REMITTANCES AND MARKETS: NEW PLAYERS AND PRACTICES

BY

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JUNE 2000

Foreword

In the Fall of 1997, the Inter-American Dialogue and the Tomás Rivera Policy Institute (TRPI) initiated a project examining the potential contribution of remittances to social and economic development in Latin America and the Caribbean — as well as to the economic and social well-being of Latino communities in the United States. This paper is one of a series of working papers produced as part of the project.

In this paper, Dr. Manuel Orozco examines the dynamic market in the United States and in Latin America that surrounds remittances. Waves of Latin American immigrants have entered the United States during the last few decades and there has been a significant increase in the amount of money that Latinos send home to their communities of origin. Unlike immigration studies in the past that concentrate on the senders and receivers of remittances, Dr. Orozco explores the new actors and activities emerging with the surge of remittances, actors that have also had direct and indirect impacts on community development. These players include money transmission companies, Latino nonprofit associations in the United States (hometown associations in particular), government agencies, and international organizations. Dr. Orozco concludes that as competition between businesses continues to increase, more agents become involved in the transmission of remittances, and the financial services sector is regulated, immigrants and their communities of origin will reap greater benefits than they do presently.

TRPI and the Inter-American Dialogue would like to express their gratitude to the Ford Foundation for its support of this project. Furthermore we would like to thank Dr. B. Lindsay Lowell of the Institute for the Study of International Migration for his invaluable contribution as project coordinator, and Jeannine Esposito of the Inter-American Dialogue for her help with the editing and production of these papers.

This paper represents the personal opinions of its author, and does not necessarily reflect the views of TRPI or Dialogue members or staff.

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Remittances and Markets: New Players and Practices

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Introduction

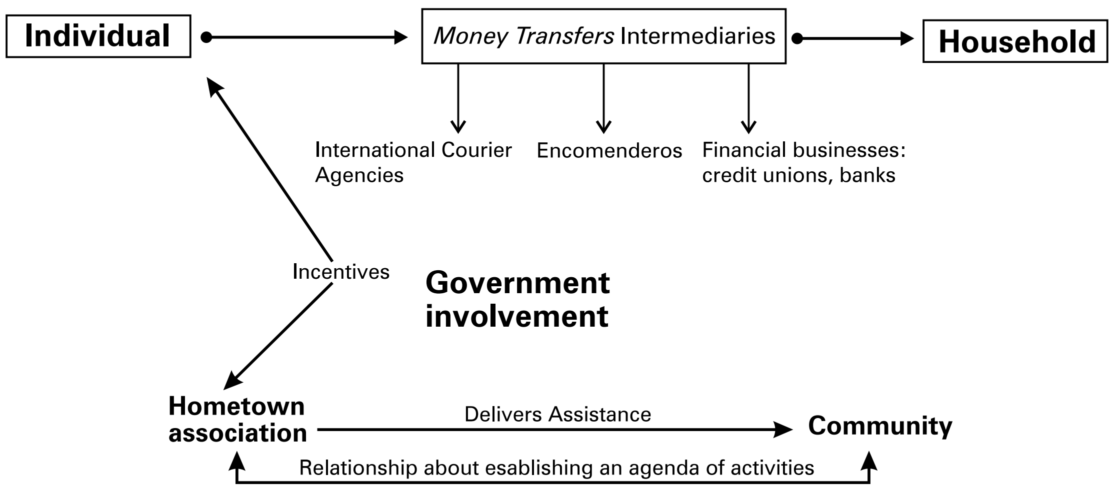
Many Latin American countries find an important source of national income in family remittances and the community-oriented development they support. With the continued immigration of Latinos to the United States since the waves of the 1970s and 1980s, remittances have increased in volume. Between 1991 and 1996 international money transmission from the United States grew an astounding 20 percent a year (Coopers and Lybrand 1997). For Mexico and select countries of Central America, the increase has indeed been sizable: from nearly US$1 billion dollars in 1980, to US$3.7 billion in 1990, to nearly US$8 billion in 1998. The economic and developmental impact of this newly acquired income invites the attention of policymakers and a range of social actors eager to improve opportunities and conditions in Latin America.

So far, most studies on immigration have focused on the senders and recipients of remittances as the "principal actors" precipitating these improvements. However, new actors and activities emerging with the surge in remittances have also had a direct and indirect impact on development. To begin with, the marketplace for transferring remittances has grown, attracting new companies and new services. Migrant-sending governments, too, have generated innovative strategies to influence their use. In addition, immigrant "hometown associations" in the United States have acted independently and together with those governments to help their communities of origin. As this discussion points out, the impact of these newer actors on the flow and behavior of remittances merits closer attention.

With the increase in remittances, these actors, their roles, and their relationships grow more and more complex. Senders, recipients, community associations, businesses, government agencies, and international organizations all have a direct and indirect influence on remittance patterns and their impact on development. Remitters send money to their families for personal purposes, and the families in turn allocate the funds for various economic purposes. Recipients become agents of development when their money creates new markets or improves the welfare of the household through education and health care. The process is reinforced by the activities of U.S. immigrant communities organized spontaneously or through the motivation of their homeland governments to keep the flow coming. Closely involved with all these activities are financial services companies. Although drawn in by the profit motive, they too participate in the economic development of their customers' communities in one fashion or another. Figure 1 depicts these patterns.

This report focuses on the financial services market, its scope and activities, particularly in relation to the programs that migrant-sending governments create to attract funding from their ex-patriots in the United States. Information comes from two main sources: first, data in the literature on the marketplace for remittance transfers and on government programs targeting emigrant populations; and, second, structured, person-to-person interviews with community leaders of immigrant hometown associations in various cities of the United States. Interviews were also conducted with representatives of Central Bank and nongovernmental organizations in

Figure 1. Remittance Actors and Their Relationships



four Latin American countries (the Dominican Republic, El Salvador, Guatemala and Mexico).

The Financial Services Marketplace for Remittances

Remittances are sent in various ways—through banks, money transmitter companies (e.g., courier agencies such as Western Union), or postal services—or they may be hand delivered by the actual sender or by a third party (*encomendero*, or *viajero*) apart from couriers or post offices. The channel depends on various factors: whether a modern banking and financial infrastructure is present, the efficiency of the delivery system, and the educational and income status of the recipient and sender.

Responding to the increased volume of remittances, these institutions expanded noticeably in the 1990s, especially in the nonbank financial institution (NBFI) sector. An NBFI is authorized to engage in banking activities not involving the receipt of money on current account subject to withdrawal by checks. These institutions manage the majority of remittances. International money orders, the next most frequent means of transferring remittances, grew at about 7 percent a year in the same period. Today, at least 90 percent of all remittances are transferred electronically or via money orders.

Of some US$11 billion transferred nationally and internationally in 1996, the money transmission sector had an estimated US$1.2 billion in revenues. The average amount of money transferred to foreign countries is US$320, with fees ranging from 6 to 15 percent, while additional costs can run the total to 20 percent or more (Meyers 1998). It is not difficult to see that remittances are a source of large profit for courier businesses of all sizes. They profit not only from the transaction fee charged to the customer, but also from temporarily investing the funds prior to transferring them, from additional miscellaneous services (e.g., door-to-door services), and in some cases from artificially established exchange rates.

The Players

Western Union and MoneyGram dominate the market in the United States, with 97 percent of money transmissions in 1996.

Although smaller players move less volume, they have about one-fifth of the storefront outlets one typically sees in U.S. cities and play a niche role focusing on immigrants. Table 1 shows some of the most recognized businesses delivering money in Mexico, El Salvador, Guatemala, and the Dominican Republic; some of the firms serve all four countries, whereas others serve only the countries in which they were established.

Western Union. As just mentioned, Western Union is one of the largest money transmitters in the United States. Since it began offering services outside North America in 1989 it has also become one of the main international firms in this business. In 1993 the company introduced its *Dinero en Minutos* (Money in Minutes) service, and by 1996, it controlled 81 percent of the face value market of all money transmissions and 75 percent of the international market (Coopers and Lybrand 1997).

Western Union is known not only for its worldwide reach and quick delivery—in Mexico, *Dinero en Minutos* makes funds available immediately after being sent from the United States (Western Union 1999a)— but also for its simple procedure. The sender gives a Western Union agent a transfer amount and transaction fee in cash; the agent then processes the transfer and gives the sender a money transfer control number (MTCN) by way of reference. Transfer agents for Western Union include an array of businesses: from supermarkets, check cashers, postal outlets, drug stores, travel agencies, and gas stations to well-known financial institutions, airports, and currency exchange offices.

Western Union offers an additional service to Mexico, the Western Union "Giro Telegráfico." This is a written notice, sent to the recipient in Mexico. An exclusive service of Telecomm-Telégrafos, it is available at more than 1,700 locations throughout urban and rural Mexico. Within 24 hours, Telecomm-Telégrafos delivers the notice (*giro*) to the recipient. The recipient goes to any Telecomm location and receives a cash payout (in pesos).

However, the use of the telegraph service has decreased in Mexico. More and more Western Union transactions are going through a national company, Grupo Electra, which provides the remittance in local currency. This has substantially increased Electra's participation in the remittances market. In

Table 1 . The Market: Couriers, Banks and Credit Unions

Mexico	El Salvador	Guatemala	Dominican Republic
Dinero Seguro	Gigante Express	Gigante Express	Mateo Express
Western Union	Leon Express	Western Union	Western Union
Money Gram	Western Union	IRNet	Vimenca
Wells Fargo	IRNet		La Nacional
Bancomer			Pronto Envío
Orlandi Valuta			
Raza Express			
RIA Envía			
IRNet			

Source: Orozco

Table 2. Mexico: Distribution of Remittance Transfers (percent)

Category	1994	1995	1996	1997	1998
1. Money Orders	46.6	39.7	36	35.6	34.8
2. Electronic transfers	43.7	51.5	52.6	54.2	56.2
—Telegraphic wires	25.5	24.4	16.7	12.1	6.3
—Other	18.2	27.1	35.9	42.1	49.9
3. Cash and kind	8.2	8.1	9.6	8.6	7.9
4. Checks	1.4	0.7	1.8	1.6	1.1

Source: Banco de Mexico, Reporte Anual, 1998.

association with Western Union, the firm managed 700 million dollars in remittances in 1996, an increase from 100 million in 1994 and 440 million in 1995 (Lozano 1997). This figure represents about 17 percent of the remittances market. The Bank of Mexico, which corroborates these figures, estimates that electronic transfers through money transmitters such as Grupo Electra have increased to more than half the share of all remittances (Banco de Mexico 1998, 201). This trend has reduced the traditional use of money orders and checks (see Table 2).

Western Union has more than 1,700 agencies in Mexico, more than 160 in El Salvador, more than 140 in Guatemala, and 200 in the Dominican Republic. Despite this widespread availability, Central American money remitters have not made an exclusive use of this agency. One reason has been cost. Western Union's transaction fee can amount to 10 percent or more of the value of the remittance. The charge is calibrated according to the amount sent and the country it is going to (see Table 3). Another reason is that immigrant customers prefer to deal with home-country agencies or send through more familiar means. Moreover, if recipients are given the money in local currency, they often lose something through unfavorable exchange rates imposed by the remitting companies (except in the Dominican Republic and Colombia, where money can be received in dollars).

Western Union alone holds nearly one-quarter of the share of the remittances market in the Dominican Republic (Nigro interview). It works in direct partnership with Vimenca, a locally owned business that receives transactions from Western Union and delivers

Table 3. Western Union: Fee Charged per Country and Amount Sent

Charge for sending...	$100	$200	$300
Mexico	$16.00	$22.00	$27.00
El Salvador	$15.00	$22.00	$29.00
Dominican Republic	$14 ($12*)	$22.00	$30.00
Guatemala	$15.00	$22.00	$29.00
Colombia	$15.00	$22.00	$29.00

Source: Western Union offices. *In the DR if you want the money in local currency (pesos) you must tell the agent beforehand and you'll be charged $12. There are no fees on the recipient's side. Western Union offers a $1.00 discount to regular customers.

the money into the recipient's home. The service it offers through Vimenca has met with widespread satisfaction, although this is not necessarily the case in other countries.

Overall, Western Union's role in the remittance market remains considerable. With new services emerging and the competition in this market expanding, Western Union has become interested in providing assistance to U.S. "hometown associations," which bring together immigrants from specific locations in the migrant-sending countries (see the discussion under "Evolving Practices"). One transnational community targeted by the firm's advertising and public relations campaign comes from Intipuca, El Salvador, although Western Union actually has a smaller presence there than its main competitor, Gigante Express.

MoneyGram. MoneyGram, the second largest money-transmitting company in the United States and leading competitor of Western Union, has also sought stronger ties with Latin America. MoneyGram increased its share of the market from 8 percent in 1993 to 16 percent in 1996. Through an aggressive marketing strategy, the company extended its international reach to 22 percent of the international remittances market in 1996. In 1995, 44 percent of its transmittals took place from the United States to Mexico (Coopers and Lybrand 1997).

MoneyGram has done particularly well competing against Western Union in the Mexican market. Its fees, for example, are somewhat lower or more competitive. In Mexico and the Dominican Republic, MoneyGram offers its customers three kinds of programs, each with different advantages. In the Dominican Republic, MoneyGram works in direct partnership with Pronto Envío, the company that delivers the currency to the recipient (Nuñez interview 1999; Reyes interview 1999). The fees (see Table 4) are less than those charged by Western Union. As part of its marketing strategy, MoneyGram offers the sender a three-minute phone card to inform the recipient in the home country of the reference number for the transaction and to confirm that the money arrived at the local MoneyGram offices.

Table 4. MoneyGram: Fees for Money Transfers

Mexico, three types of services	a) Mexico 10 Minute Service. The money is sent in dollars at the prevailing exchange rate at the moment of sending money. Fee is $20 for up to $300. b) BanaMex (in pesos). The money is exchanged at the prevailing rate at the moment one receives the money. Fee is $10 for up to $300 c) BanaMex (Instant Service). Fee: $15 up to 100; $20 for $100 to $300		
Country/ Amount	**$50.01 to $100**	**$100.01 to $200**	**$200.01 to $300**
El Salvador	$14	$20	$25
Dominican Republic*	$14	$20	$25
Guatemala	$14	$20	$25
Colombia	$14	$20	$25

Source: MoneyGram offices and web site. *For the DR there are three services: Home Delivery US Dollars; Home Delivery for Pesos (based on rate at the time money was sent); Immediate Service for Dollars. MoneyGram has a "Money Saver" program for the Western Hemisphere that gives 10% off the fee charge to regular customers.

The U.S. Post Office and "Dinero Seguro" A more recent entrant to the market for remittances is the U.S. Postal Service's *Dinero Seguro*(safe money) program. Its distribution agent in Mexico is Bancomer, which has 1,200 offices throughout the country. Begun in 1997, this program offers highly competitive rates for electronic money transfers to Mexico. The fee covers the transaction itself and the conversion of dollars into pesos, which, according to the U.S. Post Office, averages 10 percent of the pesos received in Mexico. The money is available within fifteen minutes after it is wired. Like MoneyGram, the program gives the customer a free phone card good for three minutes of long-distance calls to advise the recipient that the money has been sent. Table 5 shows the different rates applied.

Gigante Express. Every country with substantial immigrant populations in the United States also has a number of courier agencies, known as "ethnic stores" (Meyers 1998). The largest such agency in El Salvador is Gigante Express; in the Dominican Republic, Mateo Express and King Express; and in Guatemala, Mateo Express.

Gigante Express is actually one of the largest courier agencies in all of Central America, handling remittances to El Salvador, Guatemala, and Honduras. It started out in Los Angeles in 1982 as a small business offering *encomiendas* (the delivery of packages) from Salvadorans living in the Los Angeles area to El Salvador. Gigante Express is the most popular agency among Salvadorans and is thought to handle half of all remittances sent to the country. Today, the company has more than 60 agencies and operations in Canada, the United States, Guatemala, and Honduras; 90 percent of its customers in these locations are Salvadorans.

Table 5. Dinero Seguro: Fees for Money Transfers

Face Value	Rate
$1 to $350	$12
$351 to $750	$20
$751 to $ 1500	$36
$1501 to $2250	$48
$2251 to $2999	$60

Source: US Post Office, Rate Charts

The agency offers three services: mail delivery, immediate telecommunications (through "Channel 1"), and the delivery of packages (*encomiendas*). In the first service, people send their money via money orders sold by the company. The charge is US$15 if it is home delivered and US$11 if the recipient picks up the letter. Channel 1 is a TV channel that enables relatives in El Salvador and the United States to meet via telecommunication. The third service delivers small packages to people in their home country (Marroquin interview 1999).

The money is sent through Miami, where it is handled by Grupo America (a subsidiary of Gigante Express). Gigante Express handles the delivery of packages in El Salvador. According to Gigante Express officials there, about half of the remittances go to San Salvador (the country's capital), and the rest go primarily to eastern parts of the country (mainly the cities of San Miguel, Usulután, and Morazan). Unlike Western Union, MoneyGram, and Dinero Seguro, the company does not deliver the money until two days after the transaction has been made. Gigante Express mails the remittance letters to Miami on a daily basis, and they are delivered to El Salvador by air the same day. Upon arrival, the company initiates its nationwide delivery or notification of mail (Morán interview 1999).

Mateo Express, Vimenca, Pronto Envío. Mateo Express is one of the courier agencies favored by Dominicans. Like Gigante Express, Mateo Express offers home delivery at similar competitive prices. Vimenca, Pronto Envío, La Nacional, and Quesquellana are other courier agencies that provide delivery in the Dominican Republic. Dominicans tend to be more satisfied with these companies in part because competition motivates them to provide a better service at lower cost (Santana interview 1999).

IRNet. The International Remittance Network (IRNet)—a credit union service—is an innovative alternative to other courier agencies. It charges one of the lowest fees in the market a flat rate of US$6.50 per transaction (Romney 1999a). The operation also involves limited processing. However, the sender has to be a member of a credit union. The IRNet functions as an international bank-clearing mechanism, and it uses Citibank, North America, as the clearing institution for the funds (WOCCU 1999). When a credit union processes a remittance transaction, it goes through an automated clearinghouse (ACH). Citibank functions as an intermediary receiving money from the ACH and, in turn, passes further credit to a local Citibank in the recipient country. The local Citibank then provides credit to the credit union that has a financial arrangement with Citibank. Citibank does not charge a fee or commission for this service. Rather, Citibank benefits through its ability to invest the funds overnight (Grace interview 1999).

Since its recent entry into the market, IRNet has been gaining support among communities and leaders, including lawmakers. Significantly, the credit unions provide lending assistance to members and support development programs in the receiving country. The Comunidades project in Los Angeles is an example of such experiments, and other new arrangements are now being established. At present, there are more than 300 credit unions in Mexico, 25 in El Salvador, and 14 in Guatemala. Meetings with credit unions in the Dominican Republic have revealed a strong interest in supporting a service related to remittances. Unions (savings and loans cooperatives) are studying the possibilities of joining IRNet. According to union federation officials, some cooperatives have a substantial number of immigrant members. They maintain business relationships with the unions and would be willing to send their remittances through their cooperative (Gerardo interview 1999).

One important benefit of this system, beyond reduced transfer costs, is that it familiarizes immigrants with the services of a credit union. They open savings and checking accounts, build credit records, learn about financial matters, and place their money in secure and interest-bearing accounts. Immigrants who go through courier agencies have less chance of interacting with mainstream financial institutions than a person who belongs to a credit union.

Class Action Suit against the Major Players: Western Union and MoneyGram

Many consumers have complained about the rates charged by Western Union and MoneyGram, particularly the unfavorable exchange rates for remittances delivered in a local currency. As Table 6 shows, there are, indeed, significant returns to be had by exchanging currencies at such rates. Another common complaint is that consumers are not made aware of the full costs involved in a transaction.

These concerns led Latino organizations and customers to file a class action suit in Illinois, Texas, and California against these two

Table 6. Exchange Rates Offered to Customers Wiring Money to Selected Countries

Country	Current benchmark exchange rate[1]	Current exchange rate offered by wire transfer company[2]	Percentage of wire transfer company's rate to benchmark rate	Profit derived from rate on $500 transfer[3]
Mexico	10.13	9	88.84%	$55.80
Canada	1.51	1.44	95.36%	$23.20
Ireland	0.68	0.64	94.11%	$29.45
Poland	3.51	3.47	98.86%	$5.70
Argentina	1	1	100.0%	$0.00
India	42.55	41.15	96.7%	$16.5
Spain	143.87	139	96.61%	$16.95

[1] Current benchmark exchange rate is rate per U.S. dollar as of close of business, 1/12/99

[2] Current exchange rate offered by wire transfer company is rate offered by Western Union on 1/13/99

[3] Wire transfer company profit per $500 transfer does not include money derived from service charges, flat fees, etc.– only money gained through difference between benchmark exchange rate and exchange rate offered to customers.

Source: Luis Gutierrez, US Congress. Kind assistance from David Grace.

companies and a third one, Orlandi Valuta, for charging "exorbitant hidden fees when wiring money from the United States to Mexico" (Romney 1999b, C1). In the resulting settlement, MoneyGram and Western Union agreed to issue discount coupons to any customers who had wired money to Mexico since 1987. The compensation entitles customers to two coupons worth US$4.25 each, or to one coupon worth US$6, for a potential value of more than US$375 million. MoneyGram also agreed to create a fund of US$317,460 for organizations serving Mexicans in the United States; Western Union originally pledged to donate US$2.3 million and later agreed to make it US$4.7 million (Romney 1999, C1; Colden 1999, M-01).

As a result of the lawsuit, Western Union has reportedly lost 10 percent of its business over the past year or so. In an attempt to regain clients and improve its image, Western Union has introduced programs that increase assistance to and cooperation with Latino immigrants and organizations in Latin America. One such program helps newly arrived immigrants find jobs and become acquainted with transportation, welfare assistance, and other available services. Among the immigrant-based organizations receiving assistance is the Ozanam Center, formerly known as Casa Oscar Romero, in Brownsville, Texas and Casa Marianela, in Austin, Texas (Western Union 1999c).

For consumers residing in Latin America, Western Union has inaugurated a new program called Helping Hands, which seeks to "adapt local needs, under one global platform" (Western Union 1999b). Western Union provides funding for skills programs directed at literacy, adult basic education, computer training, or health and rehabilitation. Costa Rica, for example, received US$100,000 from Western Union to establish a new science laboratory at the Technological Institute. The Dominican Republic has also received assistance from Western Union, through the support of charities such as El Patronato Nacional de Ciegos, El Hogar de Doña Chucha para Huérfanos, El Hogar de Ancianos, and La Asociación Dominicana de Rehabilitación.

Western Union donated 700 computers for technological education in Dominican public schools, as well as equipment to the Robert Read Cabral Hospital "for the treatment and diagnosis of congenital malformations in children's urinary systems, a rare condition that affects many Dominican children" (Western Union 1999b). The company has plans to initiate a pilot program for donations of material supplies and other resources in the spring of 2000 in collaboration with Central American organizations in Nicaragua and El Salvador (Western Union 1999d).

Summary

The financial services marketplace for transferring remittances has a few large players and a number of smaller niche players. At present, this market is experiencing substantial growth in all respects: the volume of remittances carried, the number of carriers, the diversity of services they provide, and the entry of nontraditional players such as the U.S. Postal Service or credit unions. The recently resolved lawsuit against the major players in this sector shows that their profitability has not been without its excesses. However, the resolution of the suit also indicates that the market is amenable to regulation and the precedent it has set will encourage these companies to support their customers' communities. From the number of players in the market and the various niches they serve, it appears that competition will increasingly lower the costs of transferring remittances from the United States to Mexico and Central America.

Evolving Practices for Capturing and Leveraging Remittances

Over the past twenty years various means of accessing and leveraging remittances have evolved worldwide, particularly in Asia, which exhibits substantial circular movements of labor migrants to neighboring countries and to the Middle East. In the Western Hemisphere, Mexico has been a leader in developing practices to exploit the increasing flow of remittances, as might be expected from the nation with the largest flow of emigrants and remittances.

Some of the earliest attempts to capture remittances focused on the point of transfer, often through government import duties on money carried into the country. Another method, tested in the 1970s and 1980s in the Asian countries, was to legislate that a share of labor earnings abroad be deposited into a national fund. In the United States, migrants are now being allowed to voluntarily earmark their remittances toward development funds. Financial instruments are another alternative to capitalize on the flow. Asian governments took the lead in creating such instruments to attract migrant investment in foreign currency accounts and bonds. With a larger market in mind, Mexican banks in recent years have created the remittance-based bond.

During the 1990s, Mexico took the lead in reaching out to its emigrants in the United States, helping to form "hometown associations" (HTAs) and encouraging members to remit and invest in their communities of origin. The HTAs have served as platforms for matching fund schemes that pool remittance money with government funds and expertise, and occasionally with private-sector contributions, for locally focused economic development projects. More recently, state governments have experimented with offering HTAs investment opportunities in job-creating projects, typically at assembly plants with low entry costs.

In addition, some effort has been made to encourage individual migrants to spend their earnings in ways that benefit the migrant-sending economy, for example, to invest in job-creating programs or to counsel or train return migrants in ways that increase their contributions to their country of origin. Thus far, the approaches pioneered in Asia have had few equivalents in Mexico or Central America, although one U.S./Mexican project does teach return migrants entrepreneurial skills and helps them become self-employed.

Capturing a Share of the Flow of Remittances

One way for governments or the private sector to capture a share of the flow might be to step in at the point of transfer to the home country. That is to say, remittances might be taxed; since such money usually comes from earnings, it is arguably taxable in any case. Justification depends, of course, on the extent to which the workers benefit from the taxes if they live primarily in the United States. In practical terms, it is difficult to identify the source of unilateral transfers, and the threat of taxes could simply drive the money off the books. Schemes that would earmark a portion of remittances for government use run into similar problems.

Government Regulations on Remittance Income. None of the countries examined in this study has specific regulations controlling the flow of remittances. In postwar Guatemala and El Salvador, the Central Banks prefer to let the remittance market regulate itself. Their position is consistent with government policy in both countries, which is geared toward privatizing and liberalizing their economies. Both Central Banks closely follow the flow of remittances and measure it by monitoring the reports of banks and foreign currency exchange houses. Their methods have a margin of error of about 5 to 10 percent. At the same time, regulations are imposed (by customs offices) on goods that emigrants bring into the country (often remittances in kind). However, both El Salvador and Guatemala are liberal on import duties: Salvadorans are allowed to bring in up to US$1,500 worth of merchandise and Guatemalans up to US$2,000 without paying duty.

Government Capture of Remittance Shares. A few countries have tried forcing workers who go abroad to deposit a certain percentage of their earnings into a national fund. Only Korea has succeeded with such a system: remittances consisting of at least 80 percent of earnings must pass through the Korean banking system, but this process is part of a "package system" here. The workers are employed by Korean companies, which are assisted by the government in winning contracts, and these companies deposit workers' earnings directly. Not surprisingly, mandatory deposits of foreign labor earnings cannot be enforced where workers independently find employment in an open market, which is the more typical situation. The mandatory earmarking of remittances has failed in the Philippines, Pakistan, Thailand, and Bangladesh (Puris and Ritzema 1999).

Of course, the idea is rather appealing. Guatemalan Ambassador William Stixrud has suggested that emigrants put up the equivalent of 10 percent of the value of their remittances for private investment (Velásquez 1999). The ambassador has argued for the implementation of such a fund with the assistance of emigrants, the government, and international development organizations. If a town needed US$1 million to construct a hydroelectric plant, say, the emigrant community could raise 20 percent of the costs, and international development organizations such as the Inter-American Development Bank could put up the rest.

Voluntary "Check-off" Contributions. Financial service organizations might offer remitters an opportunity, at the point of sale or transfer, to voluntarily donate a portion of their money to economic development. The form used to transfer the funds could contain a box that customers could check if they wished to donate some part of the remittance to a special fund. This could be done in various ways: perhaps a US$1 dollar contribution could be suggested. Contributions could be earmarked for educational reform, tax deferral, or qualifying charitable organizations that work in the home country. A government or independent private sector NGO could manage various development funds, and the customer might be asked to choose from a range of possible destinations for the donation. In recent negotiations with a Chicago court, Western Union agreed to permit such a check-off feature on its money transfer forms (Migration News 1999).

Financial Instruments to Attract Remittances

All the approaches just discussed would capture and direct a share of remittances to some sort of development project or investment scheme. Another possibility would be to attract remittance money from low-return transactions or informal transfers into the formal banking sector. Though not directly investing in development, this approach might create more value. It makes sense to improve the earnings of the domestic finance sector, the returns to individual migrant earnings, and the national balance of payments.

Government and Private-Sector Remittance Bonds. Several years ago, Mexican banks began offering remittances bonds backed by money sent from migrant laborers in the United States (Druckerman 1998). For the most part, the bonds are issued by banks that receive large amounts of wire transfers from workers and companies abroad. The remittance money may also be part of a bank's check-cashing or money order business. In this case, the money would be deposited in an offshore account before being converted into local currency and delivered to the recipients. Over the past five years the annual flow of remittances has been ten times as great as the amount of annual bond payments.

In El Salvador, Banco Cuscatlán SA reportedly handles at least one-third of the US$1.2 billion received in remittances and in 1998 offered US$50 million in remittances bonds. Governments and banks in other countries around the world have investigated this financing option and new source of debt marketing. Investment bankers have tried to sell the idea to banks in Turkey, the Philippines, and Brazil. Pakistan and India have been more hospitable to the idea: both have issued remittance bonds to boost foreign-currency reserves (Sengupta 1998). The main risks are year-to-year fluctuations in remittances because of economic cycles. Down cycles induce unemployment, currency fluctuations may deter remittances, and these can have marked effects on remittance flows. In the rapidly changing market for transferring remittances, banks may lose their regular customers to competitors. Even so, the volume of remittances attracts many in the banking system.

Migrant Foreign Currency Accounts and Bonds. Unlike the broad market intended for remittance bonds, migrant foreign currency accounts and bonds are designed to specifically attract remittance money. Although examples appear to be few in Latin America, some Asian countries offer migrant workers foreign currency accounts in domestic banks that are not subject to foreign exchange regulations (Puris and Rizema 1999). In India and Pakistan, interest rates on these accounts are higher than on domestic or Euro-currency deposits. Premium exchange rates may be offered. Foreign currency bonds have been around at least as long as remittance bonds, but once again are targeted to migrant workers abroad. The bonds are denominated in a foreign currency, and bearer certificates are issued, permitting the holder to redeem them for cash anonymously. Again, the interest rates are high and premium exchange rates are given. These schemes are thought to attract remittances into formal banking, although they may be most attractive to professional and higher-income migrants.

Influencing Migrant Labor Earnings

Other practices aim to influence the way remittances are used and, like the approaches just discussed, target the individual migrant/remitter. Primarily, such programs encourage migrants abroad to spend remittances on job-creating investments, or they counsel return migrants on how to increase their contributions to their country of origin (Puris and Rizema 1999). The former programs include reduced tariffs given to migrants abroad (or returning migrants) on the importation of machinery and equipment used to establish manufacturing enterprises. Variations on the theme include special duty and tax breaks on equipment and investments made in export processing zones or underdeveloped regions. Preferential access to capital goods and raw materials may be given to return migrants.

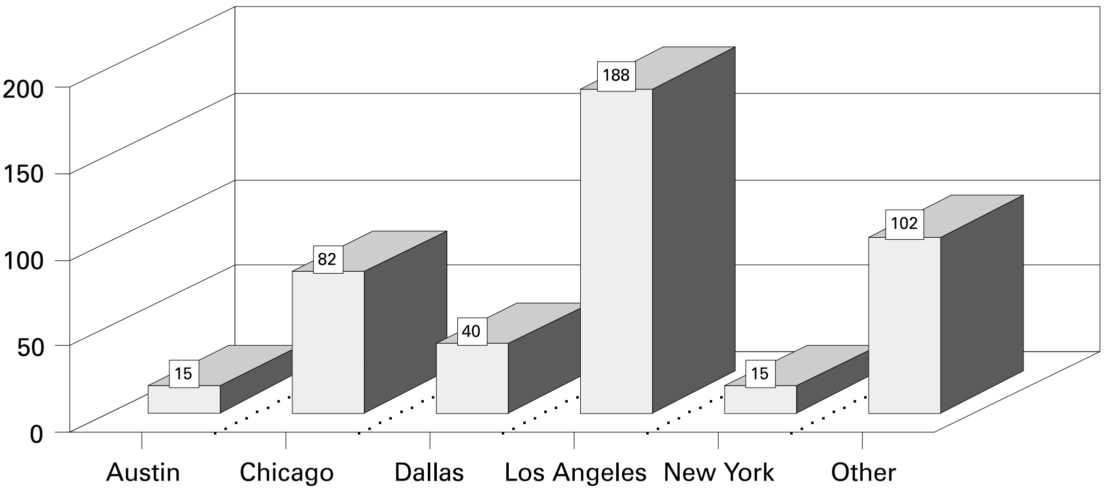
Other programs attempt to encourage the entrepreneurial proclivities of return migrants. Business counseling and training programs exist in several Asian countries. At first glance, such programs may appear best suited for higher-skilled migrants, but small-scale businesses that use less-skilled migrants can also succeed. The U.S.-based Projecto Esperanza that works with Mexican migrants runs one such program. Suitable individuals are identified and given the option to pursue special training in skills such as auto repair or retail sales. The Mexican state of Michoacán cooperates by offering partial funding and providing the skills training in state institutions. Funding is available to help the return migrants purchase the tools they need to start a business.

Migrant-Sending Government Outreach to Migrants

Programs that assist in the development of formal migrant associations and encourage their membership to remit and invest in their home countries can stimulate remittances. The Mexican government has operated a formal outreach program of this kind since 1990. Established during the government of Salinas de Gortari, these efforts have continued under the Zedillo administration. They include the Paisano program and the Program for Mexican Communities Living Abroad (PMCLA). The former attempts to improve the treatment that returning migrants receive at the hands of Mexican officials by reducing corruption and abuse. The latter provides a wide range of services to Mexicans residing in the United States, including health, education, legal, and social services. It also helps channel remittances toward local development projects.

The PMCLA program operates through the network of 42 consulates and 23 institutes or Mexican cultural centers in the United States (Gonzalez y Schumacher 1998). It cooperates with Mexican clubs and hometown community organizations to deliver its services and to encourage them to raise funds on behalf of their hometown. Consuls have helped arrange meetings between community leaders and visiting governmental representatives from Mexico. In addition,

Figure 2. Mexican Clubs by Consular Representation



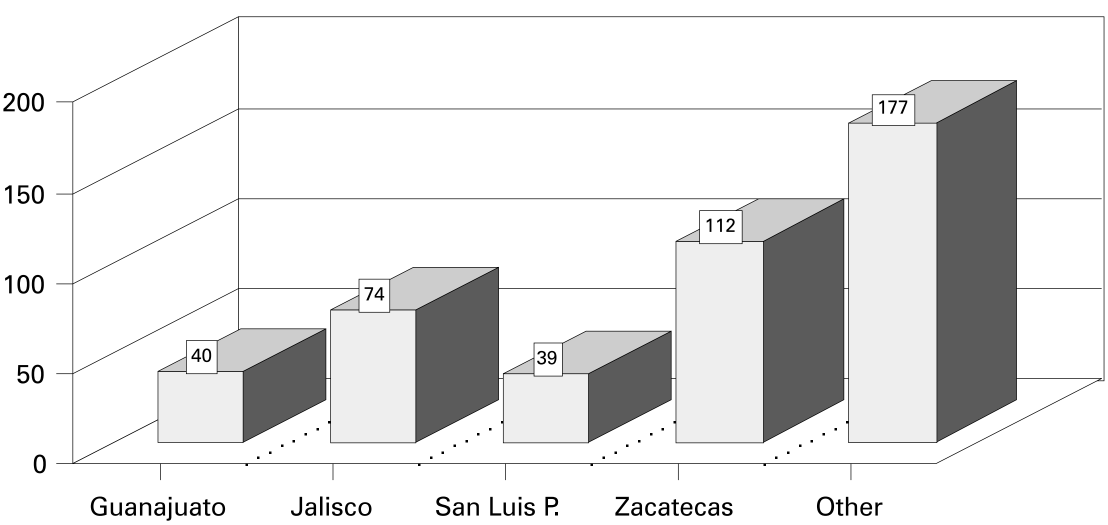
Source: Secretería de Relaciones Exteriores, August 1998.

many state and local officials from emigrant-sending cities and states meet with and provide services to emigrant groups.

By late 1998 there were more than 400 clubs operating throughout the United States, although most were located in Los Angeles and Dallas (this number excludes groups created independently of the PMCLA program). Figure 2 shows the number of clubs in the top five Mexican consular representations in the United States.

The growth of these clubs has been uneven, however, especially in areas that do not have a cohesive population of immigrants from the same Mexican sending areas or that lack active leaders. Zacatecas or Guanajuato clubs, for example, have demonstrated more organizational capacity than other groups. Furthermore, some groups are concentrated in one area whereas others are spread throughout the country. Of the 112 Zacatecas clubs in the United States, 71 are in Los Angeles and 20 in Chicago. In contrast,

Figure 3. Mexican Clubs by State of Origin



Source: Secretería de Relaciones Exteriores, August 1998.

the 40 Guanajuato clubs in the country are more dispersed: 11 are in Chicago, 7 in Dallas, 4 in Los Angeles, 4 in San Jose, 3 in Oxnard, and the remaining 15 in nine different consular areas. Figure 3 shows the top five Mexican clubs by their state of origin.

So far, the Mexican groups have been the most successful and organized among Latino endeavors, although Salvadoran, Dominican, and Guatemalan groups are being encouraged to follow this path, too. Taking a cue from the Mexican experience, the Embassy of El Salvador has been working to maintain friendly relations as well as conduct outreach efforts with Salvadoran communities, which appear to be responding positively. In the case of Guatemala, its expatriates seem less aware of the importance of their remittances; nevertheless, the embassy has initiated steps to reach out to Guatemalan communities in various parts of the United States and is considering investment strategies (Stixrud interview,1999).

Migrant-Sending Government and U.S. Community Joint Ventures

Governments are well aware that they can attract emigrants' money if they offer incentives. One approach is to match remittances with government funding so as to increase the pool of money available for various projects and at the same time motivate hometown associations to leverage their donations. Another approach is to actively solicit and encourage investment by emigrants in their hometowns, essentially diverting remittances to hometown development.

Hometown Community Matching Funds. The Mexican state of Zacatecas has one of the oldest matching fund programs and has been emulated by the state governments of Jalisco and Oaxaca. Under these programs, the Mexican government teams up with hometown associations and other actors to spur economic development. In the case of the Zacatecas clubs founded in southern California in 1976, an umbrella federation of clubs was formed in 1992, at which point the home-state government began a formal tripartite financing project (Marquez 1998). For every dollar donated by the emigrants, the federal government and the state government each contributed an additional dollar. A top priority of their projects is to promote development that benefits the entire community such as providing potable water, building schools and recreational facilities, paving streets, and building churches, plazas, and parks. The program has changed in recent years to a four-in-one program that draws in contributions from the municipal government too. In the future, the state hopes to build microenterprises and other economically productive projects.

Similarly, Jalisco launched an economic development fund in 1998 to attract hometown associations. The HTA donations, remittance-like unilateral transfers, are matched by the government on various development projects, including factories and infrastructure projects. But the hometown associations are not the only players: financial services firms such as Raza Express contribute US$0.75 to the fund for each US$300 sent to Mexico through their company. The company contributed more than US$50,000 to the fund, and the government of Jalisco has put in US$500,000, all of which has helped create some 15,000 jobs. This strategy combines government funds and Mexican emigrants' money for hometown development, with other actors participating in the remittances market. The end result is a hybrid form of investment and community support representing actors pursuing both similar and different agendas.

Hometown-Community Investment Plans. The state of Guanajuato works with Casas de Guanajuato associations, created in part through outreach efforts, to manage and finance small garment factories in their hometowns. The state has set up an office of the Comunidades Guanajuatenses en El Extranjero with a full-time liaison to work with the more than 30 Casas de Guanajuato associations throughout the United States (Zamora interview 1999).

The investment is professionally managed under the "My Community" program. An outside consultant is asked to put together a business plan that the office presents to each U.S. hometown association. A minimum of US$60,000 is required from the community, or typically a few individual members (Ferriss and Moreno 1998). Further, the state covers three to four months of wages during the start-up period and makes low-cost loans available. Various incentives are offered to attract U.S. immigrants to participate in these programs. State support is clearly one incentive, and the business plan presented by the consulting team is another, for it indicates the project is profitable. What is more, the money is going into the investors' hometown, and they may even give preferred hiring to family members. Emigrants working in these projects believe that "by providing jobs for those with fewer skills, fewer people will be forced to emigrate to the United States in search of work" (Ferriss and Moreno 1998, 1). Thus far, six garment factories (structured as *maquiladoras*) have been in operation for about a year, and three more are in the start-up phase. There are plans to have up to 60 *maquiladoras* up and running in the next several years.

In a visit to one of the smaller garment factories employing about 30 people, almost all women, the manager stated that they were breaking even, but that the demand was highly variable (Lowell 1999). The factory was in a warehouse with about ten to twelve machines, chairs, a very small office, and little else. A garment factory like this spends about US$100,000 on machinery and requires few skills on the part of the workers. In order to smooth out demand, a central coordinator for the state is attempting to serve as an intermediary to U.S. retailers. With the intermediary fielding job orders, the company hopes to increase the demand and even out the workload among the state's garment assemblers.

Summary

During the 1980s, new approaches to the channeling of and leveraging of remittances emerged in North and Central America, and worldwide. No doubt several factors account for this pattern, perhaps the most of important of which is the growth of remittances from the earnings of migrants abroad. India is credited with the greatest growth of remittances over the past two decades and the greatest volume, followed in second place by Mexico. Asian countries offer many examples of practices that may be of value in the Western Hemisphere, although some innovations from the Americas appear to diffuse eastward. In the context of North America, Central America, and the Caribbean, Mexico appears to have the lead in experimenting with different approaches.

Conclusions

As this report makes clear, the market for remittances now involves a wider array of actors and practices than before. Although two or three large companies tend to dominate the financial services sector, competition is stepping up, and regulations will help to lower costs there. Furthermore, the activities of migrant-sending governments are moving in several new directions, with the support of various levels of government, nongovernmental actors, and U.S. immigrant associations.

A new array of intermediaries has also become involved in money transmission. Like any business, these agencies have their pros and cons. The major advantages offered by agencies such as Western Union and MoneyGram is what they call "premium service," meaning immediate delivery of the currency. In general, these services are used primarily by businesses that send more money on average than do migrants. Immigrants choose their supplier on the basis of trust, convenience (including cultural and language similarity), popular demand in the recipient country, and familiarity. Small niche companies serve specific nationality groups in the United States and offer special services.

Increased competition and appropriate regulations should reduce transfer costs, making more of the remittance dollar available to the consumers who most need it. Recent court action against major players will undoubtedly level the playing field, as will efforts by governments in the migrant-sending countries and the United States to keep the marketplace transparent. Competitive companies will also undoubtedly plow some of their profits into their consumer base in order to gain market share. In fact, before the recent court decisions against the major players, these businesses had already provided some assistance to the recipient and sending communities. Western Union, for example, donated US$100,000 for reconstruction after the natural disaster of Hurricane Mitch (Nigro interview 1999). Gigante Express has sponsored festivities in El Salvador (Marroquin interview 1999), and Dinero Seguro has done the same.

In some cases, these companies have contributed to migrant-sending government projects that are coordinated with U.S. immigrant hometown associations. These are intriguing and promising ventures, but they are only one of a variety of practices that leverage remittance dollars. Remittance ventures fall into four broad types: a government and development fund may attempt to capture a share of personal remittances (mandatory or voluntary); formal financial instruments may be created with individual remittance monies; attempts may be made to capitalize on the investments or enterprise of individual return migrants; and U.S. hometown associations and migrant-sending governments may take collective action geared toward community development.

From the foregoing discussion, it appears that the marketplace for transferring remittances will make more money available for migrant-sending communities. What impact the various approaches to leveraging remittance money will have on economic development, however, remains to be determined. Perhaps the most obvious advantage of these leveraging approaches is that they pool remittances and thereby create a market for bonds in the banking sector, or help build schools and roads in migrant-sending communities. Even if their success and potential are self-evident, the extent to which these projects significantly boost economic development remains an important subject for further research.

Appendix One
TRPI/IAD Project Interviews, 1998-99

Asamblea de la Sociedad Civil, *(Guatemala)*

Mathilde Craig, Salvadoran Embassy, *(Washington DC)*

Ramiro Carrasco, Director Tecnico, Asociacion de Inst. Rurales de Ahorro y Credito *(Santo Domingo, Dominican Republic)*

Francisco Castro, Comunidad Unida de Chinameca, *(Washington DC)*

Jorge Chacon, Chief of Accounting, Gigante Express, *(El Salvador)*

Iris Contreras, Comite Guatemalteco Americano, New York, *(Miami)*

Alberto Espejo, IMF, Guatemala Desk, *(Other)*

Jose Luis Garcia Monge, Exchange and Trading Statistics Section, Department of Balance of Payments, Central Reserve Bank of El Salvador, *(El Salvador)*

Juan Jose Garcia,Consultant, *(El Salvador)*

Virginio Rafael Gerardo, Director, Asociacion de Inst. Rurales de Ahorro y Credito *(Santo Domingo, Dominican Republic)*

David Grace, IRNet, *(Other)*

Carlos Henriquez, Comite de Desarrollo de Uluazapa *(Washington DC)*

Jose Ramon Lam Ortiz, Chief, Balance of Payments Section, Bank of Guatemala, *(Guatemala)*

Roberto Lemus, Vice-president, Congress of Guatemalan Organizations, Guatenet, *(Miami)*

Carlos Marroquin, Gigante Express, Washington DC., *(Washington DC)*

MoneyGram office representatives, *(Other)*

Raul Moran, Chief of Operations, Gigante Express, *(El Salvador)*

Raul Moreno, FUNDE, (El Salvador)

Eugenio Nigro, Western Union, *(Miami)*

Luis Nuñez, Director Departamento Internacional, Banco Central de R.D. *(Santo Domingo, Dominican Republic)*

Cesar Orantes, President, Congress of Guatemalan Organizations GuateNet, *(Washington DC)*

Leonel Padilla, IRIPAZ (brief conversation over telephone), *(Guatemala)*

Edgar Pape, FLACSO, *(Guatemala)*

President of Intipuca Foundation, *(El Salvador)*

Luis Reyez, Departamento Internacional, Banco Central de R.D. *(Santo Domingo, Dominican Republic)*

Abigail de Rivera, president of Comite Unidos por Intipuca *(Washington DC)*

Isidoro Santana, Secretario, Fundación Siglo XXI, *(Santo Domingo, Dominican Republic)*

Victor Sorto, Comite Pro Mejoramiento de El Chiquirin, *(Washington DC)*

Lizardo Sosa, Researcher, ASIES, *(Guatemala)*

William Stixrud, Guatemalan Ambassador, [short conversation about embassy's plans] *(Miami)*

Julio Villaseñor, Guatemala United Information Agency, *(Miami)*

Guadalupe Zamora, State of Guanajuato representative for Casa de Guanajuato program, *(Other)*

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