challenges of Establishing a Formal Money Transfer System*. World Bank Working Paper 80. www.worldbank.org
- Orozco, M., and CARANA Corporation. *West African Financial Flows and Opportunities for People and Small Businesses*. Report for USAID. www.watradehub.com
- Orozco, M. *International Flows of Remittances: Cost, Competition and Financial Access in Latin America and the Caribbean—Toward an Industry Scorecard*. Washington, D.C.: IADB. www.iadb.org ♦

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Editors: Manuel Orozco and Anna Lindley

Production support: Rebecca Rouse (IAD); Juliette Gelbard and Catherine Johnston (DAI)

Contributing writer: Elizabeth McQuerry

Editorial review group: Douglas Pearce (DFID); Barry Lennon, Evelyn Stark, and Nhu-An Tran (USAID); Maria Jaramillo (ACCION)

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