

The Potential Role of IT in International Remittance Transfers?

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Sean Ó Siochrú's report, GLOBAL GOVERNANCE OF INFORMATION AND COMMUNICATION TECHNOLOGIES: IMPLICATIONS FOR TRANSNATIONAL CIVIL SOCIETY NETWORKING, suggests two areas of further research and action that merit additional comment. They are: **Organisational Models** to ensure innovative technology leads to community development, and **New Funding Paradigms** for building access in the South. Herewith a proposal.¹

The growing global remittance economy and the migrant organizations abroad can provide the social capital for marrying these two proposals into a workable international alliance of microfinance institutions serving migrants and their communities while applying available technologies without a need for outside capital. This year the InterAmerican Development Bank predicts the more than 150+ million international migrants will send home about usd \$100 billion. It is estimated that approximately 10% of the global population is involved in the international migration and remittance economy, and the amount of funds moving in an informal fashion remains an unknown quantity. What is certain, however, is that vast regions of many countries are fed, housed, cured and perhaps schooled thanks in large part to these remarkable remittance flows that complement subsistence incomes almost everywhere in the South.

The northern tier of Latin America and the Caribbean states offer a showcase example of this remittance economy at work. The emerging Mesoamerica of remittances has today transformed what was once a region the archeologists considered to have shared many cultural and technological traits in Pre-Columbian times into a contemporary space stretching from Mexico, across Guatemala, Honduras, and El Salvador to Nicaragua whose rural and periurban communities now supplement in a similar fashion their meager incomes from remittances sent home by their sons and daughters in the United States and Canada. In 2003 this flow may amount to more than usd \$20 billion, much more than aid programs and private direct investment combined in all the countries in this socially polarized region. This situation also prevails in Ecuador, and parts of Colombia and Peru. In the southern cone of the Western Hemisphere, Brazil, and to a lesser degree Argentina and Chile, contain significant migrant populations from neighboring Bolivia and Paraguay, as well as Perú and Ecuador, and as the MERCOSUR consolidates after the change of regime in Brazil and the steady recovery from the Argentine Crash of 2001, remittance flows stand to increase. In fact, it is not too much of a stretch to assert that Latin America today presents a regional scenario of what was considered in colonial times a dual economy: prosperous

sections of cities and export oriented ports plugged into the global financial system now ringed by subsistence remittance-fed economies, urban and rural, with increasing access to microfinance in addition to informal credit suppliers. The relative anarchy to be observed almost everywhere in the remittance sector operates in parallel with the formal, IT-driven global financial networks. This is the reigning neocolonial paradigm the market-oriented fundamentalism of our Neoliberal Era has produced.

Whereas other regions in the world today have their specific profiles in relation to out migration and remittance flows, in essence **I argue that a novel organizational model may be based on the fact that all countries share similar opportunities and constraints re the potential of migrant groups, their growing links to microfinance institutions and multiple possibilities for enhancing communication and lower remittance transfer costs the emerging digital technologies now offer.** This is not so much a hardware or software issue; rather it is an org ware challenge.

What would this reconfiguration of remittance flows look like? To begin with, it means offering more points of Internet access in the North with state of the art digital identification systems (e.g. smart cards) that allow registered clients of microfinance institutions operating in their countries of origin on conjunction with credit unions in the United States and Canada, for example, to move their funds home while managing their account, and perhaps that of senior family members at home unlikely to become Internet users. A pilot program already exists whereby the World Council of Credit Unions, WOCCU (www.woccu.org/prod_serv/irnet/) has signed a working agreement with VIGO, a major money transfer operator, whereby migrants approaching cooperating U.S. credit unions and VIGO money transfer franchisees are able to place their funds in their family accounts in savings and loan cooperatives in Mexico and four Central American countries who are now collaborating with this project.² This means that migrants from Mexico, Guatemala, Honduras, El Salvador and Nicaragua can take advantage of the lower cost remittance transfer costs on the market today while conveniently placing their funds in accounts in their home country credit union analogues, the savings and loan cooperatives. This is an innovative, vanguard project and has been operating during 2003 with phenomenal growth in remittance transfers from month to month as the word gets out within the migrant community in the countries involved. This is a prototype that could scale significantly in other regions.

How could this pilot program expand IT services for migrants? The extant WOCCU-VIGO pilot program does not contemplate expanding points of access for migrants inside USA where paradoxically connectivity is limited to the public library system. Nor does the current pilot consider distributing generic software that would facilitate the integration of remittance transfer into the respective digital accounting systems of the participating microfinance institutions. Few migrants from Mexico and Central America leave home today with any Internet savvy (although this may be changing), nor they do presently consider this communication option as a priority, as subjective surveys suggest. Thus, community telecenters linked to microfinance institutions would be one alternative to expanding the level of connectivity and training in minimal digital skills required to augment the present day limited communication networks linking migrants and their families. These community telecenters would have to exist on both ends of each Diaspora network, in the North and in communities in the South. The savings in remittance transfer

costs would more than offset the cost of creating these points of access, which could be designed as sustainable non-profits. The lack of easy to install and use software for technologically limited microfinance institutions in Mexico and Central America is today a restraint on offering additional financial services for migrant clients and their families. The institutional analogues to the North American credit unions located in Europe, Japan, South Africa and the Gulf States could also participate in kindred projects tailored to the needs of each migrant constituency.

What regulatory frameworks would need to be adjusted to enhance this proposal's impact? There are many issues related to expanding the global system of microfinance institutions that currently serves or may serve migrant communities. One arena requiring a degree of political will on the part of national governments and their regulatory bodies involves relaxing and/or modifying regulations in the telecom and financial sectors so that microfinance institutions can accommodate remittance transfers in their menu of services to clients, while offering digital services to their clients, on or next to their premises, including local VoIP digital telephony employing the emerging WiFi and WiMax technologies. In a word, the microfinance institutions should be allowed to operate commercial telecom services in the rural communities they serve, in conjunction with basic financial services. This is a natural fit and the savings in communication costs plus lower remittance transfer fees can pay for the investments this proposal involves.

What sectors will resist modifying the status quo in relation to this proposal? It is no secret the mainline banking industry looks upon the credit unions and their kindred cousins in the countries of the South as the ugly ducklings of the financial community. As remittance flows grow in their strategic importance within each receiving country and their respective balance of payments calculus (thus contributing to social stability and family welfare without need for additional outlays in national budgets—a germane topic not discussed here), the banks are profiting handsomely from the transfer commissions as well as exchange rate spread commissions. These powerful, private sector bodies see no need to pamper the struggling microfinance institutions that can serve clients in communities where the commercial banks will probably not open a branch nor install an ATM machine (with its attendant costs in terms of armored vehicle cash delivery, maintenance, etc.). Expect resistance from the banks to expanding remittance services for microbanks. And expect resistance as well in each regulatory body governing telecommunications issues, where legacy players now control most if not all of the local and national markets while denying low cost service to presently un- or underserved rural areas. The prospect of microbanks competing with these players while offering VoIP telephony and Internet services may not be embraced enthusiastically by most of these telecomm corporations.

How does this proposal relate to Internet governance? The issue is one of encouraging economic democracy among the incipient migrant organizations that are and no doubt will increasingly participate in their home country political process. This participation is not an immediate outcome of migrating abroad, landing a job, legalizing one's status (where possible), sending money home to the family, etc. Rather, the formation of Hometown Associations (HTAs) among migrants has become almost an obligatory process that underscores identity politics in the multicultural global cities where migrants now live and work, guarantees the provision of basic legal and sometimes social services for their

membership, and increasingly, leverages collective remittance flows for specific projects in the hometown or region. In the case of Mexico and Central America, migrants today view their collective efforts in terms of acquiring the vote abroad, to date denied them all; and the argument has become simplified and summarized in the phrase: No “taxation” without Representation. In this case, of course, the “taxation” refers to the voluntary remittance flows, individual and collective, that in effect substitute or nowadays often exceed public funds destined to their home communities and municipalities, a form of voluntary, supplementary taxation, if you will. A parallel microfinance system linked to the HTAs is beginning to provide essential capital for family welfare and the improvement of local infrastructure and basic services in the region. A robust microfinance system can evolve that offers investment opportunities for migrants that currently spend over 90% of their earnings on consumption.

On balance, fortifying stable and fiscally solid microfinance organizations while linking them to the growing number of economically and politically sophisticated HTAs can lead to a parallel remittance transfer network that pays for its own growth and institutional consolidation. Only domestic regulatory hurdles and the always-complex process of organizing migrant groups may hinder the way this proposal becomes a reality.

NOTES

¹ This is now an old proposal, first presented from the podium of the Toronto Global Knowledge conference in 1997, and published in 2000: Rethinking Telecenters: Knowledge Demands, Marginal Markets, Microbanks and Remittance Flows **OnTheInternet** magazine, Vol. 6, No. 2 (Fall/Winter 2000).
www.isoc.org/oti/articles/0401/robinson.html

² See a regionally-focused proposal to the Central American Bank of Economic Integration:
http://www.icamericas.net/modules/DownloadsPlus/uploads/Estudios_de_caso_y_Reportes/Remesas-Final_4-sep03.pdf