The Earth Institute
AT COLUMBIA UNIVERSITY

Migrant Remittances and Economic Development
Lecture 9

SIPA U8159
Tuesdays 4:10 pm – 6:00 pm
IAB 410

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Remittances and Institutions

Identify institutional stakeholders

private sector *– governments - civil society*

Highlight features of the remittance market

organization – prices – products - trends

Address 1st generation responses/reforms

data - regulation - formalization

Look at evolving 2nd generation responses

expansion of pro-poor financial services

Who are the stakeholders/participants?

SENDING COUNTRY STAKEHOLDERS

Private Sector

- Small immigrant-owned businesses (groceries, pharmacies, etc.)
- Medium-sized package companies (sometimes immigrant-owned)
- Large multinational money transfer companies (MTOs)
- Large multinational financial institutions
- Community banks/credit unions

Private Individuals

- Sender
- Sender’s household
- Immigrant community
- Carriers

Public Sector

- National and sub-national governments
- Central Banks/Superintendencies of Banks
- Other regulators/supervisors (anti-money laundering, financial supervision)
- Consumer protection agencies

Civil Society

- Private foundations
- Immigrant Support Organizations
- Hometown associations and other diaspora organizations

Who are the stakeholders/participants?

RECEIVING COUNTRY STAKEHOLDERS

Private Sector

Foreign exchange houses

Package and delivery services

Money transfer companies (large/intl. and smaller national)

Microfinance institutions/credit unions

Large commercial banks, mortgage finance, etc.

Retail stores (supermarkets, white goods, etc.)

Private Individuals

Recipient

Recipient's household

Migrant's home community

Moneylenders and other private intermediaries

Public Sector

National and sub-national governments

Central Banks/Superintendencies of Banks

Other regulators/supervisors (anti-money laundering, financial supervision)

Consumer protection agencies

Civil Society

Migrant families' groups

Hometown association counterparts

Rural NGOs

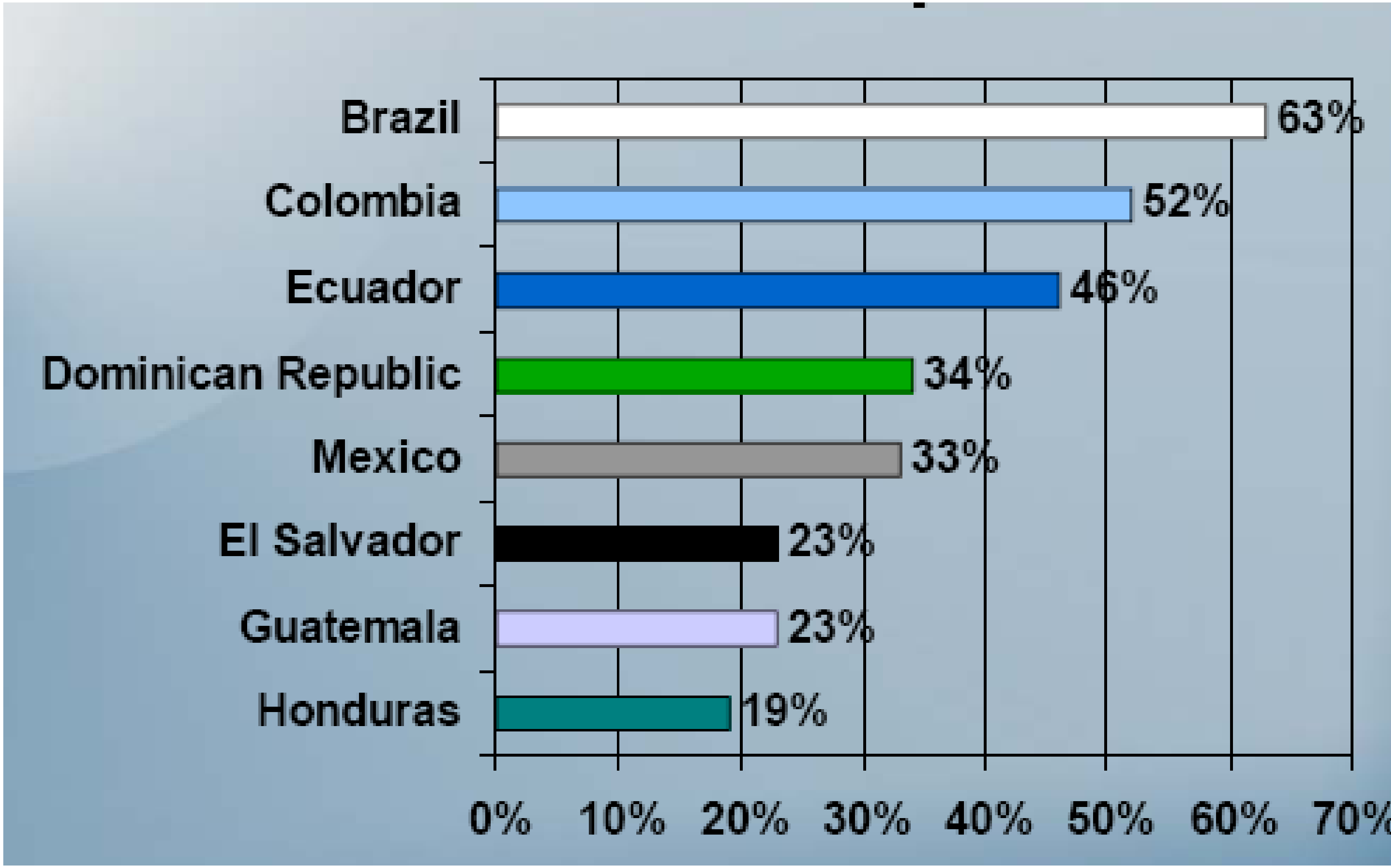
Remittances and Institutions

Market organization and institutional structure

- Fragmented markets or “micro” markets
- Limited accessibility to formal financial institutions
- Less transparency of prices/fees
- Social capital and inertia in experience goods
- Difficulty taking new services to scale

PHYSICAL AND SOCIAL NETWORKS KEY

Recipients with bank accounts



Source: Bendixen, Sergio. 2005. *Sending Money to Latin America: The Human Face of Remittances.*

Remittances and Institutions

What creates the conditions for formal or informal money transfer?

- Financial infrastructure
- Strength of financial system
- Credible monetary policy
- Accessibility on both sides
- Legal and regulatory environment
- Social and political context

Informal money transfer systems

- Well-established and historical practice
- Democratic, no access questions
- Sensationalized despite limited evidence of use of MTOs for money-laundering
- Inability to comply with increasing restrictions
- Restrictions can have adverse impact on livelihoods in poorest countries w/ worst infrastructure

Formal money transfer systems

- Fragmented markets with limited access to payments systems
- Can lead to financial disintermediation (courier services, door to door service)
- Technological innovation but not fully “democratized” among financial institutions
- Relies on access to networks like SWIFT

Debate over formal vs. informal

Formal

Pros

Improve transparency

Improve data

Increase fx flows/reserves

Improve financial access in future

Cons

Low trust and familiarity

Little access to credit

Costly regulation

Informal

Pros

Lower transaction costs, higher incomes

Better fx, more money rec'd

Access to informal credit

High trust and familiarity

Social capital self-enforcing

Cons

Difficult to track

No legal redress

		Positive	Negative	Cost	Access	Service
Formal	**Bank**	Cheap for large transfers; reliable but slow; sending country network; ample liquidity	Costly for small transactions; acct. opening required; low convenience; tracking problems	High	Med/Low	Med/Low
	Post office	Cheap, good service network on both sides	Slow; poor service; delays; lack of liquidity	Low	High	Med/Low
	MTO	Fast, reliable, accessible, trust relationships	High cost; poor fx; accessibility	High/Med	High	High
Informal	**Hundi/ hawala**	Less costly; trust relationship; better fx; door to door; advance $; underserved locations	Cost depends on location	Med/Low	High	High
	Self, relatives, friends	Trust; no fee; direct to recipient; underserved locations	Slow; risk of loss with no redress	Low	High/Med	Med/Low

Source: adapted from Sander 2003 with lecturer’s comments

Remittances and Institutions

Primary private sector institutional role:

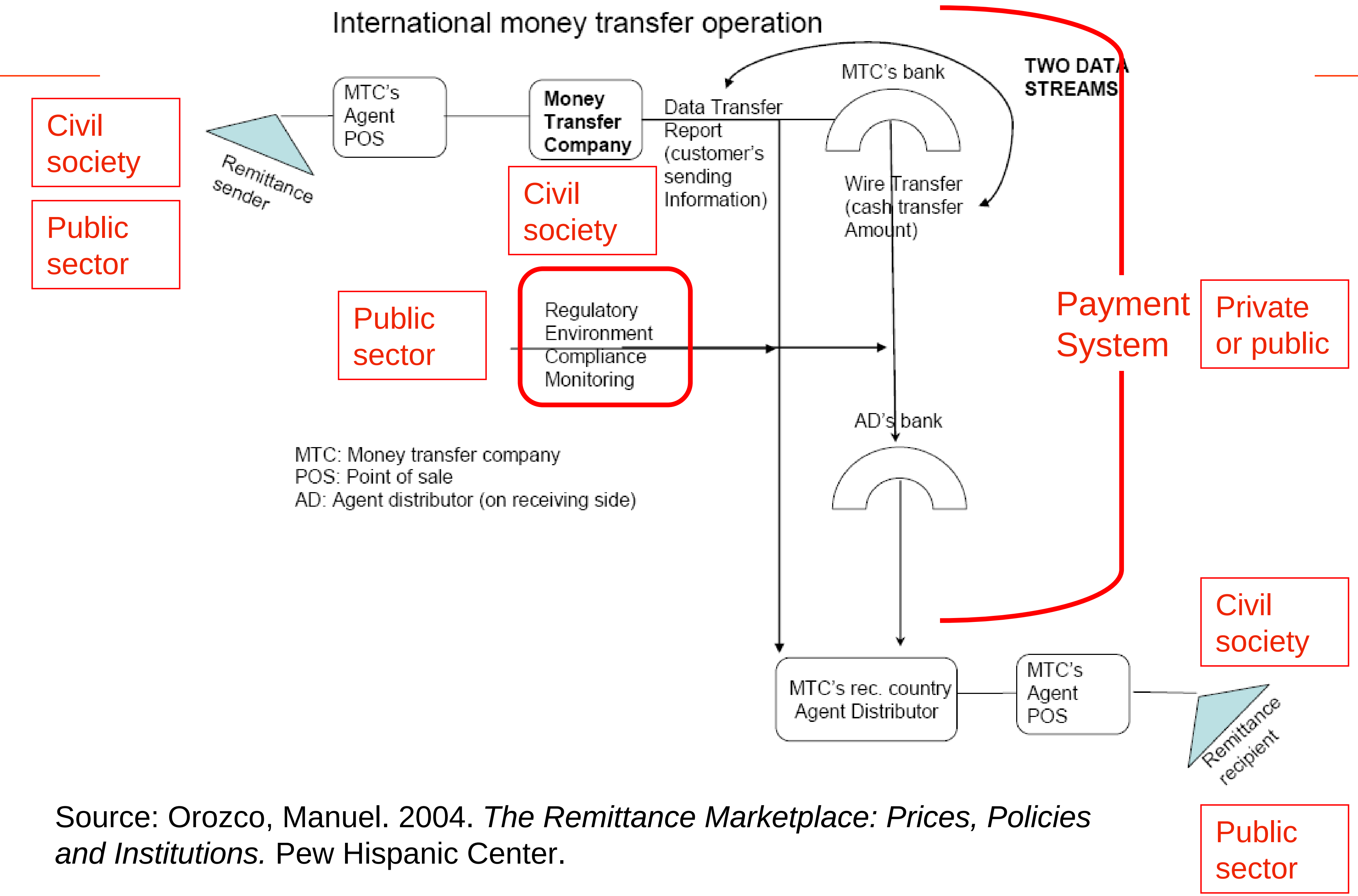
- Deliver money safely, quickly and reliably

Everything else is gravy:

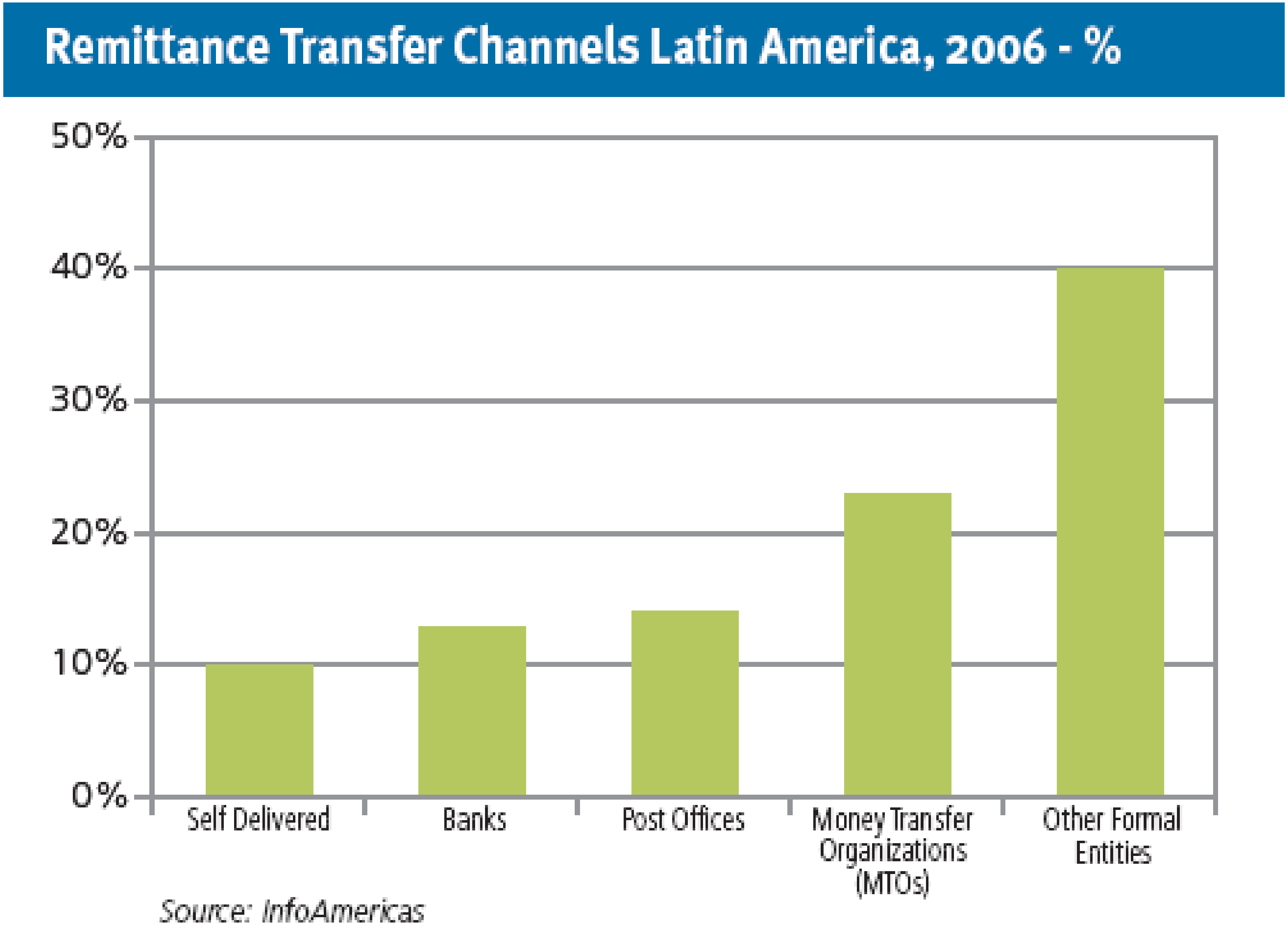
- Cost/technology (cards, etc.)
- Transparency
- Messages/packages
- Accounts/financial services
- Retail items/foodstuffs

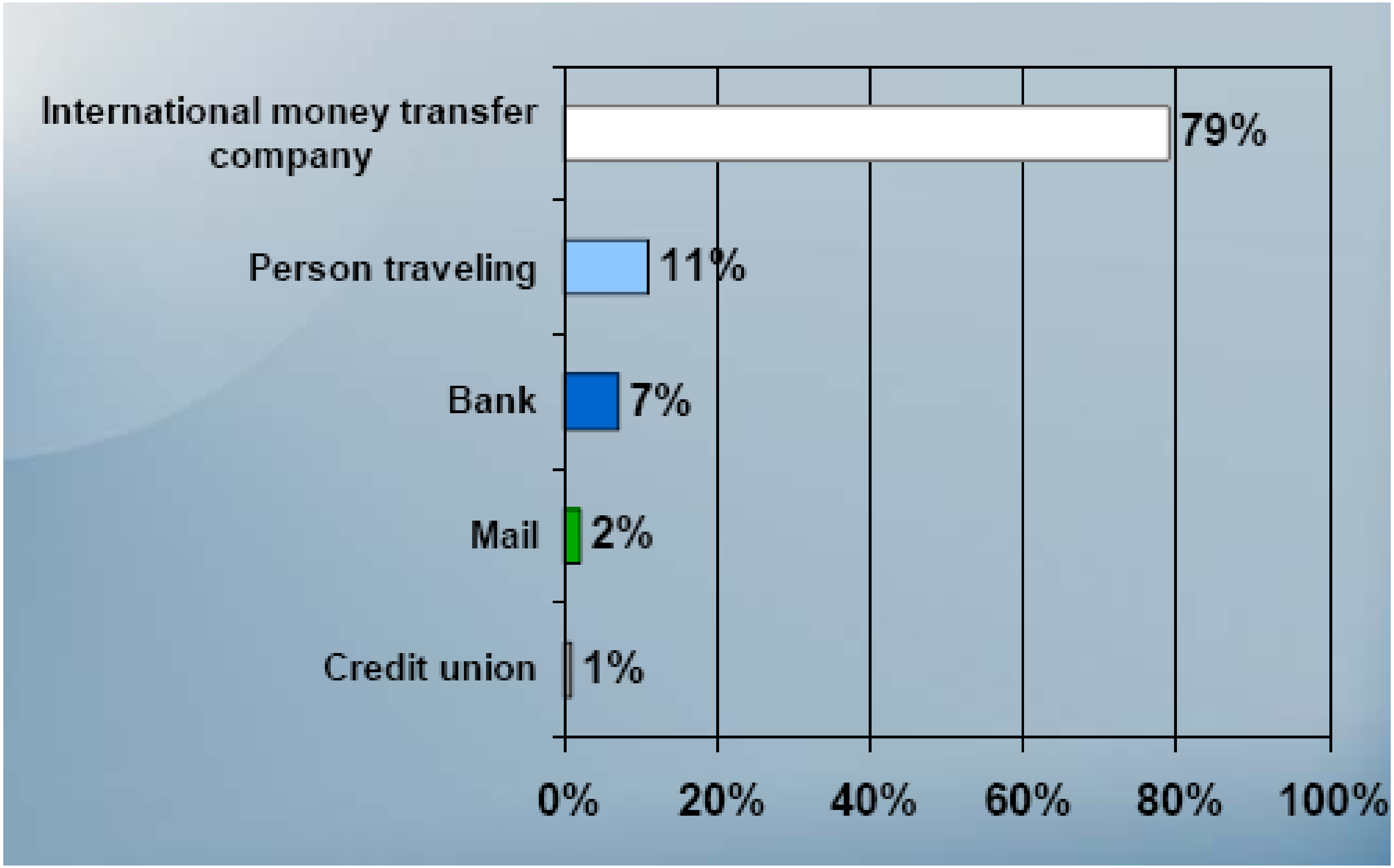
Anything beyond primary mission requires an equivalent or more compelling value proposition

Figure 1: Structure of an international money transfer operation



Source: Orozco, Manuel. 2004. *The Remittance Marketplace: Prices, Policies and Institutions.* Pew Hispanic Center.


Remittance Transfer Channels Latin America, 2006 - %
50%
40%
30%
20%
10%
0%
Self Delivered
Banks
Post Offices
Money Transfer Organizations (MTOs)
Other Formal Entities
Source: InfoAmericas



Source: Bendixen, Sergio. 2005. *Sending Money to Latin America: The Human Face of Remittances.*

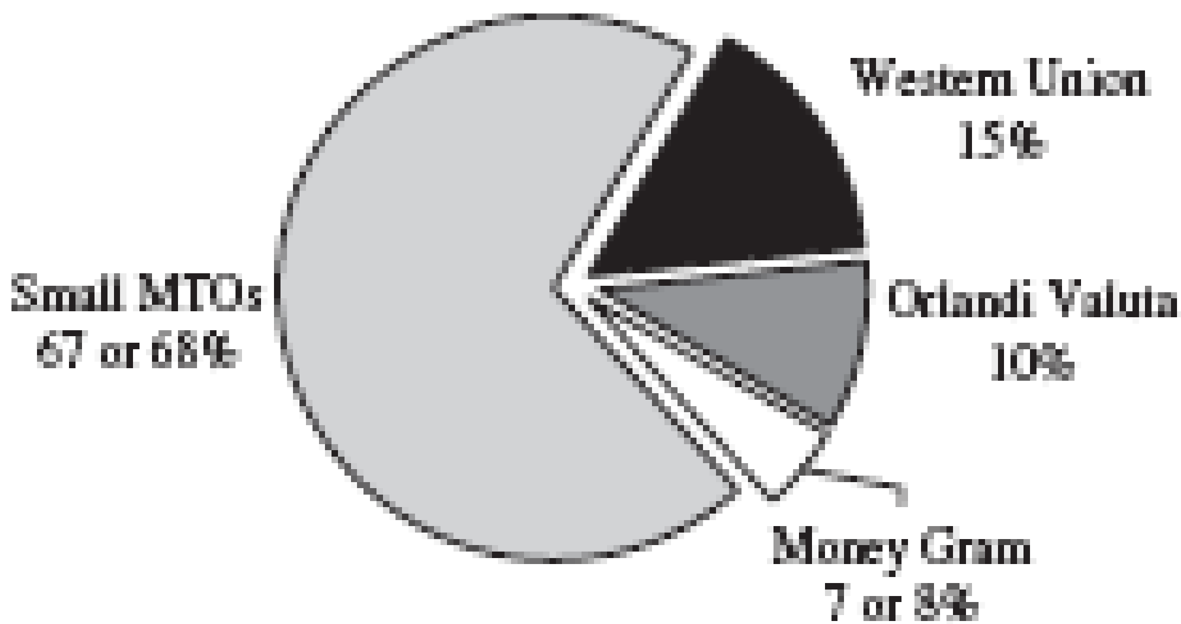
Table 4 — Type of institution offering remittances

	Percent
Bank as MTO	29.0
Bank as Bank	46.4
Credit Union	14.5
Bank offering ATMs	10.1
Total	100.0

Source: data compiled by the author based on inquires to 60 banks.

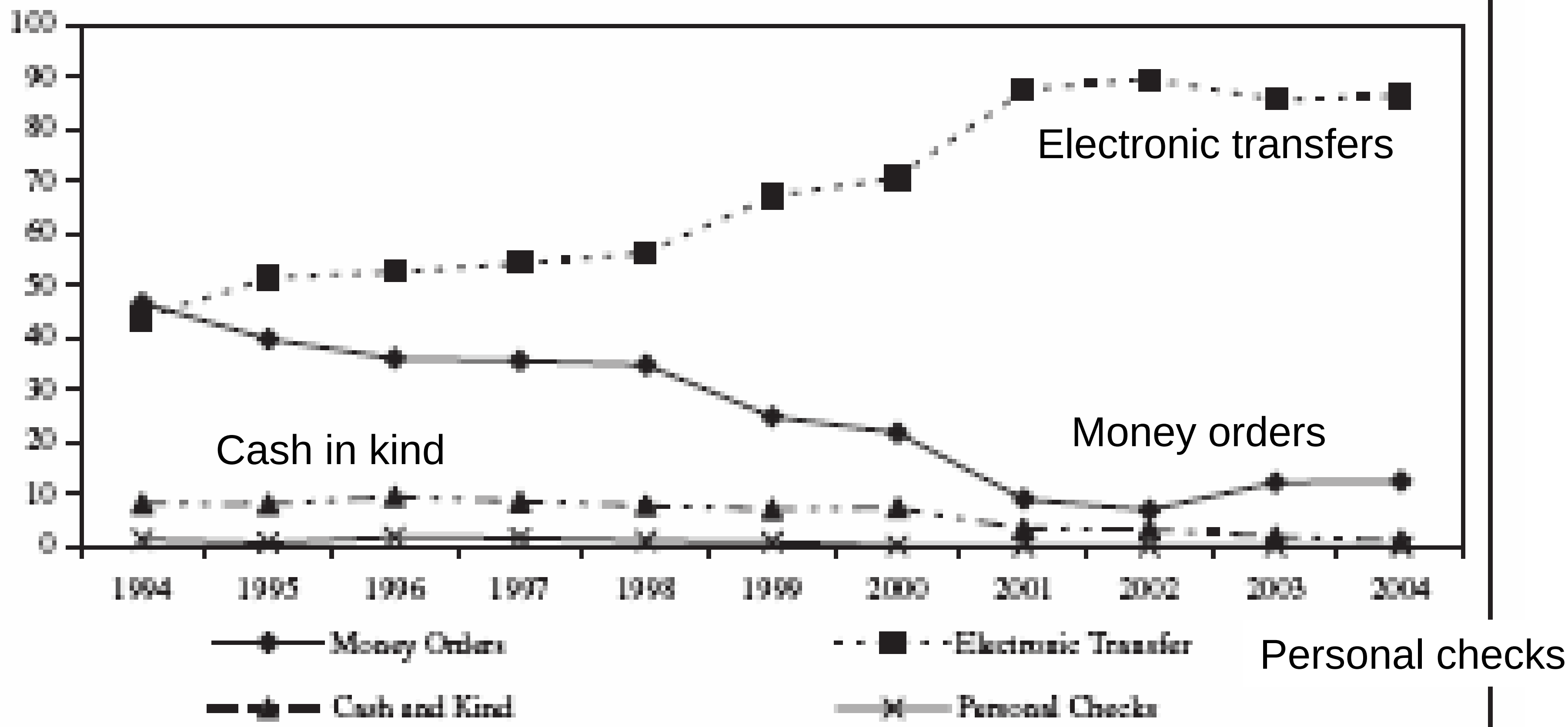
Source: Orozco, Manuel. 2005. *Markets and Financial Democracy: The Case for Remittance Transfers.* Journal of Payment Systems Law Vol. 1, No. 2.

Figure 2. Estimated Market Share for Origination (June 2004)



Source: Hernandez-Coss, Raul. 2005. *The US Mexico Remittance Corridor.* World Bank.

Figure 3. Workers' Remittances by Instrument, 1994–2004
(percent)



Source: Banxico.

Source: Hernandez-Coss, Raul. 2005. *The US Mexico Remittance Corridor.* World Bank.

Inflows from Remittances

Millions of US dollars

	2000	2001	2002	2003	2004	2005 Jan-Apr
Total Remittances	6,573	8,895	9,814	13,396	16,613	5,647
Money Orders	1,434	803	687	1,623	1,883	564
Personal Checks	9	10	10	6	0	0
Electronic Transfers	4,642	7,784	8,798	11,512	14,496	5,011
Direct Transfers *	488	298	320	255	234	72

* Includes transfer of goods as well as cash. Data are drawn from Banco de México's International Travel Surveys.

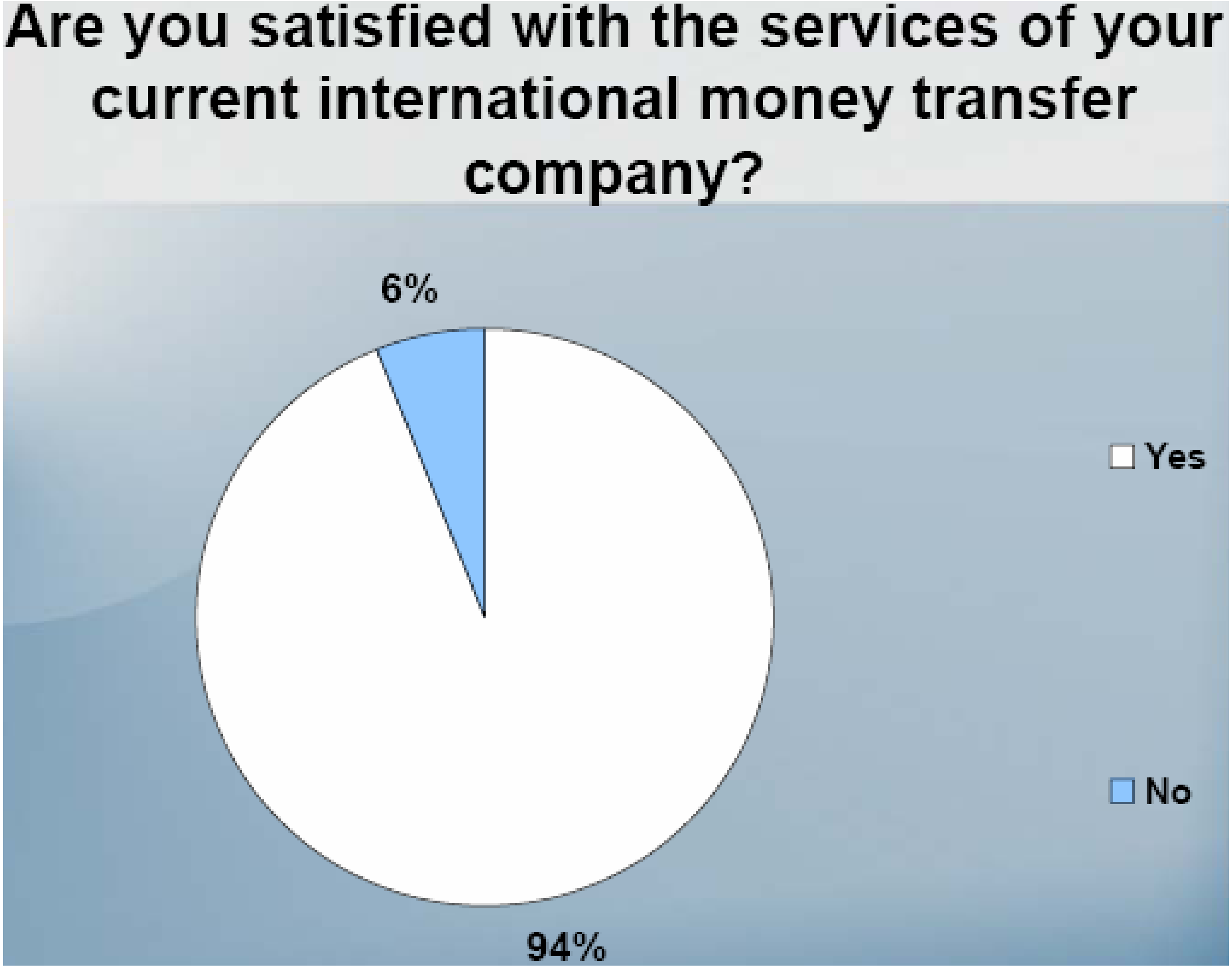
Source: Banxico. *Remittances and Development: The Case of Mexico.* Presentation at the IDB International Forum on Remittances 2005.

Table 1 — Transfer mechanism employed (by percentage)

Pick up at office, bank	86
Home Delivery	4
ATM, Debit or Smart Card	1
Bank, credit union deposit	4

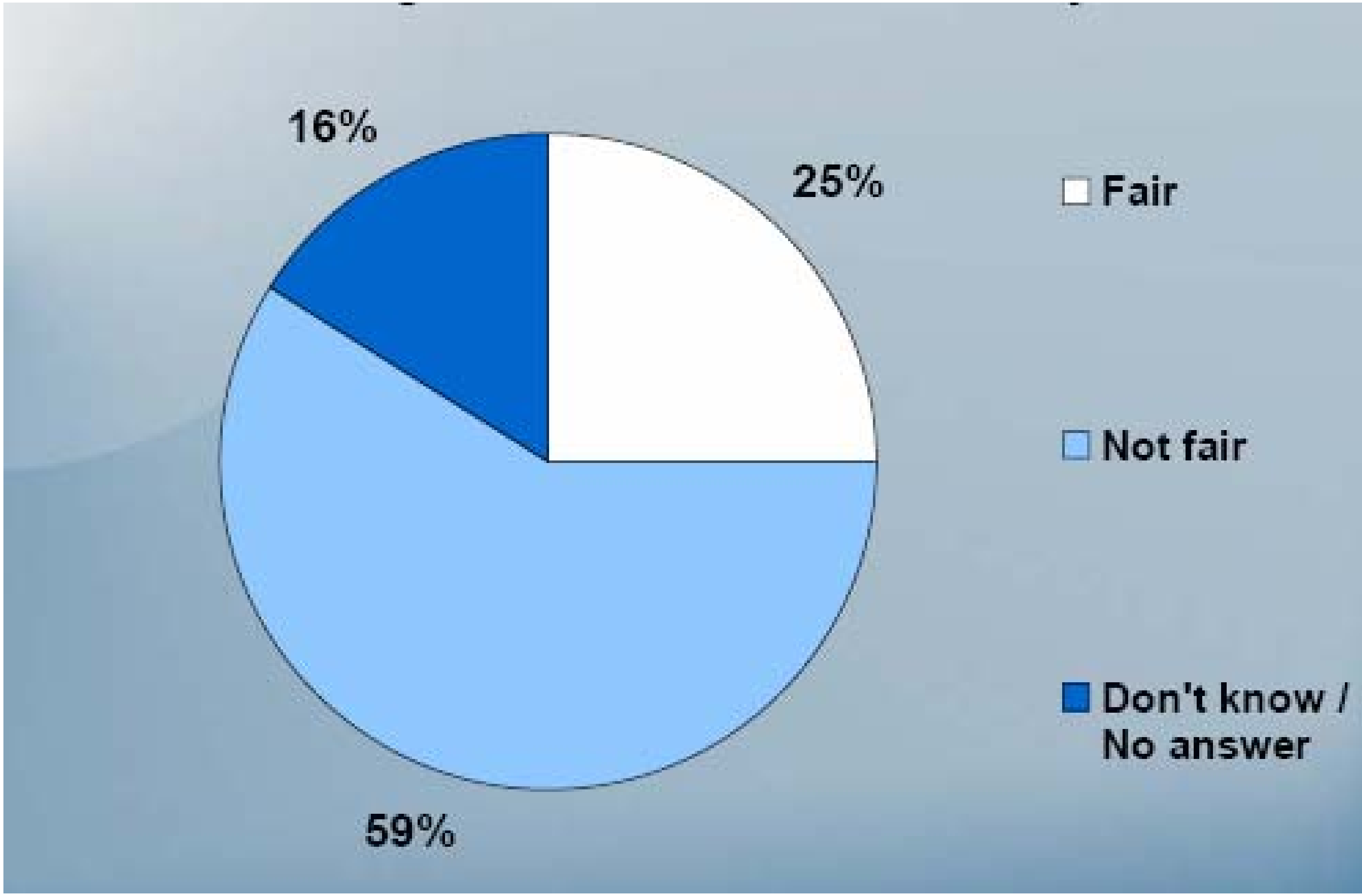
Source: data compiled by the author

Source: Orozco, Manuel. 2005. *Markets and Financial Democracy: The Case for Remittance Transfers.* Journal of Payment Systems Law Vol. 1, No. 2.



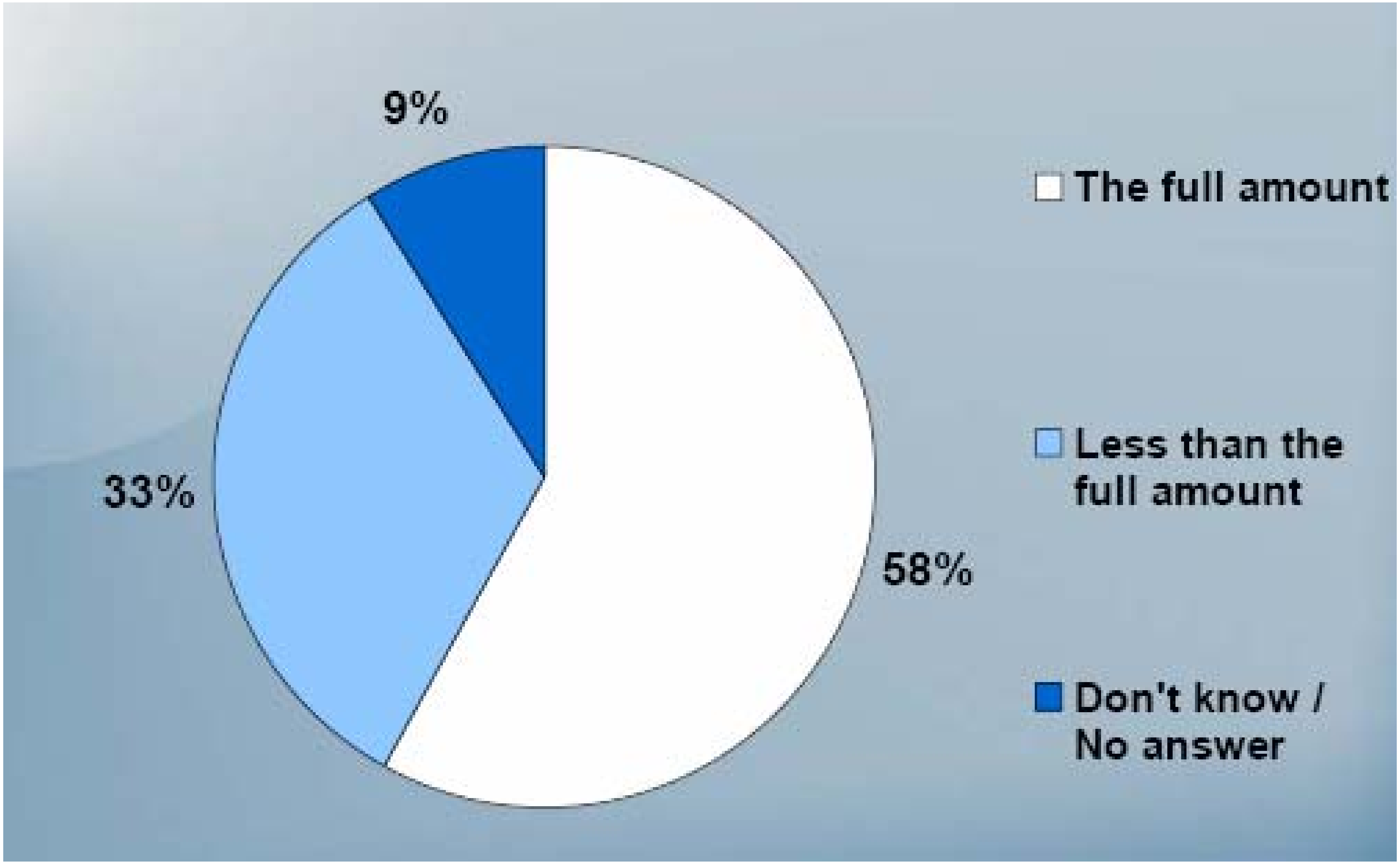
Source: Bendixen, Sergio. 2005. *Sending Money to Latin America: The Human Face of Remittances.* From DR survey 2004.

Prices fair or not fair?



Source: Bendixen, Sergio. 2005. *Sending Money to Latin America: The Human Face of Remittances.* From US senders' survey 2001.

Family receives full amt or less?



Source: Bendixen, Sergio. 2005. *Sending Money to Latin America: The Human Face of Remittances.* From US senders' survey 2001.

Money transfer services (and more)

Table 5: Percent of banks offering remittance related services

Remittance transfer offered only to institution's members	73.9
Issue an ATM card for relative in Mexico	31.9
Allow bank-to-bank deposits	34.8

Source: data compiled by the author based on inquires to sixty banks.

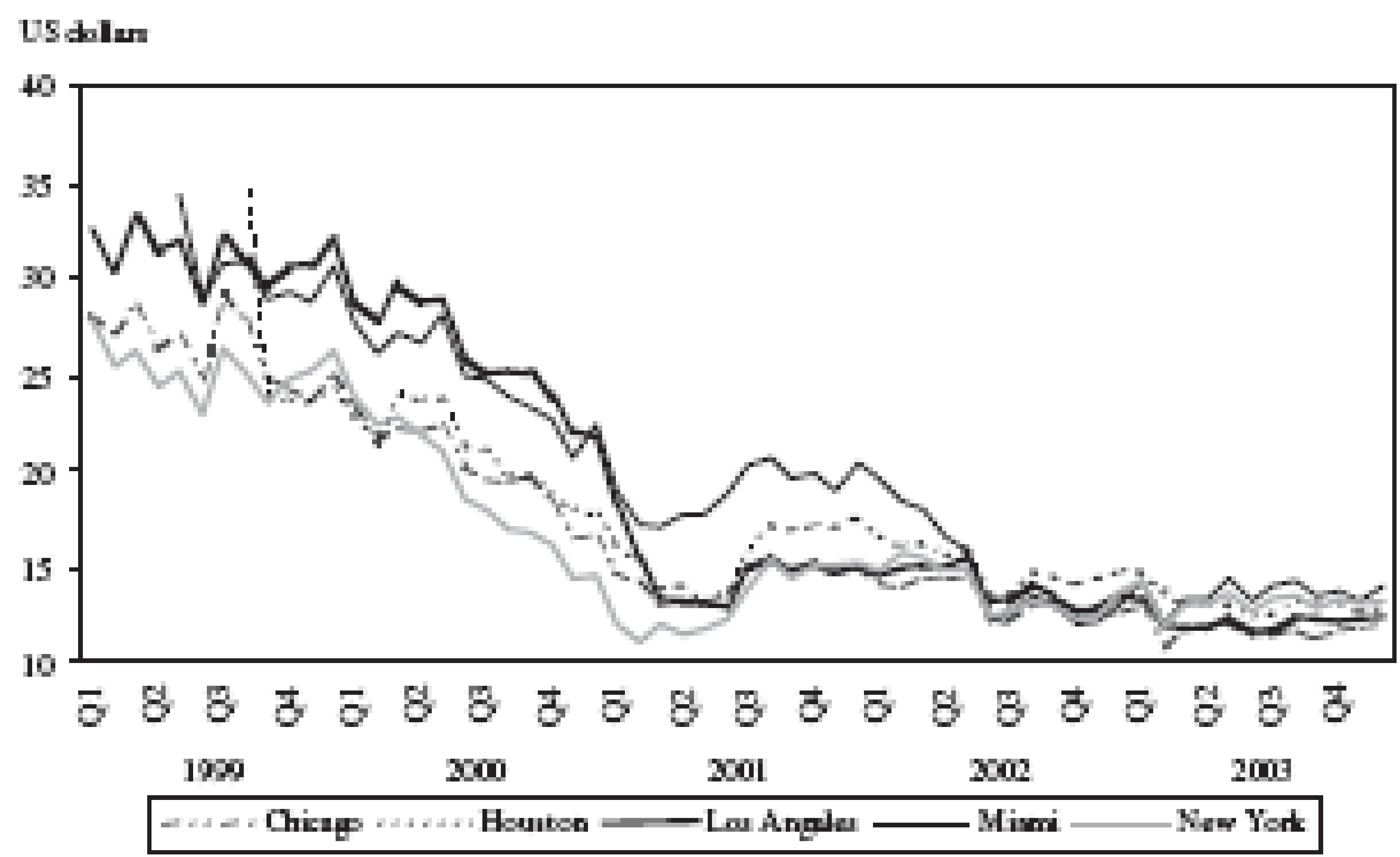
Source: Orozco, Manuel. 2005. *Markets and Financial Democracy: The Case for Remittance Transfers.* Journal of Payment Systems Law Vol. 1, No. 2.

Institutions: 1st generation responses

Reforms aim to enhance impact with:

- Lower transaction costs
- More competition
- More information about services
- Regulatory reform
- Financial access
- Improved national data
- New payment options

Figure A. Total Cost of Sending US$300 from the U.S. to Mexico, 1999–2003



Source: PROFECO

Source: Hernandez-Coss, Raul. 2005. *The US Mexico Remittance Corridor.* World Bank.

Table 3. Remittance Costs from U.S. to Mexico (1999–2003) (U.S. dollars)

Average cost of sending to Mexico $300 from different U.S. cities (1999–2003)						
City of origin	1999	2000	2001	2002	2003	Percent reduction over period
Chicago	24.2	19.6	13.7	13.7	11.6	52.1
Dallas	27	25.4	16.3	14.6	13.1	51.5
Houston	22.4	20.4	15.7	14.9	12.9	42.4
Los Angeles	29.3	23.7	14.3	14.0	12.2	58.4
Miami	29.1	22.7	18.4	16.5	12.7	56.4
New York	24.7	18.5	13.5	13.9	13.2	46.6
Sacramento		19.6	15.1	15.2	14.1	28.1*
San Jose'			14.6	14.5	12.9	11.6**
Average	$ 26.12	$ 21.41	$ 15.20	$ 14.66	$ 12.84	50.8

*2000–2003 **2001–2003

Source: PROFECO.

Source: Hernandez-Coss, Raul. 2005. *The US Mexico Remittance Corridor.* World Bank.

Total Cost of Money Transfers from the U.S. to Mexico of an Average Amount of US$300 from a Sample of Firms by City of Origin

US dollars per Transfer

	Chicago	Dallas	Houston	Indianapolis	Los Angeles	Miami	New York	Sacramento	San Jose	TOTAL
1999	21.8	27.1	21.8	42.1	28.3	27.4	27.0	32.4		28.6
2000	18.8	24.3	21.4	29.7	23.7	22.6	21.6	17.1	29.2	23.2
2001	12.7	16.2	15.7	21.1	13.1	17.0	16.7	14.7	16.0	16.7
2002	13.3	14.6	14.9	17.1	13.9	16.4	14.2	16.3	14.4	14.8
2003	11.2	13.1	13.1	11.9	12.0	13.1	12.8	14.6	13.1	12.8
2004	11.2	12.3	12.6	11.3	11.4	12.0	12.2	12.2	11.7	11.8
First Half	11.1	12.3	12.6	11.7	11.3	12.3	12.0	12.3	11.7	11.8
Second Half	11.3	12.3	12.6	11.0	11.2	11.6	12.4	12.0	11.6	11.8
2005										
January	9.8	10.3	10.7	9.4	9.2	8.9	10.3	9.6	9.5	9.8
February	10.5	11.3	11.6	9.1	10.2	10.4	11.4	10.6	10.6	10.6
March	11.4	12.3	12.8	11.3	11.1	11.5	12.1	11.6	11.4	11.7
April	10.9	11.6	12.0	10.2	10.7	11.1	11.8	10.9	11.1	11.2
May	10.0	12.5	12.5	10.0	10.3	9.8	10.2	10.7	10.7	10.7

Source: PROFECO.

Source: Banxico. *Remittances and Development: The Case of Mexico.* Presentation at the IDB International Forum on Remittances 2005.

Table 12. New York's Market Is More Competitive But The Price Range Is Large

New York

	Pesos				USD				FX NY
	$50		$150		$50		$150		12-Nov
Money Gram	7.5	15.00%	12.5	8.33%	9.0	18.00%	17.0	11.33%	25.75
Mateo Express	7.5	15.00%	12.5	8.33%	9.0	18.00%	17.0	11.33%	25.75
Pronto Envio	7.5	15.00%	12.5	8.33%	9.0	18.00%	17.0	11.33%	25.75
Cibao Express	7.0	14.00%	12.0	8.00%	9.0	18.00%	17.0	11.33%	25.75
Western Union	10.0	19.98%	10.0	6.66%	15.0	30.00%	22.0	14.67%	25.75
Quisqueyana	5.0	10.00%	7.5	5.00%	8.0	16.00%	12.0	8.00%	25.75
La Nacional	5.0	10.00%	5.0	3.33%	7.5	15.00%	12.5	8.33%	25.75
Pujol	5.0	10.00%	5.0	3.33%	6.0	12.00%	11.0	7.33%	25.85
Agil	3.0	6.00%	4.5	3.00%	5.0	10.00%	7.5	5.00%	25.75
RIA	3.0	6.00%	3.0	2.00%	5.0	10.00%	7.5	5.00%	25.75
BHD	3.0	6.00%	3.0	2.00%	9.0	18.00%	17.0	11.33%	25.75
CAM	2.0	4.00%	2.0	1.33%	8.0	16.00%	14.0	9.33%	25.75

Source: Suki, Lenora. 2004. *Financial Institutions and the Remittances Market in the Dominican Republic.* Columbia University.