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The U.S.-Guatemala Remittance Corridor

Understanding Better the Drivers of Remittances Intermediation

Hela Cheikhrouhou
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Abbreviations and Acronyms

AML	Anti–Money Laundering
APEC	Asia Pacific Economic Cooperation
ARS	Alternative Remittance Systems
ATM	Automated Teller Machine
BANGUAT	*Banco Central de Guatemala*
BRCA	Bilateral Remittance Corridor Analysis
CACs	*Cajas de Ahorro y Credito*
CFATF	Caribbean Financial Action Task Force
CFT	Combating the Financing of Terrorism
CONGUATE	*Coalicion de Inmigrantes Guatemaltecos en EEUU*
EFTs	Electronic Fund Transfers
FATF	Financial Action Task Force on Money Laundering
FDI	Foreign Direct Investment
FDIC	Federal Deposit Insurance Corporation
FedACH^{SM}	Federal Reserve Automated Clearing House
FENACOAC	*Federacion Nacional de Cooperativas de Ahorro y Credito*
FFT	Formal Funds Transfer
FIU	Financial Intelligence Unit
FINCEN	Financial Crimes Enforcement Network
FMM	Finance Ministers Meeting
GDP	Gross Domestic Product
HTAs	Home Town Associations
IADB	Inter-American Development Bank
IFT	Informal Funds Transfer
ILO	International Labor Organization
IMF	International Monetary Fund
IMF BOP	IMF Balance of Payments
IT	Information Technology
INS	Immigration and Naturalization Service
IVE	Intendencia de Verificacion Especial
IOM	International Organization for Migration
KE	King Express
KYC	Know Your Customer
LCCU	Latino Community Credit Union
LOAC	General Law of Organizations and Institutions of Auxiliary Credit Activities
LSMS	Living Standard Measurement Survey
MCG	*Matricula Consular de Guatemala*
MFA	Ministry of Foreign Affairs
MFI	Micro Finance Institution
MIF	Multilateral Investment Fund
MOA	Ministry of Agriculture

MOE	Ministry of Economy
MOF	Ministry of Finance
MTO	Money Transfer Operator
MSB	Money Services Business
NATF	The New Alliance Task Force
NGO	Nongovernmental Organization
OAS/CICAD	Organization of American States/ Inter-American Drug Abuse Control Commission
OECD	Organization for Economic Co-operation and Development
OFAC	Office of Foreign Assets Control
OPDF	*Organizaciones Privadas de Desarrollo Financiero* (Private Organizations for Financial Development)
PMI	Private Mortgage Insurance
REDIMIF	*Red de Instituciones de Microfinanzas de Guatemala*
RGO	Receiving Gateway Operator
SB	Superintendence of Banks
SCI	Savings and Credit Institutions
SIB	*Superintendencia de Bancos*
SWIFT	Society for Worldwide Interbank Financial Telecommunication
SWOT	Analysis of Strengths, Weaknesses, Opportunities and Threats
TIC	*Tarjeta de Identificación Consular*
UAE	United Arab Emirates
UCC	Uniform Commercial Code
USAID	United States Agency for International Development
WB	World Bank
WOCCU	World Council of Credit Unions
WG	Working Group
WU	Western Union

Executive Summary

This study reports on recent development and future potential for U.S.-based Guatemalan workers cross-border retail transfers to be more formal, cheaper, and disposed to the cross-sale of financial products and services. It also presents the key features of remittances senders, recipients, instruments, and intermediaries involved.

Remittance flows are systemically important for Guatemala (close to 10 percent of GDP), and are mostly sent by Guatemalan migrants in the United States. These are largely undocumented young males working as unskilled labor, who have limited access to financial services, and channel almost all their remittances using Money Service Businesses. This is done increasingly through Electronic Funds Transfers, largely at the expense of Money Orders, a trend partly prompted by tighter anti-money laundering regulations in the United States and in Guatemala. Remittances are distributed in Guatemala largely through the banking system, to a majority of rurally-based lower income recipients, for whom remittances can represent more than 50 percent of their income. They use remittances for consumption, but also social services, housing, and to some extent investments and micro-enterprise equity.

More affordable workers remittances intermediation requires an effective combination of "bricks and clicks" (physical and IT network). Improvements to the Guatemalan payment systems will continue to be important, as well as IT developments that can help lower the cost for proprietary systems. However, these will not be sufficient unless they are accompanied by an increase in multiple alliances to extend the physical outreach both in the United States and in Guatemala. The slow decrease in remittances costs may be partly due to the dominant position of a couple of U.S.-based intermediaries (Western Union and King Express).

So far, there is very limited evidence of broader access to financial services for remittances recipients, yet there seems to be significant untapped potential. In a country characterized by high income inequality and low and concentrated access to credit, the large role played by domestic banks in distributing remittances seems promising in terms of creating a point of contact that could lead to cross sales of other financial services. Yet, the most significant evidence of cross sale of financial services to remittances recipients does not come from the banking sector, but from the local unregulated Credit Unions (*Cooperativas de Ahorro y Credito*), that do focus on micro-enterprises and lower income depositors.

The Guatemalan authorities have an important coordinator and catalyst role to play, for increased efficiency in remittances intermediation. Data quality and analysis remains scattered and incomplete at government level. Central Bank, Bank Superintendence, as well as ministry of foreign affairs need to coordinate their efforts to exchange and consolidate data. Strong data collection and analysis can guide both policymakers and private sector participants, fostering competition and ultimately highlighting the potential for greater access. A consumer protection agency is also needed to lead efforts for financial literacy and remittances cost disclosure. In addition, both governments could encourage events and activities that deepen the knowledge of remittance issues, stimulate private sector interest in providing and enhancing remittance services, and provide networking opportunities to foster the formation of partnership between U.S. and Guatemalan financial intermediaries.

The authorities in the United States have an important role to play in fostering financial literacy and access to financial services, carefully designing AML/CFT measures, and encouraging efforts to strengthen financial systems in partner countries. Finally, the government should be to try and “do no harm,” to design risk-based anti-money laundering regulations, and to help strengthen microfinance institutions.

Introduction

Context

Workers remittances constitute an important source of foreign currency inflows for many developing countries, with officially recorded remittance flows estimated to have reached $160 billion in 2004.[1] They have been growing at an annual average rate of 17 percent since 2000. However, in some cases the increase in recorded flows may be explained, in part, by the implementation of more accurate recording mechanisms in recent years (World Bank 2005). These flows are also significant as a share of GDP or in per capita terms in many small developing countries,[2] although the top recipient countries in terms of volume are mostly large. As such, remittance flows are crucial for the balance of payments of several small developing countries, while exhibiting counter cyclical effects in stabilizing household incomes during periods of economic distress.[3]

The World Bank Executive Board has identified the reduction of remittances transaction costs and integrity of financial flows as key areas for support to policymakers. It is assumed that a reduction of transaction costs would have a positive impact on poverty alleviation. Moreover, the prevention of money laundering and other illegal activities are paramount to ensure the integrity of local financial markets.

1. Remittances refers to workers' remittances, compensation of employees and migrants transfers as described in *Global Economic Prospects* (World Bank 2006).
2. e.g. El Salvador, Dominican Republic, Honduras and Nicaragua.
3. IMF, Staff Papers (Vol. 52, No.1, 2005). The authors confirmed the counter-cyclical effect of remittances flows based on aggregate data on remittances, but cannot confirm that remittances are a source of capital for economic development.

As a result, in 2004 the World Bank launched an initiative to study bilateral remittances corridors around the world, which would yield a potentially useful output for international comparisons, policy recommendations, and to extract best practices. This study belongs to a series of Bilateral Remittances Corridor Analyses (BRCA), incorporating the lessons from the World Bank's work under the Asia-Pacific Economic Cooperation (APEC) Initiative on Remittances Systems since 2002, and the experience of conducting two case studies (Hernández-Coss 2005a, 2005b). The BRCA analyzes remittance transactions from initiation until delivery of funds. As a result, it divides the transaction into: (i) the First Mile, where immigrants in the sender country decide on the amount and instrument for the remittance transaction and choose a service provider; (ii) the Intermediary Stage, where funds cross international borders to the recipient country; and (iii) the Last Mile, where funds are delivered to the intended recipients.

The driving thought behind the focus on corridors through the BRCA is that a shift of remittances from informal to formal fund transfer channels would be beneficial, because it would reduce transaction costs, promote greater access to financial services, and increase the integrity of the flows of funds. The BRCA provides an initial overview of the remittances landscape within the corridor and tries to identify areas where further research is needed to guide policy actions, while enabling future comparison across different countries leading to policy actions, enriched by the ability to compare across BRCAs.

Among possible corridors, the selection of U.S.-Guatemala for BRCA is motivated by the relatively recent unveiling of the true size of these remittance flows and the growing awareness of the need to understand better this systemically important sector. Guatemala is the fourth largest remittance receiver from Latin America.[4] The official estimates of remittances flows to Guatemala have increased significantly in the last three years. According to the Central Bank of Guatemala (Banguat), during 2001 remittances were estimated to be around $0.5 Billion or around 3 percent of Guatemala's GDP, and by 2005 remittances were close to $3 billion or close to 10 percent of GDP.[5] This means that worker remittances in 2005 represented the largest single source of foreign currency inflows, equivalent to 80 percent of the country's total exports.[6] More comparative statistics are provided in Appendix A.

However, publicly available data about the U.S.-Guatemala remittance industry are quite limited and incomplete, hindering analysis efforts. In sharp contrast with the experience of the U.S.-Mexico BRCA, there are little reliable data about the evolution of U.S.-Guatemala workers remittances in terms of flows, transaction costs, and market shares by service provider and type of instrument. Service providers are unwilling to share proprietary information stemming from their business or their own surveys. There is no institution tracking and publishing such data. This report is based whenever possible on Banguat or the banks' superintendence, but the largest part of the data were extracted from the surveys done by the International Organization for Migration in 2004 and 2005, from the interviews held in Guatemala and Los Angeles, and from the existing papers and publications (which in turn are mostly based on independent surveys and interviews).

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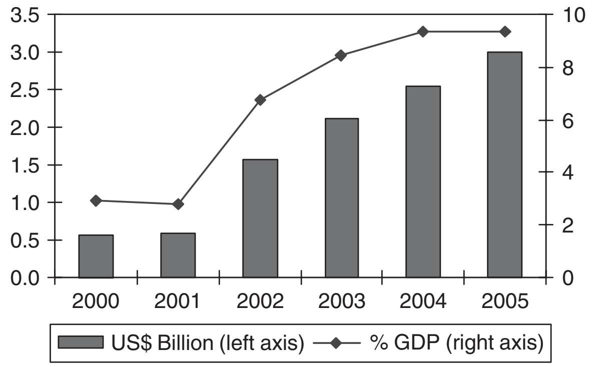
4. After Mexico ($20 billion), Brazil ($6.4 billion) and Colombia ($4.1 billion) in 2005.

5. *Mercado Institucional de Divisas*, Banguat.

6. *Información Económica*, Banguat and Economist Intellegence Unit's 2006 Country Report Guatemala.

Figure 1. Remittance Volume and Percent of GDP, 2000–2005



Source: Banguat

In this context of limited data, the U.S.-Guatemala BRCA focuses on providing a detailed description of the industry, identifying current information gaps, as well as potential areas for further research. As a result, this study is not meant to be an exhaustive analytical work on remittances, but rather an effort to highlight priority areas where problems are identified in a systematic fashion, attempting to provide avenues for improvement and increased coordination among regulators—even if often based on anecdotal evidence or intuition. The team conducted field interviews with Guatemalan authorities, money transfer operators, banks, cooperatives, non-financial agents, migrants, recipients, and Home Town Associations, both in Guatemala and Los Angeles, California. In addition, extensive secondary research was performed as well to extract the relevant findings of previous literature on the topic.

Several factors, mostly regulatory, contributed to the significant increase in the official estimates of remittance flows to Guatemala (see Figure 1). The long internal civil conflict during the 1970s, as well as the collapse of the international coffee price during the early 1990s and recently during 2001–2003 fueled migration flows especially to the United States in search of better employment opportunities.[7] However, the latest increases in remittance flow estimates are likely due to recent regulatory changes which have resulted in better reporting. These include the laws that came into effect in 2001 such as the Law Against Money and Assets Laundering (*Ley Contra el Lavado de Dinero u Otros Activos)*, which motivated small money transfer companies to report their activities and thus switch from the informal to the formal remittance market; and the Law of Free Negotiation of Currencies (*Ley de Mercado Institucional de Divisas*), which defined the list of institutions who can have foreign exchange intermediation activity and required the financial institutions (such as banks and exchange bureaus) to report every foreign exchange transaction, instead of just reporting transactions exceeding US$5,000, as per previous requirements.

7. It is estimated that approximately 600,000 laborers and coffee farmers were directly or indirectly involved in the coffee business. Coffee is Guatemala's number one export product, accounting for $580 million (23 percent of total exports) before the crisis. As prices declined, it dropped to $268 million (10 percent of total exports).

Notwithstanding recent reporting improvements, there are still gaps in official estimates of remittances flows. Both Banguat and private entities believe that official estimates are inaccurate because of lack of reliability of the data gathering method. As will be detailed in Chapter 3, the current requirement to fill physical forms for each foreign exchange transaction is burdensome and prone to human mistakes or negligence.

Organization of the Study

The study is organized in three chapters, in line with the above-mentioned corridor breakdown into first, intermediary, and last mile. Chapter 1 presents the main characteristics of the Guatemalan migrants in the United States and the key drivers behind their decision to remit money and to choose an intermediary. It also presents the evolution of the Guatemala-bound remittances intermediation in the United States over time, and the impact of regulatory changes over these trends. Chapter 2 focuses thereafter on the financial infrastructure supporting U.S.-Guatemala remittances processing, especially the role of technology, payment systems and innovations going forward, as avenues to help lower transaction costs, among other. Chapter 3 looks at the landscape of workers remittances distribution in Guatemala, examines the characteristics of recipients and the evidence of remittances impact, and analyzes the indications of potential for cross-sale of financial services to recipients. Finally, it reviews the current and potential role and impact of Guatemalan regulators on remittances intermediation.

CHAPTER 1

At the First Mile

This chapter focuses on the First Mile, or the stage of the corridor that takes place in the United States, and thus focuses on the U.S.-based remitters and service providers. The chapter begins by discussing the profile and incentives of remitters, the main features of the remittance industry in the United States, and the legal framework affecting remitters' choices. Unless specified otherwise, statistical data are based on the annual surveys of the International Organization for Migration in 2004 and 2005.

Snapshot

The majority of Guatemalan remitters are undocumented U.S.-based migrants;[8] they are typically young males who send remittances once a month to support their families. These flows (averaging US$280 per transaction) account for more than the regular salary income for non-recipients. More than 50 percent of these flows go to rural areas with high levels of poverty, where they are used mostly for consumption and support other activities such as education and home improvement.

Both senders and recipients have limited access to financial services. Many also tend to have a low degree of financial literacy or knowledge about the remittance transfer market, which affects their choices and limits the potential of leveraging the effect of remittances to improve access.

8. Undocumented migrants are those who enter the United States and reside there without having a legal status.

This corridor is characterized by remittances flows sent mostly through electronic fund transfers (EFTs) collected and delivered in cash, with a decreasing usage of money orders. Originally, the corridor was largely characterized by informal cash couriers and the use of money orders, primarily through King Express (KE), a large Guatemalan-owned courier service in the United States. Starting in 2001, there was a gradual shift to electronic transfers, and Western Union (WU) maintains a dominant presence in the corridor. Other important players such as Money Gram and Vigo have started to gain market share among EFT players, though WU and KE still channel around two thirds of the remittances.

Large Guatemalan banks play a significant role in remittances retail distribution (estimated at 50–70 percent *of recorded flows*). For instance, Banrural, the third largest bank, used to work exclusively with WU but more recently works also with Vigo and Moneygram among others. Banco Industrial, the largest bank in Guatemala, continues to be the main KE partner, but has also new partners such as Wells Fargo. Finally Bancafe, the fourth largest, is still in an exclusive partnership with MoneyGram, but will have the potential to strike new partnership once the exclusivity expires and is not renewed.

The recent trend has been for financial intermediaries in Guatemala to move away from the exclusive feature of their partnerships with their U.S. counterparts. Physical outreach is a key success factor for remittance service providers, and competitors in the United States who wish to enter the Guatemalan remittance market need to have a local partner with such a network. If most intermediaries are already locked into an exclusivity agreement, this becomes a major entry barrier for new U.S. players. Although hard data are not available, this recent trend has enabled increased competition in the corridor and allowed a greater leveraging of the Guatemalan banks' vast presence in both urban and rural areas.

The impact of new regulations, primarily anti-money laundering measures, in the United States has supported a shift from informal to formal fund transfers systems. Before the implementation of new AML/CFT measures this corridor relied heavily on the role of informal operators known as *viajeros* for cash remittances and *cambistas* for money orders cashing. As the scope for these operators was reduced, migrants had to rely more on MTOs.

Profile of Remittances Senders

Close to 10 percent of the Guatemalan population live abroad, primarily in the United States, and 80 percent of them send remittances.[9] Guatemalan remittance senders are mainly in the United States (97 percent), and are concentrated in Los Angeles, California (40 percent). The largest departments of origin of migrants are Guatemala City and San Marcos (see the endpiece map of the remittance pattern between U.S. states and Guatemalan departments).

Most Guatemalan migrants are young males with limited education and financial literacy, sending remittances to direct family members. Over half of the Guatemalans living abroad send remittances to their children and parents (55 percent); brothers or sisters (14 percent); spouses (13 percent); or more than one of these beneficiaries concurrently.

9. Detailed statistics show that the total number of Guatemalan citizens living abroad amounted to 1.3 million individuals in 2004 (close to 10 percent of the Guatemalan population), out of which 81 percent send remittances home.

Around 73 percent of remitters are male, and the majority (62 percent) fall in the 20–44 age group. Also, the majority of migrants are not highly educated, where more than half have not completed or gone beyond primary education. Before migrating, 20 percent of the population engaged in agricultural activities. Half of these migrants work in the United States as unskilled workers, most of them in construction.

Estimates indicate that around 70 percent of Guatemalans in the United States do not have a legal migratory status in the host country. This places them in a precarious condition versus immigration authorities and exposes them to the risk of being deported, which further alienates them from access to the formal financial establishment. As in other host countries, undocumented workers in the United States appear to have limited access to financial services due to the lack of a proper I.D. For example, the same situation is observed in the U.K. among undocumented Nigerians, and in Italy when foreign workers' permits expire.[10]

The primary objective of remittances is regular support of household expenditures. Most migrants send remittances on a monthly basis (around 60 percent of the households and 70 percent of the volume), which indicates that these flows are meant for regular economic support. In addition to these regular flows, seasonal peaks occur during Mother's day, summer vacations, and December holidays. Funds are intended for recipients' consumption (food, appliances, transportation, and communication), intermediate consumption (such as home maintenance and rent), savings and investment, as well as social investment (such as health and education). A marginal portion appears to support community works through Hometown Associations,[11] but data are not available to confirm this. Finally, a portion of the remittance goes to pay the *coyote*, the person who helps an undocumented migrant cross the U.S. borders, if the migrant has used such means of migration.

Guatemalans that migrate permanently, and ultimately reunite there with their families in the United States, are less likely to send remittances (Hamilton and Stoltz 2004). The survey suggests that the single most important factor determining the volume and frequency of remittances is the existence of bi-national families. About 60 percent of migrants whose spouses were not in the United States were likely to send remittances, compared to only about 40 percent when spouses were in the United States. Only 30 percent of those with no children or whose children were in the United States sent remittances at least once a month, compared to 60 percent of those with at least one child in the home country and 97 percent of those whose children were all in the home country. Anecdotal evidence suggests that many Guatemalan migrants tend to go back home once they have achieved their objective—for example, buy land or start a business—typically after 5 to 10 years.[12] The pattern of migration cycle could be important information for financial intermediaries trying to target this segment.

10. The UK-Nigeria BRCA and the Italy-Albania BRCA (forthcoming).

11. Hometown associations typically gather donations from migrants of a specific village or town, to support specific community projects or events. Some of the key federations of Guatemalan Immigrants' associations are: *Coalición de Inmigrantes Guatemaltecos en Estados Unidos*—The Coalition of Guatemalan Immigrants in U.S. (CONGUATE), The National Congress of Guatemalan Organizations in the United States (GUATENET), and *Asociación de Fraternidades Guatemaltecas* (AFG).

12. Reportedly the coyote charges US$3,000–5,000 at least, and this increasing cost leads the migrants to stay on average longer abroad.

When choosing a remittance intermediary, senders consider accessibility for recipients and for them, pricing, speed, and reliability. Pricing often is *de facto* a constraint given the limited range of alternative service providers in most communities. Loyalty to trusted service providers is another key feature of Guatemalan clients. Successful remittance intermediaries take these incentives into account and understand the needs and priorities for remitters, including cultural and linguistic familiarity.

Features of the Remittance Industry

The transfer of remittances from the United States to Guatemala has shifted from informal to formal fund transfers systems over the last five years. Sharp increases in Banguat statistics as well as field interviews support this conclusion. Over time, four types of remittance intermediaries have seen their role evolve in the U.S.-Guatemala corridor: informal funds transfer providers (known as *viajeros* or cash couriers), money order courier services, money transfer operators (MTOs), and banks. The last few years have witnessed a sharp reduction in the market share of informal *viajeros*, followed by a drop in the share of money order business, to the benefit of the electronic fund transfers. While MTOs have benefited from this shift, U.S. and Guatemalan banks have yet to substantially penetrate the remittance origination market in the United States. A similar situation has been observed in other remittance corridors.

The informal providers named *viajeros,* or individual cash couriers were the first generation of remittance intermediaries between the United States and Guatemala. *Viajeros* travel four or five times a month between Guatemala and the United States, collecting cash remittances and delivering them to beneficiaries within a specific community. Typically a *viajero* covers a small geographic area. The reliance on *viajeros* has become marginal primarily due to stricter regulations against large cash amounts carried across the borders, but also due to the perception of improvements in the cost and access of formal channels. Interviewed entities estimate *viajeros*' market share to be around 3–5 percent.

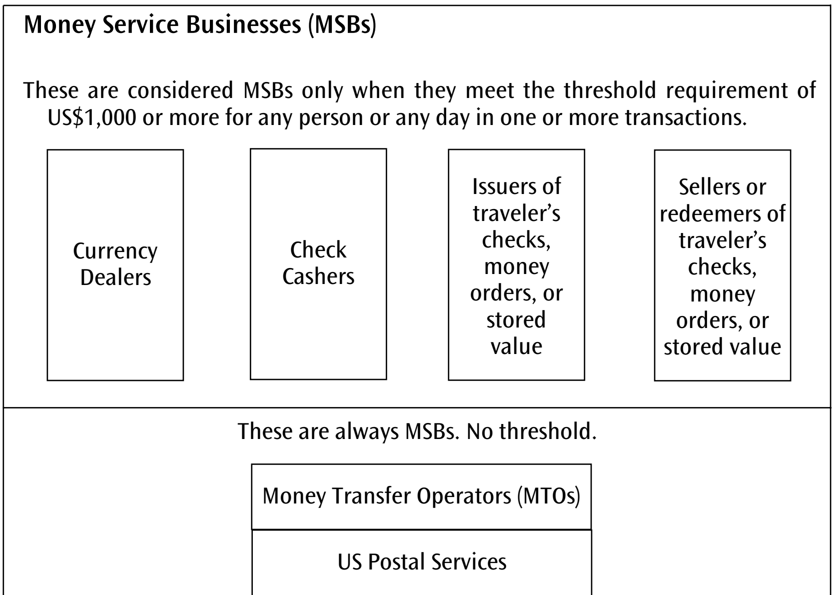
Courier services and mailing money orders were the second generation, and used to dominate this corridor until the early 2000s. King Express (KE) popularized this model and has more than 80 percent of the U.S.-Guatemala money order mailing business.[13] The Guatemalan founder entered the remittance business around 1990, initially as a courier service, and later issued his own money orders under the brand name Groupex (with an Money Service Business [MSB] license, see Box 1). Over the years, KE has built a strong brand among the Guatemalan migrant community. It is estimated that KE used to channel the majority of Guatemalan remittance flows, mostly through the largest local bank *Banco Industrial.* This business model depended critically on the *cambistas*, independent individuals that used to collect money orders door to door from recipients in Guatemala, cashing them at a discount rate, and clearing them through a U.S. bank account. These had so far provided a service otherwise unattainable for often remotely-located households,

13. Other mailing and shipping intermediaries include also *Intercapitales*, Cargo Express, *El Correo*, *Gigante* Express, DHL, FEDEX Express, and Trans-Express.

Box 1: Money Service Businesses

Money Service Businesses (MSBs) comprise any person or business that provides one or more of the following services (money orders; traveler's checks; check cashing; currency dealing or exchange; store value) and conducts more than $1,000 in money services with one person, in one or more transactions or any one day; or that provides money transfers in any amount. MSBs are required to register with FINCEN[*] and to provide a list of their agents.[†] However, MSB agents, such a convenience store, are not required to register.

There are five distinct types of MSBs including Money Transfer Operators (MTOs), in addition to the U.S. Postal Service.



Source: *FINCEN*

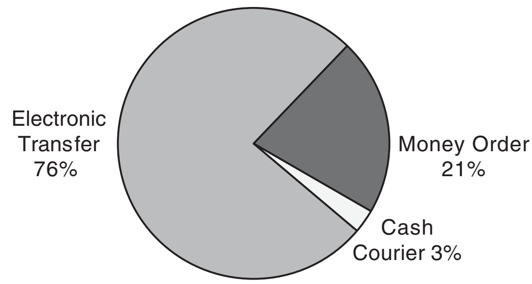
Companies such as Western Union offering Electronic Fund Transfers (EFTs) and money orders, the main products used by Guatemalan migrants, have to register as MSBs in the US, but their network of agents do not. The registration as an MSB does not waive the State's licensing requirements when required.

[*] The Financial Crimes Enforcement Network (FinCEN) a bureau of the Department of the Treasury administers and issues regulations pursuant to the BSA. FinCEN is a network that encompasses law enforcement, regulatory and financial communities. Among other functions it is the entity in charge of supervising and safeguarding the financial system from the abuses of financial crime, including money laundering and terrorist financing.

[†] *Source:* 31 CFR 103.125

with no access to financial services. As will be explained in the regulatory sections, *cambistas* role in this corridor dwindled with regulatory changes both in the United States and Guatemala. The use of money orders consequently dropped for U.S.-Guatemala remittances, to the benefit of electronic fund transfers (EFTs).

Figure 2. Means of Remittance Transfer for the Corridor



Source: IOM Survey 2005.

Today remittances are sent mostly through electronic fund transfers, and to much less extent, money orders. As of 2005, as detailed in Figure 1, it was estimated that EFTs represented approximately 76 percent of remittance flows, while money orders roughly 20 percent, with a marginal role for informal channels. Western Union (WU) dominates the EFT end of the market, while KE continues to dominate the money order segment. Together, they handle more than 80 percent of the remittance flows to Guatemala. Other operators in the corridor include Vigo and MoneyGram. These monetary remittances represent approximately ninety percent of what migrants send to their family. The residual are in-kind items, mostly clothing, shoes, and electric appliances.

Given the importance of physical networks both in sending and receiving countries, the market leaders have been creative about reaching senders and beneficiaries; WU, KE, Vigo, and MoneyGram have large networks of agents all over the United States, but focus in states with a large concentration of migrants. Western Union has the most extensive coverage with 25,000 to 30,000 agents in the United States, while Vigo has a network of over 3,700 agents. WU and KE sponsor migrant events, organized by migrants' associations, in order to establish name recognition. KE also sends flyers to migrants with promotions of new products and current fees, and offers migrants a home service, where they send an envelope into which remitters put the remittance money order and send it back to them. KE has motorbikes and helicopters to deliver mail in Guatemala to beneficiaries that are located in distant mountain areas. Banco Industrial offers "*Los Chapines Estamos Unidos*"[14] program in which money orders from King Express are paid instantly and with competitive exchange rates. Notably, WU and other MTOs are increasing distribution, by multiplying the number of bank and non-bank partners in Guatemala (see Table 1).

Money orders and cash couriers will continue to give way to EFTs, but estimated market shares indicate that competition is relatively limited in EFTs provision. Western Union, which holds 80 percent of the EFT market share, along with Vigo and MoneyGram have played an increasing role in providing migrants with accessible, secure and fast electronic

14. "The Chapines are united"; chapines is the term used collectively for Guatemalans.

Table 1. Largest Intermediaries Partnerships in the U.S.-Guatemala Remittances Corridor (2005)

US Operator	Guatemala Partnership(s)
MTOs/EFT	
Western Union	Soinsa (registered WU affiliate), **Airpak** (15 WU exclusive agencies), **10 Banking Agents** (Banco Agromercantil, Banco de Comercio, Banco G&T Continental, Banco Inmobiliario, Banco del Quetzal, Banrural, Banco Internacional, Corpobanco, Credito Hipotecario Nacional, Vivibanco), **11 non-banking agents** (Agencia El Campesino, Boutique Sacuanjoche, CMS, Coinver, Consultores y Estrategas, Cooperativa Cuilco, Maderas del Norte, Merpro, Multiservicios Integrados, Opevasa, Rapidito)
Vigo	Banrural, Fenacoac (26 cooperatives), Elektra, Mucho Credito
MoneyGram	Bancafe, Fenacoac, Grupo La Fragua (Supermarkets), Banrural.
ReyMesa (King Express)	Banco Industrial, Banrural, Banco Agromercantil
Courrier/M.O.	
King Express Courier	Strategic partner: **Banco Industrial** has access to KE M.O. database. Any bank, cooperative, exchange house or *cambista* can buy M.O.s from beneficiaries if the entity can have direct/indirect access to US clearing system

Source: WB staff estimates (Based on interviews, promotional leaflets and background research).

fund transfer services. For instance, WU provides migrants with instant delivery service (though beneficiaries do not typically retrieve the remittance immediately), compared to 24 to 72 hours delivery by KE courier services. Their extensive outreach to migrants and beneficiaries through numerous servicing points connected to the same proprietary IT system is the backbone of their offering. While actual market shares are not publicly disclosed (estimates in Table 2), it seems that WU's market share in Guatemala's EFTs decreased in 2003 and 2004,[15] but the takeover of Vigo by WU in 2005 means WU is consolidating again its dominant position.[16] KE is also catching up on the EFT product with its new *ReyMesa* EFT, but volumes channeled are unknown.[17]

U.S. and Guatemalan banks have played a small role as points of origination for capturing remittances at the First Mile. For U.S. banks, this is partly due to the high level of undocumented migrants that do not feel comfortable approaching banks, and because the banks have generally not been interested in tailoring their technology and business model

15. Based on WB staff interviews with market participants.
16. In May 2005, First Data, the parent corporation of Western Union, signed a definitive merger agreement to acquire Vigo Remittances Corp.
17. KE was slow to react to the shift from money orders to EFTs, as it struggled to maintain its existing product (money order) and its profitability, but that ultimately led to market share loss in the overall remittances.

Table 2. Data Issues–Electronic Transfer Major Intermediaries and Their Estimated Market Shares in 2004

Operator/Series	Western Union	Money Gram	Vigo
Volumes per IOM survey (US Millions)	1,140	70	35
% of EFT total	86	6	3
Volumes stated in Interviews with Operators (US Millions)	800–900	> 95*	> 191†
% of EFT total	70	> 8	> 15

* The reported figure represents MoneyGram business with Bancafe only.

† The reported figure is composed of US$179 Million through FENACOAC, 12 Million through Elektr.

Source: IOM Survey 2004 and World Bank staff estimates from interviews.

to attract these large volume/small value cross-border transfers. As of 2004, only 10 percent of remittance flows to Guatemala are sent through U.S. banks,[18] which play a marginal role even in more mature corridors, such as Mexico.[19] Guatemalan banks can typically obtain an MTO license and advertise a Guatemalan brand name in the United States.[20] Relying on a Guatemalan brand name and a primarily Latin-American employee work force, these banks hope to attract and retain customers based on cultural familiarity. However, their volumes remain quite small mainly due to limited physical coverage, and they incur high operating costs due to their narrow focus on Guatemalan clients and the cost of regulatory compliance requirements.

Impact of the Regulatory Framework at the First Mile

The observed shift from informal to formal remittance intermediaries appears to have been partially prompted by regulatory changes in the United States, but the delicate balance in regulatory burden will continue to be a major challenge. Since September 2001, for national security purposes, the United States implemented a series of federal regulations and provisions that require stricter measure of anti-money laundering and combating financing of terrorism (AML/CFT). Regulations and a heighten focus on compliance and enforcement have impacted banks and MSBs, as well as individual senders faced with stricter enforcement of ID requirements. Service providers that were previously part of the informal sector have been required to register as MSBs. Finally, regulations at the state level have also shaped the market.

18. Wells Fargo is the exception; this U.S. bank is penetrating aggressively the U.S.-Guatemala remittance business, through an affordable and fast EFT product, but has limited physical coverage in the United States.

19. Some U.S. Banks have accepted the Mexican *Matricula Consular* to facilitate financial transactions for remitters. A complete discussion of this corridor can be found in Hernandez-Coss (2005a).

20. Among these are GyT Continental, Agromercantil and Banco del Occidente.

Regulations Affecting Remittance Service Providers in the United States

The Patriot Act[21] regulates bulk cash transportation into and out of the United States, as well as cross-border instruments such as money orders.[22] Informal money transfer operators, that is, cash couriers (*viajeros*) and money order collectors (*cambistas*), were affected, primarily to the benefit of formal EFT intermediaries. U.S. banks also paid closer attention to cross-border transactions that involved *cambistas'* operations using money orders. As a result *cambistas* had less access to U.S. banks. Therefore remittance senders started shifting from these two classes of informal operators into MTOs that perform EFTs. In particular, KE was slow to react and adjust its business model when the money orders usage was negatively affected by the regulatory tightening on *cambistas*.

For U.S.-based MSBs, the Patriot Act has also called for strengthened compliance requirements, such as "Know Your Customer" policies.[23] Banks have also developed stricter compliance methods and due diligence for MSBs, considered risky for their large volume of cash collection and the perception that they do not keep adequate documentation of their customers and their transactions.[24] MSBs, in particular MTOs,[25] need banks as money transfer clearing houses to settle between agents originating the transaction, and those disbursing remittances.

Some banks have tried to reduce their exposure by closing down MSB accounts, alleging that the high cost of monitoring these accounts made them unprofitable (see Box 2). In doing so, banks have not distinguished between MSBs in compliance with AML/CFT measures and those that are not. However, some argue that banks see the implementation of these new AML/CFT measures as an opportunity to eliminate competitors and take over the remittance service provided by MSBs.

U.S. regulators did not intend to prompt banks to sever relationships with MSBs, so clarifications were promptly issued to mitigate this trend. The Financial Crimes

21. "Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001". Intended to deter and punish terrorist acts and to stem organized money laundering in the United States and to enhance law enforcement investigatory tools.

22. Rule § 371 (a)(1) of the Patriot Act tightens control on large cash amounts crossing the U.S. border and provides stricter fines.

23. Each MSB is required by law to have an effective anti-money laundering regime in place. AML programs are commensurate with the particular risks posed by the location, size, nature and volume of the financial services that the MSB provides. For example, a large MSB that transmits money to Guatemala from Los Angeles, which has the largest population of Guatemalan's in the U.S., may have a higher risk than one located in Seattle because of its high volume and would therefore require a more complex AML compliance program. MSBs interviewed in L.A. identified the AML technological infrastructure as a major investment needed to set up the business.

24. Banking organizations have been instructed, at a minimum, to take the following steps when determining whether to open or maintain an account for a money services business: obtain basic identifying information about the money services business through the application of their Customer Identification Program; confirm FINCEN registration, if required; check compliance with state or local licensing requirements; confirm agent status, if applicable; and conduct basic risk assessment to determine the level of risk associated with the account and to solicit additional information, as deemed necessary. See 31 CFR 103.121(FINCEN); 12 CFR 21.21 (Office of the Comptroller of the Currency); 12 CFR 208.63(b), 211.5(m), 211.24(j)(Board of Governors of the Federal Reserve System); 12 CFR 326.8(b) (Federal Deposit Insurance Corporation);12 CFR 563.177(b) (Office of Thrift Supervision); 12 CFR 748.2(b) (National Credit Union Administration).

25. Under the Bank Secrecy Act a new category of non-bank financial institution referred to as Money Services Businesses (MSBs). MTOs fall under the definition of MSBs as they are "Money Transmitters." The type of transactions that define an MSB, have been described above.

Box 2: Compliance Costs for California Banks

The California Banking Association conducted a survey of 100 different California banks to assess the impact the enhanced Bank Secrecy Act and related requirements have had on their operations. These findings represent costs in addition to those already required to meet bank secrecy and anti-money laundering obligations:

	Yes	Impact		Considering It
Have curtailed activitives with money service businesses	52%	45% of deposit loss		46%
Deleterious effect on the business with customers	49%			
		Assets < US$ 1bn	Assets US$ 1–10 bn	
Have added additional staff	57%	Additional cost $4,000 to $135,000	$10,000 to $135,000	
Have retained outside BSA consultants	61%	$3,000 to $40,000	$6,000 to $250,000	
Additional training expenses	71%	$300 to $150,000	$3,000 to $150,000	
New hardware, software and programming expenses	71%	$2,000 to $52,000	$15,000 to $100,000	

Source: California Bankers Association.

Enforcement Network (FINCEN) and the Federal Banking Agencies[26] developed advisory guidance in April 2005 for both banks and MSBs clarifying their mutual obligations under the Bank Secrecy Act.[27] This guidance has apparently given the banks some level of comfort in keeping the accounts of MTOs.[28]

At the state level, MSBs are subject to regulation mostly driven by consumer protection. Most states have their own laws governing money transfer services. Consumer protection principles embedded in the text of state laws may detail more stringent requirements, for some state-regulated MSBs than for federally regulated banks.

In the United States, MSBs capitalization requirements differ greatly from state to state.[29] In the State of California, where there is the highest concentration of Guatemalan

26. The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of the Thrift Supervision.

27. Full text of the advisory guidelines can be found at: http://www.FINCEN.gov/FINCENadv04262005.pdf and http://www.FINCEN.gov/guidance04262005.pdf

28. Guidance makes clear that they have to do more due diligence on higher risk MSBs, just as they would for any other customer considered high risk, but they are not expected to be their *defacto* regulator. For instance, it makes clear that while banking organizations are expected to manage risks associated with all accounts, they will not be held responsible for their customers' compliance with the Bank Secrecy Act.

29. About 34 states require licensing for sales of both payment instruments and funds transmission, whereas 11 states require licensing only for payment instrument issuers, some states have no licensing laws at all.

migrants, only cross-border money transfers are regulated. For this activity, all MSBs are required to be licensed and to maintain at all times tangible shareholder's equity of at least US$500,000, so as to protect the consumer engaged in money transfer operations.

Federal Regulations Affecting Senders

Under the Patriot Act, internal bank compliance programs have ID requirements that are more stringent than those imposed by most MSBs. In order to send remittances from the United States, a migrant is asked to provide MSBs with a valid picture I.D., which is relatively easy.[30] However, banks typically impose double I.D. requirements (see Box 3),[31] which many migrants, especially undocumented, may not have. The lack of proper I.D. would also restrict access to wider banking services.[32]

The recent acceptance of consular identification cards by some banks has partially mitigated the risk of preventing undocumented migrants' access to banking services. These are issued by consulates regardless of migratory status in the United States. The U.S. Treasury has stated that banking institutions are allowed to accept identity cards that comply with the minimum requirements at their discretion. This is the case of the Guatemalan consular identification card TIC (*Tarjeta de Identificación Consular*).[33] Consequently, some banks, particularly Wells Fargo, accept the Guatemalan consular identification card TIC for opening bank accounts. The Mexican experience is the other success case in the usage of TICs to increase access to banking services in the United States.

The Real I.D. bill may create an impediment for migrants to access formal MSBs and banking services, when it comes into effect in 2008. The Real I.D. Act[34] sets out new requirements for state issued drivers licenses that entail a more rigorous issuing and identification process: presenting a "photo identity document" along with documented birth date and address, and proof of the Social Security number. In addition, U.S. citizens will have to prove citizenship, and non-citizens will have to prove legal status.[35] This process could prevent

30. Patriot Act, Section 326.

31. The minimum information required is: name, date of birth, address, and identification number. An identification number includes, for a U.S. person, a taxpayer identification number; or for a non-U.S. person, one or more of the following: a taxpayer identification number; a passport number and country of issuance; an alien identification card number; or the number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard.

32. Sometimes a remittance banking product, such as an ATM account, requires the customer to provide a valid picture ID. This requirement is easily met with the presentation of a valid passport, but which undocumented migrants may not have or may not be willing to provide to banks given the absence of a valid visa, and the precarious status this creates towards immigration services.

33. The TIC is being amply promoted and is currently issued to Guatemalan nationals regardless of their migratory status in the United States. More than 70,000 TICs have been issued in the United States since created six years ago.

34. The U.S. House of Representatives recently approved a military spending bill which includes the "Real I.D. Act of 2005" which was signed by President Bush on May 11, 2005. It imposes prescriptive federal driver's license standards which will require State drivers' licenses and state identifications to meet Federal I.D. standards established by the Act. The Act's mandate is expected to take effect in May 2008 and by then only I.D.s which will meet the requirements of Homeland Security will be accepted for official purposes. At the present time, it seems that the TIC and other Consular Identification Cards, such as the Mexican Consular I.D. are not recognized by the concept of Real I.D.

35. The proposed Real I.D. Bill provides in Section 202(c)(2)(B) a number of instances where an I.D. card may be issued by a State to non-U.S. citizens if the individual: Is an alien lawfully admitted for residence in the United States; has a valid, unexpired nonimmigrant visa or nonimmigrant visa status; has a pending application for adjustment of status to permanent residence; has an approved application for asylum.

Box 3: I.D. Requirements under the Patriot Act

In implementing Bank Secrecy Act (BSA) regulations banks must develop an AML/CFT compliance program which requires, among other things, for the bank to develop a Customer Identification Program. These programs have generally regarded unexpired government issued identifications as primary sources of identification. These I.D.s provide evidence of a customer's nationality or residence and bear a photograph. However, other forms of identification may be used if they enable the bank to form a reasonable belief that it knows the true identity of a customer. The BSA requires that the I.D.s must be government issued, unexpired, have a photo, and allow the bank to form such a reasonable belief.

The tables below list the I.D. requirements some U.S. banks have chosen to use for existing and new customers. Banks are not required to accept any particular form of identification nor are they prohibited from accepting any form which meets the requirements of the BSA. If the client is opening a savings or deposit account, and that client is either a resident of the United States or an American citizen, the deposit taking institution must also obtain from the client their social security number or their individual taxpayer identification number (ITIN).

Banking Products

New Customers: 2 I.D.'s. Existing Customers: 1 I.D.	
Primary Identification	**Secondary Identification**
■ U.S. Driver's License with photo ■ U.S. State I.D. ■ Government Passport with photo ■ U.S. Military I.D. with photo ■ Foreign Military I.D. with photo ■ Resident Alien I.D. with photo ■ U.S. Department of State I.D. with photo ■ *Consular Identification Card* with photo ■ Other Government/State issued I.D. with photo (National I.D., Voter Registration with photo, U.S. Tourist Visa)	■ Social Security Card ■ Individual Taxpayer Identification Number (ITIN) Card ■ Birth Certificate ■ Foreign Issued Driver's License ■ Foreign Military I.D. with Photo ■ Marriage Certificate ■ Local Employer I.D. ■ Auto Registration ■ Home, Automobile, or Health Insurance Policy Holder Card

Non Banking Products

Primary Identification (For non banking products additional Primary Identification is accepted)	**Secondary Identification (Same as above)**
■ Non-Resident Alien I.D. (Green Card) with photo ■ Foreign Issued Driver's License	

Source: Reaching the Latino Immigrant Market. May 2005. Presentation by Luz Urrutia, President, El Banco de Nuestra Comunidad. <http://www.iadb.org/mif/v2/remit_forum_3.htm>, FFIEC Bank Secrecy Act Anti-Money Laundering Examination Manual (FFIEC BSA/AML Manual), June 2005.

migrants from complying with customer due diligence requirement, hence from accessing banking and remittance services. The full consequences of the Real I.D. are not known yet, as they will depend on how the bill is regulated and whether the Real I.D. will be required for purposes other than driving; yet this has raised concerns that these more stringent I.D. requirements could drive undocumented workers back to informal fund transfer systems.

Key Findings and Avenues for Further Action

Promoting Transparency and Financial Literacy

Design a Financial literacy program to increase financial access for Guatemalan migrants' in the United States. The limited educational level among migrants represents a challenge to policymakers, because migrants are not well informed about their options to send money home and gain access to financial services in the host country. These campaigns could also provide feedback on the current services they are receiving and signal a "wish list" of future services that would meet their needs. This role can be played by U.S. banks trying to gain market share in the remittance services and the cross-selling of other services in the United States. Guatemalan consulates, migrants associations, and international financial institutions could also play an important role.

Promote Migrants' bancarizacion through TIC. Continued efforts from Guatemalan consulates and U.S. Treasury to publicize that U.S. policy to permit and promote access to financial services in the United States by residents regardless of their immigrant status. This policy means, among other things, that banks and other financial institutions are free to accept any form of I.D., including consular cards, if they meet the requirements of the BSA. However, in order to open an account, migrants without social security number will also need a ITIN (which is relatively easy to obtain).

Avoid Overregulating the Remittance Environment While Ensuring AML/CFT Concerns Are Met

Provide a balanced regulatory framework that is well designed to promote competition among service providers. In order to avoid a reversal towards greater usage of informal channels, bank regulators and FINCEN should avoid unnecessarily burdensome AML/CFT regulation and work to clarify compliance requirements, so as to facilitate the provision of remittance services by financial institutions and registered MSBs. Excessive, inconsistent and/or fractured regulation can distort market competition by increasing operational costs, imposing high entry barriers to new market players, or having asymmetric impacts on different service providers.

Carefully weigh the impact of the Real I.D. act and its subsequent regulation. The way U.S. Treasury regulates and disseminates information about the Patriot Act and the Real I.D. will be important, because it will define the U.S. banks' ability and willingness to continue to accept the TIC as an eligible I.D. for opening accounts for migrants. It is important to implement measures that support the use of formal remittance transfer methods. A badly designed policy may lead migrants back to using informal transfer methods.

CHAPTER 2

At the Intermediary Stage

The purpose of this chapter is to take stock of the existing technology and payment system infrastructure, as well as ongoing developments and innovations, behind the U.S.-Guatemala remittance industry. Worker remittances' distinctive feature, as opposed to FDI or trade related payments is their small size and large volume, which requires different technology. In 2004, there were around 6.6 million remittance transactions to Guatemala from abroad. The average remittance transaction size is $280–350, with more than 90 percent of transactions typically lower than $1,000. In order to process individual remittances in a timely manner, and with reduced operational costs, MTOs[36] have incurred large setup costs to develop proprietary and powerful real-time information systems backed by regional servers. These systems have also helped automate the numerous AML checks required. The U.S. and Guatemalan banking and payments systems play a crucial role in the background of remittances batch settlements, which explains the importance for MTOs to have access to banking services.

As 80–90 percent of remittance transactions between the United States and Guatemala continue to be captured and disbursed in cash, IT developments seems to be a small but important part of the solution to the challenging objectives of cost reduction and bancarizacion.37 There are various initiatives to try and increase the share of other combinations that involve an account or a card on one end or both. The main role for policymakers seems to be as catalysts and facilitators for the right technological solutions

36. This also applies to large courier services (e.g. KE) in order to allow for safe, immediate and irrevocable discounting of M.O.s by their Guatemalan agents.

37. *Bancarizacion* is the process of banking the unbanked population.

to develop, including reasonable cost of compliance. The Automatic Clearing House experience in Mexico that created a gateway between the U.S. and Mexico clearing houses, has had limited success, despite the large cost saving it involves. Lessons have to be drawn as to the reason for that.

Generic Remittances Intermediation Model

Successful remittances intermediation requires a combination of "bricks and clicks"—physical and IT networks that allow fast and convenient service. While the "bricks" require extensive coverage in the United States to capture remittances and in Guatemala to distribute them, the "clicks" typically require a combination of retail proprietary information system, and access to both U.S. and Guatemalan payments systems.

A remittance transaction through Electronic Fund Transfer would typically involve a number of steps. Box 4 represents a generic remittance transfer operation. Typically, the remitter goes to the nearest sending agent in country A, hands in the cash, and gets a receipt. He then sends a message (usually a phone call) to inform the intended recipient of the transaction details and usually a transaction code. The sending agent inputs the details of the transaction in the proprietary system of the MTO. The MTO server transmits the information to the disbursing agent in country B, who can then proceed to pay the recipient upon the provision of an ID and of the transaction code.[38]

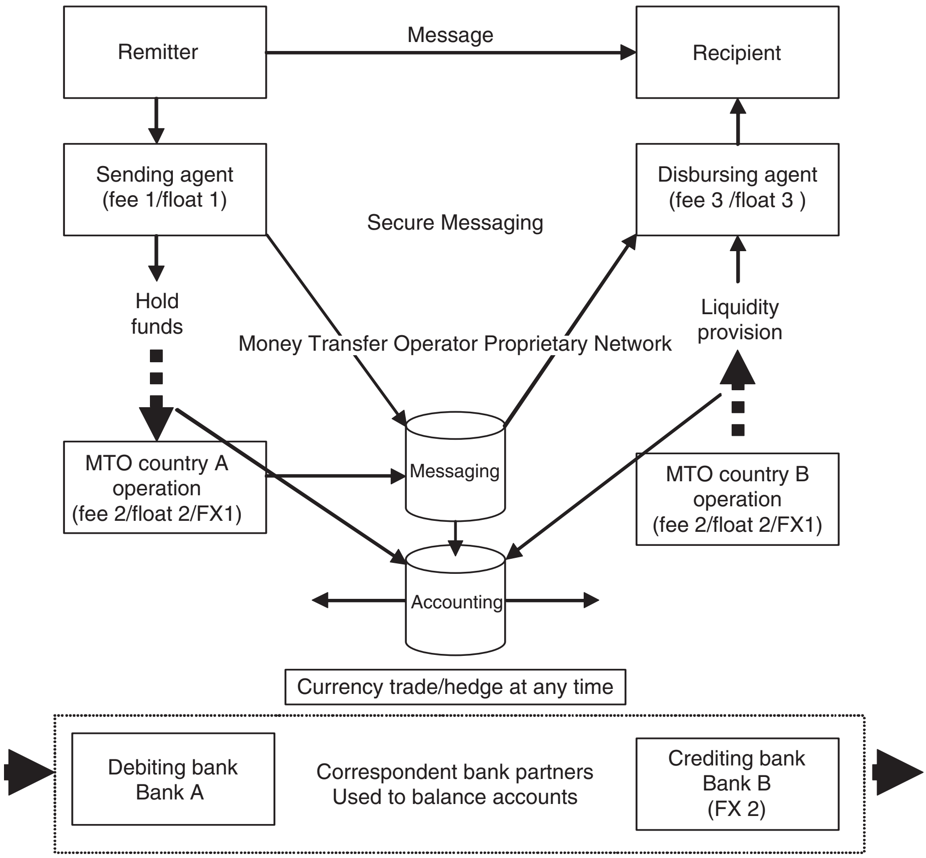
Understanding the costs charged through the process could help identify areas for increased efficiency. Each participant in the remittance operation receives part of the earnings on intermediating remittances. The earnings will include: transfer fees, foreign exchange spread, and float[39] on funds. As illustrated in Box 4, and depending on the contractual agreements, the revenues from the processing of a remittance transaction are split differently across the various parties. Typically, the collecting and disbursing agents receive a part of the fee (fee 1 and 3 respectively), and may benefit from some float (float 1 and 3). The MTO retains part of the fee (fee 2), makes an often pre-defined foreign exchange spread (FX 1), and in general realizes a float revenue (float 2) because he often settles with the disbursing agent only after the recipient has been paid. The Guatemalan bank that does the wholesale foreign exchange transaction with the MTO will make a residual foreign exchange spread vs. the interbank market rate (FX 2). The size and evolution of these cost components in the U.S.-Guatemala corridor are discussed hereafter, but the above breakdown already highlights that affordable remittances transactions would require either making redundant one or more of the participants in the process—through cheaper technological solutions if any—or by reaching some economies of scale (large enough flows) and/or economies of scope (multi-product offering) combined with credible competitive pressure.

38. In the case of Banco Industrial alliance with King Express to pay Money Orders, the existence of the proprietary system gave BI a competitive edge to cash the money order immediately without having to wait for the clearing, nor taking the risk of fraud.

39. Float refers to the interest earned on the amount transferred between the moment of the origination by sender and the moment of delivery of funds to the beneficiary.

Box 4: The Structure of a Remittance Operation

Example: Integrated international money transfer operator



Source: Breakdown of costs was added onto a figure from Andreassen, Ole E. et al. "The Remittance Industry in the United States." Forthcoming.

Current Status of Remittances Intermediation Infrastructure in the U.S.-Guatemala Corridor

As proprietary processing networks multiply, and regulations tighten for the money orders, EFTs are likely to continue to gain market share. Money orders offer the convenience of proximity to remotely-located recipients, because they are accepted by most financial institutions and *cambistas*. However, the EFT product appears to be superior to money orders in terms of timeliness and certainty about the foreign exchange cost. In terms of fees, it depends largely on the MTO chosen because there is a relatively wide interval for EFT fees (see Table 3 for key comparatives).

Table 3. Comparing Money Orders to Electronic Fund Transfers

	Money Order	EFT
Timeliness	24–72 hrs+ clearing*	Immediately available
Foreign exchange cost	Unknown till discounted	Known upfront
Proximity	*Cambista* door-to-door (discount)	Dosest agent
Fees (for a US$300 transaction)	US$13–17	US$8–18

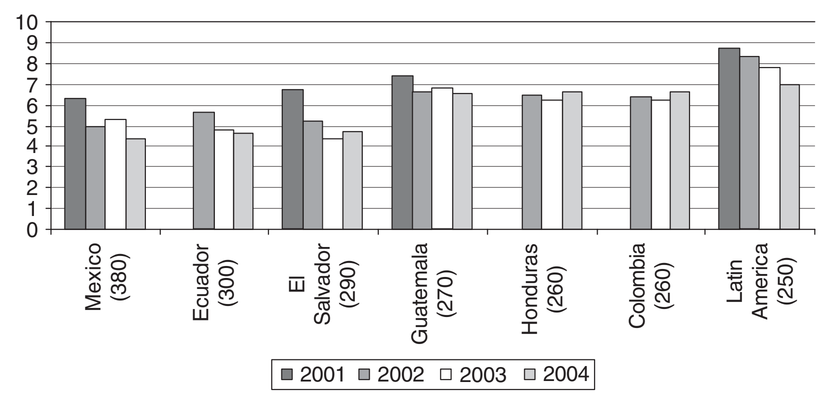
* Beneficiary discounts the MO either with a bank or with a *cambista*. Thanks to its access to KE proprietary database, BI offers advantageous no recourse discount at preferential foreign exchange rate; thus BI in the main agent cashing MOs.

Pricing as a Competitive Factor

While the cost of sending money to Guatemala is estimated to be slightly lower than Latin American average, it has not decreased markedly over the last few years, pointing again to competition issues. As of 2004, it is estimated that the migrants incurred on average 6.5 percent transaction costs for sending US$270 from the United States to Guatemala, slightly below the regional average (Figure 3). Cost has come down somewhat since 2001, yet not as significant as decreases observed in other large Central American recipient countries (Mexico, El Salvador) or on average in Latin America. This seems to indicate that cost reduction potential has not yet been exhausted in the U.S.-Guatemala corridor.

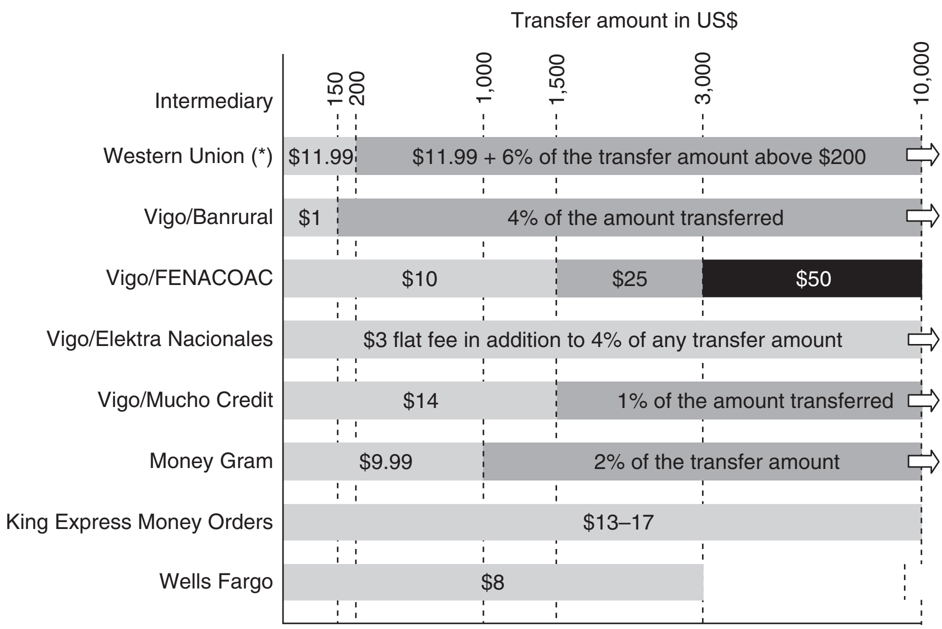
Transfer Fees. Transfer fees, the most visible cost component, differ significantly among market players and are typically decreasing in cities with higher volume and multiple competitors. Figure 4 illustrates the transfer fee charged by the major intermediaries from the main

Figure 3. Costs of Sending to Selected Latin American Countries, 2001–2004, (percent)*



* Average amount sent in parenthesis.
Source: Orozco (2004b).

Figure 4. Remittances Transfer Fee by Intermediary (May 2005)



(*) Transfers from LA to Guatemala (Excluding the exchange rate cost associated).

* *Note:* The WU pricing scheme illustrated is applicable to Miami, Orlando, West Palm Beach, Dallas, New York, and San Francisco. Another scheme used by Western Union is $5 flat fee plus 6 percent of the transfer amount, regardless of the amount transferred. WU expressed in their interview that the 6 percent is replaced with 4 percent in large concentration cities.

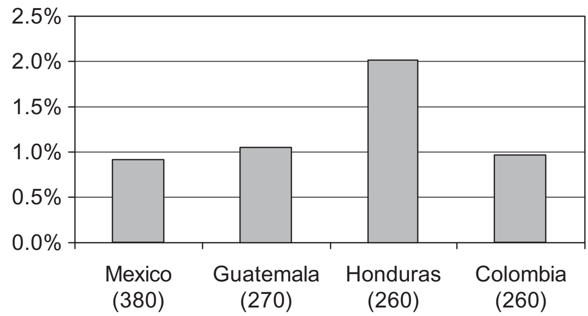
Source: World Bank Interviews with Market Players.

cities of origination in the United States. MTOs practice a differentiated pricing strategy, based on migrants' geographical concentration. The same money transfer operator would charge significantly higher fees in areas with lower densities of migrants. Given that the back office operation expenses would be virtually identical for the two locations, the difference in pricing is likely to be due to a combination of more limited competition in the low migrant density location and higher per transfer costs to maintain the network of agents that collect the remittances. In other words, greater that increased competition may result in lower fees and/or higher volumes may it less expensive to maintain the agent network in a particular location.

Competitive pressures have contributed to fee reductions in high density migrant locations. For example, in order to keep up with price competition, market leader WU has moved from $22 fee for transferring up to $200 in 1999, to a current $12.

Based on available data, the lowest transfer fee for an average remittance amount (US$270–350) in 2005 is that of Wells Fargo ($8), followed by Vigo (through Fenacoac) and Moneygram, both charging $10. Yet these are not the dominant MTOs in the U.S.-Guatemala corridor, and part of the reason may be limited physical coverage either in the United States or in Guatemala.

Figure 5. Estimated Foreign Exchange Cost for Selected Latin American Countries (June 2004)*



* Estimated average amount sent in parenthesis.
Source: Orozco (2004).

Foreign Exchange Spread. An important portion of the pricing is the exchange rate spread, which is not quoted in the transfer fee. The migrants are informed upfront of the local currency equivalent of the U.S. dollar amount they sent, and the conversion rate is typically linked to the daily cash teller foreign exchange rate of Guatemalan banks. However, they do not necessarily know how much they are being charged in comparison to the more competitive interbank foreign exchange rate. Anecdotal feedback indicates that Guatemalan migrants are actually relatively savvy with regards to US$/Quetzal foreign exchange rates, and that foreign exchange spread have come under pressure in the last few years. A regional comparison seems to confirm this (See Figure 5), where estimated exchange rate spreads for Guatemala are only slightly higher than Mexico or Colombia. Yet, WU is perceived to charge higher foreign exchange spreads than competitors, which would confirm again this MTO's comfortable dominant position in this corridor.

Float.[40] Given the "instantaneous" feature advertised by many MTOs, it is interesting to note that market participants estimate the U.S.-Guatemala EFTs float at four days. Again there were no public data about the actual remittances withdrawal pattern by beneficiaries, and feedback from interviewed market participants was conflicting, but generally pointing to the existence of some float revenue made by MTOs, contrary to the general perception of immediate remittances.

Payments Systems Role

Currently the U.S. and Guatemalan payments systems plays an important but narrow role in the EFT remittance transactions. The U.S. clearing system is used by MTOs to settle their

40. Float designates the revenue earned from idle customer funds that financial intermediaries can invest in the time span before they get assigned to a beneficiary.

Table 4. Main Differences between Swift Batch Processing and MTO Proprietary Systems

	SWIFT Batch Processing Solutions	MTO Own System
Timeliness	Batch of transactions would be processed on t + 1 after receipt end of t of transactions recap message MT 103	New transactions viewed online and can be paid instantaneously on t, while fund settlement done on t + 1 (or once a week)
Settlement risk	Taken by the sending MTO/ bank	Typically taken by the Guatemalan distributer/ bank
Payment modality	Account to account*	Cash to cash
Content	Advice of payment to US correspondent account + detailed instructions to Guatemalan Bank	Only detailed instructions to Guatemalan bank

* Swift message would need to include a security code for transactions to be paid in cash if any, since this security feature is important to avoid errors due to individuals with same names.

daily transactions in bulk amount to the U.S. correspondent bank of their Guatemalan counterpart. Until recently, the only way to settle interbank Quetzals transfers was through the Guatemalan checks clearing system With the introduction in late 2005 of Real Time Gross Settlement (RTGS[41]) of domestic interbank wire transfers, this might enable banks with limited branch coverage to strike alliance with other local banks to extend their reach.

As an alternative to proprietary networks, retail remittances could be intermediated from a U.S. bank using the interbank messaging system SWIFT, but that would require batch processing. SWIFT had typically been used to channel secure large value payment instructions. It appears that high operational costs would be associated with using the same approach for small value/large volume transfers such as remittances. Batch processing is a more likely solution. SWIFT offers solutions for bulk payments instructions transmission. Current users include Automated Clearing Houses (ACHs), correspondents and corporate customers, and apparently have reported substantial savings compared with proprietary point-to-point links. It is implemented to exchange files of salary, pension, insurance and procurement payments. It helps increase the end-to-end Straight-Through Processing of bulk payments. It allows the batching of an unlimited number of payment instructions in an electronic file. It can be useful for remittances but that probably means once a day transmission of the transactions, vs. instantaneous transmission on the proprietary networks. The latter, however, may not translate in immediate retrieval by the beneficiary (as discussed under "Float" above).

Another solution for cost-effective batch processing of remittances was launched with very limited success in the U.S.-Mexico corridor, through the link between their Automatic Clearing Houses (ACH; see Box 5). The main advantage is a significant cost saving for the

41. Basically, this is a system for large-value interbank funds transfers. This system lessens settlement risk because interbank settlement happens throughout the day, rather than just at the end of the day.

Box 5: Remittance Payments Processing through the U.S. Federal Reserve Automated Clearing House: The Example of Mexico

In 2002, the central banks of the United States and Mexico undertook a cooperative effort to link their automated clearinghouse (ACH) systems. This cross-border ACH service is considered to be a safe and inexpensive channel for cross border bulk transfers, including remittances. This mechanism started operating in 2004.

FedACH is the largest central clearing facility through which financial institutions exchange ACH entries. These are nation-wide batch-oriented EFTs. It is mostly used to process *low-dollar repetitive retail payments*. As such, it is primarily suited for pre-authorized recurring payments such as payroll, corporate payments to vendors, Social Security Payments, insurance premium payments and utility payments.

The Banking Clearing Center (CECOBAN) of Mexico is the clearing system used in Mexico to process the batch remittances. In 2002, CECOBAN started to offer country-wide EFT product to bank clients. CECOBAN is owned by the commercial banks and handles country wide clearance of retails payments, including wire transfers, through deferred net settlement system.[42]

U.S. depository institutions send their cross-border ACH payments destined to Mexico to the Federal Reserve Banks in their daily ACH file transmissions. The payments are settled through an account designated by Banco de México at a U.S. commercial bank. The Federal Reserve Bank of Minneapolis determines the settlement amount and credits the designated settlement account accordingly. Banco de México is responsible for converting the payment from U.S. dollars into Mexican pesos. The exchange rate is one of its most attractive features. The exchange rate is 0.21 percent above the standard wholesale rate published daily by Banco de México,[43] which compares very favorably to rates offered by remittance service providers.[44] The Federal Reserve Banks also charge depository institutions, regardless of the amount transferred, a surcharge of US$0.67 per transfer over the fees charged for domestic ACH transfers. This fee is paid by U.S. depository institutions, and it permits them to offer low-cost remittance services to their customers.

The initial design of the cross-border U.S.-Mexican ACH service had certain features that did not compare favorably to other remittance service offerings in the United States. First, the lost of the foreign exchange revenue by private intermediaries (now managed by the central bank) has led to apparent lack of interest by eligible institutions that subscribe the service. Second, a recipient had to have an account at a bank. Third, remitted funds were only available on the second day after the sender originated a payment. As of July 2005, the cross-border service will make funds available to a recipient on the first business day after a payment is originated and efforts are underway to extend the reach of the distribution channel in Mexico to include not only accounts at banks but also accounts at credit unions. With the service now available to all depository institutions in the United States, the next step is to increase the number of depository institutions that use the cross-border ACH service to offer affordable cross-border remittance services to Mexico.

U.S. financial institutions that have access to the FedAch clearing system and that wish to intermediate remittances. The disadvantages are that ACH batch processing is again slower than the proprietary networks, and that the foreign exchange revenue is eliminated, because the Central Bank of Mexico handles it. So far, this system has been scarcely used to channel remittances to Mexico. Lessons have to be drawn as to the reasons for its limited success.

42. Banco de México operates the Clearinghouse System which clears the payments that CECOBAN has processed up to the morning following the day in which the files are presented for collection. The resulting balances are settled before 9:00 a.m. through SIAC, the electronic system that handles large value settlements across financial institutions' accounts with Banco de México.

43. However, to avoid potential signaling effects associated with a central bank intervening in the currency markets, Banco de México outsources the foreign exchange conversion operation to a third party.

44. This spread is applied to every payment regardless of the amount.

In Guatemala, the introduction of RTGS in late 2005 is one step towards making possible a replication of the U.S.-Mexico FedAch initiative, if they wish to do so. Prior to undertaking such initiative, it would be useful to ascertain how to overcome the structural issues of this solution.

Ongoing Developments and Innovations

IT developments and innovations that cater to remittance transactions have to take into account remitter and beneficiary preferences. The overwhelming majority of remittance transactions between the United States and Guatemala continue to be cash-to-cash from remitter to recipient. For the beneficiary, the key concerns are the geographical closeness; the timeliness and the security. For the remitter, access convenience and cost are key concerns, in addition to addressing the needs of the beneficiary.

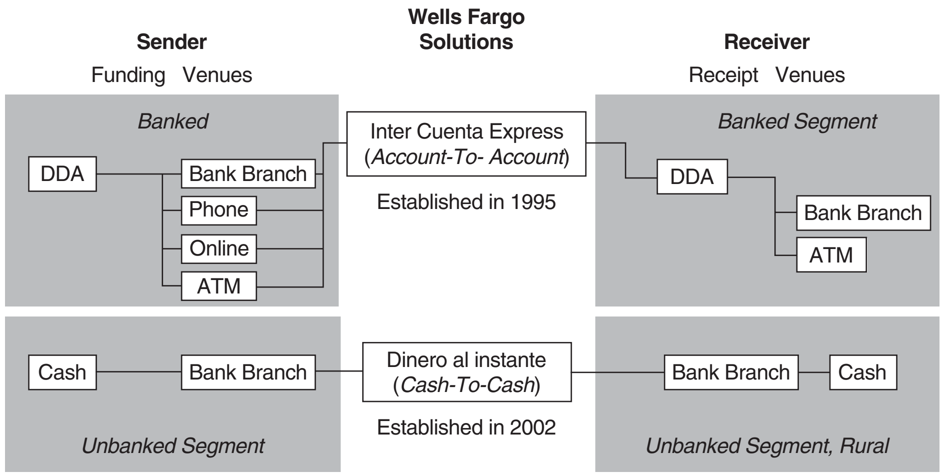
U.S. banks are starting to penetrate the U.S.-Guatemala remittances intermediation market, beyond the clearing role. The main illustrative case is Wells Fargo. The latter has been increasingly active in the remittance processing market to Latin America, including Guatemala, using either a cash-to-cash[45] product called "Dinero al Instante" or account-to-account[46] product called "Intercuenta Express." Wells Fargo chooses the processing technology depending on their partner's access to technology options: SWIFT, web-based networks, etc. To this end, Wells Fargo developed its own proprietary network.

There are a few recent attempts to promote debit or stored-value cards to distribute remittances in Guatemala, but this may remain limited in the short run in line with usage of cards as a payment instrument in Guatemala. The annual card-related activity has grown modestly in Guatemala from US$43 million in 1997 to US$142 million in 2004. At the end of 2003, there were 3 million debit cards and 1.3 million credit cards in circulation, and 774 ATM machines across the country (World Bank 2004b; World Bank and IMF 2006). No Borders, a Stored-Value-Cards company with a pipeline project for Guatemala, claims that their fees are 70 percent cheaper than normal MTOs. This product can be card to card, card to account, or account to card. BI currently has a stored-value-card program with Wells Fargo, and Emida (U.S.), another card-based product company, affirms that it is already present in Guatemala. However, some market players have cited challenges indicating that the development and growth of card-based products will be slow. Although Banrural has developed digital print and Native Indian language ATMs to help facilitate the use of cards, recipients are largely rural and "plastic" payment media are rarely accepted in neighborhood shops, thus limiting their popularity and usefulness. Bancafe has had limited success with *Remesas Instantaneas* card, although the Bank attributes this to poor design and marketing. It seems that part of the issue is a MTO—Moneygram—requirement that the beneficiary has to retrieve the remittance

45. "Dinero al instante" is used primarily by unbanked remitters who prefer cash remittances.

46. Wells Fargo offers the migrant an international remittance account for $10 and deposit funds to that account at any Wells Fargo ATM or branch. The transfer (minus fees) is available to the beneficiary in Guatemalan Quetzals through their account at one of Wells Fargo Remittance Network Member Banks: Banco Industrial or Banrural. The beneficiary may withdraw the transferred funds at any branch or ATM of that bank. Wells Fargo charges $8 to send up to a ceiling of $3,000 per day.

Figure 6. Wells Fargo Remittances Products



Source: WF presentation (June 2005).

amount in cash, so only thereafter he/she can choose to deposit this amount to credit the ATM card, which reduces significantly the product appeal.

Other innovative attempts for U.S.-Latin America remittances include web-based transactions processing, and utilization of cell phones to recharge stored-value cards. It will be important to assess whether these ideas will be successful given potential preferences of Guatemalans, and the relevant regulatory implications, including the cost of compliance with AML/CFT requirements.[47]

Finally, it is important to note that an International Task Force led by the World Bank and the Committee on Payment and Settlement Systems of the Bank for International Settlements (CPSS) has released in early 2006 the *General Principles for International Remittance Systems*. The scope and early findings of the group are briefly presented in Box 6. Once public consultation process is finalized, these principles could provide a useful guidance for policymakers' strategies to foster more effective remittance payments systems.

Key Findings and Avenues for Further Action

The main findings are tentatively categorized under the five general principles recommended by CPSS/WB.

Transparency and Consumer Protection

Disclosure on price structure of remittance transactions should be facilitated. Consumers should have the opportunity to compare total pricing among different providers, in

47. For example, HSBC discontinued its e-remittance product due to AML/CFT issue.

Box 6: The CPSS/World Bank Task Force for General Principles on International Remittance Systems

The leading forum for international cooperation and policy development in the area of payment systems is the Bank for International Settlements' Committee for Payment and Settlement Systems (CPSS). At the same time, over the last 10 years the World Bank has accrued considerable experience in formulating such policy and supporting the reform of payment systems in more than 65 countries worldwide.

At the end of 2004, the World Bank and the CPSS convened a Task Force to address the needs of international policy coordination for remittance systems.* The task force has issued the consultative version of *General Principles for International Remittance Systems*, with a final version expected in the second half of 2006. The main objective of the *General Principles* is to contribute towards the formation of a competitive and sound remittances market through which remittance services can be offered in an efficient and safe manner, and at the lowest possible cost.

The *General Principles* are expected to become the fundamental framework and key point of reference for authorities, other stakeholders and other international organizations. In particular, public authorities should evaluate what action to take to achieve the public policy objective through implementation of the *General Principles*, while remittance service providers should participate actively in the implementation of these *principles*.

The five *General Principles* that the Task Force has detailed are:

1. *Transparency and consumer protection*. The market for remittances should be transparent and have adequate consumer protection.
2. *Payment system infrastructure*. Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.
3. *Legal and regulatory environment.* Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.
4. *Market structure and competition.* Competitive market conditions, including appropriate access to domestic payments infrastructure, should be fostered in the remittance industry.
5. *Governance and risk management*. Remittance services should be supported by appropriate governance and risk management practices.

* The WB co-chairs this Task Force together with the CPSS. Other Task Force members include the IMF, AMF, IADB, ADB, central banks of Germany, Italy, Mexico, Philippines, Sri Lanka, Turkey, Brazil, Hong Kong Monetary Authority, European Central Bank, Federal Reserve Bank of New York, and the Board of Governors of the Federal Reserve System.

particular regarding the foreign exchange rate that will be used to pay the remittance to the recipient, which is commonly unknown. Adequate consumer protection measures could provide easily accessible and clear price structure for migrants to compare and make informed decisions when sending the money.

Further work is needed in the area of understanding the structure of costs versus revenues of MTOs. The pure technological cost appears to be too low to justify the fees being charged. High operating costs related to exclusivity required from agents, fixed costs, low access to cheap financing, are some of the areas that can add to the costs of intermediation for an MTO. However, there appears to be further scope for cost cutting, especially based on the fees practiced by newcomers to the market (for example, Wells Fargo) as a way to gain market share. The main factors for cost reduction are in the hands of U.S.-based players: U.S. policymakers and U.S. businesses interested in penetrating the market and thus increasing competition. U.S. MTO share of the fee/FX spread/float can be reduced if there are more U.S. MTOs active in the U.S.-Guatemala corridor.

Payment System Infrastructure

Currently retail remittance transaction processing for the U.S.-Guatemala corridor is done primarily via proprietary networks developed by MTOs. For long standing MTOs these are largely sunken costs, but arguably constitute an entry barrier to new comers despite technological developments so far, given the cost of setting up systems that run automatically the AML/CFT checks.

The payments systems of the United States and Guatemala have a potential important role in processing remittances efficiently and at lower cost. Their main role so far has been for the clearing of Money Orders and the settlements between US-based and Guatemala-based intermediaries of daily bulk amounts.

FedACH, Swift, and other batch processing solutions have limited success in an environment where migrants value highly the perception of "instantaneous" remittances delivery. Contrary to bulk payments such as pensions, where a large volume of small value transfers are processed at one point in time with relative regularity and predictability (monthly), if remittances transactions were grouped and processed in one shot at the end of the day, this would result in a slower process than what is promised currently as "instantaneous processing." *Whether migrants would appreciate switching to such 24-hour solutions in order to benefit from the promise of a sharp reduction in cost would have to be tested.*

Legal and Regulatory Environment

Policymakers have an important role to play in terms of balancing AML/CFT and licensing requirements versus facilitating the entry of market participants promoting innovative technology. Technological advances appear to lower entry barriers to the remittances industry and allow greater choice to migrants in terms of form of delivery (cash, account, debit or stored-value card). AML/CFT checks and other regulatory requirements that would be formulated in a manner that is friendly to highly automated environments are less likely to dissuade new entries.

Market Structure and Competition

Competition appears to have a significant impact on the fees charged for remittance services. As demonstrated in Mexico's case, new entrants to the market exerted significantly downward pressure on the fees charged in specific markets. *Efforts to enhance the competitive environment should be given a high priority.*

New technology "clicks" cannot be entirely separated from the need for physical coverage "bricks"; this reinforces the need to discourage exclusivity agreements. Even if we assume that the role of cash will be slightly reduced over time, the physical coverage of collecting and disbursing agents will continue to be a key success factor in the remittances industry. If the largest banks and retailers remain tied up in exclusivity agreements, their ability to form new alliances to deliver funds will be constrained. *The trend towards the elimination of such agreements should be encouraged. Further research is needed to decide whether action is needed from a consumer protection/anti-monopoly point of view.*

Governance and Risk Management

As new participants enter the market on both sides, some attention must be paid to counterparty risk. As they strike multiple alliances, both Guatemalan and U.S. intermediaries need to formulate some counterparty creditworthiness criteria and ways to limit or mitigate the exposure. Though very short term, one side or the other will be taking a credit risk.

CHAPTER 3

At the Last Mile

This chapter focuses on the Last Mile, or the stage of the corridor that takes place in Guatemala, and thus focuses on Guatemalan based remittance distribution intermediaries, as well as the beneficiaries.

Remittances are an important source of income for a third of Guatemalan families. Unless indicated otherwise, the main source of data are IOM's surveys in 2004 and 2005. Remittances recipients are mostly concentrated in Guatemala City and the three departments closest to Mexico;[48] they are mostly rural, between the ages of 15–65. These transfers constitute an important percentage of their total income; and while a big proportion is used for consumption purposes, remittance receivers spend less at the margin on consumption and thus are able to spend more in education and housing.

Remittances are mostly distributed by local banks (50–70 percent), as well as MTOs' exclusive agents and non-financial partners. This is a result of multiple alliances between U.S.-based MSBs and Guatemalan banks, with a significant role played by large banks. There is also a sizeable role played by MTOs' exclusive agents and non-financial partners (grocery shops, pharmacies, large retail businesses, and so forth). The leading Savings and Credit Cooperatives have found a niche given their geographical coverage and focus on low income households and micro-enterprises. NGOs (called OPDFs) may have potential if they are able to design a good business model.

Guatemalan financial institutions are starting to look for opportunities to better service remittance receivers, but so far there is limited effort to bank the un-banked. The majority of remittances recipients has low income, is rurally based, and has low levels

48. San Marcos, Quetzaltenango and Huehuetenango.

financial literacy. Given the high income distribution inequality in Guatemala, it is observed that domestic banks have focused on servicing larger enterprises and higher-income individuals; thus a significant proportion of the population has remained excluded from the financial sector. There have been initial *ad hoc* efforts to try and cross-sell other products and services to remittances beneficiaries, but there is no organized and concerted effort to size up the potential for a profitable business in banking the unbanked remittance recipients. Such effort would in turn benefit from the public availability of good micro-level remittances data.

At a macro-level, there is significant room to improve remittance information gathering, analysis and dissemination both for recipients' protection and for improved intermediation; finally efforts to strengthen the AML/CFT regime should consider the cost/benefit of regulatory burden. Guatemala has taken steps to develop an AML/CFT regime that covers remittance transactions. These steps include a more active role for the financial intelligence unit (IVE) in analyzing suspicious transactions.

Characteristics of Recipients and the Impact of Remittances

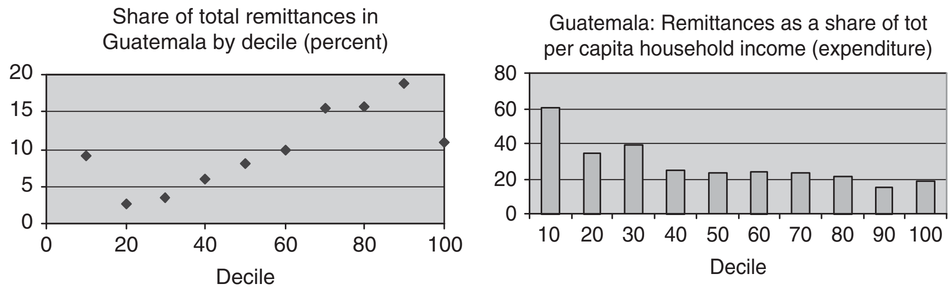
Remittances affect a significant proportion of the Guatemalan population. One out of three Guatemalan households received remittances in 2005, with some geographical concentration, but relatively evenly spread across departments of varying poverty levels. Beneficiaries are mostly young, females and rurally based. Remittance beneficiaries are estimated to be around 3.7 million individuals, in a country of 12.6 million. Close to half of the recipients and remittance volumes are in the departments of Guatemala (which includes the capital), San Marcos, Huehuetenango, and Quetzaltenango, the last three being border departments with long migration tradition through neighboring Mexico. Recipients do not appear to be concentrated

Table 5. Destination of U.S. Remittances by Department, 2005

Department	Remittance Beneficiaries (% of total recipient households)	Remittance Volume	
		$ Millions	Percent of Total
Guatemala	21.0	581.1	19.8
San Marcos	9.6	329.6	11.3
Huehuetenango	9.1	300.2	10.3
Quetzaltenango	6.6	165.3	5.6
Alta Verapaz	5.1	174.5	6.0
Izabal	4.5	111.9	3.8
Jutiapa	4.3	134.2	4.6
Escuintla	4.1	117.9	4.0
Quiche	4.1	117.7	4.0
Other Departments	31.6	894.9	30.6

Source: IOM survey.

Figure 7. Guatemala Estimated Remittances Received Per Household Income Decile



Source: Adams 2005, based on 2001 Household Survey.

in departments with higher levels of poverty. Close to 60 percent of the recipients are rural females, one fourth are Mayan-speakers, and most are children or adults (only 7.5 percent beyond 65 years).

Guatemala has among the highest poverty rates and income distribution inequality in Latin America. Approximately 56 percent of the population is currently below the poverty line, and 16 percent live in extreme poverty. Poverty is predominantly rural (81 percent of the poor and 93 percent of extremely poor live in the countryside) and higher among indigenous groups (76 percent are poor). Moreover, Guatemala has a Gini Coefficient of 0.57, one of the highest in the world, making it the second most unequal Latin American country. While the top quintile of the population accounts for 54 percent of total consumption, the bottom quintile accounts only for 5 percent (World Bank 2003).

While quantitative data on remittance amounts and transactions remain sketchy, a few available studies and surveys can help dissect the impact of remittances on Guatemalan households. The average monthly remittance is US$280–320 per household, which is more than the US$190 equivalent monthly minimum wage. The Household survey (ENCOVI 2000) says that the mean household family size receiving remittances is five people; thus the average remittance-recipient household member collects around $670 per year from remittances. Given that the WB poverty line in 2000 for Guatemala is set at $550 per year, remittances could have a high impact on households.

Surveys indicate that the high income households in Guatemala are receiving the highest percentage of remittances,[49] but remittances constitute a substantial proportion of per capita income for the poorest households. The poorest decile of Guatemalan households receive only 9 percent of total remittances, while households in the 7th–9th deciles receive jointly 50 percent of remittances (see graph below). This means that in 2005, because total remittances were around $3 billion, the lowest income decile received only $270 million total. However, Adams shows that for the poorest, remittances correspond to 50–60 percent of their income (expenditure), the largest proportion by far as compared to the remaining segments of the population (see graph above).

49. Based on Adams Report which relies on Household Survey.

Positive Effects of Remittances

There is evidence that remittances reduce the severity of poverty. For instance, a 10 percent increase in the share of remittances to GDP in a given country would lead to a 1.6 percent decline in the share of people living in poverty (Adams and Page 2003). Other evidence suggests that remittances have a greater impact in reducing the severity rather than the level of poverty; meaning remittances can improve the quality of life for poor recipient households, but not enough to get them out of poverty. Remittances also appear to have little impact on income inequality. For instance remittances received by households in the lowest decile group represent a very large share of their total income (up to 50–60 percent), which is the case for the poorest in Guatemala.

As Guatemalan GDP per capita stagnated over the last five years, remittances from the United States have been acting as an important safety net (World Bank 2004b). GDP per capita growth has been extremely low, averaging –0.03 percent in the last five years,[50] with GDP unable to match the population growth (World Bank 2004a). In the meantime, remittances were an important source of income for recipient households, helping satisfy their basic needs.

Negative Effects of Remittances

It is perceived that recipients have generally grown dependent on remittances, without leveraging them to generate additional income. Remittances have been mainly a source to supplement low levels of income resulting from scarce and low wage jobs, but have not resulted in significant increases of other sources of financing. Families have taken these resources for granted and have grown largely dependent on them; in general they have not developed further skills nor created small businesses to generate additional income.

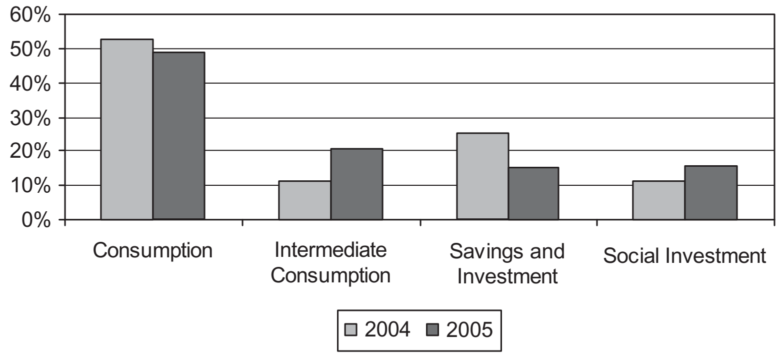
Migration and remittances are also blamed for leading young people to drop out of school and aspire to migrate. The tangible "benefits" of leaving hometowns seems to overshadow the challenges and poor conditions in which migrants cross the borders. Many youth do not study or work, but rather wait until they are old enough to migrate to the United States. Moreover, it is estimated that the average stay of migrants in the United States is on the increase.

At the macroeconomic level, the high volume of remittances appears to have a Dutch disease-type impact. Quetzal's real exchange rate versus the U.S. dollar has appreciated by 15 percent between 2001–2005. This has been subject to a wide policy debate in which exporters have made calls for devaluation in order to help exports regain competitiveness. However, real exchange rate movements seem driven by market conditions and unlikely to be affected in the long term by monetary policies. Furthermore, although exports have increased by 12 percent in real terms in 2004, the value of exports has decreased as a percent of GDP.[51]

50. World Development Indicators, World Bank.

51. Exports of Goods in 2001 represented close to 14 percent of GDP, while in 2004 it declined to 12 percent.

Figure 8. Remittances Uses in Guatemala



Source: IOM surveys.

Uses of Remittances

While remittances to Guatemala are primarily used for household consumption, up to a third go to other investments (Figure 8). Researchers and policymakers perceive remittances to have little impact on economic development, because they are mostly used for consumption (Adams 2005; Chiami, Fullenkamp, and Jahjah 2003). However, in Guatemala remittances have also funded housing improvements and close to US$500 million served to build new housing.

A recent Guatemala household data study confirms that remittance recipients allocate marginally less money to immediate consumption, and more to education (see Table 6), especially at higher levels of income. This human development constitutes a long term benefit of remittances.

Table 6. Marginal Budget Shares on Expenditure for Non-Remittance and Remittance-Receiving[1] Households

Expenditure Category	Households Receiving No Remittances[2]	Households Receiving Temittances[2]	Percent Change
Food	38.6	33.0	–14.7
Consumer goods and Durables	20.3	22.9	+12.8
Housing	18.3	18.7	+2.18
Education	3.1	4.9	+58.1
Health	2.3	2.3	—
Other	17.3	17.7	+2.31

[1] Remittance received from the U.S.

[2] Percent of Marginal Expenditure.

Source: Adams (2005).

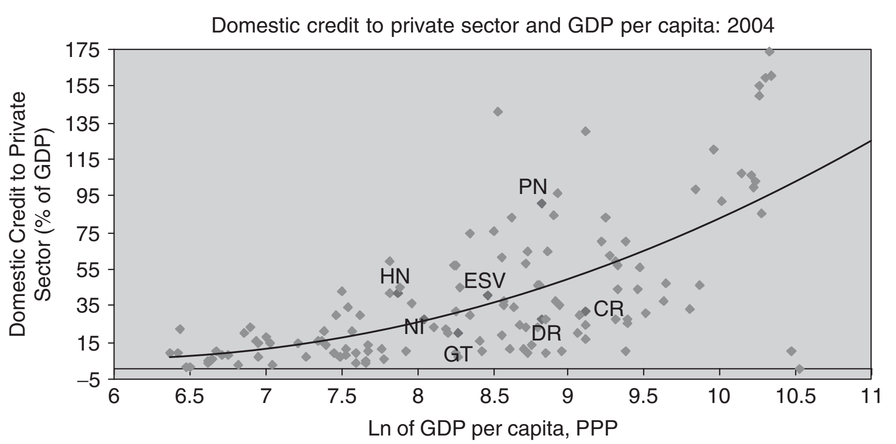
Importantly, productive uses of remittances include equity financing for micro and rural businesses, including agriculture, typically underserved by financial intermediaries. These have positive spillovers through the creation of employment opportunities. IOM's survey in 2005 had actually focused on the link between remittances and micro-enterprises. It was estimated that more than a third of households receiving remittances have their own business (300,000). While the businesses are 80 percent self-funded, remittances supply the second highest source of funding at 10 percent, even more than bank credit (2 percent). Interestingly, close to 30 percent operate in agriculture, a sector mostly shunned by financial institutions in Guatemala.

Low Levels of Financial Intermediation in Guatemala

The issue of low level of access to financial services is not specific to remittances recipients; low intermediation and incomplete financial markets are particularly noticeable in Guatemala. Guatemala compares poorly with other countries in Central America regarding financial depth, having the lowest percentage of bank credit to the private sector in the region, even when accounting for its level of development, as measured by GDP per capita (see Figure 9). Access to credit, especially for micro, small and medium sized companies (mipymes) and lower income individuals is limited, especially given the underdevelopment of non-bank financial institutions and the lack of diversification of financial services.

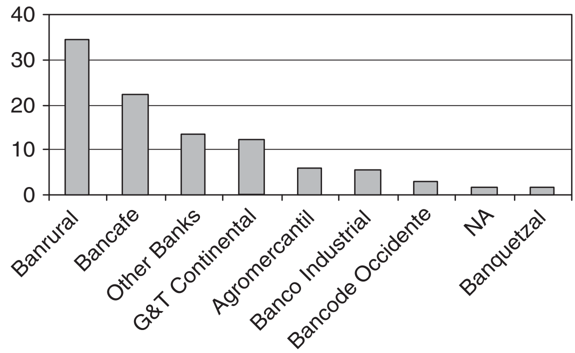
Of interest to remittance recipients, financial intermediation is also geographically concentrated, especially by banks; micro-finance intermediaries are smaller but have a much better outreach. Close to 90 percent of commercial banks credit is destined to 2 out of 22 departments (mostly urban, around Guatemala City and El Progresso), which receive less than one fourth of the remittances (see Table 5 above). In contrast to banks, unregulated microfinance intermediaries—mostly OPDFs (financial NGOs) and CACs (financial cooperatives)—cater significantly more to rural population, and have a notably larger outreach. REDIMIF's OPDFs and FENACOAC's CACs are present in all 22 departments of

Figure 9. Financial Intermediation in Guatemala vs. Other Central American Countries



Source: Guatemala FSAP update, 2006.

Figure 10. Remittance Recipients Head of Household with Bank Accounts (percent)



Source: IOM 2004.

the country, and distribute respectively only one fourth and half of their lending to the four departments with relatively lower poverty levels.

Remittance recipients display a lower level of *bancarizacion* relative to country average. IOM estimates that only 24 percent have a bank account, compared to Banguat's estimate for average Guatemalans at approximately 50 percent.[52] These do not include accounts in non-regulated CACs. The main Banks where surveyed beneficiaries hold accounts (Bancafe and Banrural) are the same that focus on micro-enterprises and rural areas in their strategic mandate (see Figure 10). However, there is no clear evidence of causality between receiving remittances in a certain bank and opening an account in the same institution. Actually, there is none by own admission of these two banks.

Remittances Distribution Industry and Potential for Increased Access to Financial Services

In Guatemala, remittances distribution is achieved through a combination of banks, non-bank financial institutions, and non-financial partners. Because remittance recipients are mostly segments of Guatemala's rural and unbanked population, remittance distribution networks must be extensive and accessible. Proximity, convenience, and user friendly service are important features for the success of the remittance distribution industry. This is met by a host of channels: local banks[53]—whose market share has been growing with the increased usage of EFTs and reduced activity of *cambistas*—dedicated franchises/agents of MTOs, exchange bureaus, retail stores, and more recently microfinance institutions. A tentative comparative analysis of each type of distribution channel is presented in Table 7.

52. *Source:* Banguat's booklet on "remittances and payments systems" forthcoming 2006. Banguat's estimate is based on the total number of bank accounts, so it may be overestimated by corporate accounts and multiple accounts per client.

53. The Guatemalan financial sector includes—among other types of intermediaries—25 commercial banks, approximately 13 offshore banks, seven licensed money exchangers although hundreds exist informally, five wire remitters, and around 150 active Savings and Credit Cooperatives, which are non-regulated institutions similar to Credit Unions.

Table 7. Remittance Distribution Market Players in Guatemala: Strengths, Weaknesses, Opportunities, and Threats

Market Player	Strengths	Weaknesses	Opportunities	Threats
MTO agents	■ Ample distribution points, especially where no alternatives ■ Consumer loyalty to MTO brand ■ Information systems Instant delivery	■ Mono-product (no Financial Services to cross-sell)		■ Cost Trend
Local Banks	■ Relatively significant branch network ■ Broad range of financial services ■ Ample liquidity	■ Low focus on lower income and rural households or mypimes ■ High operational costs ■ Often limited rural presence ■ Limited usage of "plastic payments"	■ Entry point for *bancarizacion* and cross-Sale of financial products ■ Alliance with US banks which enter the remittances in the First Mile	■ Real ID could stall growth of bank-to-bank transfers
Local Stores	■ Relationship with community ■ Geographical location	■ Limited expertise ■ Liquidity constraints	■ Cross-Selling of consumer products	
OPDFs	■ Relationship with community ■ Geographical location	■ Restrictions on Savings products ■ Lack of direct access to Payment Systems	■ Cross-Selling of microcredit	■ Regulatory void on their capacity to distribute remittances
CACs	■ Relationship with community ■ membership orientation ■ Geographical location ■ Broad financial services	■ Lack of access to Payment Systems ■ Unregulated entities	■ Entry point for *bancarizacion* and cross sale of financial products	■ More AML/CFT requirements than banks on remittances ■ Regulatory void on their capacity to distribute remittances
Cash Couriers (*Viajeros*)	■ Convenience ■ Trust ■ Low Cost	■ Time of Delivery ■ Security Risk	■ If formal channels become too stringent in accessibility to undocumented migrants	■ Regulations ■ Border controls

Source: World Bank staff based on interviews.

Table 8. Top 5 Banks Physical Coverage and Remittances FX Market Shares, 2004

Institution	Branches (#)	ATM's (#)	Remittance Foreign Exchange Market Share (%)
Banco Industrial	274	882	22.0
Banrural	315	800	13.5
GyT Continental	132	550	12.1
Banco de Occidente	NA	NA	8.6
Bancafe	175	700	6.7

Source: Banguat Mercado Institucional de divisas statistics, and banks interviews.

The analysis hereafter focuses on the increasing role of banks and MFIs in the remittances distribution, because these institutions do have multi-product offerings. The objective is to understand the evolution of the role of these institutions in remittances industry, and to seek indications on the extent of products cross sale, or possible reasons for lack of it.

Commercial Banks

The Guatemalan banks have a double role in remittances intermediation: wholesale foreign exchange transactions for more than 90 percent of the flows, and retail distribution for an estimated 50–70 percent of the individual transfers. During 2004, 23 banks jointly reported more than 629,000 remittance-related foreign exchange transactions including electronic transfers and money orders, for a total of US$2.3 billion,[54] that is, around 90 percent of the aggregate remittance flow. Table 6 provides the details of the top five banks. It is important to highlight that these are foreign Exchange transactions earmarked as related to remittances, but most of this is wholesale transactions with MTOs related to EFTs, when MTOs sell U.S. dollars to cover their Quetzals account. Individual EFTs paid to recipients do not appear as such in the Banguat reports.[55] Detailed statistics about market shares of commercial banks in retail remittances distribution are not available, but are roughly estimated at 50–70 percent, and seems to have grown in recent years.

Over the last few years, Guatemalan banks have moved to reject exclusivity agreements in their MTO partnerships for remittances distribution, creating an environment characterized by multiple alliances. MTOs initiated the partnerships and ushered banks into the remittance distribution market by locking them into "exclusivity agreements." Under these agreements, banks could only provide distribution services on behalf of the partnering

54. *Mercado Institucional de Divisas*, Banguat. Exchange bureaus and other financial companies represent the remaining 10 percent of the Central Banks' data.

55. Money orders purchase reporting, on the other hand, is a mix of retail foreign exchange transactions with remittances recipients (M.O.s are denominated in U.S. dollars) and bulk M.O.s purchased from accredited *cambistas*.

MTO, whereas the MTO was free to partner with other entities.[56] However, exclusivity contracts constrained market growth not only for Guatemalan banks, especially if they got locked into an unprofitable partnership,[57] but also for other U.S.-based MTOs wishing to enter the origination market. The end of exclusivity contracts in Mexico promoted competition and the development of new remittance products at the end of 1990s. The end of this practice became an important factor for the reduction of remittance transfer cost from the United States to Mexico (Hernández-Coss 2005a).

In Guatemala, most recipients view banks as remittance distribution points only. Of the remittance recipients surveyed by IOM, only 10 percent of households have requested loans to improve their houses and start businesses; the remaining 90 percent did not request loans because they lacked collateral and were afraid that the loan will be denied. The IOM survey also shows that only 3.9 percent of heads of family have a debit card and 2.2 percent a credit card.

While there are indications of scattered initiatives to target unbanked communities, and/or remittances beneficiaries, banks do not generally have a strategic objective to cross-sell financial products to remittances recipients. The most significant example is the financial products and services program of Banco Insustrial "*Los Chapinos Estamos Unidos*" (Guatemalans let's unite) whereby regular remittance recipients are progressively offered deposit accounts and some short term credits. Other initiatives include finger prints (instead of debit cards) and native languages in ATM's by Banrural, but which were not introduced in relation to remittances. Some banks that are mostly urban in coverage, such as Banco Industrial, G&T Continental, Agromercantil, are seeking to expand coverage within the country to approach recipients. However, there is anecdotal evidence that large MTOs discourage Guatemalan banks from offering cash-to-account remittance option, in order to preserve the float from the cash-to-cash delivery.

Several financial institutions are reportedly studying ways to use a client remittances history in risk assessments for loans based on future remittances flows.[58] For instance, Banco Industrial has provided short term credit for home improvements guaranteed on future remittance flows.[59] Similarly Bancafe is working on a new remittance-related lending product with fiduciary guarantee. The recent and small scale Mexican experience in providing housing finance to migrants in the United States is an interesting case from which to learn.[60] (See Box 7 for more examples.) If cross sale by banks were to happen, it could have the additional benefit of lowering remittances transaction costs. Banco Solidario in Ecuador already provides zero cost of transferring remittances from Spain, and so does Citibank and Bank of America in the U.S. for Mexican remittances.

56. Examples of such alliances are those between Banco Industrial and King Express, twelve banks—including Banrural—and Western Union, as well as Bancafe and Money Gram.

57. MTOs with small market share, e.g. Bancafe with Moneygram.

58. One caveat that should not be overlooked is the irregular status of 70 percent of Guatemalan migrant in the United States, given that they might get deported at some time.

59. In their experience remittance beneficiaries are better payers than other clients, based on World Bank interviews.

60. Sociedad Hipotecaria Federal. These cross-border mortgages are processed fully in the United States and require a 30 percent down payment as minimum.

Box 7: International Examples of Cross-Selling Financial Products to Recipients

In Serbia, where only banks are allowed to conduct remittance businesses, many Serbian banks become Western Union's agents for cross-selling purposes. The banks encourage Western Union's customers to open accounts with them.

In Qatar, Doha Bank offers savings accounts and housing loans to migrant workers. Qatari employers deposit worker's salaries to their accounts in Doha Bank; and workers leave a small portion of their salaries in savings account. The housing loan is for their home countries while they work in Qatar. The loan requires workers two year working history in Qatar. Migrant workers repay the housing loan by remittances.

Another example is a housing loan offered in Mexico. In 2004, three private finance companies (Hipotecaria Su Casita, Hipotecaria Nacional and Crédito Inmobiliario) began providing mortgage loans to Mexican citizens living in the USA. Migrants can acquire a house in Mexico with a value of up to 1.7 million pesos ($150,000 dollars). Credits are denominated in Mexican pesos and for up to 25 years with both fixed and variable interest rates. During 2004, a total of 343 loans were granted.

Source: World Bank BRCA Reports.

Microfinance Institutions (CACs and OPDFs)

Fenacoac is the leading federation of CACs, and has grown to play an important role in remittances distribution. With the help of World Council of Credit Unions (WOCCU) Fenacoac has formed an alliance with Vigo, through which CACs[61] reached a remittances market share more than 7 percent—double that of Bancafe for example. The impact of Vigo's takeover by Western Union should be analyzed carefully to understand if it will endanger this arrangement. Moreover, Fenacoac signed in 2005 an exclusivity contract with Moneygram, which would prevent it from working with other MTOs. Therefore it is difficult to project the future potential for Fenacoac's remittances flows.

CACs geographical coverage positions them well to distribute remittances (see Table 9). Interestingly, close to 60 percent of remittances distributed by Fenacoac's CACs are concentrated in six of the 26 CACs (see Figure 11). These six CACs and their 50 branches offer services in the five regions of Guatemala with the highest migration levels.

OPDFs, particularly market leader Genesis Empresarial, started in 2005 working on entering the market of remittances delivery services. OPDFs realized the potential remittances offer for them to diversify their sources of income. OPDFs are typically present in even more remote locations than CACs, which has high value for U.S.-based MTOs. If OPDFs entities can find the right combination of business alliances, commission-sharing and technology, including introduction cash tellers (inexistent for now given their non-deposit taking nature), they could be successful distribution outlets and conduits for remittances. *Genesis Empresarial* has started a pilot alliance with BAC (see Box 9).

As mentioned earlier, CACs and OPDFs play a small but important role in deepening financial intermediation in Guatemala. For instance, deposits into CACs have been growing

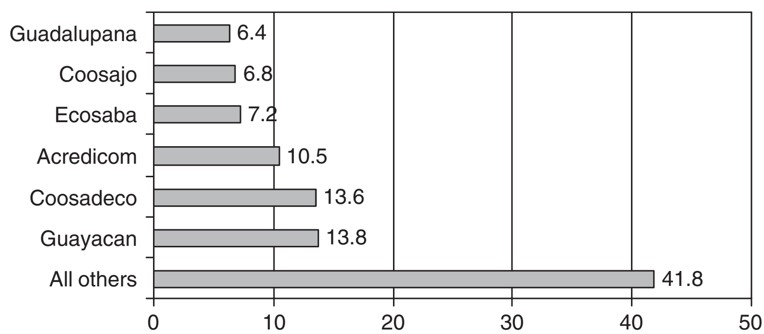
61. Although *Cooperativas* are not included in the *Mercado Institucional de Divisas*, remittance flows enter the banking system indirectly when funds are transferred to the bank accounts of *Cooperativas*.

Box 8: FENACOAC

Founded in 1963, FENACOAC has 26 Savings and Credit Cooperatives (CACs) in Guatemala, and provide with 127 points of service in every department. They offer more than 500,000 members with a wide range of financial products and services. Fenacoac and its CACs are not regulated or supervised as part of the financial sector by SB.

With the support from WOCCU, Fenacoac entered in partnership with Vigo, in 2001. Since then, FENACOAC has processed 801,000 electronic transactions representing $350 Million, with an average of $437 per transaction. In 2004, they had 408,000 transactions, equivalent to $179 Million which represent 7 percent total market share, and 12 percent market share in electronic transfers. The Federation FENACOAC centralizes the remittance flows, compensates and balances funds for its member CACs to provide the financial resources in order to pay the beneficiaries, provides technological and institutional support.

Figure 11. Top CACs Shares in Remittance Distribution by FENACOAC (percent)



Source: FENACOAC.

Table 9. *Cooperativas* from FENACOAC Service Points and Migration Levels in Guatemala by Region

Region	*Cooperativas* Service Points	% of Migration
Southwest	42	24.7
Metropolitan	16	15.9
Southeast	11	15.8
Central	11	12.1
Northeast	26	10.6
North	10	8.9
Northwest	8	8.6
Peten	2	3.3

Sources: FENACOAC, IOM.

significantly each year as well as the number of clients which is currently over 500,000 in Fenacoac. CACs also offer insurance, savings products, savings plans targeted exclusively for children, and diverse credit options. Similarly, OPDFs, while they are non-deposit taking entities, do offer micro and small credits in underserved areas.

Given their focus on microenterprises, typically informal, and lower income housing finance, CACs and OPDFs are better prepared to have the institutional objective to cross-sell financial products to remittances recipients. The opportunity to offer remittance services to nonmembers presents a new avenue for

Box 9: Genesis Empresarial

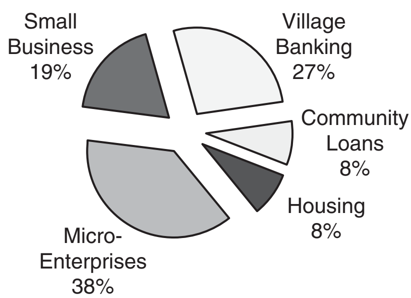
Genesis Empresarial is the largest OPDF (NGO) in Guatemala; it started operations in 1988 as a Private non-lucrative Development Organization, with the mission to provide credit services, and technical assistance to Micro-enterprises, Small Businesses in urban and rural communities in Guatemala.

Genesis Empresarial has 46 branches located in 19 of the 22 Guatemalan states and provides several financial products and development services, such as credit lines, training and advisory services in management, operating processes and community organization, and technical assistance in housing. Its lending operations are targeted to micro-enterprises, small businesses, women in rural areas through village banking, community improvements such as water and electricity, and housing construction and improvements.

As of December 2005, Genesis Empresarial had more than 55 thousand active clients, for a total lending of US$31 million, mostly in micro-credits.

Genesis Empresarial has just entered the distribution market of remittances, the first to do so among OPDFs. Their business model involves electronic transfers from an MTO's, which are paid by check to the beneficiary once the funds have been reached their institution.

Genesis Empresarial Loan Portfolio, February 2005



Sources: Genesis Empresarial (2005); WB-IMF FSAP Update 2006.

attracting member-customers and introducing them to savings and microfinance products. Interestingly, Bolivian micro-credit entities (*Fondos Financieros Privados)* are also entering remittances distribution market. Some of the CACs have specified in their strategic planning the objective to convert all remittance recipients into members. Ecosaba CAC provides its members with credit up to 70 percent of the amount saved in their account with a minimum of three months history of remittances received. CAC Salcaja has a remittances management offering under way[62] CACs and OPDFs have a comparative advantage in assessing loan risks as compared to corporate-oriented banks, because they target specifically micro-entrepreneurs.[63] Moreover, given their familiarity with lending to informal debtors, CACs and OPDFs may be

62. This future project includes allocating remittances to savings accounts, *coyote* debt repayment, credit, funeral expenses, and retirement funds.

63. More systematic survey of CACs experience is available in USAID's "credit union remittance services in Guatemala," 2005. Also the WB-IMF FSAP update looked at CACs and OPDFs lending practices.

able to handle better the risks stemming from the undocumented status of Guatemalan migrants, whose future cross-border transfers would presumably be a source of risk mitigation to provide credit to beneficiaries.

Finally, efforts under way by Guatemalan authorities to regulate market leaders in the MFI segment are to be encouraged. Both in Bolivia and Peru, the leading MFIs are regulated bank-like entities. This enable them to grow and offer a wider range of services to their client base, while gaining stronger governance and risk management practices. Concretely, this means issuing a law to allow OPDFs that wish to attract public deposits to be under the supervision of the Superintendency of banks. The Guatemalan authorities have been working on such draft law, called Ley de microfinanzas, which should be presented to Congress in late 2006. In addition, an initial draft is being prepared for a CACs-specific law (Ley de Cooperativas de Ahorro y Credito), which would be an important legislation as well to support sound growth of CACs activities.

Last Mile Regulatory and Institutional Framework

While the regulatory changes that led to greater awareness about remittances size were not specifically intended for this purpose, they indirectly led to the current high level of interest at senior policymakers in Guatemala. Guatemala modernized its regulations for foreign exchange activities and AML/CFT in the early 2000s. This has led to better macro-level statistics. Yet, a lot needs to be done to improve data quality. There are two institutions that capture some data about remittances transactions in Guatemala, namely Central Bank and the Superintendency's Financial Intelligence Unit. Moreover, there is need to improve coordination among government agencies interested in migration and remittances, such as the ministry of foreign affairs, the ministry of finance, in addition to Central Bank and the Superintendence of Banks. Guatemala's Vice President has displayed a high level of interest in the matter, and could play an effective coordination role among the different institutions.

There is anecdotal evidence of policymakers' efforts to link migrants to their community in Guatemala, but no data exist on their scope. The Ministry of Foreign Affairs has implemented initiatives to strengthen links between migrants and their place of origin by promoting business fairs and cultural events. Similarly, the Ministry of Culture and Sports is currently developing a program aimed at reviving the national identity of Guatemalans abroad.

Guatemalan Institutions Following the Remittance Trail

Central Bank of Guatemala (Banguat). The Central Bank collects remittances data as part of the foreign exchange transactions reports, used to build Balance of Payment data. On a daily basis, the institutions of the *Mercado Institucional de Divisas* are required to fill physical forms[64] to report clients' foreign exchange transactions to the Central Bank.

In practice, Banguat finds evidence that the foreign exchange forms are not rigorously filled out, because the category of the transaction is often not accurately recorded.[65] Using

64. *Registro Estadístico de Ingreso de Divisas.*

65. "Family Remittances" is one of the categories that transactions are recorded under. Previous regulation only required financial institutions to report to the Central Bank electronic transfers, drafts, and money orders only if exceeding the amount of $5,000. This could explain why remittance flows went unnoticed to a large extent in the official statistics.

a physical form to report transactions is found to be cumbersome and leads to careless handling, given that it provides no value to the reporting financial entity. There are requests from some financial intermediaries to change the reporting method to daily electronic archive reporting, which could substantially improve the data quality and reliability.

Superintendence of Banks (SB). Of the entities involved in remittance operations in Guatemala, the only institutions regulated and supervised by the SIB are banks and exchange bureaus. SB has access to on-site and off-site supervision of these financial entities, yet so far has not particularly focused on trying to understand the role of remittances in their business model.

SB's Financial Intelligence Unit, is charged with protecting the integrity of financial flows. Guatemala has made significant efforts to enact legislation to prevent money laundering and comply with international norms.[66] In July 2004, FATF removed Guatemala from the NCCT list.[67] The law against money laundering establishes a financial intelligence unit, the *Intendencia de Verificación Especial* (IVE), within the Superintendence of Banks, to supervise obligated institutions and ensure their compliance with the law. The IVE began operations in 2002 with authority to obtain all information related to financial, commercial, or business transactions that may be connected to money laundering. Banks, MTOs, MSBs and Cooperatives are obligated to register[68] before the IVE and to establish anti-money laundering measures[69] and introduce requirements for transaction reporting and record keeping.[70] The IVE may impose sanctions on financial institutions for non-compliance with reporting requirements.

There is a new reporting requirement from IVE for MTOs registered in Guatemala[71] and CACs. They are required to report the identity of the customers with cumulative remittances above the threshold of US$2,000 within one month .[72] The threshold chosen seems reasonable since historical data show less than 1 percent of the remittances would exceed the threshold. This new provision does not include banks and U.S.-based MTOs that are not registered in Guatemala. Authorities argue that banks are not required to observe this threshold since they disburse remittances to clients who already have an account. The reality is that banks pay remittances as a service to their MTO client, therefore mostly to non-account holders. Therefore, the new provision is leaving one of the main distributors of remittances out of this requirement, creating an unleveled playing field.

66. In November 2001, Guatemala enacted Decree 67–2001, the *Ley Contra el Lavado de Dinero u Otros Activos* (Law Against Money and Asset Laundering) to address several of the deficiencies identified by the FATF. A proposed law to combat the financing of terrorism is currently being drafted and reviewed by the *IVE*.

67. In June 2001 the Financial Action Task Force (FATF) had included Guatemala on the list of non-cooperating countries and territories (NCCT).

68. Article 18 of the Law Against Money and Asset Laundering.

69. Covered institutions must establish money laundering detection units, designate compliance officers, and train personnel to detect suspicious transactions.

70. Current rules require entities to report to the IVE any suspicious transactions within twenty-five days of detection and to submit a comprehensive report every trimester, even if no suspicious transactions have been detected. Entities must also maintain a registry of all cash transactions exceeding $10,000 or more per day, and report these transactions through currency transaction reports to the IVE.

71. Which capture more than half of the U.S. remittances.

72. According to an IVE Official it will come into effect on July 1, 2005.

Box 10: Alternative Remittance Systems Typologies

The Money Laundering and Terrorist Financing Typologies Report on Alternative Remittance Systems (ARS), presents a series of findings identifying different levels of vulnerabilities to money laundering/financing of terrorism (ML/FT). Despite the vulnerabilities, FATF recognizes that "ARS do provide a legitimate and often necessary service to a wide customer base."
The categorized associated risks to ARS as follows:

- Underground operators expressly set up to support criminal purposes;
- Underground operators which are misused or abused in the absence of appropriate customer due diligence and record keeping measures;
- Registered/Licensed operators deliberately engaged in criminal activities;
- Legitimate money remitters that are unwittingly misused by criminals.

Source: Money Laundering & Terrorist Financing Typologies, 2004-2005. FATF, June 10, 2005.

Implementing a Risk Based Approach for AML/CFT Regulations

AML/CFT regulations tightening in Guatemala has also played a role in reducing the use of money orders and, as a consequence, increasing the usage of EFTs. This led to better macro-data and increased market share of formal distributing institutions. After Guatemalan Banks put in force stronger AML measures, *cambistas* were forced to reduce their operations and therefore the market for money orders fell. *Cambistas* are identified as such by Banks and the total monthly volume of their operations is reported to the IVE. Banks have developed Know-Your-Customer rules that allow the exchange of money orders only from those *cambistas* who are registered customers and from known money order issuers.

The FATF recommendations provide for a number of criteria for countries to take risk into account when determining the extent of the AML/CFT compliance measures that their financial institutions will apply.[73] Thus, on implementing AML/CFT compliance measures countries should assess the money laundering risk that different financial institutions, particular types of customers, products or transactions could have in their jurisdiction. In the case of remittances, there are highest risks associated remittance service providers, because they handle large volumes of cash transactions, and they have short and often superficial business relations with their customers.[74]

Although risk assessment may vary depending on jurisdiction, several common elements can be identified. Some of the factors to be considered in assessing risks are: The effectiveness or existence of the regulatory regime; The volume and destinations of criminal money flows; The number of alternative remittance services (ARS) operators: The extent of law enforcement interdiction and effectiveness of the suspicious transaction reporting regime; The extent to which banks provide accounts for ARS operators; and the size, origins, and locations of migrant communities.

73. The FATF 40 Recommendations and the FATF 9 Special Recommendations and the Methodology for Assessing Compliance of FATF 40 Recommendations and the FATF 9 Special Recommendations, February 2004.

74. For example, in some corridors, remittance flows could be misused to launder the proceeds of crime. Appendix B provides more in-depth details about FATF recommendation IX, types of MSBs and types of risks associated with MSBs.

Key Findings and Avenues for Further Action

Promoting Accurate Reporting and Transparency

Create Incentives for Accurate Remittances Data Reporting. It is necessary for Banguat to shift to electronic information gathering from institutions that make up the institutional foreign exchange market. This would be a useful source of detailed data for both parties. To that end, both parties should decide on the most useful details to be included for analytical exercises. The new Balance of Payments Manual that is to be completed this year is an opportunity to improve this reporting process.[75]

Need for Additional Coordination Among Agencies to Combine their Data Sources for Better Remittances Data Analysis. Based on our findings, neither Banguat, nor the SIB and IVE have a complete picture of the remittances market in Guatemala. It is important for them to combine their efforts and exchange information to gain a better understanding of the dynamics of the remittances business and to formulate adequate regulations and strengthen data processing methodologies.

Step Up Consumer Protection. It is important to start gathering information on remittance transaction costs by service provider and by instrument, in order to increase transparency, to facilitate competition, and to track relevant trends. Consulates in the United States and migrant associations could help, but leadership should be given to a consumer protection institution in Guatemala.[76]

Support Financial Literacy Initiatives. For example, Banguat is finalizing a pedagogical booklet to be distributed to all universities and colleges, covering the topic of workers remittances and payments systems. This is but one way of doing it and government as well as donors and private sector can play a role in this. Remittance recipients would benefit from targeted educational events to introduce them to financial services in general, including remittances intermediation.

Avoid Overregulating the Remittance Environment

Try to "Do No Harm"; Design Risk-Based Regulations, and Avoid Asymmetric Requirements for Different Market Players, such as the case illustrated in recent IVE reporting requirement. Guatemala would benefit from developing an analysis to identify the risks associated to their remittance service providers. This could be done based on consultations with the market providers, banking regulators and law enforcement authorities to take advantage of what they have identified as the main or potential risks. Thus, this risk based assessment could be used to develop adequate rules and requirements which would respond to the characteristics of the Guatemalan remittance market and would not impact competition and shift the market to the use of the informal sector. It may be helpful to monitor the outcomes of an ongoing World Bank study on

75. In any event, the rules on the *formulario* are established at the level of the *Junta Monetaria* and the foreign exchange department of Banguat so changes are possible without major regulatory overhaul.

76. Profeco in Mexico is a good example of consumer protection in the remittances market.

risk-based AML-CFT regulation and access to financial services (Mendoza and others, forthcoming 2006).

Competition and Leveraging Remittances Flows

Promote Events to Share Information and Catalyze Possible Partnerships. Government/ consulates as well as donors can help[77] bring together U.S. and Guatemalan banks and MFIs, increase their awareness about international experience, about the importance of the opportunity that remittances represent for them.

Help Build Institutional Capacity of Microfinance Institutions and Regulated Market Leaders. MFIs in Guatemala cater to largely rural and micro enterprises, which are typically not in the banks' target market. As such, MFIs are a strong candidate for leveraging remittances flows to access a wider range of financial services. However, MFIs are unregulated entities, where most have very limited institutional capacity, in need of donors support; and market leaders have reached a critical size that positions them as possible candidates to be regulated, thus be able to attract public deposits and be subject to stronger governance and risk management standards. The draft laws in fact being prepared by Guatemalan authorities are a step in the right direction.

Understand Better the Reasons for the Lack of Interest in Cross-sale by Guatemalan Banks. There is an ongoing World Bank study involving banks' survey in a few countries (including Guatemala) that might be useful.[78]

Public-Private Partnerships for Community Works Should be Analyzed Carefully. Programs such as Mexico's 3x1 program for community projects with government's matching funds could be useful triggers for development.[79] Yet, they need to be carefully analyzed to avoid introducing distortions.

A Promising Avenue May be to Look for Ways to Simplify Bureaucratic Processes for Migrants that Wish to Start a Business in Guatemala. There are several international cases where workers residing abroad get *tramites* facilitations.

77. For example IDB and IOM have helped raise awareness in the Guatemalan financial sector respectively through conferences and surveys.

78. Maria-Soledad Martinez and Yira Mascaró, "Remittances and bancarizacion" forthcoming 2006, as part of WB Remittances Regional Study in Latin America.

79. However, it is important to analyze the feasibility of implementing policies from other successful corridors in the U.S.-Guatemala corridor, given that many local factors affect the outcome. Some of the issues needed to consider a 3X1 program include the level of decentralization of expenditure decisions and the capacity of Federal, State and Municipal governments to match funds.

APPENDIX A

Relative Importance of Remittances at Macroeconomic Level in Guatemala vs. Selected Latin American Countries

Table A1. Relative Importance of Workers Remittances to the Guatemalan Economy 2000–2005

As percentage of:	2000	2001	2002	2003	2004	2005
Total Exports of goods	20.8	24.0	63.9	80.1	86.7	88.8
Foreign Direct Investment (FDI)	245.0	130.1	1435.8	1815.9	1648.8	1513.1
Gross Domestic Product	2.9	2.8	6.8	8.5	9.3	9.4

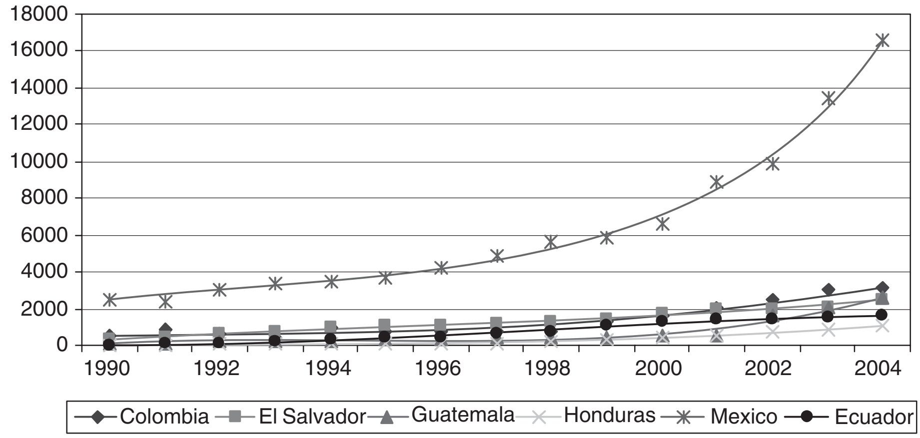
Source: Banguat.

Table A2. Per capita GDP, Income Distribution, and Per capita Remittances (US$), 2003

Country	Annual per Capita GDP	GDP per Capita of Poorest 20%	GDP per Capita of Poorest 40%	Remittances per Capita	Average Annual Remittances Received by Recipient Households
El Salvador	2,080	300	350	310	2,300
Guatemala	**1,750**	**340**	**400**	**140**	**2,150**
Honduras	920	90	130	110	2,060
Jamaica	2,170	990	770	460	2,100
Mexico	3,740	770	890	100	3,020
Nicaragua	470	50	80	130	1,170

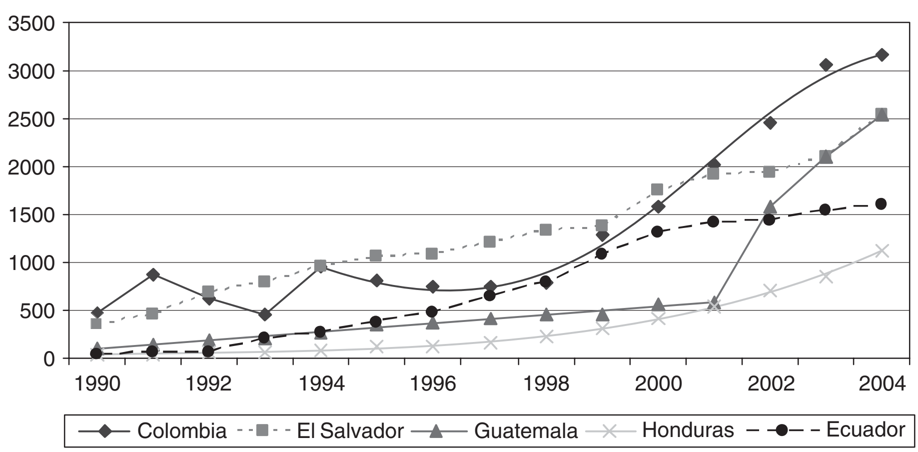
Source: Inter-American Dialogue (2004), based on the WDI 2003, and National Money Transmitters Association (2003) for remittances data.

Figure A1. Worker Remittances to Guatemala and Latin American Countries, 1990–2004 (US$ million)



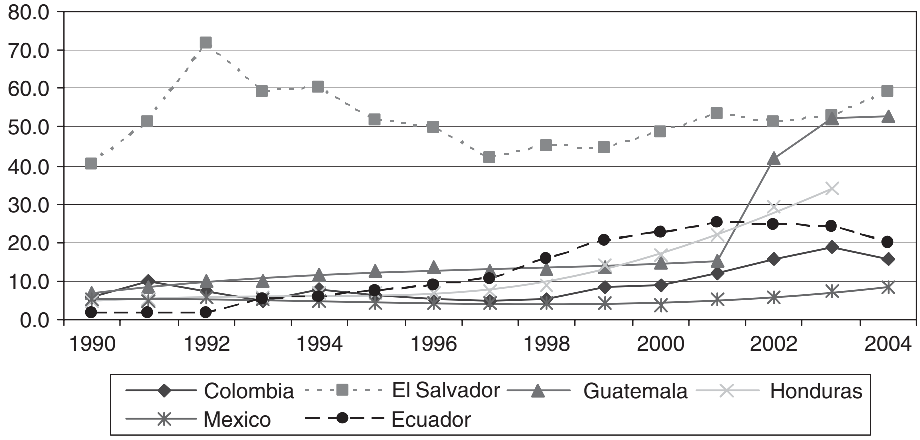
Source: April 2006 GDF and WDI.

Figure A2. Worker Remittances (Receipts) to Guatemala and Selected Latin American Countries (excluding Mexico), 1990–2004 (US$ million)



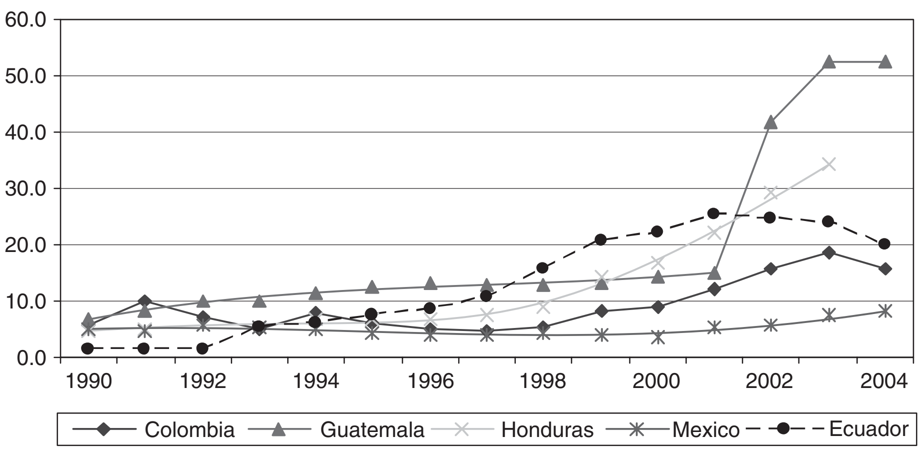
Source: April 2006 GDF and WDI.

Figure A3. Worker Remittances (Receipts) as a Share of Exports of Goods and Services, Guatemala and Selected Latin American Countries, 1990–2004 (percent)



NB: These are exports of both goods and services.
Source: April 2006 GDF and WDI.

Figure A4. Worker Remittances (Receipts) as a Share of Exports of Goods and Services, Guatemala and Selected Latin American Countries, Excluding El Salvador, 1990–2004 (percent)



Source: April 2006 GDF and WDI.

APPENDIX B

Addenda on Relevant Legal and Regulatory Framework

Assessment of Risk Areas for Remittance Providers

Analysis of different corridors, both for legitimate remittances and for the flows of criminal funds, should be considered when determining the level of risk to a particular national remittance sector. The general risk factors vary somewhat from one jurisdiction to another. Likewise, the risk-related features associated with specific categories of Alternative Remittance Systems (ARS) are different depending on the location, although common elements can be identified.

Risk Associated with Specific Types of MTOs

Franchised Multinational Companies

These MTOs typically require identification for low transactions as well as limitations on the maximum amount that can be transferred. ML activity is most likely to involve the use of false identities and structuring. Complicity of franchised agents increases the potential for large scale laundering. The speed and good reputation of the operators means that they will be selected by criminals and terrorists for important transactions. These operators have relatively low thresholds for identification and performance of customer due diligence. Strong AML monitoring and analysis of transactions are the key to identifying illegal activity.

Multi Premises or Franchised National Companies

The degree of risk to these MTOs varies according to the level of effective regulation in its centre of operations. Typically, these companies have implemented robust AML procedures

Table B1. Money Service Businesses (MSBs) in the United States: Any Business that Falls under One of These Activities is Considered an MSB and Must be Registered

Product or Service	Capacity (Type of MSB)
Money Orders	Issuer of money orders
	Seller of money orders
	Redeemer of money orders
Traveler's Checks	Issuer of traveler's checks
	Seller of traveler's checks
	Redeemer of traveler's checks
Money Transmission	Money transmitter
Check Cashing	Check casher
Currency Exchange	Currency exchanger
Currency Dealing	Currency dealer
Stored Value	Issuer of stored value
	Seller of stored value
	Redeemer of stored value

Source: FINCEN.

that are tailored to match the customer base they serve. Domestic top tier companies in jurisdictions such as the UAE have set up personalised photo I.D. schemes which allow the monitoring of transactions and the comparison of volumes to assessments of the customer's lifestyle. The risks in this sector are likely to be similar to franchised multinational companies but can differ greatly in an unregulated country or where the operators are complicit. Bankers for this sector should be familiar with their customers AML program and should be vigilant that the accounts are not operated as cash pooling accounts.

Signed Shop-Front Premises (One or More Premises)

Operate openly and should thus be subject to effective regulation. Individual cases have shown that, when such ARS operators are complicit in criminal ML, they can be the largest volume offenders.

Overt ARS within Another Business

These have the same potential as the previous ones but with turnover limited according to banking arrangements of the individual operator. There is a risk that the turnover may be disguised by mixing money in ARS and trading accounts. The indicators are the same as above.

Covert ARS within Another Business

The extent of criminal activity is limited by the level of cash deposits that can be made without arousing suspicion. Suspicious transaction reports from banks and referrals from financial intelligence units are key ways of identifying this activity. This sector tends to be tied to specific ethnic or immigrant groups and may therefore in some cases be a higher risk for exploitation for terrorist ML.

Covert ARS—No Premises

Are limited by their ability to handle cash, but is high risk for criminal ML. It is particularly high risk in jurisdictions where ML activity through ARS has been detected and disrupted.
Source: FATF Typologies Report, Chapter I, Alternative Remittances Systems.

APPENDIX C

Full Text of Relevant Sections of Laws and Regulations Mentioned in Document

Patriot Act

SEC. 326. VERIFICATION OF IDENTIFICATION.

(a) IN GENERAL— Section 5318 of title 31, United States Code, as amended by this title, is amended by adding at the end the following:

`(*l*) IDENTIFICATION AND VERIFICATION OF ACCOUNTHOLDERS—

`(1) IN GENERAL— Subject to the requirements of this subsection, the Secretary of the Treasury shall prescribe regulations setting forth the minimum standards for financial institutions and their customers regarding the identity of the customer that shall apply in connection with the opening of an account at a financial institution.

`(2) MINIMUM REQUIREMENTS- The regulations shall, at a minimum, require financial institutions to implement, and customers (after being given adequate notice) to comply with, reasonable procedures for—

`(A) verifying the identity of any person seeking to open an account to the extent reasonable and practicable;

`(B) maintaining records of the information used to verify a person's identity, including name, address, and other identifying information; and

`(C) consulting lists of known or suspected terrorists or terrorist organizations provided to the financial institution by any government agency to determine whether a person seeking to open an account appears on any such list.

`(3) FACTORS TO BE CONSIDERED— In prescribing regulations under this subsection, the Secretary shall take into consideration the various types of accounts maintained by various types of financial institutions, the various methods of opening accounts, and the various types of identifying information available.

`(4) CERTAIN FINANCIAL INSTITUTIONS— In the case of any financial institution the business of which is engaging in financial activities described in section 4(k) of the Bank Holding Company Act of 1956 (including financial activities subject to the jurisdiction of the Commodity Futures Trading Commission), the regulations prescribed by the Secretary under paragraph (1) shall be prescribed jointly with each Federal functional regulator (as defined in section 509 of the Gramm-Leach-Bliley Act, including the Commodity Futures Trading Commission) appropriate for such financial institution.

`(5) EXEMPTIONS—The Secretary (and, in the case of any financial institution described in paragraph (4), any Federal agency described in such paragraph) may, by regulation or order, exempt any financial institution or type of account from the requirements of any regulation prescribed under this subsection in accordance with such standards and procedures as the Secretary may prescribe.

`(6) EFFECTIVE DATE— Final regulations prescribed under this subsection shall take effect before the end of the 1-year period beginning on the date of enactment of the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001.'

(b) STUDY AND REPORT REQUIRED— Within 6 months after the date of enactment of this Act, the Secretary, in consultation with the Federal functional regulators (as defined in section 509 of the Gramm-Leach-Bliley Act) and other appropriate Government agencies, shall submit a report to the Congress containing recommendations for—

(1) determining the most timely and effective way to require foreign nationals to provide domestic financial institutions and agencies with appropriate and accurate information, comparable to that which is required of United States nationals, concerning the identity, address, and other related information about such foreign nationals necessary to enable such institutions and agencies to comply with the requirements of this section;

(2) requiring foreign nationals to apply for and obtain, before opening an account with a domestic financial institution, an identification number which would function similarly to a Social Security number or tax identification number; and

(3) establishing a system for domestic financial institutions and agencies to review information maintained by relevant Government agencies for purposes of verifying the identities of foreign nationals seeking to open accounts at those institutions and agencies.

Subtitle C—Currency Crimes and Protection

SEC. 371. BULK CASH SMUGGLING INTO OR OUT OF THE UNITED STATES

(a) FINDINGS—The Congress finds the following:

(1) Effective enforcement of the currency reporting requirements of subchapter II of chapter 53 of title 31, United States Code, and the regulations prescribed under such subchapter, has forced drug dealers and other criminals engaged in cash-based businesses to avoid using traditional financial institutions.

Real I.D. Bill

H.R.418

REAL ID Act of 2005

SEC. 202. MINIMUM DOCUMENT REQUIREMENTS AND ISSUANCE STANDARDS FOR FEDERAL RECOGNITION

(a) Minimum Standards for Federal Use—
(1) IN GENERAL— Beginning 3 years after the date of the enactment of this Act, a Federal agency may not accept, for any official purpose, a driver's license or identification card issued by a State to any person unless the State is meeting the requirements of this section.
(2) STATE CERTIFICATIONS—The Secretary shall determine whether a State is meeting the requirements of this section based on certifications made by the State to the Secretary of Transportation. Such certifications shall be made at such times and in such manner as the Secretary of Transportation, in consultation with the Secretary of Homeland Security, may prescribe by regulation.
(b) Minimum Document Requirements— To meet the requirements of this section, a State shall include, at a minimum, the following information and features on each driver's license and identification card issued to a person by the State:
(1) The person's full legal name.
(2) The person's date of birth.
(3) The person's gender.
(4) The person's driver's license or identification card number.
(5) A digital photograph of the person.
(6) The person's address of principle residence.
(7) The person's signature.
(8) Physical security features designed to prevent tampering, counterfeiting, or duplication of the document for fraudulent purposes.
(9) A common machine-readable technology, with defined minimum data elements.
(c) Minimum Issuance Standards-
(1) IN GENERAL— To meet the requirements of this section, a State shall require, at a minimum, presentation and verification of the following information before issuing a driver's license or identification card to a person:
(A) A photo identity document, except that a non-photo identity document is acceptable if it includes both the person's full legal name and date of birth.
(B) Documentation showing the person's date of birth.
(C) Proof of the person's social security account number or verification that the person is not eligible for a social security account number.
(D) Documentation showing the person's name and address of principal residence.
(2) SPECIAL REQUIREMENTS—
(A) IN GENERAL— To meet the requirements of this section, a State shall comply with the minimum standards of this paragraph.

(B) EVIDENCE OF LAWFUL STATUS- A State shall require, before issuing a driver's license or identification card to a person, valid documentary evidence that the person—

(i) is a citizen of the United States;

(ii) is an alien lawfully admitted for permanent or temporary residence in the United States;

(iii) has conditional permanent resident status in the United States;

(iv) has an approved application for asylum in the United States or has entered into the United States in refugee status;

(v) has a valid, unexpired nonimmigrant visa or nonimmigrant visa status for entry into the United States;

(vi) has a pending application for asylum in the United States;

(vii) has a pending or approved application for temporary protected status in the United States;

(viii) has approved deferred action status; or

(ix) has a pending application for adjustment of status to that of an alien lawfully admitted for permanent residence in the United States or conditional permanent resident status in the United States.

(C) TEMPORARY DRIVERS' LICENSES AND IDENTIFICATION CARDS—

(i) IN GENERAL— If a person presents evidence under any of clauses (v) through (ix) of subparagraph (B), the State may only issue a temporary driver's license or temporary identification card to the person.

(ii) EXPIRATION DATE— A temporary driver's license or temporary identification card issued pursuant to this subparagraph shall be valid only during the period of time of the applicant's authorized stay in the United States or, if there is no definite end to the period of authorized stay, a period of one year.

(iii) DISPLAY OF EXPIRATION DATE— A temporary driver's license or temporary identification card issued pursuant to this subparagraph shall clearly indicate that it is temporary and shall state the date on which it expires.

(iv) RENEWAL— A temporary driver's license or temporary identification card issued pursuant to this subparagraph may be renewed only upon presentation of valid documentary evidence that the status by which the applicant qualified for the temporary driver's license or temporary identification card has been extended by the Secretary of Homeland Security.

(3) VERIFICATION OF DOCUMENTS— To meet the requirements of this section, a State shall implement the following procedures:

(A) Before issuing a driver's license or identification card to a person, the State shall verify, with the issuing agency, the issuance, validity, and completeness of each document required to be presented by the person under paragraph (1) or (2).

(B) The State shall not accept any foreign document, other than an official passport, to satisfy a requirement of paragraph (1) or (2).

(C) Not later than September 11, 2005, the State shall enter into a memorandum of understanding with the Secretary of Homeland Security to routinely utilize the automated system known as Systematic Alien Verification for Entitlements, as provided for by section 404 of the Illegal Immigration Reform and Immigrant Responsibility Act of 1996 (110 Stat. 3009–664), to verify the legal presence status of a person, other than a United States citizen, applying for a driver's license or identification card.

(d) Other Requirements- To meet the requirements of this section, a State shall adopt the following practices in the issuance of drivers' licenses and identification cards:

(1) Employ technology to capture digital images of identity source documents so that the images can be retained in electronic storage in a transferable format.

(2) Retain paper copies of source documents for a minimum of 7 years or images of source documents presented for a minimum of 10 years.

(3) Subject each person applying for a driver's license or identification card to mandatory facial image capture.

(4) Establish an effective procedure to confirm or verify a renewing applicant's information.

(5) Confirm with the Social Security Administration a social security account number presented by a person using the full social security account number. In the event that a social security account number is already registered to or associated with another person to which any State has issued a driver's license or identification card, the State shall resolve the discrepancy and take appropriate action.

(6) Refuse to issue a driver's license or identification card to a person holding a driver's license issued by another State without confirmation that the person is terminating or has terminated the driver's license.

(7) Ensure the physical security of locations where drivers' licenses and identification cards are produced and the security of document materials and papers from which drivers' licenses and identification cards are produced.

(8) Subject all persons authorized to manufacture or produce drivers' licenses and identification cards to appropriate security clearance requirements.

(9) Establish fraudulent document recognition training programs for appropriate employees engaged in the issuance of drivers' licenses and identification cards.

(10) Limit the period of validity of all driver's licenses and identification cards that are not temporary to a period that does not exceed 8 years.

Guatemala: Law Against Money and Asset Laundering

CHAPTER IV

REGARDING OBLIGATED PERSONS AND THEIR OBLIGATIONS

ARTICLE 18

Regarding obligated persons. Within the context of the law herein, obligated persons are:

1. The entities subject to the supervision and inspection of the Superintendency of Banks.
2. Individuals or legal entities dedicated to brokerage or intermediation in the negotiation of assets.
3. Those entities that issue and operate credit cards.

4. Those foreign domiciled entities known as off-shore that operate in Guatemala that describe themselves as entities dedicated to financial intermediation organized or registered under the laws of another country that undertakes activities mainly outside the jurisdiction of that country.
5. Individuals or legal entities that undertake any of the following activities:

   (a) Systematic or substantial check cashing operations.
   (b) Systematic or substantial operations issuing, sale or purchase of travelers' checks or postal money orders.
   (c) Systematic or substantial funds transfers and/or capital movement.
   (d) Factoring.
   (e) Financial lending.
   (f) Currency exchange.
   (g) Any other activity that, by the nature of its operations, can be used for money or asset laundering as established in the regulations.

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Map of Remittance Flows in the U.S.-Guatemala Corridor

Flows of remittances from migrant workers in the U.S.-Guatemala corridor are linked to migration patterns. The arrows on the map indicate the direction and magnitude of recorded remittance flows from different regions (West Coast, North-East, Midwest and South) and main cities in the U.S. to the main Departments in Guatemala. Los Angeles is the largest source of remittance flows to Guatemala since it contributes more than a third of total remittances in the corridor.

IBRD 34110

U.S. - GUATEMALA

VOLUME OF REMITTANCES, MAIN CORRIDORS, 2005

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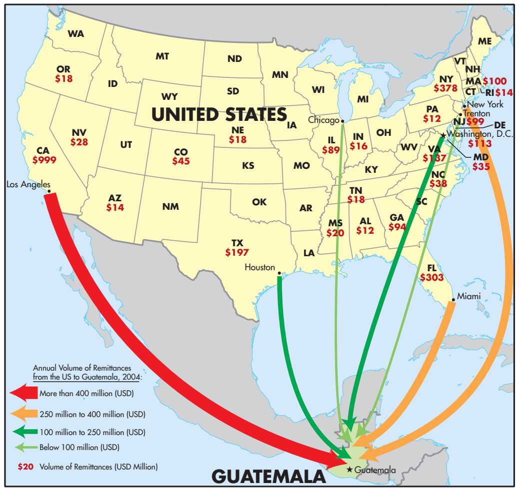
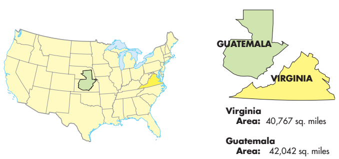
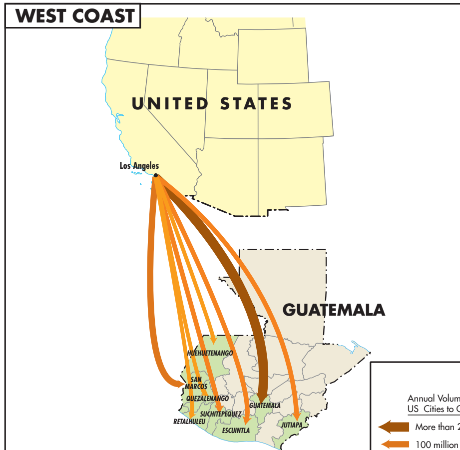
Source: Based on IOM



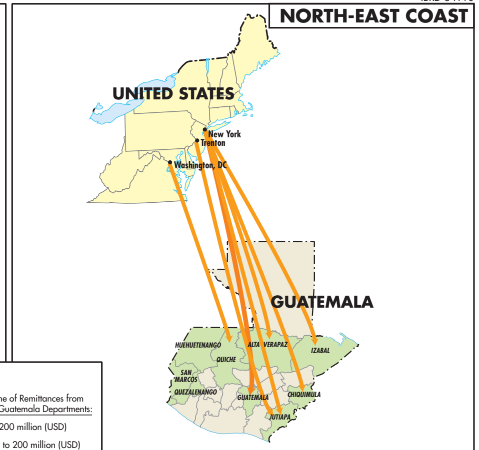


Land area comparison at same scale

WEST COAST



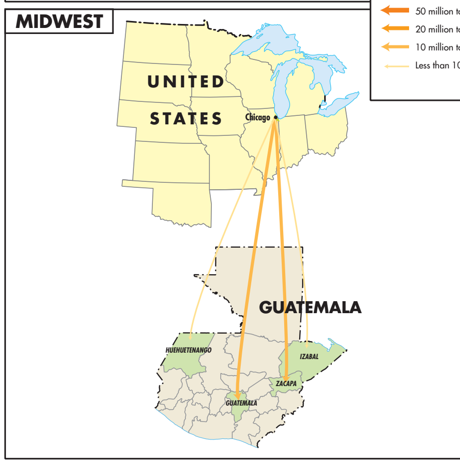
NORTH-EAST COAST



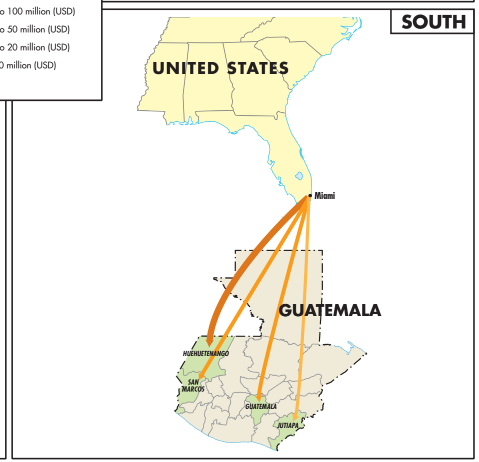
Annual Volume of Remittances from US Cities to Guatemala Departments:

- More than 200 million (USD)
- 100 million to 200 million (USD)
- 50 million to 100 million (USD)
- 20 million to 50 million (USD)
- 10 million to 20 million (USD)
- Less than 10 million (USD)

MIDWEST



SOUTH



OCTOBER 2006

The U.S.-Guatemala Remittance Corridor is part of the World Bank Working Paper series. These papers are published to communicate the results of the Bank's ongoing research and to stimulate public discussion.

This study gives an overview of the intermediation of worker remittance flows from the United States to Guatemala. In contrast to other remittance corridors in the world, most transfers in this corridor are channeled in the United States through the formal sector, and distributed in Guatemala through the banking system. However, both senders and receivers have little access to financial products and services. This study argues that in a country characterized by high income inequality and low and concentrated access to credit, the large role played by domestic banks in distributing remittances seems promising in terms of creating a point of contact that could lead to cross-sales of other financial services. The report also argues that authorities have an important coordination and catalytic role to play, for increased efficiency in remittance intermediation, fostering competition, and ultimately highlighting the potential for greater access. The report concludes with specific avenues for further policy action in terms of transparency, regulatory environment, financial literacy and access, risk management, and money laundering prevention.

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