

## **Hemispheric emigrants communities support project: Remittances, Microfinance and Community Informatics — Development and Governance Issues**

Remittances are a portion of international migrant workers' earnings sent home from their country of employment. This flow reflects the "monetary dimension in the complex web of linkages that exist between migrant *diaspora* communities and their home countries. With roughly 175 million persons now outside their country of birth sending home over \$100 billion US Dollars per year (with 60% going to developing countries), today's global remittance flow far exceeds official development assistance (ODA) and in most cases, foreign direct investment (FDI).

A growing consensus points to the strategic significance of remittances from international migrants as a source of increasing amounts of capital for families and community development programs throughout the South. Today, diverse transnational communities sustain the local development process at home.

### **Current scenario**

Money transfer costs include commissions (sometimes on both ends) and exchange rate surcharges (or manipulations that few clients understand). While costs have declined over the past three years, in part due to the dedicated campaign of the InterAmerican Development Bank, this same institution claims costs could be halved again. Commissions today appear to average around 4.4% of the amount sent home, but rates do vary and the competition increases as private, regional money transfer operators (MTOs) compete with large commercial banks, credit card companies and more recently, credit unions. Transfer mechanisms include specific amounts sent to MTO franchisee pickup windows, commercial bank account transfers, ATM debit cards issued for family members North and South, payments at MTO receiving windows that are deposited via credit union links in savings and loan cooperative accounts back home, and more recently, monetary value transferred to stored value or "smart" cards (SVCs). These mechanisms also include the purchase of construction materials and gifts paid for in the North to be delivered at home via franchised distributors. Estimates vary regarding the amounts of remittance funds not moving through the formal financial network; an additional 10% seems to be a (disputable) best guess and probably dropping as migrants and their families become more transfer savvy and trusting. It is evident that a combination of increased competition, applied IT and community informatics, regulatory reform and government-anchored initiatives can reduce the transfer costs much more, thereby liberating considerable sums of money for families and their communities.

As part of TAP members to achieve sustainability and impact community development projects they need to be able to achieve a qualitative leap in available resources and their impact, a series of alliances must be negotiated amongst migrant serving telecenters, hometown associations, microfinance institutions, government regulatory entities and development agencies, public and private. Remittance transfer reform and innovation occurs in the emerging field of community informatics and information- linked rural and urban development policies.

### **TAP Role**

The core argument here is straightforward: in order to liberate more capital for families and their community development in today's growing migration- remittance circuits, a common strategy with the appropriate incentives should be devised that banks the unbanked and links awareness

and promotion among migrants' serving telecenters, Hometown Associations (HTAs) in the North, with receiving country financial and telecommunications regulators and relevant government programs; as well, the leadership and staffs of cooperating microfinance institutions (MFIs) are partners in this alliance throughout the migrant exporting regions of the South and their communities telecenters. This is inherently a political process, involving negotiations among actors with different degrees of power in complementary and often poorly articulated arenas. While commercial money transfer operators (e.g. Western Union and Money Gram) and established banks continue to garner a larger share of the remittance business, they are not a priority focus here, although they are significant players. Among them there is little or no concern for community impacts and payouts, nor a commitment is observed to strengthening civil society organizations that on balance govern the remittance process today and will no doubt in the near future. And this process is underway within the emerging context of information and communication technology- enabled commercial transactions plus the increasing use of digital tools and services by young people everywhere. Any discussion of remittance transfer innovations must consider the e-commerce readiness of countries together with the design of community informatics-based alliances amongst all institutions involved.

During the proposed planning process TAP argument's corollaries will include the following:

1. Attention should be focused on remittance receiving countries' financial and telecommunications regulatory norms that facilitate or inhibit lower cost remittance transfers and communications among families allowing for the adoption of state of the art digital technologies (e.g. VoIP).
2. The administrative information systems and software employed by participating telecenter and the cost, licensing rules, security and privacy aspects, plus open source software options suggest the need for a multi-stakeholder portal that synthesizes these data and their respective training programs to enhance awareness and their effective use.
3. Incentives must exist to catalyze the considerable training of relevant personnel that must occur among all those telecenters participating in any lower cost configuration of diverse institutions using available and emerging digital tools.
4. Additional services (e.g., medical insurance, agricultural input upgrades, etc.) may be linked to a generic HTA-MFI remittance transfer system and the institutional network created thereby.
5. These actions should be embedded in a comprehensive development strategy, rural and urban, that optimizes remittance resources, migrants' social capital and the political will of countries' administrative and telecenters leadership.

### **Related regulatory issues**

During its planning process TAP will take into consideration how national governments regulate microfinance institutions, Internet service providers and their non-governmental organizations (specifically telecenters serving migrant serving or producing communities) is a central element in any remittance reform strategy. The core issues shared by all three actors is a set of tradeoffs between protecting incumbents (e.g., commercial banks, monopoly telephone companies and political parties) while stimulating investment and innovation and protecting today's migrant, citizen consumer. These three sets of actors (MFIs, ISPs and NGOs) tend to be regulated by separate State entities, whose autonomy, accountability and transparency also varies.

### **New technical and service options**

Transferring value with state of the art smart or stored value cards (SVCs) is another regulatory and IT access challenge. The extensive network of MFIs and their branch offices, once connected to the Internet, can now offer many financial and commercial services via SVCs. Local merchants can be offered fixed wireless Internet connectivity by MFIs in small towns in return for allowing their clients to purchase goods and services with their smart cards. Such a possibility pits MFIs in competition with large commercial outlets already linked to commercial MTOs. This option would require SVC readers at these commercial establishments, a start up cost readily absorbed by the volume of purchases that remittance receiving families generate. In effect, under these circumstances local MFIs also become ISPs, offering connectivity to their crosstown clients and a range of services the emerging information technologies now permit. With long range fixed wireless WiMAX technology on the immediate horizon, underused transponders on satellites, and the unlicensed Wifi tools now reaching maturity and commodity prices, microfinance organizations need to confront the issues of both installing telecenters in their branches while simultaneously offering connectivity to local merchants that benefits the latter and their clients using their stored value cards charged periodically with remittance transfers from relatives in the North or elsewhere in country.

Additional services can be leveraged with MFIs employing smart cards. For example, migrants' hometown associations (HTAs) in conjunction with their regulated microbank could negotiate collective medical and accident insurance for their respective membership and clients on both ends of the migration circuit. These contracts could also be guaranteed by government bodies who are presently taxed to provide competent health services to their citizenry. In other words, migrants and their families could have access to professional health services, independent of the legal status of the remittance-sending family member. A novel start up in Kenya and Uganda now offers medical vouchers for services back home. It is not inconceivable that migrant remittances will transform social and health services in their countries of origin over the next few years, if the digital tools are available and the regulatory ambience is supportive.

### **New alliances underway**

Unquestionably, the dynamic remittance market together with information technologies is catalyzing new alliances among institutions on both ends of the migration circuit, TAP needs to develop these alliances. For example, credit unions in the United States are working with traditional money transfer operators (MTOs), to provide the lowest cost remittance sending service on the Mesoamerican market. Participating credit unions in many states now offer a special remittance receipt window for latino migrant clients sending money home to family members with accounts at local savings and loan cooperatives. The amounts flowing in this channel are increasing steadily since its inception two years ago, providing scarce capital and credibility to participating microfinance institutions in Mesoamerica while saving money for many families. This precedent has jump-started other policy options. For example, Mexico's official BANSEFI now provides a back office software system and remittance transfer services from many MTOs in the United States for the family of seven microfinance institutions that by law this agency now regulates. Credit unions are engaged in outreach programs in latino migrant communities inside USA, albeit belatedly, and this banking the unbanked effort is proving fruitful. One paradoxical element of this U.S. situation is that *Latino* migrants have limited access to the Internet, as cybercafes are not common and public library services, while ample, are not culturally congenial.

What remains to be defined are the set of agreements that must be negotiated among different actors in this complex array of companies, telecenters, NGOs, government bodies, donor organizations and international agencies in order to create an optimal, null opportunity cost model for remittance transfers and associated services. As suggested above, a series of benefits could accrue to migrants and their families, in the North and the South, if these accords were in place. These agreements require a degree of political will among actors with marked power differentials and who traditionally refrain from negotiating novel alliances: State agencies, private companies and civil society groups. As an example, the negotiated set of arrangements between Mexico's official Banco de Servicios Financieros and a range of private MTOs and microfinance institutions anchored in a civil society tradition is noteworthy (see note 26). The World Council of Credit Unions' (WOCCU) project with private MTOs is increasing the clout of national networks of cooperating microfinance bodies in Central America, and this will no doubt eventually lead to adjustments in regulatory frameworks throughout the region. To my mind, it is incumbent upon the international agencies, public and private, to create the incentives and political pressure to push this process forward and extend it to all remittance dependent countries.

### **Towards an integral policy**

On balance, remittance transfer reform is linked to the focused emergence of a community informatics perspective among HTAs, MFIs and policy-linked government agencies. This can occur along with a territory-anchored rural development strategy. Every migrant exporting region constitutes a territory that is socially constructed, i.e. it shares a cultural and linguistic identity, a social capital and resource base as well as investment potentials for its inhabitants, wherever they may reside. HTAs are a *de facto* extension of the home territory, a unique condition whereby the "belonging sentiment" permits gearing remittances for productive and institutional transformations back home. If our common goal is to reduce rural (and periurban) poverty and catalyze a democratic process, employing a null opportunity cost remittance transfer strategy may be effective. To be sure, any productive changes using these voluminous resources require a series of novel alliances amongst a diverse set of institutional players active in specific regions around the globe. This is a heterogeneous process with as yet unwritten rules. These alliances will be hybrids; and as examples here attest, they are beginning to be negotiated on a piecemeal basis. The politics of remittance transfer reform needs to be recognized as such, while producing scalable, accountable and legitimate policy options that permit negotiations to be actively pursued.