Remittances and Financial Inclusion:

Opportunities for Central America[1]

Central American countries received over $15 billion in remittances in 2014, the majority of which came from the United States. Individuals and households in the region rely on remittances, along with a variety of other sources of income, to help cover daily expenses such as food, housing, education, and healthcare. That remittances enable them to cover these important areas is no doubt positive. However, it is also important to consider how remittances can build prosperity, rather than simply sustain survival, in households and communities throughout the region.

The answer lies in access to usable, reliable, and affordable financial services, this report argues. Financial access can magnify and deepen the positive impacts of remittances at each stage in the remitting process, from access to reliable and affordable remittance services for the sender, to access to banking services and savings strategies for the recipients. Strategies to increase financial access for senders and recipients can have profound development impacts at both the micro and macro levels, especially given the 3.8% expected growth in remittances for 2014.

Key findings of this report include:

- Remittances to Latin America and the Caribbean are expected to reach $63 billion for 2014, and Central American countries are among those with the highest levels of growth, making remittances and financial inclusion a particularly timely issue.
- Enhancing the development impact of remittances goes beyond reducing transaction costs to promoting bankarization and savings.
- Reducing transaction costs to an average of 3.5% for Central American countries would generate an estimated $48 million a year in savings.
- Increasing bank account ownership by five percentage points per country would result in an estimated $46 million in remittances entering the Central American banking system each year through account deposits.
- Mobilizing the existing (mainly informal) savings of remittance recipients would generate an estimated $2 billion in savings for Central America.
- Financial access and asset-building are critical for leveraging remittances for development, but they also apply to Central American development more broadly.

[1] **By Manuel Orozco and Julia Yansura, Inter-American Dialogue, February 2015.**

1. Trends in Remittances in 2014

Remittances to the Latin American region have grown at least 4% in 2014, marking the first significant growth since 2009. Central American countries have had especially high growth in remittances from 2013-2014. Economic, social, as well as political issues may be impacting these flows. Countries with positive and very positive growth are linked to higher migration and remittance flows from the US and are probably benefiting from increasing migration, improvement in labor, and economic growth in that country.

Table 1: Estimated Remittance Flows to Latin America and the Caribbean, 2014 (in US$ millions)

Country	2013	2014	Growth	2014 GDP Growth forecast (%)	Remittances as % of GDP (2013)
Panama	398	643	61.6%	6.5	1.1
Haiti	1,836	2,475	34.8%	3.6	21.1
Honduras	3,121	3,509	12.5%	3	16.9
Guatemala	5,105	5,567	9.0%	3.5	10.0
Dominican Republic	4,262	4,638	8.8%	5.9	7.3
Mexico	21,892	23,607	7.8%	2.1	1.8
El Salvador	3,953	4,217	6.7%	1.9	16.4
Nicaragua	1,078	1,140	5.8%	4.2	9.6
Jamaica	2,065	2,124	2.9%	0.9	15.0
Ecuador	2,450	2,482	1.3%	4	2.6
Uruguay	123	124	0.6%	2.9	0.2
Peru	2,707	2,644	-2.3%	2.4	1.3
Bolivia	1,182	1,153	-2.4%	5.3	3.9
Costa Rica	561	543	-3.2%	3.7	1.2
Colombia	4,071	3,459	-15.0%	4.7	1.1
Paraguay	519	428	-17.6%	4	2.0
Brazil**	1,007	667	-33.8%	0.1	0.1
Argentina	991	991	*	-1.5	0.1
Cuba	1,200	1,200	*	NA	
Guyana	405	405	*	3.6	11.0
Suriname	113	113	*	4.2	0.1
Trinidad & Tobago	129	129	*	2.1	NA
Belize	72	72	*	2.6	4.6
Venezuela	803	0	*	-3	NA
Total	60,043	62,330	3.8%	0.9	1.1

Source: Central Bank of each country, Panama: National Statistics Office, and World Bank *No data available, 2012/13 for LAC volume calculations. ** These figures highly underestimate the flows. The volume estimated is circa 7 to 8 billion remitted by 1 million Brazilians worldwide, who send over US$7,000 a year. ***High growth reported by the Panamanian authorities. The issue will be further addressed in the report.

The growth levels for each country above reflect the unique circumstances of migrants' home and host countries. No single factor can explain the recovery in remittances that many countries in the region are experiencing. Rather, a number of factors have interacted and contributed to higher levels of sending in 2014. These factors include employment, new migration patterns, and the frequency and method of sending.[2]

In light of the recovery of remittances to many countries in the region, it is important to consider their relationship to development and the policies and strategies that can be used to deepen their development impact.

2. Leveraging Remittances for Development

The important linkages between remittances and development have the potential to transform the material well-being of migrants, their families, and their societies, especially when good policies are in place. Remittances help receiving households to live more comfortably, increasing their expenditures on nutrition, housing, healthcare and education. As aggregate flows, remittances influence national reserves, foreign currency exchange and saving and credit ratios. From a policy perspective, remittance flows have an unparalleled effect on poverty reduction and, especially when properly leveraged, on economic development.[3]

The point of departure in remittances and development is their effect on income. Remittances are typically pooled with other sources of income (salaries, rents, social support). Out of all income earned, remittances included, savings are set aside and built. Because remittances have the effect of increasing disposable income, they also increase the household's capacity to save. Thus, at the level of the household, remittances fulfill the function of contributing to build liquid and fixed assets.[4]

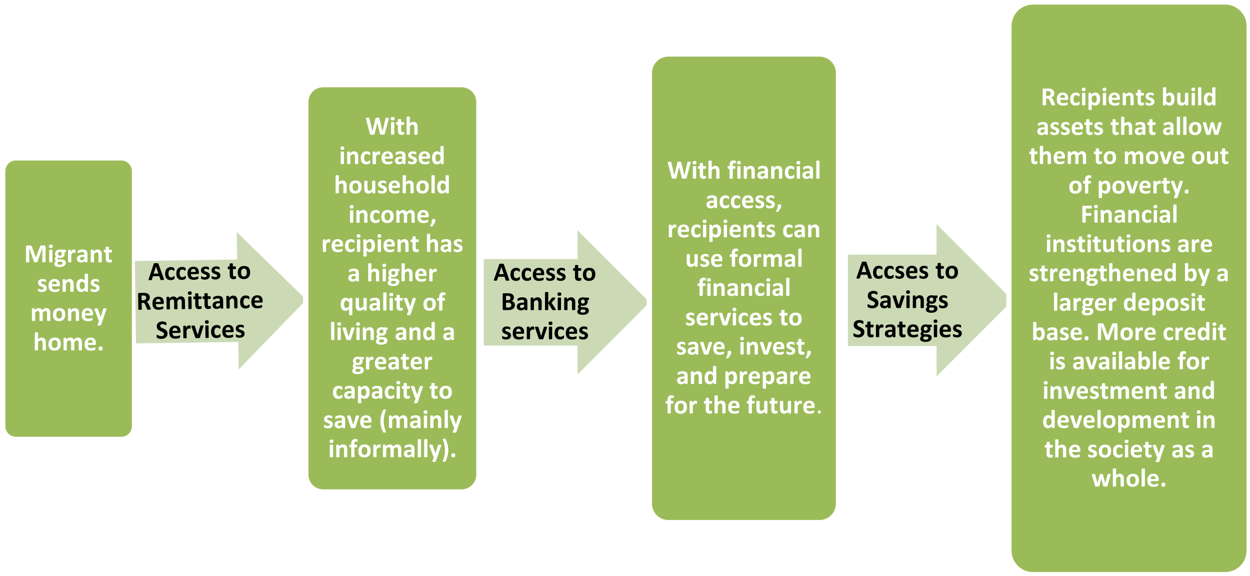
However, it is important to differentiate between formal and informal savings. Remittance recipient households can and do save, but without access to financial institutions and services, much of their savings are kept informally.[5]

[2] For a more detailed analysis, see Orozco, Manuel, Laura Porras, and Julia Yansura, "Trends in Remittances to Latin America and the Caribbean in 2014," Inter-American Dialogue, February 2015.
[3] For a more detailed discussion, see Orozco, Manuel. "Remittances and Assets: conceptual, empirical and policy considerations and tools." UNCTAD, 2012. Available at http://thedialogue.org/PublicationFiles/UNCTAD-Maximizingdevelopmentimpact.pdf
[4] For a more detailed discussion, see Orozco, Manuel. "Remittances and Assets: conceptual, empirical and policy considerations and tools." UNCTAD, 2012. Available at http://thedialogue.org/PublicationFiles/UNCTAD-Maximizingdevelopmentimpact.pdf
[5] In some cases, remittance recipients face geographical, social, or legal barriers that make it very difficult for them access a financial institution. Even those who have access may not use financial institutions and services because they do not realize that they have access, or because they do not understand the benefits of using them. For example, many remittance recipients enter financial institutions on a monthly basis to receive their remittance, but do not hold a savings or checking account with that institution. In light of this, financial access and financial education can help to mobilize remittance recipients' informal savings into the formal financial sector.

The Role of Financial Access

The development impact of remittances depends on a number of financial mechanisms. Figure No. 2 details the ways in which financial access can magnify and deepen the positive impacts of remittances on development at each stage in the process.

Figure 2: Impact of Financial Access on Remitting Process



First of all, migrant remitters rely on access to remittance service providers (RSPs) in order to send money home. The funds will then "move" from the RSP's US-based bank account to the account of a partner bank in the recipient country, which will pay the money directly, deposit the money in an account, or transfer it to a non-banking correspondent, such as a retail store for payout or credit.[6] At this stage in the process, the remittance has an important impact for the household, enabling a more comfortable standard of living, at least in the short term.

When the recipient receives his or her remittance, a second financial mechanism comes into play. With this additional source of income, the recipient has an increased capacity to save.[7] However, whether they save informally or formally will depend on their access to banking services. Informal savings have some benefits, but they do not have the security or value-added of formal financial services.[8] In this sense, financial access can substantially expand the impact of the remittance transfer by enabling the recipient household to build assets and improve their quality of life in the longer-term.

Finally, strategies to promote formal savings and investment can help recipient households build the assets they need to significantly improve their economic wellbeing. Simply put, it is not enough for the household to have access to formal financial services; they also need to feel empowered to use them in a purposeful, informed way. At the same time, increased savings and investment can strengthen

[6] RSPs depend on financial access as well. For a discussion of bank account closures and their impact on the remittance market, see Orozco, Manuel. "Family Remittances and Business Intermediation." Inter-American Dialogue, 2013.
[7] For a more detailed discussion, see Orozco, Manuel. "Remittances and Assets: conceptual, empirical and policy considerations and tools." UNCTAD, 2012. Available at http://thedialogue.org/PublicationFiles/UNCTAD-Maximizingdevelopmentimpact.pdf
[8] Informal savings can be stolen or lost. Informal savings in the form of crops or livestock can quickly be lost due to disease or natural disasters. Moreover, informal savings do not typically gain interest. They may not be considered when applying for a loan (i.e., a client's credit history and credit score).

financial institutions and facilitate access to credit on a larger scale. This, in turn, has profoundly positive impacts on the economic development of the society as a whole.

Leveraging Remittances for Development: Issues of Scale and Impact

As has been discussed, financial intermediation occurs at multiple stages in the remittance process (see Figure 2).

Policymakers, economists and the international development community have naturally expressed interest in ways to ensure that these financial mechanisms are efficient and robust so that remittances can have the greatest possible impact on development. The table below details issues to address, policy approaches, and impacts.

Table 3: Policy Issues, Solutions, and Impacts

	Issues to Address	**Solutions**	**Impact**
Access to Remittance Services	• Cost • Competition • Transparency	• Technology can help to provide fast, secure and low-cost payout • Encourage competition and transparency (see Remittance Scorecard Project as one example)	"Reducing remittance prices from 10 to 5 percent would result in leaving up to $16 billion a year into the pockets of the migrants and their families," according to World Bank[9]
Access to Banking Services	• Geographical access • Legal access • Social access	• Expand financial access into rural areas through non-traditional institutions such as post offices, retail stores, MFIs, and mobile phones • Reduce excessive barriers to financial access; ensure that traditionally excluded groups have access to identity documents • Encourage financial institutions to work with clients from a variety of backgrounds	With access to formal financial services, recipients can smooth consumption (through savings), hedge against risk (through insurance), and expand human and economic capital (through investment).
Access to Savings Strategies & Financial Education	• Improve personal finance • Encourage longer-term thinking on goals, priorities	• Financial education can help participants improve their personal finance and change their financial behaviors • Ensure that there are low-cost, easy to use savings products available to remittance recipients and other groups	Mobilizing US$500 in household savings among 500,000 recipients in 3 years brings US$250,000,000 increasing the stock of savings available for credit.

Source: Orozco, Manuel.

9 http://blogs.worldbank.org/psd/5x5-us16-billion-in-the-pockets-of-migrants-sending-money-home

Improving Remittance Services and Lowering Costs

When looking at intermediation, one issue that has been raised in the international community is transaction cost. Remittance services are often considered to be expensive and inefficient.[10] Here it is important to consider two questions: Can costs reasonably be lowered? What impact would this have on development?

International Scope

The costs of remittances vary across regions, and Africa and the Pacific appear among the most expensive places to remit the equivalent to US$200. Latin America and Central Asia are among the cheapest destinations for remittances. As the table below highlights, these variations in cost are the function of a number of very real practical and regulatory challenges. Specifically, some of these challenges pertain to regulations, competition in the origination, extent of informal networks, economies of scale on the origin or destination, and operating costs. The table below shows transaction costs by various regions in the world and in relationship to these particular factors.[11]

Table 4: Factors influencing transfer costs (US$200)

Region	Average of Total cost*	Average of Rural Population	Regulations	Competition	Economies of scale	Operating costs
Southern Africa	9%	61%	Restrictive	Weak	Limited	Expensive
Pacific	9%	68%	Moderate	Weak	Limited	Expensive
Northern Africa	9%	40%	Moderate	Moderate	Moderate	Expensive
Eastern Europe	8%	39%	Restrictive	Weak	Moderate	Moderate
South East Asia	8%	53%	Moderate	Strong	Large	Low
Middle East	7%	32%	Moderate	Moderate	Large	Moderate
Caucasus-Balkan	7%	37%	Restrictive	Strong	Moderate	Moderate
South Asia	7%	67%	Restrictive	Strong	Large	Moderate
Caribbean	**7%**	**41%**	**Open**	**Moderate**	**Large**	**Moderate**
South America	**6%**	**33%**	**Open**	**Strong**	**Large**	**Low**
Central America and Mexico	**5%**	**40%**	**Open**	**Strong**	**Large**	**Low**
Central Asia	2%	59%	Open	Strong	Large	Low

*these costs are not weighted by market share, therefore, the real numbers may be at least 100 bits lower. Regulations: extent of restrictions on which institutions are authorized to pay money. Competition: extent of control of the market by competitors (Under 5 RSPs: Weak; 6 to 10 RSPs: Moderate; Over 10 RSPs: Strongly competitive); Economies of scale: Extent of number of transactions across country corridors. The smaller the scale, the higher the costs to operate a business (Under 750,000 p/m: Limited; 75,000 to 2,500,000: Moderate; over 2,500,000: Large); Operating costs: costs of operating under difficult conditions (poor communication infrastructure, limited liquidity, unavailable compliance systems, etc.).

[10] See, for example, http://www.theguardian.com/global-development/2014/aug/18/global-remittance-industry-choking-billions-developing-world

[11] For a more detailed discussion of remittances and cost, see Orozco, Manuel. "Transaction Costs: Considerations on remittances, financial access, and impact on rural areas." 2014.

In light of this, a viable cost reduction strategy should address not only costs, but the factors driving these costs (competition, regulatory environment, economies of scale, and infrastructure and operating costs).

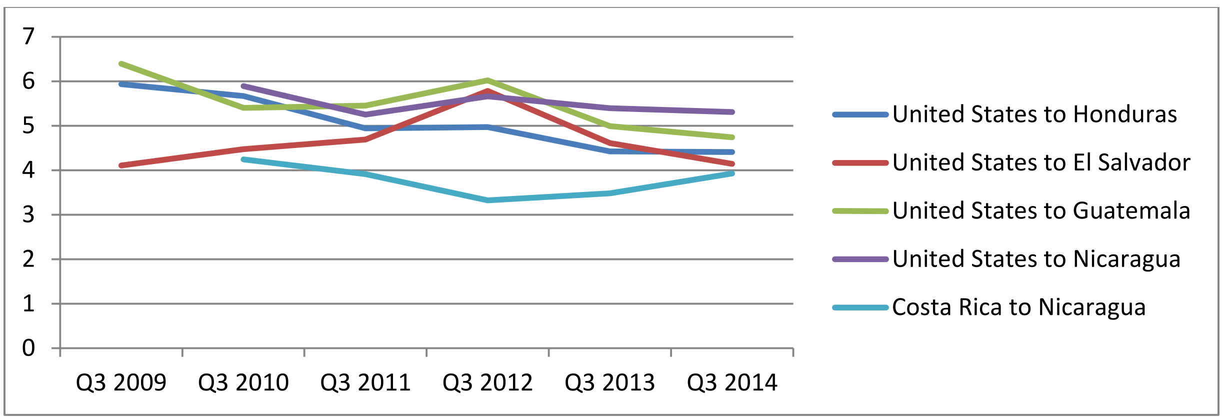
With regards to the second question, it is helpful to consider what the development impact would be if costs were lowered. The World Bank, which has proposed measures to lower remittance costs to 5% in 5 years, has argued that "reducing remittance prices from 10 to 5 percent would result in leaving up to $16 billion a year into the pockets of the migrants and their families."[12]

With remittances to the developing world reaching $404 billion in 2013,[13] the 5x5 plan would, in theory, amount to approximately 4% growth in remittances worldwide.

Central American Scope

In the case of Central America, the goal of 5% has been met, at least on average. Remittance costs to Central American countries have declined in recent years, as graph 5 shows, and the current cost of sending $200 is approximately 4.5%, or $9 for the major recipient countries selected below.

Graph 5: Cost of Sending $200 to Select Central American Countries (%)



Source: World Bank Pricing Data.

Though remittance prices to Central American countries are already low by international standards, it is worth considering what the development impact would be if they could be further lowered – by increased competition, improved infrastructure, or new technologies, for example.

In Central America, competition in the marketplace has reached near saturation point. Businesses have lowered pricing in ways that reflect economies of scale, number of companies participating, relatively up to date back-end technologies, and are moving toward internet based transfers. Transaction costs are at an average of 5% per US$200 transaction and 4% for US$300. The most competitive pricing, at 3.5%, which is currently is internet-based, would be a benchmark at this point.

[12] http://blogs.worldbank.org/psd/5x5-us16-billion-in-the-pockets-of-migrants-sending-money-home

[13] http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationandDevelopmentBrief22.pdf

A cost reduction of 0.5 percentage points (from the average of 4% to the lowest current market price of 3.5%) would generate savings between 3 and US$18 per year for each migrant, as the table below shows. This would total US$48 million if the cost reduction goal is reached.[14]

Table 6: Possible Impacts of a Cost Reduction Strategy

Country	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	
Corridor	US-Costa Rica	US – El Salvador	US-Guatemala	US – Honduras	Other – Nicaragua	Costa Rica - Nicaragua
Average transfer $)	$ 301	$ 339	$ 363	$ 225	$ 200	$ 100
Annual transfer ($)	$ 3,612	$ 4,068	$ 4,356	$ 2,700	$ 2,400	$ 1,100
Migrants	183,195	1,131,268	1,231,657	1,217,667	337,737	412,789
Remitters	140,919	870,206	947,429	936,667	272,368	332,895
Transaction cost	5%	4%	4%	4%	4%	3%
Volume paid per year	$25,449,971	$141,599,920	$165,080,029	$111,276,040	$ 26,147,362	$10,985,523
Lowered by 0.5%	$22,904,974	$127,439,928	$148,572,026	$ 100,148,436	$ 23,532,625	$ 9,886,971
Annual Savings per migrant	**$ 18**	**$ 16**	**$ 17**	**$ 12**	**$ 10**	**$3**
Savings	**$ 2,544,997**	**$ 14,159,992**	**$ 16,508,003**	**$ 11,127,604**	**$ 2,614,736**	**$ 1,098,552**
Total Savings: US$48 Million						

Sources: Average transfer data from World Bank Pricing Data; Annual transfer is 12 x the average transfer[15]; Migrants and remitters data are authors' own estimates based on various remittance transfer data and survey data; Transaction cost from World Bank Pricing Data, as % cost to send US$200.

Cost reduction strategies are certainly part of a larger strategy to increase the development impact of remittances, but in contexts where costs are already low, strategies related to financial access and savings promotion may be more meaningful. The following sections describe those strategies in more depth.

Accessing Banking Services

Another approach consists of improving access to banking services. This entails connecting migrants and remittance recipients to formal financial services that they can use to manage their income, plan for the future, build assets, and mitigate risk.

[14] The question is whether, under the current model, businesses would be able to shift clients from cash to cash into account to cash or account to account with the low pricing incentive.

[15] This is a conservative estimate; on average, migrants send 13 times a year, as Table X shows.

The World Savings Bank Institute measures financial access through the usability, openness, formality, and functional capacity of financial institutions.[16] The question, then, is whether migrants and remittance recipients have access to financial services, and whether those services are usable, open to all members of society, secure and regulated, and meet the needs of their users.

International and Regional Scope

The short answer to this question is no. The need for better financial access among migrants and remittance recipients has been well documented. Among migrants in the United States, 60% have a bank account,[17] which represents a modest improvement over recent years, but is hardly adequate. Meanwhile, only one out of every three people has bank accounts in major remittance-receiving countries in Latin America and the Caribbean. The figure is even lower among certain population sectors, such as low-income and rural residents. Moreover, Table 13 documents financial access levels by country.

Table 7: Financial Access Indicators, Select Countries

Indicators by % Population (Age 15+)	**Worldwide**	**Latin America**[18]	**El Salvador**	**Guatemala**	**Honduras**	**Nicaragua**	**Mexico**	**Bolivia**	**Colombia**	**Dominican Rep.**	**Haiti**	**Jamaica**
Account at a formal financial institution												
Overall	**50**	**39**	**14**	**22**	**21**	**14**	**27**	**28**	**30**	**38**	**22**	**71**
Female	**47**	**35**	**10**	**16**	**15**	**13**	**22**	**25**	**25**	**37**	**21**	**67**
Income, bottom 40%	**41**	**25**	**6**	**13**	**13**	**6**	**12**	**17**	**15**	**22**	**5**	**72**
Rural	**44**	**35**	**11**	**NA**	**14**	**10**	**11**	**20**	**26**	**28**	**15**	**70**
Young adults	**37**	**26**	**10**	**22**	**17**	**8**	**29**	**19**	**13**	**28**	**6**	**63**
Account used to												
Receive gov. payments	**13**	**10**	**3**	**3**	**2**	**0**	**4**	**2**	**4**	**7**	**1**	**4**
Receive remittances	**7**	**4**	**3**	**4**	**4**	**2**	**5**	**4**	**3**	**9**	**11**	**15**
Receive wages	**21**	**20**	**6**	**10**	**8**	**5**	**14**	**10**	**19**	**15**	**8**	**14**

Source: Global Findex, 2011.

Challenges of financial access are closely linked to some of the issues of cost that have been discussed previously (see table 4). That is, the challenges are about market penetration and client inclusion into financial payment networks. Thus, the solutions include easing barriers to entry, increasing competition

[16] Stephen Peachey, "Savings Banks and the Double Bottom Line, The World Savings Banks Institute, May 2006. Available at: http://www.wsbi.org/uploadedFiles/Publications_and_Research_%28ESBG_only%29/Perspectives%2052.pdf

[17] See Orozco, Manuel and Mariellen Jewers, "Economic Status and Remittance Behavior among Latin American Caribbean Migrants in the Post-Recession Period," Inter-American Dialogue, April 2014. http://www.thedialogue.org/uploads/Remittances_and_Development/EconomicStatusRemittanceBehaviorFINAL_Eng.pdf

[18] Developing only.

so consumers can have more choices, spreading the range of services available, expanding payment networks, particularly in rural areas (costs in rural areas may be higher in some corridors), and helping reduce, whenever possible, operating costs. These solutions are more successful when attached to financial access for consumers, who can have greater possibilities of managing their resources through accessible and affordable payment instruments.[19]

Household Scope

The development impact of expanding financial access to remittance recipients in Central America would be significant. Increasing the number of remittance recipient bank account holders by five percentage points would result in the creation of 167,000 new bank accounts, as the table below shows.

Table 8: Financial Access Impact, Estimates for Select Central American Countries

	El Salvador	**Guatemala**	**Honduras**	**Nicaragua-Rest**	**Nicaragua-CR**
Ave. remittance transfer ($)	339	363	225	200	100
Annual value of remittance transfers ($)	4,068	4,356	2,700	2,400	1,100
International migrants	1,131,268	1,231,657	1,217,667	337,737	412,789
Remittance recipient households (Est. #)	870,206	947,429	936,667	272,368	332,895
Recipients with bank accounts (%)	38%	42%	61%	17%	17%
Recipient households with Bank Accounts (Est. #)	330,678	397,920	571,367	46,303	56,592
Impact of increasing bank account ownership by 5 percentage points (# accounts)	**43,510**	**47,371**	**46,833**	**13,618**	**16,645**
Impact of Increasing Bank Acct Ownership 5 pts if remittance recipient receives average remittance to account	**14,749,992**	**17,195,836**	**10,537,504**	**2,723,680**	**1,664,475**

Sources: Average transfer data from World Bank Pricing Data; Annual transfer is 12 x the average transfer[20]; Migrants and remitters data are authors' own estimates based on various remittance transfer data and survey data; Recipient households with bank accounts based on 2014 sender survey data[21] for El Salvador, Guatemala and Honduras and on financial education participant data for Nicaragua.

[19] One important contribution to increase financial access as a means to streamline payment efficiency and lower costs, is the use of technology based payment instruments in the front end. These include, cards, web portals, mobile transfers. Technologies can often play a role in easing costs provided that they meet basic criteria that benefit consumers within the framework of financial inclusion. That is to say, they should be low-cost, convenient and accessible destination (widespread origin and destination payment networks), flexible (can be used for a variety of financial transactions), and transparent. For more on this, see Orozco, Manuel. "Transaction Cost Considerations on Remittances and Financial Access and its Impact in Rural Areas," 2014.

[20] This is a conservative estimate; on average, migrants send 13 times a year, as Table X shows.

[21] See Orozco and Burgess, "Economic Status and Remittance Behavior among Latin American and Caribbean Migrants in the Post-Recession Period," Inter-American Dialogue, 2014.

Expanding financial access could also mean that more remittance recipients receive their transfers directly into their bank account. For example, in the case of El Salvador, 60% of remittances are paid through banks.[22] However, only a small fraction of remittance recipients report using their bank account to receive remittances.[23] If the percentage of remittance recipients with bank accounts could be increased five percentage points per country, and these recipients opted to receive their remittances directly into their accounts, this would result in over $46 million entering the banking system through account deposits.

Promoting Savings

Remittance recipients, by virtue of their increased household income, have a greater capacity to save.

International Scope

As the table below shows, remittance recipients around the world, including those in low-income regions, can and do save. Their stock of savings ranges widely, from $250 - $2,500 by country. What is important from a development perspective, however, is that on a fraction of these savings are kept formally.

Table 9: Savings capacity of remittance recipients

Region	Country	People who save (%)	Formally saving (%)	Stock of Savings ($)
Latin America and Caribbean	Guatemala	69	40	900
	Jamaica	79	65	1,455
	Mexico	59	12	650
	Nicaragua	43	17	500
	Paraguay	63	19	250
Eastern Europe	Azerbaijan	80	23	150
	Armenia	47	17	2,468
	Moldova	72	19	1,478
Central Asia	Tajikistan	33	32	498
	Kyrgyzstan	38	14	1,636
	Uzbekistan	42	31	980
	Paraguay	63	19	250

Source: Data from financial education programs in various countries.

While financial access is an important precursor to savings promotion efforts, it may not be sufficient. Even those with bank accounts are not using them regularly. For example, although 27% of Mexicans

[22] Central Bank data. http://www.bcr.gob.sv/esp/index.php?option=com_k2&view=item&id=505:banco-central-presenta-investigación-de-remesas-familiares-desde-estados-unidos-una-aproximación-a-las-remesas-en-especies&Itemid=168

[23] Approximately 20% of Salvadorans receive remittances, according to a survey of 1010 Salvadorans in El Salvador by the Inter-American Dialogue in the summer of 2014. Only 3% of total Salvadorans say they use a bank account to receive remittances (Global Findex, 2011).

have a bank account, only 7% saved formally in the past year.[24] This suggests that many of those with bank accounts are not using them regularly to save. The issue may be one of the supply of products available; cost and usability are key, as the World Savings Bank Institute has suggested. It may also be an issue of demand; some remittance recipients may not see the value of using formal financial products to save.

Central American Scope

In light of this, a savings promotion strategy can help Central American countries to ensure that financial services are not merely accessed, but actually used. Savings at an aggregate level strengthen financial institutions and may ultimately ease access to credit for investment.

As the table below shows, mobilizing informal savings into the formal sector could generate nearly $2 billion in savings for Central American countries.

Table 10: Estimated Development Impacts of Savings Mobilization among Remittance Recipients

	El Salvador	**Guatemala**	**Honduras**	**Nicaragua-Rest**	**Nicaragua-CR**
Ave. remittance transfer ($)	339	363	225	200	100
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International migrants	1,131,268	1,231,657	1,217,667	337,737	412,789
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Recipients with bank accounts (%)	38%	42%	61%	17%	17%
Recipient Households with Bank Accounts (Est. #)	330,678	397,920	571,367	46,303	56,592
Recipient Households without Bank Accounts (Est. #)	539,528	549,509	365,300	226,065	276,303
Ave. stock of savings – formal and informal	1400	900	1200	500	500
Impact of Mobilizing Informal Savings into Formal Bank Accounts	**755,338,808**	**494,557,938**	**438,360,156**	**113,032,720**	**138,151,425**
Total Impact of Savings Mobilization: US$1.94 Billion					

Sources: Average transfer data from World Bank Pricing Data; Annual transfer is 12 x the average transfer[25]; Migrants and remitters data are authors' own estimates based on various remittance transfer data and survey data; Recipient households with bank accounts based on 2014 sender survey data[26] for El Salvador, Guatemala and Honduras and on financial education

[24] Global Findex, World Bank, 2011.
[25] This is a conservative estimate; on average, migrants send 13 times a year, as Table X shows.
[26] See Orozco and Burgess, "Economic Status and Remittance Behavior among Latin American and Caribbean Migrants in the Post-Recession Period," Inter-American Dialogue, 2014.

participant data for Nicaragua; Stock of savings are estimates based on participant data from various financial literacy projects conducted by the Inter-American Dialogue.

Household Scope

On a household level, formal savings ensures that a family's stock of savings remains secure; it is safeguarded from natural disasters, crime, or other unexpected events. The benefits of formal savings also include earning interest and gaining access to other financial services (i.e., with a savings account, the client may be able to apply for a credit card, and with that credit card, to build a credit history that will eventually enable them to receive a home loan).

In light of this, savings promotion is one of the most effective means of leveraging remittances for development, both at the household and the aggregate level.

Analyzing Successful Savings Mobilization Initiatives

As the following section will describe in further detail, financial education programs have been successful in building the demand for financial services and mobilizing informal savings into the formal financial sector.

Studies have found that "financially literate consumers help to reinforce competitive pressures on financial institutions to offer more appropriately priced and transparent services, by comparing options, asking the right questions, and negotiating more effectively."[27] Financial education can also help to bridge the gap between financial institutions and previously excluded groups, such as remittance recipients.

The Inter-American Dialogue has developed a financial education model that provides individual financial counseling to migrants and remittance recipients through partnerships with local banks and credit unions. These programs have proven successful in promoting financial inclusions and savings among participants. The partnership with local financial institutions facilitates saving in the formal financial system, which offers important benefits for households, financial institutions, and communities.

With the help of partner institutions, the Inter-American Dialogue has provided financial advising to over 200,000 people worldwide. On average, one out of every four participants in the program has gone on

[27] Miller, Margaret, Nicholas Godfrey, Bruno Levesque, and Evelyn Stark. "The Case for Financial Literacy in Developing Countries: Promoting Access to Finance By Empowering Consumers." *Organization for Economic and Co-operative Development.* February 2009. 1-13.

to open a bank account or acquire another financial product (certificate of deposit, insurance, loan, etc) from the financial institution.

Table 11: Countries where financial literacy has been performed: Key indicators

Country	Participants	Conversion rate[28]	Deposits (US$)	Percent who save[29]	Year start	Duration
Azerbaijan	18,000	28%	1,944,000	47%	2009	9 months
Georgia	21,000	13%	3,276,000	81%	2009	9 months
Guatemala	14,000	20%	1,120,000	66%	2010	9 months
Nicaragua	10,000	21%	460,000	42%	2011	4 months
Paraguay	12,000	27%	864,000	73%	2011	6 months
Moldova	7,000	5%	140,000	-	2008	3 months
Tajikistan	42,000	21%	4,500,000	31%	2011	9 months
Kyrgyzstan	32,000	22%	1,750,000	38%	2011	9 months
Uzbekistan	5,000	19%	780,000	30%	2012	4 months
Armenia	12,800	42%	4,600,000	20%	2012	9 months
Moldova	26,900	16%	8,400,000	56%	2012	9 months
Mexico	9,300	24%	350,000	50%	2013	6 months
Jamaica	9,300	24%	1,100,000	78%	2013	6 months

Source: Orozco, Manuel. Data collected during the projects' implementation.

The objectives of these programs are to:

1. Increase the level of financial literacy among remittance recipients and promote a culture of savings via the formal banking system;
2. Ensure that remittance recipients are comfortable with the idea of having a bank account and are informed about how to use it to their best advantage;
3. Train bank staff about the link between remittances and banking, and provide feedback on the profile of remittance recipients as a potential customer base;
4. Advise banks on the role they can play in increasing financial literacy and on measures they can take to attract the "under the mattress" savings of remittance recipients.

The financial education programs begin by selecting and training a group of financial educators. Then, working with local partner institutions, bank or credit union branches that have a high percentage of customers receiving remittances are selected. Financial educators are stationed at these branches, where they intercept clients after they have received their remittances or conducted other business to explain the benefits of financial inclusion.

[28] This is the percentage of participants that goes on to conduct additional business with the financial institution as a result of the financial literacy training. This includes opening a bank account, making a savings deposit, purchasing insurance, or taking out a loan, among other things.

[29] Includes both formal and informal savings.

Financial education is successful to the extent that it engages clients in a discussion of personal finances and financial goals, introduces basic concepts of financial management, and matches clients' needs and interests with available financial products, such as savings accounts, insurance policies, or credit. When financial education is tailored to the unique needs and realities of each client, it can help them make positive changes in their financial behaviors by planning for the future, mitigating risks, and building assets. The Inter-American Dialogue will continue to carry out these programs in an effort to increase financial inclusion and literacy.

Project Spotlight: Financial Literacy in Mexico

As in other parts of Latin America, many Mexican remittance recipients lack financial knowledge as well as access to basic financial services. According to a survey from 2010, the majority of remittance recipients save, but only a small portion does so at formal financial institutions.

In Mexico, we partnered with the Asociación Mexicana de Uniones de Crédito del Sector Social (AMUCSS), an organization of credit unions dedicated to providing financial services to rural and low-income populations. Ten financial educators were stationed at AMUCSS branches in Puebla, Guerrero, Michoacán, Hidalgo, and Oaxaca. The project provided financial education to over 9,300 clients, with a conversion rate of 24%. Their deposits have amounted to over US$350,000.

3. Development Strategies for Central America

Financial access and asset-building are critical for leveraging remittances for development, but they apply to development and the Central American region more broadly. This section discusses how some of the lessons of migration and development – the importance of accessing and building resources – can be applied to the region's development more broadly.

To that effect and given existing challenges is important to take into consideration a few aspects:

- With the density of human mobility, is important to consider human capital as a target for programmatic efforts;
- Focus efforts at the local level in locations with high levels of emigration;
- Pay greater attention to development opportunities that integrate migrant transnational economic engagement.

Given these circumstances a development approach should consist of implementing projects of economies of scale in the local communities through an asset building strategy that combines partnerships with national and local governments, the private sector, civil society and US development aid.

At the core there should be an asset building mentality that creates opportunities and wealth simultaneously for the labor force, and creates conditions for market development and local innovation. The approach consists of strengthening education and youth development, building assets through savings mobilization, increasing investment and entrepreneurship, and developing a more skilled labor force.

Building Human Capital: Children, Youth and Development

With regards to the first area, is important to target schooling among children in those communities where migration has occurred. Specifically, working in partnership with the local schools and other players (like banking institutions that pay remittances where their managers in those communities are respected and influential, and NGOs specialized in education), a school retention program should be established. The school program would be based on existing experiences and lessons learned of strategies that work.

This approach is particularly needed for addressing child migration. Working in 40 schools, this strategy can serve at least 20,000 kids in Honduras and another 20,000 kids in El Salvador, and would have a demonstrated effect nationwide where 30-50% of nationwide school enrollment occurs in those towns that unaccompanied child migrants are leaving. This aspect is important because, as the table shows, in the case of Honduras, school enrollment amounts to one million kids, which is where 50% of minors come from, and are locations of high emigration. In El Salvador, 30% of where minors come from in high migration areas, include just over half million school kids.

Table 12: Migration, Child Migrants and School Enrollment in Honduras and El Salvador

		Honduras				**El Salvador**			
Level of emigration		Low emigration municipalities		High emigration municipalities		Low emigration municipalities		High emigration municipalities	
School enrollment		%	#	%	#	%	#	%	#
Origen of unaccompanied child migrants	No	17.5%	369,316	32.0%	673,393	20.0%	349,788	49.9%	872,145
	Yes	0%	.	50.5%	***1,061,708***	0.6%	9,732	29.5%	515,984

Source: Orozco and Yansura, *Understanding Central American Migration: The Crisis of Central American Child Migrants in Context,* Inter-American Dialogue, 2014.

Developing the Labor Force

The region will benefit from a global effort that integrates economic growth with equity. The current economic growth model is based on the reliance of low skilled labor working in agriculture or in a labor force servicing small markets or enclave economies (like tourism and maquilas). This is not a competitive model.

The international community can work in tandem with the region governments and businesses to strengthen entrepreneurial skills of small businesses and widen the skills of the labor force.
To that effect a skills strategy includes:

- Support entrepreneurial skills in local communities (value chain integration, business model adoption, making bureaucratic processes more efficient).
- Increase skills of the labor force to move out of the existing low-paid, no value-added business model by
    - expanding the number of trades offered by technical schools,
    - increasing knowledge on global markets,
    - bringing vocational schools into the local communities;
    - identifying gaps in the demand for high skill labor between the local and global economy;
    - teaching English as a second language and computer skills for the digital economy;
- Reduce informality through value chains that integrate workers and small businesses within the business sector, improve taxation and tax breaks, for example, bankarize and formalize existing merchant operations.
- Increase access for micro and small businesses and people into the financial system in order to mobilize credit to raise competitiveness.

Building Assets

This strategy consists of mobilizing the savings of remittance recipients, which in turn can be used for credit in the local economies. For a country like Honduras, with 900,000 remittance recipient households, 600,000 of those are saving an average of $1000 this amounts to US$600,000,000 in mostly informal savings (probably 400 million are informal savings).

Using financial education to mobilize savings into depository institutions (banks, microfinance, credit unions) will result in a bankarization of at least 25% of those beneficiaries. The majority of recipients are low income people living in rural areas, and these programs could serve at least 30,000 people living in those cities affected by crime and migration. The commitment from banks to participate is essential as they would contribute to the bankarization and in reinvesting those savings into the productive base of the local economy.

Facilitating Investment and Entrepreneurship

Migrants have an interest in investing back home, and informal savings mobilization from recipients represents an important stock of resources that can be offered as credit to small businesses. Combined, the potential for credit in those communities will increase substantially: the lack of access to credit in communities where violence and migration occurs is strong. Using those savings from the bankarization strategy for credit in those local communities is an integral part of bank's partnerships. However, is important to also remove barriers to entry among migrants. At least one in twenty is willing and ready to invest in a small business or to open its own, yet, setting up the business is cumbersome, accessing credit is impossible and integrating in a value chain is difficult. Removing barriers is essential to increase investment opportunities and capital in those communities.

Some of that investment can go into entrepreneurial activities that add value in the productive base of the local economy, and other into transnational activities, such as those of the value chain associated to nostalgic trade. The approach should not target the typical entrepreneurial activities that operate in saturated and informal markets.

Appendix A: Considerations for Project Implementation

Research has found that, for a development project to be successful, it must meet five criteria: local ownership, correspondence to community needs, sustainability over time, replicability in other contexts, and accountability to stakeholders.[30]

When partnerships are involved, there is another set of indicators to consider. These refer to the quality of the partnership and serve as a means to control for the partnership's value-added. Partnership quality can be measured in several ways, but three critical elements include risk sharing, resource commitment, and trust.[31]

Table 1: Framework for measuring the development impact of diaspora projects

Ownership	• Community members participate in decision making • Community members participate in implementation • Community members control project after completion
Correspondence	• Project meets basic needs • Needs met are a development priority • Implementation occurs in association or coordination with other institutions
Sustainability	• Project enables development goals • Does not constitute a burden or entail added costs to beneficiaries • Has a long life cycle
Replicability	• Resources for the project are easily available in other communities • Institutional environment facilitating implementation is available in other communities
Accountability	• Diaspora leaders respond to their membership base • Organizational structure includes checks and balances of its operations and decisions
Partnerships	• Risk sharing • Resource Commitment • Trust
Risks	• Investment not assessed against the reality • Partners do not fully participate in the implementation • Host government is not committed to support the initiative

Source: Orozco, Manuel.

30 Manuel Orozco and Kate Welle, "Hometown Associations and Development: Ownership, Correspondence, Sustainability and Replicability" (2006). Web Anthology on Migrant Remittances and Development: Research Perspectives. March, 2009.

31 See in particular, Orozco, Manuel. *In search of options and solutions: Family remittances, diaspora partnerships and development opportunities in Africa*. Madrid: FIIAPP, 2010.