All in the Family

Latin America's Most Important International Financial Flow

January 2004

Report of the Inter-American Dialogue Task Force on Remittances

The Inter-American Dialogue

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PREFACE

No one today questions the significance of remittance flows for the future of Latin America and the Caribbean. Indeed, it is hard to exaggerate their importance. Having expanded from about $10 billion a year in 1996 to $32 billion last year, a strong case can be made that remittances are now Latin America's most important resource. Oil exports still bring more dollars to the region, but remittances probably contribute more to economic growth, job creation, and poverty alleviation. This is certainly true for the smaller countries of Central America and the Caribbean.

The enormous value of remittance flows and their continuing rapid expansion are the motivations for this report. It is the product of a special task force established by the Inter-American Dialogue. Our mission was to identify and analyze the policy challenges that large and growing remittance flows posed for Latin American and Caribbean governments, the U.S. government, and international financial institutions. The task force included prominent political and business leaders; financial, technical, and legal experts; and representatives of sending and recipient communities. We deliberately set out to assemble a diverse group, but—more than anything else—we wanted participants who were knowledgeable about key aspects of migration and remittances, and could speak with authority on these issues.

The task force met twice to review the challenges and opportunities that remittances represent, explore the policy choices available to governments and international institutions, and come up with recommendations for policy and action. Our work was designed to produce ideas for government and private efforts to further enhance the impact of remittances—for families, communities, and nations. We are well aware that remittances, because they are so large and important, will gain increasing attention from Latin American governments. Our recommendations are intended to provide these governments with a useful guide for thinking about these resources.

The report reflects the consensus of the members. Not every signer agrees fully with every phrase in the text, but—except as noted by individual statements—each of them endorses the report's overall content and tone, and supports its principal recommendations. Signers subscribe to the report as individuals; institutional affiliations are for purposes of identification only.

We want to acknowledge the critical contributions of the task force's executive director, Manuel Orozco, to this exercise, including his extensive and highly regarded original research on remittances. We also want to recognize the high-quality work of the Inter-American Development Bank on which this report draws heavily. The most important role in shaping this report was played by the members of the task force, who brought a considerable breadth of experience and knowledge to our deliberations. Dialogue program assistant Michelle Lapointe deserves our thanks for her valued contribution to the writing and editing of the report. We are especially appreciative of the financial and intellectual support the Rockefeller Foundation provided to this initiative.

Peter Hakim, President
Inter-American Dialogue
January 2004

All in the Family

Latin America's Most Important International Financial Flow

A Task Force Report

Remittances are the funds that migrants abroad send home to their families and communities. Today, they are the single most valuable source of new capital for Latin America and the Caribbean. These large and still expanding transfers of resources are sent mainly by low-income residents of the United States and Canada to their mostly poor relatives in the rest of the hemisphere. Remittances are more important for the region's economic and social development than foreign direct investment, portfolio investment, foreign aid, or government and private borrowing. For some countries, they are larger and more important than all of these other flows taken together.

Four factors account for the enormous significance of remittances to the nations and peoples of Latin America and the Caribbean—

- the amount of money involved,
- the remarkable stability of the flows over time,
- their direct and positive impact on social equity in nations with huge income and wealth disparities, and
- the fact that they create no future financial obligations.

Participants in the Dialogue's task force concluded that appropriate government policies could substantially increase the already considerable impact of remittance flows—both on the lives of the people receiving them and on national development. Our most important proposals for action emphasized that

- the costs of sending remittances should be further reduced, particularly by expanding

Table 1: Remittances and Other Financial Flows to Latin America

Country/region	1996 ($ billions)			2001 ($ billions)		
	Remittances	FDI	ODA	Remittances	FDI	ODA
Mexico	4.2	9.2	0.3	8.9	24.7	<0.1
Central America	1.8	1.1	1.8	3.6	2.0	2.1
Caribbean	2.4	0.7	0.7	4.5	2.7	0.5
South America	1.7	9.3	0.8	4.0	8.2	1.0

Sources: Remittances are as reported by the central bank of each country/region. Foreign direct investment (FDI) and official development assistance (ODA) data are from *World Development Indicators* (Washington, DC: World Bank, 2003). ODA excludes loans from the World Bank or International Monetary Fund.

competition among the institutions that transfer the money; and

- every effort should be made to encourage remittance senders and recipients to make use of banks and other financial institutions to exploit the full range of economic opportunities they offer.

> In the past decade of great financial volatility in Latin America, remittances have become a vital safety net.

How Much Are We Talking About?

The stream of remittances pouring into Latin America and the Caribbean is vast and growing year by year. In 2002, remittances amounted to some $32 billion—or about 2 percent of the region's Gross National Product and more than triple the $10 billion they comprised just a half dozen years ago. This amount is more than double that of all foreign aid going to the region, including grants from bilateral donors and loans from the World Bank and Inter-American Development Bank.

Remittances are important for most Latin American nations. They are particularly significant, however, for the small and poor countries of Central America and the Caribbean, where they represent a sizable fraction of all economic activity.

In 2002, remittances accounted for nearly 30 percent of Nicaragua's GDP and 25 percent of Haiti's. They amounted to more than 10 percent of GDP in two other Central American countries—El Salvador (15 percent) and Honduras (12 percent)—and in two Caribbean nations—Guyana (17 percent) and Jamaica (12 percent).[1] In Haiti and Jamaica, remittances are greater than revenues from trade. In three other countries—El Salvador, Nicaragua, and the Dominican Republic—they are more than one-third the value of all exports. Mexico, with a population of some 100 million people, receives nearly a third of all remittances to Latin America. But El Salvador, Guatemala, Honduras, and the Dominican Republic, with a combined population of only 33 million, capture more than 40 percent of all remittance flows to the region.

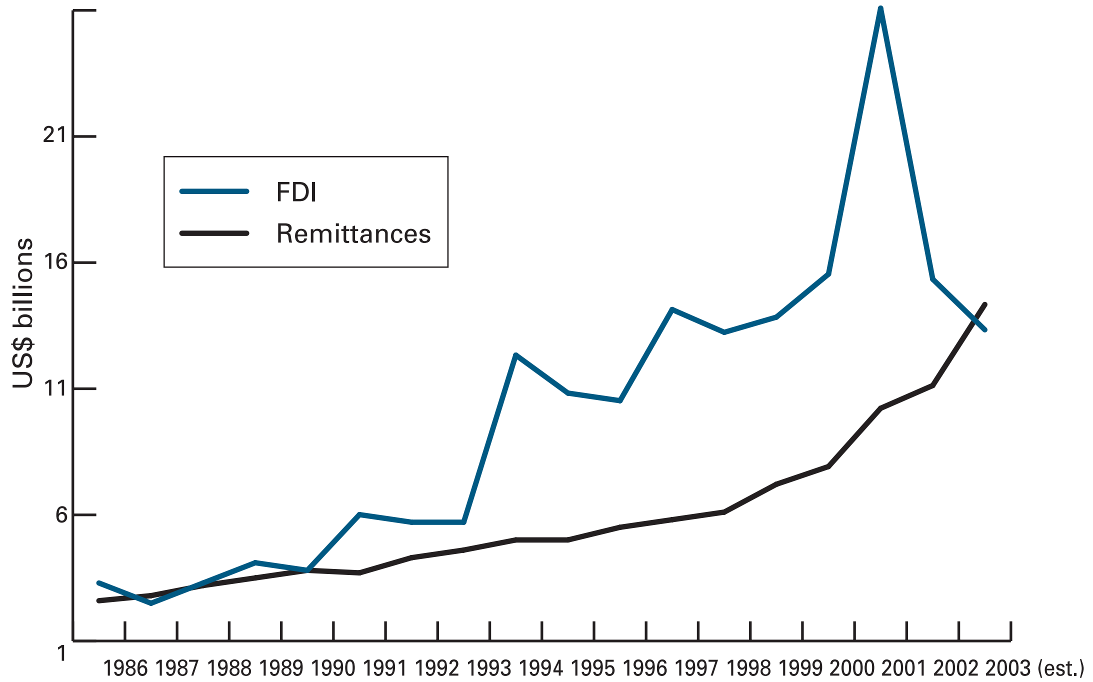
Stable Remittances: A Vital Safety Net in a Volatile Region

Over the past six years, remittances have represented a steadily increasing stream of capital to Latin America and the Caribbean. This contrasts with the extreme volatility of most other capital flows to the region. That volatility, incidentally, has been a prominent cause of Latin America's erratic economic performance in the past decade and the origin of several devastating financial crises in the region.

During the past several years, as the U.S. and Latin American economies turned downward, the region's trade revenues and capital flows fell sharply. As indicated in figures 1 and 2, however, remittances increased steadily—growing by 40 percent from 2000 through 2002 and providing, in some economically hard-hit countries, a welcome counter-cyclical effect. In the past decade of great financial volatility in Latin America, remittances have become a vital safety net, particularly for the region's poor citizens.

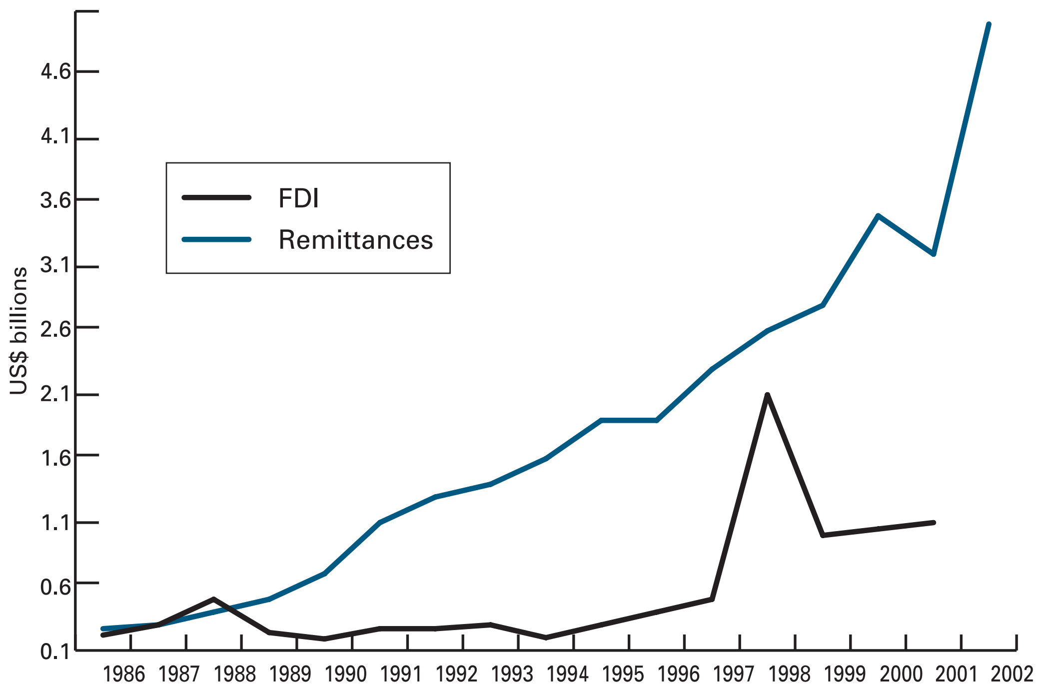
Even as U.S. economic activity slumped and unemployment among the U.S. Latino population rose from 6.2 to 8.2 percent between July 2001 and July 2003, remittances to Latin America

Figure 1: Remittances and Foreign Direct Investment to Mexico



Source: World Bank, *World Development Indicators* (Washington, DC, 2003)

Figure 2: Remittances and Foreign Direct Investment to Central America



Source: World Bank, *World Development Indicators* (Washington, DC, 2003)

expanded by nearly 18 percent (see figure 3). There is no agreed-upon explanation for the robustness of the remittance flows in the face of economic reversals faced by the migrants sending them. Some argue that the flows responded to the increased needs in the region, as Latin America's economies suffered even more than that of the United States. Other factors cited are that migrants are sending more remittances because these money transfers have become safer and cheaper and that, after 9/11, the growth in remittances has compensated for the declining number of visits home.

> Remittances surely and directly benefit Latin America's poor

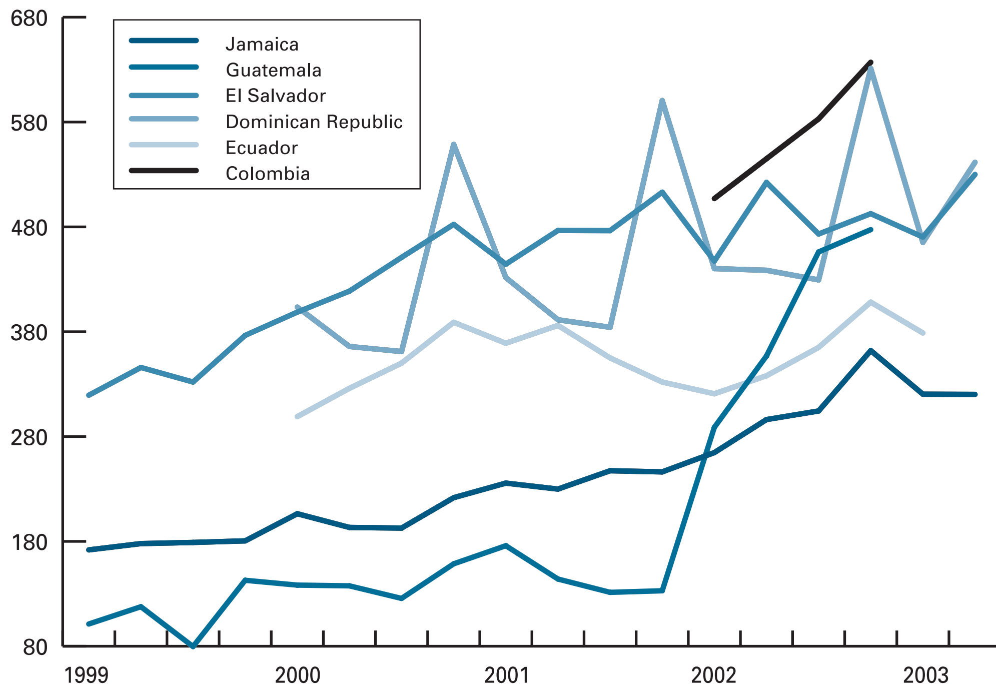
No Future Obligations

Aside from a small amount of grant assistance from bilateral donors, resource transfers to Latin America impose future payment obligations on the countries receiving them. Loans have to be repaid with interest; portfolio investors purchase an equity claim; and foreign direct investors expect substantial profits. In 2002, payments of interest and profits by Latin American countries amounted to some $52 billion. Net new investments and loans to the region totaled only $13 billion. Remittances—which are largely intra-family transfers—are an inflow that does not produce repayment obligations, let alone the massive obligations that have contributed to financial crises (or near crises) in many countries.

Sharing the Wealth

There is no flow of capital that more surely and directly benefits Latin America's poor

Figure 3: Quarterly Flows to Selected Latin American Countries



Source: Central bank of each country.

than remittances. There is no question that remittances reach low-income families and significantly increase their purchasing power and standard of living. In Honduras, Nicaragua, El Salvador, and a few other of Latin America's poorest nations, remittances may be more than doubling the incomes of the poorest 20 percent of the population. A large fraction of remittances is sent to rural areas, where incomes are far below national averages. In Mexico, for instance, communities with populations under 30,000 receive around 40 percent of remittances. Without them, many of these communities could not survive.

Table 2: Per Capita GDP, Income Distribution, and Per Capita Remittances (US$)

Country	Annual per capita GDP	GDP per capita of poorest 20%	GDP per capita of poorest 40%	Remittances per capita
Dominican Republic	2,080	530	480	230
El Salvador	2,080	300	350	310
Guatemala	1,750	340	400	140
Honduras	920	90	130	110
Jamaica	2,170	990	770	460
Mexico	3,740	770	890	100
Nicaragua	470	50	80	130

Source: World Bank, *World Development Indicators* (Washington, DC, 2003).

Table 2a: Per Capita GDP and Average Household Remittances (US$)

Country	Annual per capita GDP	Average annual remittances received by recipient households
Colombia	2,277	2,050
Costa Rica	4,100	2,800
Dominican Republic	2,080	1,590
Ecuador	1,478	2,360
El Salvador	2,080	2,300
Guatemala	1,750	2,150
Haiti	374	1,300
Honduras	920	2,060
Jamaica	2,171	2,100
Mexico	3,740	3,020
Nicaragua	470	1,170

Sources: GDP per capita: World Bank, *World Development Indicators* (Washington, DC, 2003); remittances: National Money Transmitters Association (2003).

Remittance streams are an important corrective for Latin America's income inequalities, which are the worst of any of the world's major regions. Other capital flows contribute to job creation and economic growth, but their effect on income and wealth distribution is slow and uncertain.

Although the great bulk of funds is transferred by individuals, a small but growing share of remittances is sent collectively by hometown associations to address the needs of poor communities. In Mexico in 2002, rural communities received more than $30 million in such donations for paving streets and building schools, health centers, and irrigation plants.[2]

Remittances, however, are not a free good. Their cost is mostly borne by low-income migrants and their families in the United States. The average Salvadoran immigrant, for example, transfers upwards of 10 percent of his or her income to relatives back home. These payments often require that migrants reduce already meager expenditures on themselves, their families, and their children. They buy less housing, education, and health; save very little; and often work exceedingly long hours. These are mostly people who earn very little to begin with. According to the 2000 U.S. Census, more than 40 percent of Latinos earn less than $20,000 a year, and over 70 percent take home less than $35,000 a year.[3]

The flow of remittances is today critical to the future of many Latin American and Caribbean countries and vital to the poorest segments of their population. Without remittances, the region's economic slump over the past five years would have been far worse—and its consequences even more devastating for low-income residents. The importance of remittances is growing year by year. In nearly every country, remittance amounts are expanding more rapidly than either national incomes or other foreign capital flows.

Taxing remittances is unfair.

Remittances Are a Family Affair

This reports starts with the fundamental premise—agreed to by every member of our task force—that the sending of remittances is a private matter. Accordingly, the central prerequisite of any constructive government policy or program regarding remittances is the unambiguous acknowledgement of the private nature of these flows.

Governments should not, for instance, limit the amounts or restrict the destination of remittances, nor should they seek to prescribe how remittances are sent or used. They should not set prices for remitting institutions, nor should they collect taxes on remittance transfers. Indeed, taxing remittances is simply unfair. It would place a burden on transfers between family members that is not imposed on other international financial transactions. Governments have no claim on these resources; they belong to the family members who send and receive them.

There was, as well, a consensus among task force participants that, despite the reductions of the past few years, the costs of sending remittances to most Latin American countries is still too expensive. Other financial transactions by corporations and individuals are far cheaper. The costs of remittances (which usually include the fee for remitting plus a loss on exchange rates) can and should be brought down further. We concluded, however, that it would be a mistake to try to reduce prices through government controls or regulations. Indeed, efforts to regulate fees and exchange charges could well be

counterproductive, causing some companies and banks to curtail their remitting services, thus reducing competition and paving the way to higher prices. Controls may also lead to poorer quality services.

The role that governments should be playing is to expand the choices available to the senders and receivers of remittances. The single most important task, for both governments and nongovernmental agencies, is to encourage senders and recipients to make use of banks and other financial institutions.[4] Giving the unbanked in the United States and Latin America access to financial institutions—i.e., "banking the unbanked"—is far and away the best path to reduce costs and increase the security of remittance transfers. Moreover, getting senders and receivers into the banking system offers low-income families the opportunity to take advantage of other crucial money-saving financial services.

There is an array of initiatives that governments and private institutions can take to help achieve this core goal of banking the unbanked. They include

- ▷ facilitating competition among banks and other money transfer organizations that serve remitting and receiving communities (which often means removing existing legal and policy barriers to competition);
- ▷ encouraging alliances between credit and savings institutions and money transfer businesses (which are responsible for a major share of remittance transfers); and
- ▷ reducing barriers to innovations in technology and organization.

Other useful measures are giving people information about best banking practices, educating senders and recipients about financial matters, and gathering and publishing data and analysis to evaluate progress in expanding the numbers of the "banked."

By opening and using accounts in banks and other financial institutions, migrants and their family members back home gain economic citizenship.

More about Banking the Unbanked

This, then, is most vital recommendation of the task force. Governments, international agencies, financial institutions, and nongovernmental organizations should focus policy and advocacy efforts on getting remittance senders and recipients—indeed, all citizens and residents—to open and use bank accounts. Currently, only four out of ten Latin American immigrants in the United States, and fewer than two out of ten people in Latin America have accounts in financial institutions.

Banks and other financial institutions can send remittances at lower cost than other money transferring services; they also provide greater security. Financial institutions—and this is the crucial point—also open a range of other opportunities for remittance senders and recipients. They offer interest-bearing savings accounts; checking accounts for paying bills (instead of using costly money orders); free and secure check-cashing services; access to credit cards; loans for housing, education, and health insurance; and a means to establish a credit history. By opening and using accounts in banks and other financial institutions, migrants and their family members back home gain economic citizenship. They become part of the economic mainstream.

A series of additional benefits arise from having increasing numbers of people enrolled in financial institutions, particularly in nations and communities where banks have served only a fraction of the population. Increased deposits strengthen the financial institutions and make them more profitable. Reducing transfer fees and exchange costs increases the resources available to recipient communities and nations. Banking the unbanked, in short, expands the development horizons of the nations and communities. It also serves a clear social purpose by giving low-income groups, who are the bulk of remittance senders and recipients, access to banking services which have traditionally been available only to elite groups in most Latin American countries.

The senders and recipients of remittance transfers have a powerful economic motivation to use banks and other financial institutions. They gain an important array of benefits that are only available through these institutions. Conversely, remittances, because of their high and growing value, provide financial institutions with a strong incentive to recruit the senders and recipients as customers. In the United States, the Community Reinvestment Act (CRA), which requires that banks serve the needs of the communities in which they are based, could offer an additional incentive. The CRA could identify remittance transfers as an important service for banks to offer in communities with large immigrant populations.

Competition Is Critical

In just the past few years, increasing competition among financial institutions and remittance companies has substantially reduced the cost of sending remittances. For example, Western Union, an important bellwether of transfer prices, in 1999 charged $22 in fees (excluding exchange rate charges) to remit sums of $200 or less; by 2001, its fee had dropped to $15, and this year it fell again to $10. These successive cuts largely reflect the growing number of companies in the remittance market and their willingness to resort to price competition. As indicated in table 4, remittance costs tend to be lower in countries with the most competition (Mexico and El Salvador, for example) and higher in those where the market is controlled by only a few companies (e.g., Jamaica). Despite the recent gains, still more needs to be done to bring down costs.

The U.S. and Latin American governments can help increase competition further by authorizing a wider range of savings and credit institutions

Table 4: Competition in the Remittance Industry (from the Sending Side)

Recipient country	Number of firms that control 50% of market share		Average transfer costs (as % of amount sent)	
	1990s	2003	1990s	2003
Mexico	3	8	Approx. 15	5
El Salvador	3	6		4
Dominican Republic	6	8		8
Guatemala	3	6		6
Jamaica	2	3		12

Source: Manuel Orozco, *The Future Trends and Patterns of Remittances to Latin America* (Washington, DC: Inter-American Dialogue, 2003.

to provide money transfer services. Every government should undertake a comprehensive review of the legal and regulatory barriers that determine which institutions can participate in the remittance market and consider removing obstacles to participation whenever possible. For example, in some countries, savings and credit cooperatives and microfinance organizations are automatically barred from remittance activities. Those that have the capacity should, instead, be allowed to enter the remittance market; where necessary, they should be encouraged to form alliances with banks and money transfer organizations. After all, they are often the only financial institution available to remittance senders and receivers in remote areas, and they already work with the target groups. In the United States, there seems to be little reason to keep credit unions from cashing checks and providing remittance services to nonmembers.

Governments, and private institutions as well, can also help by identifying inefficiencies or outright failures in remittance markets and encouraging their correction. One approach, involving limited intervention, would be to develop and regularly publish information and analysis on the money transfer practices and costs of different institutions—perhaps creating something akin to a report card. For example, just as Consumers Union regularly ranks the quality and cost of supermarkets, cell phone companies, medical facilities, and a host of other services, it should consider evaluating remittance firms and highlighting their best and worst practices. Such an effort might focus on the following aspects of money transfer operations:

- ▷ Transfer fees and exchange rates
- ▷ Methods of delivery (hand delivery, money order, electronic transfer, debit card, bank to bank, Internet, courier agency transfer, etc.)
- ▷ Business locations and geographic coverage
- ▷ Transparency (about costs and services)
- ▷ Compliance with regulations

Giving customers the information needed to make better choices will inevitably foster competition, and lead to improved and cheaper service. Aside from a modest effort by Mexican consulates, there is currently no substantial oversight of money transfer practices in the United States.

Finally, governments should seek to generate accurate data on the participation of their citizens and residents in financial systems. In order to develop programs to encourage more people to open deposit accounts, information is needed on how many people are currently bank customers and on who is a customer and who is not. Data should be disaggregated, if possible, by location, income levels, and other relevant variables. In the case of U.S. banks, information about country of origin and length of residence in the United States will be important. These data will help in identifying specific obstacles to and opportunities for getting more people enrolled in financial institutions. They will also help in developing approaches suitable to different population groups. With this information, governments should consider setting general targets for increasing participation—as they do for school enrollments or vaccinations—against which future progress can be measured.

The Challenges in the United States

There are many factors that keep people away from banks and other financial institutions —that discourage them from becoming customers and taking advantage of the wide range of financial services. Many of the unbanked have little education and only limited (and often unsatisfactory) experiences with formal institutions of almost any kind. Some of the

problems affect low-income communities generally; others are specific to Latino immigrant groups. Here we identify several of the most important problems and discuss practices that have worked to solve them.

> Ordinary citizens in most Latin American countries have not had much access to financial services.

1. **Few banks have made their services appeal to Latinos.** Unlike money transfer companies and check-cashing outlets, they rarely offer the array of products of interest to the immigrant community. Simple steps such as having bilingual tellers and providing literature in Spanish are helpful. Some banks offer "starter" savings accounts with low minimum balance requirements. (Deposit accounts, which require small payments from each paycheck, are attractive to low-income individuals, particularly if banks offer deposit-secured emergency loans to people without a credit history.) A few banks sell low-cost money orders or make direct electronic payment available to the many immigrants who lack checking accounts. Even in this era of fewer face-to-face encounters and more automated banking, some savings and credit institutions have begun to offer extended hours.
2. **Not many banks currently provide low-cost remittance transfers.** Some U.S. banks offer low-cost wire services to their customers, while others are turning to advanced technologies, often based on the use of ATMs and "smart cards," to send remittances cheaply, particularly to Mexico. Several major U.S. banks have linked up with Latin American banks and/or money transfer businesses to offer lower cost remittances. The Latino Community Credit Union in North Carolina offers a low remittance charge and also allows members to open checking accounts with small deposits of $25 (as opposed to $500 or $1,500 in most banks). The World Council of Credit Union's International Remittance Network transfers remittances from credit unions in the United States to their counterparts in Latin America; the recipient does not have to be a credit union member.
3. **Most Latino immigrants arrive in the United States with little or no banking experience.** Banks in several cities, sometimes in cooperation with community groups, have pointed the way to providing immigrants with financial information and education. They publish their materials in Spanish and conduct outreach programs for Latinos at high schools and hometown associations. In Chicago, the Federal Deposit Insurance Corporation (FDIC) has tested Money Smart, a financial education program available in Spanish and English that targets low-income adults, which will be offered through hometown associations, consular mobile sites, high schools, and banks/nonprofit partnerships. Furthermore, the FDIC and the Mexican Consulate in Chicago formed a taskforce of 22 banks and various nonprofits to expand banking services among immigrant populations. The taskforce set a goal of 100,000 new bank accounts and aimed to reach 5,000 to 10,000 people through financial education programs over the next two years.
4. **Undocumented immigrants lack a U.S. driver's license or other standard forms of identification required by U.S. banks and credit unions.** All banks

accept the Individual Taxpayer ID Number (Itin) as identification. The Itin can readily be obtained from Internal Revenue Service (IRS). Community-based groups in many cities help immigrants obtain an Itin, which the IRS has issued directly to individuals since 1996. Numerous financial institutions (currently more than 180) also accept the **matricula consular**, an identity card issued by the Mexican and Guatemalan consulates, with other consulates likely to follow suit. Although the matricula has generated some controversy, the U.S. Treasury Department has rejected efforts to prohibit financial institutions from accepting it if they so choose.

The Challenges in Latin America

Ordinary citizens in most Latin American countries have not had much access to financial services. Banks are mainly designed to serve elite groups and only reach out to lower- and middle-income groups in a few places. Much more must be done to reform bank practices and make them more accessible, so that countries can take full advantage of remittance flows and incorporate currently excluded groups into their national economic system. The benefits should be faster and more sustained economic growth, and reduced poverty and inequality.

Alternative savings and credit institutions have been developed in some places, specifically to provide services to a broader public. However, few of these alternative institutions—including microfinance organizations, credit unions, and popular banks—are yet allowed to transfer remittances. This is an important legislative issue for Latin American governments, which need to review and revamp their banking laws to better serve low-income populations, particularly in rural areas, which receive such a large share of remittance flows. Microfinance institutions and cooperatives could serve as remittance agents in areas where banks are not active. They could also fill a void by offering other financial services.

Efforts to expand the role of microfinance institutions require that a realistic assessment be made of their capacity to take on new tasks. Some microfinance businesses will need to be substantially strengthened and upgraded before they can serve as international remitters.

In the Dominican Republic, a credit union in San Jose de Las Matas transferred half a million dollars in remittances during a 12-month period—and many remittance recipients have subsequently become members. In the first year of operation of the Mexican microbank Xuu Ñuu Ndavi (Money of the Poor People), its 168 members (half of whom are women) received $170,000 in remittances and accumulated $160,000 in savings—suggesting that remittance-receiving households have a significant propensity to save and are inclined to do so in financial institutions they trust. In El Salvador, Guatemala, Honduras, Nicaragua, Mexico, and Jamaica, the federations of credit unions, with extensive networks serving rural households, have become involved in remittance transfers.

Few Latin American governments or banks have sought to develop special financial arrangements for their emigrant communities. Experiences elsewhere suggest that such arrangements can provide important benefits to emigrants, their families back home, the banks, and the countries. Foreign banks are allowed to sell Resurgent India Bonds to Indians living overseas, which encourages them to invest in their home country. Portuguese banks gained government approval to

provide nationals residing abroad with accounts that allow saving in foreign currencies and offer low-interest loans to purchase homes in Portugal. As a result, emigrant deposits jumped to 20 percent of all Portuguese bank deposits. Morocco's Groupe Banques Populaires (a majority state-owned bank) gives Moroccans in Europe the opportunity to remit funds at no cost. The overseas Moroccans simply deposit money in their European accounts, which can then be withdrawn by relatives living in Morocco. Groupe Banques Populaires also provides subsidized credit for real estate and other investments in Morocco, and sells insurance especially designed for emigrants.[5]

Family Remittances and Well-Being in Latin America

Remittances have dramatically changed the face of financial flows to Latin America and will likely have an equally significant impact on the region's development. Rapidly expanding remittance streams are pumping significant new sums of money into Latin America—exceeding all foreign assistance and all foreign direct investment. More importantly still, the overwhelming share of these funds is going directly to poor people. Remittances, therefore, are not only a major source of capital for economic growth, but are also a significant force for social development. They are helping to address one of Latin America's most stubborn and dangerous problems: the vast inequalities in wealth and income that are a continuing cause of political tensions across the region and often a roadblock to growth itself.

This report results from debate and deliberation among an exceptionally distinguished and knowledgeable group of persons from a wide variety of backgrounds. All of us were committed to the objective of finding ways to increase the impact of remittances and make them even more valuable to the individuals and families sending and receiving them. Our strongest recommendation to governments and international agencies is to follow the advice of Hippocrates to the medical profession—first, do no harm.

To begin with, governments (and non-governmental organizations as well) need to recognize that these resources are private. They belong to the individuals who earned them, and who have every right to transfer them freely to other family members. No one else has a claim on them. And these resources are certainly being put to good use. Remittances are providing enormous benefits to recipients, their families, and their communities.

It would be unfair and unjust to tax remittance flows any more than other international capital flows. Taxation could well reduce the size of remittance transfers or encourage senders and recipients to transfer money illegally.

By far our most important recommendation is that the governments of Latin America and the United States encourage all of their citizens and residents to open accounts in banks and other financial institutions. Remittances give people the resources they need to become part of the formal financial system; conversely, they give banks and other institutions sizable incentives to recruit these individuals as customers. Using financial institutions to transfer remittances brings down costs, and it provides an array of other advantages. It reduces the cost of check cashing and bill paying—and gives people access to credit.

Promoting access to financial institutions through remittances does not mean excluding money transfer businesses from the market. In many cases, partnerships between these businesses and financial institutions should be encouraged

because they offer a larger range of benefit to senders and recipients.

Governments can mostly help by revising regulations so they promote competition and do not discourage banks and other financial institutions from offering services to the poor. Governments should compile and publish accurate data that permit comparisons among financial institutions and countries regarding the access and services they provide to all citizens and residents.

Remittances are an immensely valuable resource for families, communities, and nations. Their value can be increased even more by encouraging as many citizens and residents as possible, in both the United States and Latin America, to make use of banks and other financial institutions. An important measure of a country's social development is the share of its population that is banked—that is, that enjoys full economic citizenship.

NOTES

[1]Inter-American Development Bank, "Sending Money Home: An International Comparison of Remittance Markets" (Washington, DC, 2003).

[2]Manuel Orozco, *Hometown Associations and Their Present and Future Partnerships: New Development Opportunities?* (Washington, DC: Inter-American Dialogue, 2003).

[3]U.S. Census Bureau http://www.census.gov/population/socdemo/hispanic/p20-535/tab12-3.txt.

[4]We use the term "financial institutions" to refer to those entities that offer depository financial services in the United States and Latin America. The term includes commercial, savings, and community banks; credit unions; and not-for-profit savings and credit cooperatives (common in Latin America).

[5]Manuel Orozco, *Worker Remittances in an International Scope* (Washington DC: Inter-American Dialogue, 2003).

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