

Remittances from abroad:

Great potential for development and poverty reduction

«The poor and the money they send home are keeping the Honduran economy afloat» says Cardinal Andrés C. Rodríguez, board member of FOSDEH (Foro Social de la Deuda Externa y Desarrollo de Honduras). He was referring to the remittances (remesas) – money transfers from migrants to their families back home – that are now one of the largest factors in Honduras' gross domestic product. Although there has been little coordinated use of these payments for poverty reduction, the idea is being widely discussed in the International Year of Microcredit 2005.

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In Honduras, remittances sent home from abroad by migrants exceeded US\$ 1.2 million in 2004. That amounts to more than six percent of the country's gross domestic product (GDP). Although such remittances represent an even higher percentage of GDP in countries such as El Salvador (17 percent) and Nicaragua (20 percent) (*Interamerican Dialogue*, Washington), living and indeed surviving without these payments is now almost unthinkable for people in Honduras.

The growth rates are staggering: whereas only US\$ 220 million was transferred in 1998, by 2002 the amount had risen to US\$ 770 million. In 2004, remittance income passed the 1 000 million threshold and is expected to continue rising by a seven to ten percent per year. This makes remittances the main source of foreign currency earnings, exceeding development-aid funds and direct investment from abroad as well as income from exports of bananas, coffee and textile products.

The national economy, therefore, stands or falls on the export of labour, i.e. the 13 percent (or 6.8 million) Hondurans who live abroad and send money back to their home country. It is estimated that 16 percent of (urban and rural) households receive remittances, with notable concentrations in the major cities, on the Caribbean coast, in the west and in the Olancho region (Central Honduras).

Lured abroad by work and money

Over the years, the numbers of people leaving their Honduran homeland have risen steadily. From the development perspective this migration of workers is a cause for concern: instead of becoming productive in their own country, many citizens see the situation on the labour market as utterly hopeless. The alternative is to migrate elsewhere, legally or illegally, in search of work and income. This route usually leads them to low-wage America, where willing workers from Latin America are a politically controversial but indispensable factor in the economy.

As the emigration rate rises, the country – one of the poorest in Latin America – becomes increasingly economically dependent on the export of labour, and hence on the remittances from abroad. Not that this development is unique to Honduras: emigration is a phenomenon which pervades the whole of Central and Latin American society. According to CEPAL (Comisión Económica para América Latina) up to 20 million Latin Americans no longer live in their countries of birth. Most of them are now in the USA.

Adverse economic and social impacts

The economic, social and cultural consequences of migration are plain to see: rural communities are being bled dry, and their productive potential is falling day by day as not only men but growing numbers of (young) women set off to seek their fortunes, leaving their children in the care of grandparents. Often the grandparents are overwhelmed by the demands of bringing up another generation. Seldom are they in a position to prepare young people for the dangers of drugs and alcohol, gun dealing and the criminal gangs

Case study: German economic cooperation in Honduras

To shed more light on the socio-economic importance of remittances, DED and PROMYPE/GTZ carried out a study in Honduras in 2004 on «Remittances and development: Lessons from the transnational Garifuna community». The sources and uses of remittances and their social and cultural importance were investigated among the Garifuna communities on the Caribbean coast by surveying recipients and organizations. The Afro-Caribbean population sees itself caught in a vicious circle between the necessity for migrant work and remittances, on the one hand, and the resulting drain of young people away from the villages, and loss of their culture and traditions, on the other. Study and information (in Spanish) at: www.remesasydesarrollo.org.

which have taken up residence in some of the cities. The disintegration of the family leaves the population to cope with societal problems for which, so far, no satisfactory solutions appear to have been found.

In the migrant communities abroad, however, there is a strong sense of nostalgia and attachment to the home country. People from Latin America often find a community in the «home town association» (HTA). These clubs enable groups of migrants, often from the same town or region of a country, to get together in their free time. Here they communicate in «Spanglish» (Spanish-English, now one of the most widely spoken languages in the USA!) and attempt to keep their culture alive during the minimal time they have for socializing between their many jobs. People often exchange their thoughts on how to raise funds for their communities back home and for what causes.

The transfer of money ...

...is quick but expensive. The idea that money will be sent seems to be an unspoken agreement between migrants and those who remain behind. According to statistics, remittances average between US\$ 100 and 200 per month. The money is paid out in Honduran Lempira (exchange rate: EUR 1 = approx. HNL 23.8) by established money transfer service providers (such as Western Union and MoneyGram) which operate with very high profit margins due to their dominant position in this market.

The transfer is made easy for remitters, but at a price: for a US\$ 200 money transfer, a US\$ 22 fee is deducted. The crucial advantage with these service providers, however, is the speed and security of their operation and their extensive outreach into many remote areas. So far, cheaper competitors have difficulty in capturing a share of the market because for the people sending money, the cost of the transfer does not appear to be the foremost concern when they choose a provider.

All remittances are transferred in this way and fall into one of three distinct categories representing different approaches:

Family remittances. These transfers of approximately US\$ 100 to 200 per month are sent directly from the remitter to a family member or an individual person and are used to meet living expenses. More and more commonly, they are used to fund children's education. But that is not all: they may also finance house building or renovations, so that migrants can fulfil their desire of returning one day to a home of their own in Honduras.

Only in the last few years have the recipients been recognized as a potential target group for savings and investment products.

Collective remittances. Collective remittances tend to be donations from the home town associations (HTA) in the USA: after visiting family members in Honduras, appeals are launched to raise funds for defined local projects, organized by a committee in the home community. This may be the building of a cultural centre, a church, an electricity network or a water tank. There is evidence of such «obras» (works) in many villages, where they are welcomed with deep gratitude.

Investment remittances. Remittances in this form have the greatest potential for economic development, since the transfers are sent with the intention of purchasing a plot of land or livestock. In Honduras, social security and pensions are lacking, ownership of land with a finca or cattle is the most important means of providing for income and security in old age.

There are very few examples of investment in the productive sector, i.e. in trades and crafts. But remittances are used to invest in commercial ventures, e.g. small grocery stores (pulperías), photocopy shops and recently also Internet cafés. Often, however, the low amounts involved or the sporadic arrival of payments make it almost impossible to develop attractive investment and savings opportunities.

Can funds be channelled into rural development?

As yet, remittances have not been closely associated with microfinance, credit unions, cooperatives, commercial banks and finance NGOs because most recipients of remittances are not customers or members of financial institutions. Thus the remittances have largely been used for consumption, and rarely for the purposes of productive investment. They present an untapped potential, particularly for financing locally manufactured goods, as collateral for loans or to pay for health insurance. For the local economy, there is a broad potential portfolio of activities which the population could develop and pay for wholly or partly with remittances: training, infrastructure, tourism, crafts and many more. Positive examples of public-private projects exist in El Salvador (e.g. the Fondo Internacional Social de Desarrollo project) and in Mexico (the '3 for 1' project in Zacatecas province) where funding for local development projects (mainly infrastructure) is contributed in a

ratio of three to one by local administrations in partnership with home town associations (HTAs). The intention of these partnerships is primarily to kick-start the local economy, because ultimately most migrants envisage returning to their home communities and leading more agreeable lives there.

From the sustainable rural development perspective, Honduras has high hopes of achieving this through tourism. Not only is the government undertaking several major projects with support from the World Bank, but international development cooperation and agencies from Italy, Japan and the USA are investing in tourism projects, small business promotion, education and training. The target groups are both foreign tourists from Europe and the USA and wealthier citizens from the local region. Another recently-discovered group are the emigrant workers who visit their families once or several times a year and – it is hoped – would take up opportunities to see more of their country as tourists.

These expectations are quite close to reality: in El Salvador, for example, around 30 percent of tourists are Salvadoran migrants now living abroad. They tour their home country for at least 15 days a year on a budget of around US\$ 50 per person per day. With similar flows of Honduran migrants as holidaymakers, there are appealing prospects for sustainable, community-based tourism which creates new jobs at the same time (catering, accommodation, transport etc.).

Another area of potential is that of «nostalgia products», such as traditional foods and crafts which migrants take back to their host countries. In El Salvador, nostalgia products exported in 2002 valued around US\$ 240 million, or 10 percent of the entire value of exports (Manuel Orozco, 2003).

Much remains to be done

The broad context of remittances needs to be studied in more depth, given the lack of concrete data and analyses on the lives and work of legal and illegal migrants to the USA and the socio-cultural context of remittances, as well as on the true needs of recipients. Financial institutions must learn to see both recipients and remitters as customers and create appropriate low-cost services. Cooperatives and microfinance providers can act as agents for the remitters in rural regions.

Remittances for consumption or investment?

To achieve greater impacts on employment and the economy, it would be important for a significantly higher proportion of remittances to be channelled through and held in the national finance and banking system. This would establish the desired linkage with savings and investment by establishing a customer relationship with a financial institution. If the recipients of payments could be motivated to place part of the money in savings accounts, this would lay the foundation for a process with a potential for achieving manifold positive development impacts.

The Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) is therefore active at the micro level in facilitating access to financial services for socioeconomically disadvantaged groups. Remittances could play a part by bringing customers into contact with financial intermediaries. Supported by GTZ and the partner organization ODEF (Organización de Desarrollo Empresarial Femenino), a financial cooperative which originally offered loan assistance to women only, the Honduran microfinance network REDMICROH has developed products that make it easier for recipients from the poorest sections of the population to use their money effectively and efficiently.

At the same time, FACACH (the umbrella organization of the savings and credit unions) and the payment processing service provider Vigo are attempting to offer an attractive range of products for recipients of remittances in order to create relationships between these customers and the financial institutions. The underlying idea is to motivate people to build up savings, and to invest these savings in their productive base – with the objective of sustainably improving their living conditions.

Government strategies halting

There are plenty of proposals on how remittances can be used efficiently in the «productive sector», but currently the Honduran government is far from finding an efficient strategy to this end, even though civil society took the initiative some time ago and has developed constructive proposals (see the online forum 'Remesas y Desarrollo' of the national NGO network Red de Desarrollo sostenible (RDS), <http://rds.org.hn/remesas>). As strategies are developed, however, the following issues must not be overlooked:

- Around 90 cents of every remittance dollar is used for daily living expenses.

Photo: FAO/IC Bizarrri



Remittances are often earmarked for the purchase of livestock because ownership of cattle and land are major forms of provision for old age.

playing a key role. Demonstrating trust and creating products that match the realities experienced by poor people is important when dealing with remittances because the recipients, especially the women, often have very little self-confidence because of their economic

dependency on the money transfers and the lack of any income of their own. At first glance, it seems too philanthropic to expect the financial sector to help them make the best of their situation. But the anticipated results (new customers, higher income, more loans...) outweigh the possible risks (e.g. that money from the USA stops arriving for several months), with the result that some financial institutions react quite cooperatively to propositions for potential projects.

Another kind of risk is increasingly rearing its head: being confident that they will regularly receive remittances, many rural people give up their traditional (agricultural or craft) activities and no longer play a part in development as a productive member of society. If the money from abroad provides sufficient income to meet their daily needs and people do not have any spirit of «entrepreneurship», they often make little effort to do productive work.

An integrated approach ...

... is desirable for all stakeholders, keeping in mind the broad sweep of remittances and the goal of integrating them into local economic development. The context in which remittances are set – migration, transnational culture, sociocultural changes, economic development and employment promotion, rural development, rural banks, human rights, education, etc. – calls for a multi-institutional approach extending beyond the purely financial perspective. In the medium term, an integrated vision for remittances at the regional level can and must lead to legislation which incorporates all the components: financing, telecommunications, regulation of the microfinance sector, migration, human rights and more.

Initial successes

The first opportunities for channelling and using remittances constructively are now on the horizon. For example, alliances are emerging between providers in the region and in the USA, or private-sector financial institutions are pressing for legislative and organizational measures from the government, in order to gain access to the market where most remitters are based (the USA). The World Bank's Consultative Group to Assist the Poor (CGAP) which has already expressed interest in the REDMICROH projects is also