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Domestic and International Monetary Policy, Trade, and Technology
"The Role of Remittances in Leveraging Sustainable Development
in Latin America and the Caribbean"
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Chairman Gutierrez, thank you for the opportunity to testify this afternoon 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 multi-ethnic and multi-lingual polling. I have over twenty-five years of experience in the field. Since 2001 I have been retained by the Multilateral Investment Fund of the Inter-American Development Bank to conduct national surveys and focus groups of remittance senders in the United States, Japan, and Portugal; and recipients in 17 countries in Latin America.

I have also conducted surveys in Russia, Azerbaijan, Moldova, and Georgia for other clients. In total, my firm has interviewed over 60,000 remittance senders and receivers. My testimony today draws upon information gleaned from a number of these surveys, with a particular focus on a survey I completed in the United States in 2006.

Poll Methodology
In the 2006 poll, we interviewed 2,511 Latin American immigrant adults residing in the United States with family in their home countries. The interviews were conducted by telephone, in Spanish. The margin of error of the poll was two percentage points. **It should be emphasized that a special effort was made to simplify and pre-test the polling instrument so that immigrants with little formal education could understand each question. In addition, interviewers were used that were from the community, so that they could build trust with respondents to secure more accurate results.**

Major Findings
A great deal has happened in the remittance market in recent years. Efforts to improve remittance data collection, increase competition and reduce cost in the remittance industry, and explore the development impact of remittances have born fruit. Today, we know that:

- Remittances sent to Latin America and the Caribbean were more than $62.3 billion in 2006, surpassing the combined amount of net official development assistance and foreign direct investment to the region;

- Money transfer costs have been reduced by over 50 percent;

- Remittances constitute one of the broadest and most effective poverty alleviation programs in the world. In Latin America and the Caribbean, an estimated 8-10 million families would fall below the poverty line without remittance income. For them, remittances are critically needed.

The challenge now is to help leverage the economic development impact of remittances. For this reason, the 2006 survey of the United States had a particular focus on the banking practices of immigrants, remittance investment potential, and the financial products that senders and receivers are most interested in receiving.

While remittances are clearly far from reaching their full potential as an investment tool, the recent survey shows the international migrant community is becoming increasingly aware of the potential of structuring the transfer of funds to achieve more effective economic results. Remittance senders are making greater use of the formal financial system, lowering costs and multiplying financial benefits.

But, much more needs to be done to leverage these resources, and, particularly, to provide transnational families with access to the financial system and more options to use their funds. Despite the unprecedented levels of interest in remittances, a variety of historical, legal, regulatory, and cultural obstacles continue to prevent the financial sector from successfully integrating remittance senders and receivers.

The study indicates that 12.6 million Latin American immigrants in the United States sent home approximately $45 billion in remittances over the past year. This is a substantial increase over 2004, due to the fact that more immigrants are sending remittances, and they are sending more money each time.

Over the last two years, the percentage of Latin American immigrants sending money home on a regular basis to their relatives has increased from 61 percent to 73 percent. In that same period, the average amount of each remittance sent has also increased from $240 to $300.

Immigrants in the United States now also have more purchasing power: total income for Latin American immigrants is estimated at more than $500 billion. While almost 10 percent of these earnings are sent home to their families, more than *90 percent* is spent in the states and towns where they live, directly contributing to local economies.

For example, in Texas, $5.2 billion in remittances equates to a contribution of more than 50 billion to the local economy. In Georgia, a state with more recent immigration, $1.7 billion in remittances reflects an impact on the local economy of almost $7 billion. In Virginia, which experienced an almost 100 percent increase in remittances from 2004 to 2006, a total of $1.1 billion in money transfers meant an influx of more than $11 billion into the local economy.

Remittances from the seven major "traditional sending" states (California, Texas, New York, Florida, Illinois, Arizona, and New Jersey) generally continue to show large increases, now totaling over $30 billion annually, two thirds of all remittances sent. California is the leading state, now reaching over $13 billion in remittances.

However, the data trend lines also demonstrate dramatic changes in migration patterns in the United States. More recent destinations for Latin American workers such as Georgia, North Carolina, Maryland, and Virginia account for substantial remittance flows to LAC, with $1.7 billion from Georgia, and about $1 billion each from North Carolina, Virginia, and Maryland. This validates the observed trend that immigrants are no longer simply moving to traditional "magnet" communities tied to their country of origin by cultural and familial links. Instead, workers are migrating to the states where the jobs are.

This trend is confirmed by the next five ranked states in remittances, Colorado, Nevada, Massachusetts, Pennsylvania and Washington, which send more than $500 million each; and the next six -- Indiana, Oregon, New Mexico, Wisconsin, South Carolina and Connecticut -- which send over $300 million.

Immigrants from the next 14 states send home between $100 million and $300 million annually. Eleven states that did not have data available in 2004 now register annual remittance amounts of between $9 million in to $130 million. All told, 40 states and the District of Columbia now send more than $50 million annually.

One state, Louisiana, experienced a nearly 250 percent increase to $208 million in 2006 from $61 million in 2004, largely as a result of an influx of reconstruction workers in the wake of hurricane Katrina.

The Mid-Atlantic Region (Virginia, District of Columbia, Maryland, Pennsylvania and Delaware) leads the nation in the percentage of immigrant adults sending remittances regularly (88 percent), followed closely by Georgia (85 percent) and North Carolina (84 percent).

Demographics of Remittance Senders

The median age of frequent remittance senders in the United States has decreased over the last five years. Fifty-four percent of the senders were younger than 35 years old in 2006. Nevertheless, the percentage of older immigrant remittance senders who have been in the United States for 10 years or more remains substantial. Migrants from Mexico and Central America who send remittances are significantly younger than remittance senders from other Latin American countries.

More than three-fifths of remittance senders can be considered "working poor" or "lower middle class," with annual incomes of less than $30,000. Yet, based on focus groups convened for this study, remittance senders remain optimistic about their economic futures.

Financial Democracy

A pressing issue going forward is how to give more remittance recipients and their families access to the financial system. **While the survey shows that the use of a bank**

or credit union to send remittances has increased from 8 percent of senders in 2004 to 19 percent in 2006 – a reflection of a growing awareness of alternative and lower-cost methods of transferring funds – many immigrants in the United States still feel disenfranchised from the US banking system, as a result of legal and regulatory hurdles, cultural factors and a lack of appropriate products.

The problem of a lack of access to financial products does not only exist in the United States. Perhaps the most surprising and provocative indicator revealed by a recent MIF scorecard on the remittance industry deals with the distribution network of remittances. Until now, a common assumption has been that because remittances are generally cash-to-cash transfers outside the financial system, most remittances are distributed through a retail store or money transmitter licensee such as a bodega. This assumption is wrong.

According to the scorecard data, the majority of remittances to LAC, 54 percent, are distributed through a bank, cooperative, credit union, microfinance institution, or other type of deposit institution. Unfortunately, only a very small percentage of remittances transferred through the financial system are currently going into bank accounts.

The reality is that in the vast majority of instances where banks are distributing remittances, they basically serve merely as a licensed distribution agent for a Money Transfer Organization. Indeed, remittance operations are kept separate from other bank operations – sometimes even physically separate from the teller line available to account holders. By contrast, cooperatives, credit unions, popular banks, and microfinance institutions have a better record of channeling remittances into accounts – although there is still significant room for improvement. As a result, there continues to be a missed opportunity to put millions of LAC families on a pathway to credit.

Investment Potential

In contrast to surveys and studies conducted earlier in this decade, a greater number of migrants in the latest study expressed interest in investing in Latin America and the Caribbean. A majority (52 percent) are very interested in the economic future of their home country.

Owning a family home and opening a small business in their country are the two most common investment aspirations. One-third of those asked said they have made such investments, mainly in real estate. This represents a significant increase compared with five years ago, when only five percent of the migrants polled said they made investments in their homelands.

While the incomes of migrant remittance senders are low by U.S. standards—64 percent of them have an annual household income of less than $30,000—most say the economic situation of their families in the United States is good (58 percent) or excellent (10 percent), and they are confident about making more progress.

The analysis provided by focus groups in nine countries found substantial agreement between the remittance senders and the recipients on the purposes to which the money transfers were being applied. The study identified the major usages in order of importance as follows: food, health, utilities, education, clothing, housing and business.

A common misconception about remittances is that they are used only for consumption purposes. This is not the case. Our surveys show that about 20% of remittances is available for investment. Indeed, in cases where appropriate products were offered to remittance recipients, about 30% of them purchased them and became deposit customers of a financial institution.

Financial Products

If more migrants were to have access to remittance-linked investment products, which ones would they choose? The study identified insurance and banking products as the most attractive, for both senders and recipients. Housing and education investment products were also of great interest.

The following is a brief description of how these financial products may be acquired and applied in the remittance process:

Insurance – Immigrants living in the United States purchase life or health insurance for their family member in Latin America and the Caribbean.

Banking – Remittances are deposited into a bank account in the name of the remittance recipient and an agreed portion of each remittance is assigned to a savings account.

Housing - The remittance history of a recipient serves as collateral for a home mortgage or a home construction loan.

Education – Immigrants living in United States make direct payments to a university or private school attended by their family member in Latin America and the Caribbean.

Microfinance Loans – Remittances are deposited into the account of a microfinance institution. Recipients are eligible for small business loans based on their remittance records.

Direct payments – Immigrants living in the United States make payments directly to vendors in Latin America and the Caribbean to cover basic household bills of their family member.

Agricultural Loans – Remittances are deposited into a microfinance institution account. Remittance recipients are eligible for agricultural loans or agricultural “bridge” loans based on their remittance records.

The goal of offering these products to remittance recipients is to help increase local savings in Latin America, thus expanding access to credit, and encouraging the creation of new businesses and employment. By spurring development at home, we can increase opportunity south of the border, and help generate jobs to keep immigrants at home, with their families.

General Trends and Conclusions

The structure and flow of remittances sent by migrants in the United States to Latin America and the Caribbean has changed significantly in recent years. While the volume and number of remittances has increased sharply, there have also been more gradual changes in the method of resource transfers and the destination of the funds. Although food, health and utilities top the list as the items intended to be purchased for the families of the remittance senders, there is a growing interest in investments in the home country, especially housing.

There is significant, untapped potential for remittances to be applied to economic and financial sectors where their impact could be multiplied—sectors such as insurance, mortgages, private education, banking and finance, especially microfinance and rural credit. More and more remittance senders are using the formal financial system, although the vast majority of remittance senders continue to rely on money transfer companies

If the cost of remittances continues to fall and more options are given to remittance senders and receivers for remittance transfer and investment products, millions of families in Latin America and the Caribbean will benefit and so will national and local economies. A sincere desire by immigrants to help their country of origin as well as their families will aid efforts to encourage this trend, as will an expressed interest on the part of migrants in investing remittances in homes, credit, insurance and other financial products.

Barriers of distrust of the financial systems and the lack of awareness and access to formal financial institutions remain. There is also a lack of knowledge about the importance of building a credit history on the part of remittance senders and receivers that needs to be corrected.

Governments, financial institutions and civil society can play a major role in creating awareness among emigrants and their families about the possibilities of obtaining a greater return on the resources they send home while contributing more to the economies of their countries of origin.