THE SHIFTING VIEWS ON FAMILY REMITTANCES

Hugo Cuevas-Mohr

After a series of media interviews a couple of weeks ago, in a trip to Guatemala, I realized in a moment that I was witnessing a change in the public perception of remittances that I had not grasped before. Answering one by one journalist questions, it was unquestionable that I was witnessing a shift that I had not noticed before. After thinking about it, I could say that the shift is global although that doesn't mean that a shift is happening in the same way or at the same time in every region or country in the world. Having been a part of the remittance industry for three decades I suddenly saw it very clearly. But I don't want to get ahead of myself so let's back up a little.

Let's start with a little bit of history

Everyone in the remittance sector knows that sending money home has always existed. For thousands of years, individuals leaving their homes to seek for riches, have found ways to send money home to their families, by couriers or by networks of merchants & traders which gave rise to hawala brokers, called by different names in different regions of the world. The casas de cambio in Latin America and foreign exchange firms in many places were de facto hawala brokers.

My grandfather Elciario Cuevas was one of them. He stumbled into the business selling magazines and newspapers and needing US Dollars to give to airline pilots to buy and bring magazines from the US and other parts of the world. That was Cali, Colombia in the 1930-40s. He became the supplier of US funds in the town and developed a large network of connections as hawala brokers had done for centuries. Let's skip to the end of the 1980s when the business, after his death, and in the hands of my father and aunt, needed my help with the use of technology – the first desktop computers. They required to improve the handling of the growing number of small transactions coming from the US that they were receiving to pay out and little books with hand-drawn columns were not efficient anymore.

Many foreign exchange brokers in Latin America decided to handle these small payments besides the larger transactions that they used to tend to. Telex was the way to transmit data but soon the fax became the greatest invention and the remittance business took off in a way that caught everybody by surprise. Networks of travel agents and small "bodegas", catering to the growing Latin American communities in New York, Madrid, London, Los Angeles, Houston, Boston, started collecting orders to send by fax to the, also growing, number of outlets in the home countries were payments were being done. The replacement of the couriers (travelling traders and airline personnel) was fast as the new system was more efficient and safer. The brokers had their settlement mechanisms in place and that worked for a while, but they were soon strained as volumes kept on growing by leaps and bounds.

The non-view: ignorance

Even ourselves, involved in the early years of the remittance industry, didn't have any idea of the volumes of money that were being sent by migrant workers. The funds channeled through brokers, couriers, postal money orders and airline personnel quietly arrived to the hands of the families and only the neighbors began noticing money spent on fixing the house, buying food, small improvements in the standard of living of remittance dependent households. Everyone involved in facilitating the sending or paying of remittances could only see a small sliver of the ever-growing remittance pie of the eighties and nineties. We also grew as a company. From one office and 8 employees in 1987 to more than 75 offices, 400 employees and 7 countries by 1994.

The early views: enter Law Enforcement & Regulation

The first institutions to notice that something unusual was going on were the banks. I remember the meetings I had in the 1990s with banks in many countries explaining that yes, in fact, these were legitimate transactions sent by real people, spread around the world, sending money to family members. The migrant reality was too far removed from the great majority of the bankers and most of them could not believe my story, even showing them lists with names and values to make my point. But when the law enforcement community saw these movements of money and the lines in storefronts in Jackson Heights, New York or Santa Ana, California, their immediate reaction was: this is money laundering, there is no way "these people" are sending all this money, no way.

This perception dominated for years the view of remittances. I had many meetings with US law enforcement (DEA, IRS, FBI), some voluntary, some "coerced" in some form or another, where I tried to explain the truth behind the large movements of funds, the remittances, but the agents would not even consider the possibility that migrants were making that money legally, 1st argument, and that they could send such a large proportion home, 2nd argument. It was unconceivable for them. When Money Orders sent by migrants were cashed in casas de cambio and those MOs had to come back to the states to be deposited in US banks, by the thousands, US customs were baffled and the "worker's remittances" explanations landed on deaf ears. Confiscations was their only response.

In one public meeting in Miami in 1993 discussing the state's new money transmitting license, a researched stated that 65% of Colombians in Florida were involved in the drug trade; after the shocking news, he was questioned on the sources of this data and he explained that it was a survey he had done in the prison system in the state. But the headline just said "*65% of Colombians in Florida are involved in the drug trade*" instead of "*65% of Colombian-born inmates are jailed on drug-related offenses in Florida*". But, as we are learning nowadays, the truth sometimes needs than 140 characters.

The law enforcement view of remittances dominated the 1990s with many successful sting operations performed on unsuspecting remittance service providers who were unaware of the intentions of law enforcement and ignorant about the existing laws and the rise of regulation. Raids and convictions of money transfer companies dominated the headlines obscuring the service most of the companies were performing to legal users of remittance services, especially to countries like Colombia the Dominican Republic and Mexico. Remittances were tainted by illegal funds, that was true and cannot be denied, but that has always been a very small part of the larger story.

Regulation, licensing and compliance programs grew from this early view of remittances.

First Shift: Remittance Data in the Headlines

Remittance Data began appearing in scholarly articles and publications of different organizations at the end of the 1980s and 1990s. Remittances from the US and from the oil rich countries in the middle east caught the eye of many development and migration researchers. Migration was growing exponentially and so were remittances. CEPAL[1] called for a Seminar in Remittances[2], probably the first meeting on the subject in Latin America, on June 6 & 7, 1991.

[1] CEPAL: The United Nations Economic Commission for Latin America and the Caribbean (ECLAC in English)

[2] Seminario Sobre Remesas Internacionales y Pobreza en Centroamérica, Mexico, Junio 6 y 7, 1991

The difficulty in estimating the actual volume of remittances was a major issue highlighted in all the articles published at the time. I was not aware of those publications and the remittance data until the work of the Interamerican Development Bank with FOMIN, started in 1993 headed by Don Terry and the Interamerican Dialogue work done in this area, headed by Manuel Orozco. The studies, the publications, the meetings, were part of the millennium change. Email and internet helped the spread of the data and the articles made the way to journalists and newspapers, who began publishing information on remittances. Central Banks were called to gather better data and the information flow improved. The world was soon realizing that the volumes were large and the impact of remittances, substantial.

Second Shift: Remittances, Development & Financial Inclusion – Enter Banks & Microfinance Institutions

Since most of the work on estimating and collecting data on remittances was done by migration & development researchers, they started influencing multilateral agencies and local governments on their views relating to the use of remittances for development, financial inclusion and the lowering of fees of the large multinational companies such as Western Union & MoneyGram. The answer to the remittances problem, they thought, was to distance the remittance sector from the "law enforcement" view and convince banks that they should become Remittance Service Providers (RSPs).

The idea was that banks could provide a cheaper and more compliant service – in terms of money laundering controls, and at the same time draw a large clientele that would open accounts and even savings accounts were remittances would be electronically deposited. The "need for formal channels" was part of the discourse. Grants were given to banks and microfinance institutions to develop remittance distribution networks, create software systems, develop financial inclusion strategies and train personnel.

I had become a consultant in 2001 and now my clients were also banks; but as I became more engaged I realized that this was a failing proposition. First, most banks, in both sides of a remittance corridor were used to catering to wealthier clients and were not comfortable with the new clients (the new clients were also not comfortable at all in bank offices). Second, most programs overestimated the revenues, the opening of accounts and the savings potential and third, most banks underestimated the cash handling expenses and the compliance & regulatory expenses they would have. Millions were spent on banks to take over the industry; the fact is that very few banks remain today, with more of them withdrawing from the industry in the last year or two. With Microfinance Institutions, the failing proposition was similar: cash handling was a major hurdle and attracting remittance families to small investments and other microfinance products was difficult since remittance use is mostly dictated by the sender, many miles from home.

The withdrawal of Banks form the sector was exacerbated by regulator's actions, I must admit, and this, in turn, contributed to the De-Risking practice: the bank discontinuance or closing of bank accounts of remittance service providers. The failure of the development programs involving remittances has also created a large drop of funds that multilateral agencies used to spend in remittance programs, and hence the closure of research and grant giving initiatives, which is a shame. We all learnt from the programs that failed and the few programs that were indeed successful could be replicated; but there are no funds for that now.

I have to mention that mobile financial services providers are still battling banks in many countries. They are trying to convince local governments that regulation should allow them to offer services, like remittances, to benefit larger sectors of society that banks have not been able too. In many countries in Africa & Asia MMOs have proven that they can drive financial inclusion and when partnerships with banks, postal services and money transfer operators are in place, the whole ecosystem, and society, benefits.

New Shift: Receiving Countries are becoming aware of the overall impact of remittances

The shift that I mentioned in the introduction has to do with the fact that remittance receiving societies such as India, Philippines, Mexico, Guatemala, El Salvador, Honduras, to name a few, are more and more vocal in defending their migrants and the effect of remittances in the socio-economic wellbeing, not only of the migrant remittance families, but of the overall society. In the case of Guatemala, the record setting volume of 7,159 million dollars for 2016[3], touches, in one way or another, every single business of the country. And the anxiety of a drop in remittances, fueled by the fear in President Trump's anti-migratory stances, is now a constant headline in every newspaper and media outlet in all the countries that depend on remittances from the US. In the interviews in Guatemala that I mentioned at the beginning I was very much impressed by the questions and the level of understanding of remittance issues by journalists.

Brexit is also becoming a larger concern, not only because of the UK's Prime Minister close ties with the Trump Administration, but because many money transfer institutions registered first in London with the Financial Conduct Authority and then passported their licenses to the other countries in the EU. What will Brexit and the evolving regulatory agenda in Europe mean for the international payments sector?[4]

Taxation and restrictions on remittances as well as migration controls and deportations, are now in all the headlines of newspapers in remittance receiving countries; these issues are now being discussed in Congressional Committees and Central Bank Presidents are interviewed constantly and their opinions discussed in news outlets. In that moment, a couple of weeks ago, I felt that the Guatemalan society was banding together to analyze what they can do in this worrying time.

Some last thoughts

Philippines is probably the country that has gone the farthest in the shift of its view on remittances and the result of that is the exemplary work the country has done with its Overseas Workers Welfare Administration (OWWA) in developing programs to care for its migrants. With skilled Filipino workers receiving higher salaries than other migrants and the Filipino Diaspora spread in the largest number of countries compared to other remittance recipient countries, OWWA has surely performed. The OWWA, as any other government program, is criticized by many in the country, but viewed in a global perspective, the work has been remarkable.

There is a "new" view of remittances in the US and UK that worries me, especially now that anti-migratory sentiments are being used by politicians to get votes from the right wing of their parties and statements such as "*Migrants are scooping out 26 billion a year from the US to Mexico*" or "*Remittances are essentially a non-sanctioned transfer of wealth that is based on a fundamental violation of America's immigration and employment laws*[5]" are spreading false concepts and we need to be vigilant. Is this the new shift in the view of remittances by the US and the UK? Is this the view that will spread remittances taxation and restriction policies?

Web: http://imtconferences.com/shifting-views-family-remittances

[3] Record setting volumes were also received by Honduras, El Salvador, Mexico and other countries
[4] The Association of UK Payment Institutions (AUKPI) Conference – February 23, 2017
[5]Remittances - a massive transfer of wealth out of America http://www.cairco.org/issues/remittances