

# GUATEMALA

## Research on Unbanked Remittance Recipients



World Council of Credit Unions', Inc. (WOCCU) International Remittance Network (IRnet) provides credit unions in the United States and developing countries with a vehicle to bank unbanked remittance senders and recipients. Credit unions in Bolivia, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico and Nicaragua distribute remittances through WOCCU's IRnet program. From August 2001 to May 2005, credit unions have distributed more than 1.6 million remittances in excess of US\$707.5 million.

WOCCU implemented an in-depth household survey of 502 member and non-member users of IRnet services at the five credit unions with the highest market share in Guatemala to learn about remittance recipients and examine the role credit unions play in remittance distribution. The five credit unions were: ACREDICOM, COOSADECO, ECOSABA, Parroquial Guadalupeana and Guayacan. The survey findings confirm that poor unbanked remittance recipients who receive their monies at credit unions do become members, deposit some savings and actively participate in the financial sector.

### The Importance of Remittances to the Guatemalan Economy

Remittances—monies sent by migrants to their families in their places of origin—were estimated at over US\$100 billion worldwide in 2004, US\$45 billion of which was sent to Latin America and the Caribbean. Guatemala alone received an estimated US\$2.7 billion in 2004.

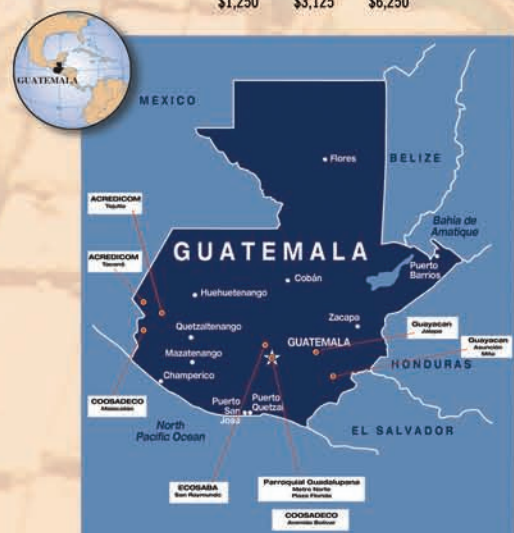
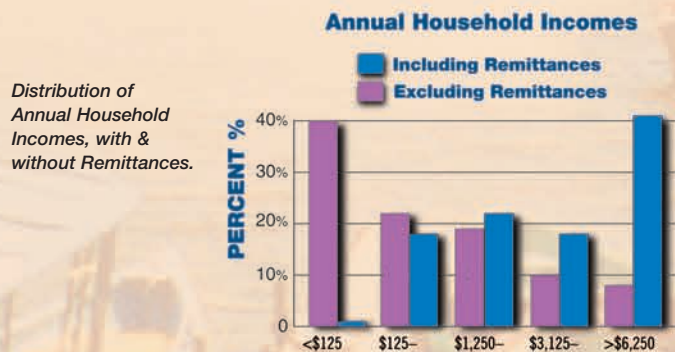
On average, recipient households in Guatemala received US\$4,940 in remittances through IRnet credit unions during the year preceding the survey. Average annual remittances per capita were US\$990 (the 2003 GDP per capita in Guatemala was US\$2,008). Seventy-five percent of recipients received a remittance at least once a month, most from one consistent sender. The average remittance was US\$320, and the median size of each was US\$200.

### Credit Unions Increase Access

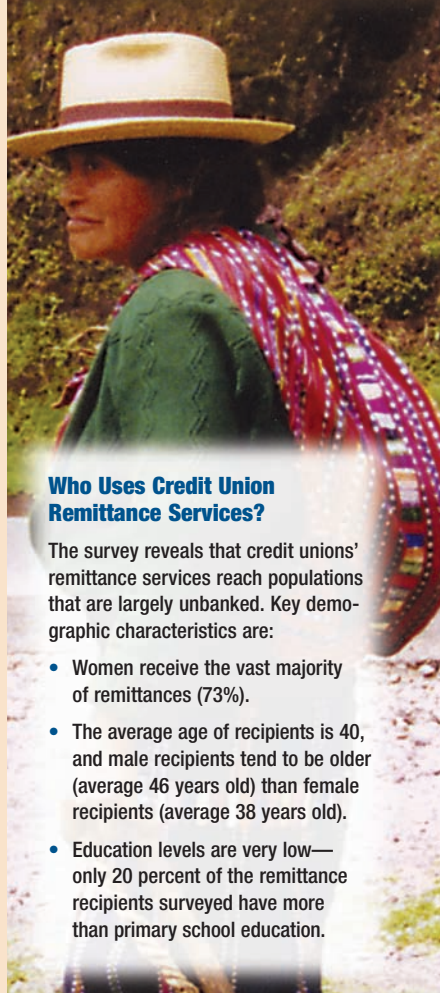
Credit unions in Guatemala provide high quality, accessible remittance distribution services. Since initiating the service in 2001, the credit unions affiliated with the Federación Nacional de Cooperativas de Ahorro y Crédito (FENACOAC) have enjoyed a steady growth in both number of transactions and volume of remittances distributed. By year-end 2004, the 25 credit unions had achieved a 6.7 percent share of the Guatemalan remittance market.

The occupations of the recipients vary across credit unions, largely reflecting the differences between urban and rural environments. Nearly half of the recipients form part of the economically inactive population—homemaker, students, retirees and unemployed. Homemaker is the most common occupation (44%). Other occupations include: self-employment (22%), agriculture (18%) and salaried employees or daily laborers (12%).

Most recipients come from poor households. Remittances are primary income sources for them. Without remittances, 40 percent of households have cash income of less than US\$125 per year. In other words, they have no other source of cash income beyond the remittances they receive. When remittances are included, 41 percent of households have annual incomes of US\$6,250.







### Who Uses Credit Union Remittance Services?

The survey reveals that credit unions' remittance services reach populations that are largely unbanked. Key demographic characteristics are:

- Women receive the vast majority of remittances (73%).
- The average age of recipients is 40, and male recipients tend to be older (average 46 years old) than female recipients (average 38 years old).
- Education levels are very low—only 20 percent of the remittance recipients surveyed have more than primary school education.

### How Do Recipients Use Their Remittances?

More than 90 percent of the recipients report using some remittance monies and most (56%) report their primary use of cash remittances for covering basic needs—food, clothing, transportation and housing. The second and third most common uses of remittances is to cover health and education expenses, while the distant second (10%) primary use of cash remittances is buying, building or remodeling a residential property. Forty-eight percent of respondents report keeping some cash at home; for 3 percent cash at home was the primary use.

### Recipient Savings & Borrowing Behavior

#### SAVINGS

Fifty-four percent of recipients surveyed save a portion of their cash remittances in financial institutions. Sixty-two percent of these savers identify credit unions as the institutions in which they deposit most of their saved remittances. There is greater potential of the respondents who

did not deposit any part of their remittances in a financial institution, 65 percent express a willingness to deposit, on average, 22 percent of the monies received into an account.

A comparison of total savings between member and non-member remittance recipients offers evidence of the important role credit unions play in mobilizing savings. Controlling for wealth levels, average total savings for the member recipients are significantly higher than for non-member recipients from poor households. Member recipients from households with total wealth levels below US\$15,625 saved on average four times more than non-member recipients from households of the same wealth levels (US\$6,385 versus US\$1,565 per year).

#### CREDIT

Thirty percent of recipients' households had either received or were paying off a cash loan during the year preceding the survey. For 12 percent of these households, the primary source of credit was informal moneylenders. Only five percent of recipient households had received or were paying off a household loan from a credit union. This percentage rose to 12 percent among member recipient households.

#### The Urban/Rural Difference

The survey revealed critical differences between rural and urban credit unions. Credit unions in rural areas have been more successful in recruiting members and mobilizing savings from remittance recipients than their urban counterparts. The percentage of recipients who report credit


unions as their primary financial institution for depositing part of their remittance is significantly higher at the rural credit unions than urban credit unions. Also, the rural credit unions have captured the largest share of total household savings.

### Leveraging Remittances to Bank the Unbanked

Less than half of non-member remittance recipients have an account at a financial institution. Through the provision of remittance services, credit unions can bank the unbanked recipients by offering them financial services beyond remittances as they come in to collect their monies.

Almost three quarters of credit union member recipients have been members of their credit unions for less than three years (remittance distribution began in 2001). Forty percent of members name remittance services as their primary reason for having joined the credit union. The second most common reason members cite for joining is savings services (27%).

Guided by the Guatemala survey findings, WOCCU will continue to work with credit unions to develop their remittance distribution capabilities and assist them to bring more unbanked remittance recipients into the financial sector by designing, marketing and cross-selling remittance-linked savings and loan products.


The study was funded by the U.S. Agency for International Development's Office of Micro-enterprise Development. 

—by Anna Cora Evans

Senior Manager Development Finance, WOCCU  
& Janette Klaehn, Technical Officer, WOCCU





A woman wearing a white headscarf and a white apron over a light-colored shirt is focused on her work in a bakery. She is looking down at something in her hands. In the background, there are shelves with various bakery items, including a tray of small round loaves and some larger rolls. The setting appears to be a home bakery.

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the credit union to reach out even further to the underserved members of the outlying communities.

### Challenges and Successes

Credit union development in Uzbekistan is still difficult, but driven at the same time. Factors that are attributing to credit union growth include the weak development of the banking sector and the fact that consumer lending is still under-developed.

While growth within the system has been remarkable—more than 147 percent—most of it has come within the last year. Credit unions are becoming a more visible part of the financial landscape and are building consumer confidence in the process. Although the project has enjoyed great success, the project's director is acutely aware of the ongoing challenges that the project continues to face.

One of the most significant is the continuing devaluation of the country's currency. Uzbekistan's largest bill denomination is currently worth US\$.96, and these bills are in short supply; the most commonly available denomination is a bill worth US\$.19 and US\$.48. Consequently, Uzbekistan consumers are forced to carry large bags of cash to make even routine purchases.

Mizis puts the situation into perspective. "When a member recently purchased a car for US\$9,000 it took the seller over six hours to count the sacks of money that the member had brought with him as payment."

Cash management issues are also a concern. The government limits the amount of cash that a credit union can keep on site overnight, which forces credit unions to plan daily for cash flow.


An additional challenge is the future growth of credit union membership. Most of the growth will come with the expansion of the credit unions services to include large employee bases, such as the Uzbekistan state-owned railroad company. Potential members in this group include 10,000 employees. World Council looks forward to helping organizations like this provide credit union services to their employees.

Individuals who are active in development efforts don't always have a clear and easy road to travel. Other development organizations in Uzbekistan have gone through unexpected inspections by the Ministry of Justice and some have even been taken to court. Such proceedings can happen with great speed and may have harsh implications.

"We recognize the challenges of doing business in Uzbekistan, but we also understand how important it is for us to remain here," said Mizis. "The difference that just one credit union can make in the lives of its Uzbek members is immeasurable and we're committed to growth."

Toward that end, WOCCU-Uzbekistan is working to comply with all Ministry of Justice and Central Bank requests and to closely follow the bilateral agreement between the United States and Uzbekistan.

By the end of 2005, WOCCU-Uzbekistan will have met the goals of the project. This is far ahead of the completion date of May 2006, set by the donor organization, the United States Agency for International Development. Because of the project's success World Council has been awarded a contract extension through September of 2007. The purpose of the extension is to support the development of a Savings and Credit Union Development Organization (SCUDO) and its two core competencies: model credit union building and deposit insurance.

Mizis shared, "We are proud of the success we have had and the credit union leaders we have trained and inspired. Most of all, we are proud of the women's groups who helped begin this movement and the stories of their success. When we first began this program it was the women's groups who fought for their freedoms and today still do so as they try to solve their own financial problems through the assistance of cooperatives." 

—by Kimberly Johnston  
Marketing & Communications Manager, WOCCU

*(Pictured in background) Umid Credit Union member's home bakery.*