

**PROGRAM FOR THE APPLICATION OF THE GENERAL
PRINCIPLES FOR INTERNATIONAL REMITTANCE SERVICES
IN LATIN AMERICAN AND THE CARIBBEAN**



GUATEMALA

APRIL 2010

**PROGRAM FOR THE APPLICATION OF THE
GENERAL PRINCIPLES FOR INTERNATIONAL
REMITTANCE SERVICES TO THE LATIN AMERICAN
AND CARIBBEAN REMITTANCE MARKETS**

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GUATEMALA

CENTER FOR LATIN AMERICAN MONETARY STUDIES
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Forward

The World Bank-CPSS General Principles for International Remittance Services (General Principles) is the recommended reference guide for countries receiving remittances. The application of the General Principles contributes to increasing the efficiency of money transfers to families of migrants who live and work outside their countries of origin. The General Principles cover essential aspects of payment systems to guarantee the security and efficiency of services associated with remittance transfers. The General Principles were published in 2007 and since then have been endorsed by the Financial Stability Forum, the G8, and other international organizations.

Under this context, a program was started in 2007, co-financed by the Center for Latin American Monetary Studies (CEMLA) and the Multilateral Investment Fund of the Inter-American Development Bank (FOMIN-BID), with technical assistance from the World Bank, to assist Latin American and Caribbean Central Banks, and other relevant institutions, implement the General Principles. This will contribute to reducing remittance transfer costs and bring about more transparent, efficient, accessible, competitive and consolidated remittance markets. The program will also benefit remittance receivers by encouraging their participation in formal payment systems and by facilitating access to more secure services.

In order to achieve these objectives, the program sends out missions to evaluate the remittance market situation in various countries. These missions discuss action plans with the local authorities in each country with the aim of reducing remittance transfer costs and improving the overall efficiency of remittance services. Public reports, such as this document, on the principal characteristics of remittance markets and services, are then drawn up. The ultimate objective of these reports is to increase transparency and knowledge about each country's market, to the benefit of the corresponding authorities, the agents involved in the market and, more importantly, the receivers of remittances.

This report on Guatemala's remittance market is the first in the series of public reports and was prepared in collaboration with Banco de Guatemala. It is based on information gathered in 2008.

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The General Principles for the Provision of International Remittance Services and their Related Roles

The General Principles are aimed at the public policy objectives of achieving safe and efficient international remittance services. To this end, the markets providing these services should be contestable, transparent, accessible and sound.

Transparency and Consumer Protection

General Principle 1: The market for remittance services should be transparent and have adequate consumer protection.

Payment System Infrastructure

General Principle 2: Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

Legal and Regulatory Environment

General Principle 3: Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

Market Structure and Competition

General Principle 4: Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry.

Governance and Risk Management

General Principle 5: Remittance services should be supported by appropriate governance and risk management practices.

Roles of Remittance Service Providers and Public Authorities

A. Remittance service providers should participate actively in the implementation of the General Principles.

B. Public authorities should evaluate what actions to take to achieve the public policy objectives through implementation of the General Principles.

Source: World Bank-CPSS. <http://www.bis.org/pub/cpss76es.pdf>

1 REMITTANCES IN GUATEMALA: WHAT, WHERE, HOW MUCH, WHO, WHAT FOR, WHEN, HOW

1.1 WHAT IS HAPPENING IN THE GUATEMALAN ECONOMY?

The Guatemalan economy is the largest in Central America and accounts for a third of this region's GDP. The current estimated population of Guatemala is 13 million of which half is rural - with a growth rate of 2.5%. Guatemala is a relatively young country, having about 49% of its population under 18 years of age. Over 40% of the total population is indigenous and is comprised of a large number of ethnic groups who speak distinct languages.

The country has solid macroeconomic fundamentals based on: continued economic growth, reduced inflation and monetary stability; a moderate, stable, current account deficit; a low level of public debt as compared with the rest of Latin America; a fiscal deficit of less than 2% of GDP over the last few years; and a high level of international reserves.

Nevertheless, poverty and inequality levels remain elevated and social indicators are low in relation to the country's average income. Approximately 50% of the population lives under the poverty line and 16% live in extreme poverty.¹ In 2007 an estimated 1.5 million Guatemalans were living in the United States of America (US), equivalent to 11% of the total population, of which approximately 85% send remittances on a regular basis to their families in Guatemala.²

1.1.1 Macroeconomic Environment

1.1.1.1 Real Sector

The Guatemalan economy is dominated by the private sector, which generates around 85% of GDP. Agriculture accounts for about 23% of GDP and 75% of exports. The majority of industrial output comes from In-Bond (Maquiladora) companies and food processing for the domestic market, the US and the rest of Central America.

Traditional exports such as sugar, bananas and coffee still represent the majority of exports but tourism, textile exports, clothing and non-traditional products, such as flowers and ornamental plants or fresh vegetables, have boomed over the last few years.

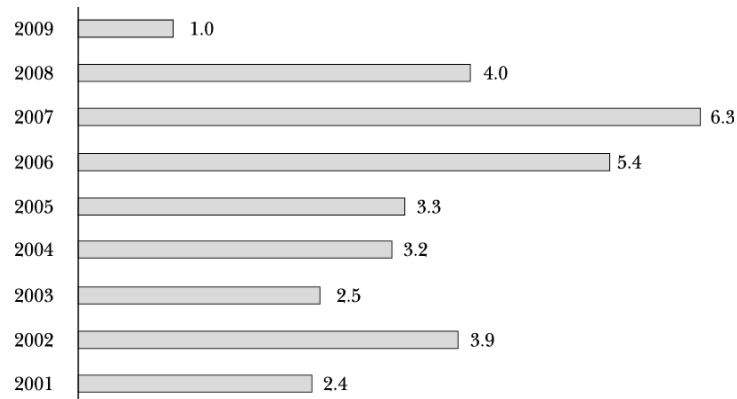
Economic growth has accelerated in recent years (see graph 1 and table 2) and real GDP growth reached 6.3% in 2007, due principally to favorable growth in private consumption fuelled by increased remittances. Recently, the worldwide economic crisis has had a negative impact on Guatemala and GDP is projected to grow by just 1% in 2009.

As can be seen in graph 2, inflation decreased between 2004 and 2006 and stayed within Banco de Guatemala's target in 2006. From 2006 onwards, inflation increased as a consequence of external supply shocks, principally increases in fuel costs (petroleum) and basic grains (corn prices), and led authorities to adopt a more restrictive monetary policy.

¹ Census Bureau (INE) 2000. Household Survey. Poverty levels are higher among indigenous groups, reaching 76%.

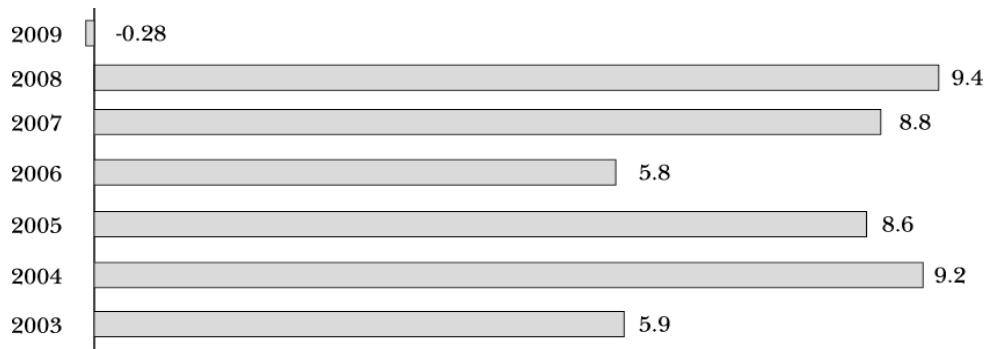
² OIM (2007).

Graph 1. Guatemala: Economic Growth
(2001-2009)



Source: Banco de Guatemala. Numbers for 2008 are preliminary and projected for 2009.

Graph 2. Inflation
(2003-2009)



Source: Banco de Guatemala.

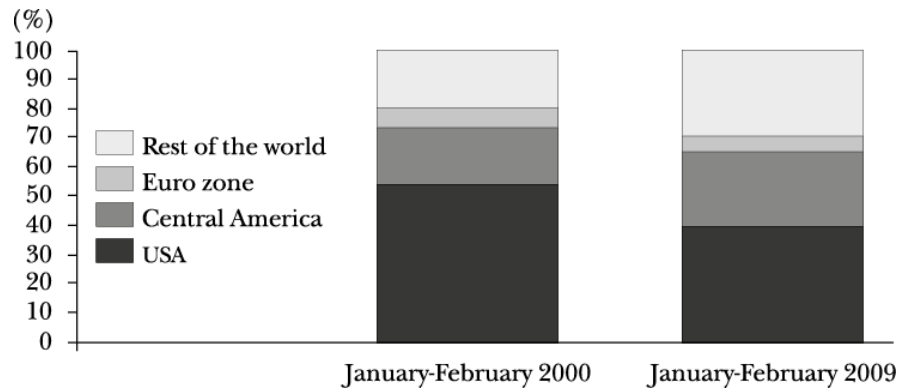
1.1.1.2 External Sector

With regard to the external sector, Guatemala's principal commercial partner is the US, although export destinations have diversified over the last few years (see figure 3).

Guatemala has a flexible exchange rate regime and the nominal exchange rate is determined by the interaction of supply and demand of currencies in the market. However, Banco de Guatemala (Banco de Guatemala) can discretionally intervene in the currency market during periods of unusually high volatility of the nominal exchange rate. The nominal exchange rate recorded year-on-year depreciations of 2% in 2008 and 7% in 2009.

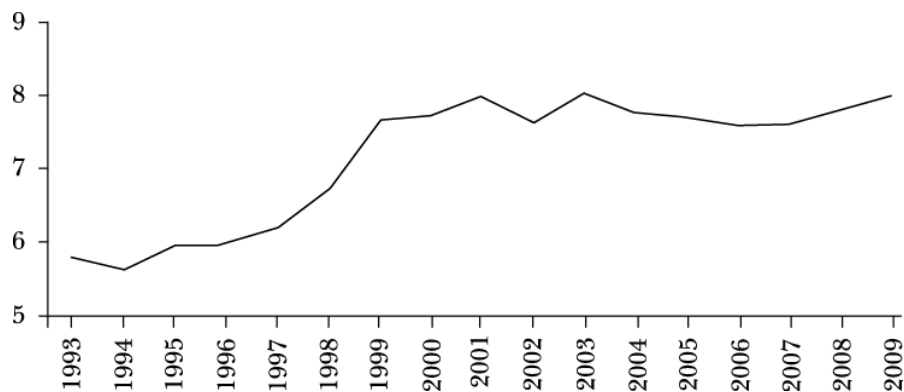
The current account deficit remained stable during the period 2006-2008, while external debt as a percentage of GDP decreased. As a result of relatively favorable external conditions and macroeconomic stability in Guatemala, capital inflows amply financed the current account deficit, which in turn allowed Banco de Guatemala to continue to accumulate international reserves. The current reserve levels cover approximately 100% of the total external public debt and at least 4 months of imports.

Graph 3. Export Destination
(2000-2009)



Source: Banco de Guatemala.

Graph 4. Exchange Rate
(1993-2009, Quetzales per USD)



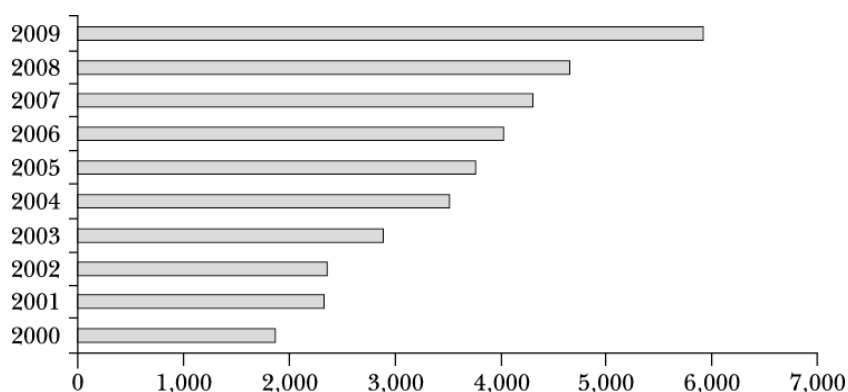
Source: Banco de Guatemala.

In 2009, the principal sources of financing of the Guatemalan economy (exports, tourism, and remittances) fell due to the international economic and financial crisis, although imports contracted even more. As a result, 2009's current account deficit is estimated at 1.6% of GDP, significantly lower than the 4.8% recorded in 2008. A decline in the demand for credit also resulted in lower debt levels (see table 2).

1.1.2 Macroeconomic Environment: Labor Market

Concentration of the economically active population (EAP) in agriculture, high levels of employment in the informal sector, underemployment, high official unemployment and low real wages characterize Guatemala's labor market.

Graph 5. Net International Reserves
(2000-2009, millions of USD)



Source: Banco de Guatemala.

Table 1. Guatemala: Main Economic Indicators
(2001-2009)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|------|------|------|------|-------|-------|-------|-------|-------|
| Real GDP, growth rate (%) | 2.4 | 3.9 | 2.5 | 3.2 | 3.3 | 5.4 | 6.3 | 4.0 | 0.6 |
| Inflation (%) | 8.9 | 6.3 | 5.9 | 9.2 | 8.6 | 5.8 | 8.8 | 9.4 | -0.3 |
| Exchange Rate, year end | 7.9 | 7.6 | 8.0 | 7.8 | 7.7 | 7.6 | 7.6 | 7.8 | 8.4 |
| Current Account Deficit (%GDP) | 6.7 | 5.9 | 4.7 | 5.0 | 5.2 | 5.3 | 5.1 | 4.8 | 1.0 |
| Fiscal Deficit | 2.1 | 1.1 | 2.6 | 1.1 | 1.7 | 1.9 | 1.8 | ND | 3.3 |
| Total Public Debt (%GDP) | 18.8 | 17.3 | 21.7 | 19.5 | 18.0 | 18.8 | 18.4 | 22.0 | 32.7 |
| Direct Foreign Investment (in millions of USD) | NA | NA | NA | NA | 508.2 | 591.6 | 745.1 | 753.8 | 559.3 |
| International Reserves (months of imports) | 5.0 | 4.5 | 5.2 | 5.4 | 5.2 | 4.1 | 3.8 | 3.6 | 3.5 |

Source: Proprietary with data from Banco de Guatemala.

The Guatemalan labor market, much like that of Central America in general, has structural limitations in the generation of employment. This is due principally to a low level of diversification and a high concentration in agriculture. The agricultural sector is very vulnerable, with high seasonality and low income generation. In 2007, 48% of those employed were working in rural areas.³

Guatemala has an EAP of 4.2 million, of which only 22.5% are formally employed.⁴ 7.5% of the EAP are unemployed and an estimated 73% work in the informal sector. As the majority of jobs

³ OIT (2008)

⁴ INE data for 2004.

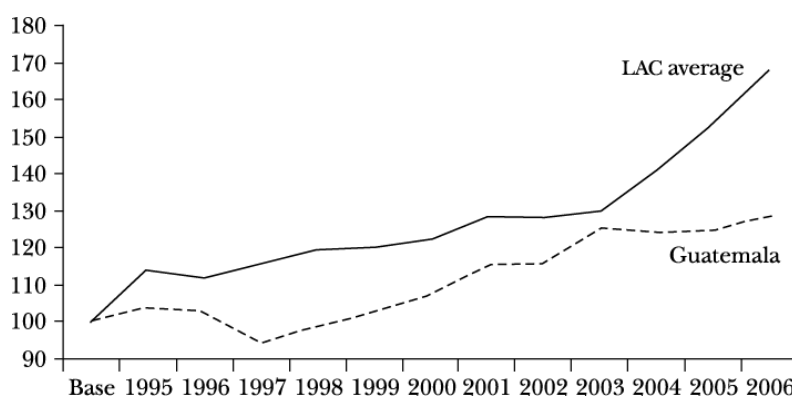
are in the informal sector, underemployment tends to be high. Of the 4.2 million people who make up the EAP, almost 2.5 million are underemployed, which represents 1.5 times the people formally employed and 59% of the EAP.⁵

Table 2. Guatemala: Labor Market

| | <i>Total</i> | <i>Urban</i> | <i>Rural</i> |
|---------------|--------------|--------------|--------------|
| Total | 4,207,946 | 1,828,776 | 2,379,170 |
| Employed | 1,630,932 | 811,550 | 819,382 |
| Underemployed | 2,497,240 | 965,224 | 1,532,016 |
| Unemployed | 79,774 | 52,002 | 27,772 |

Source: National Survey of Household Income and Expenditures (*Encuesta Nacional de Ingresos y Gastos Familiares, ENIGFAM*, March 1998 – April 1999).

Graph 6. Guatemala: Real Minimum Wage
(1994-2006, in USD)



Source: ILO. LAC average: the weighted average of Latin America and the Caribbean, excluding Haiti, Jamaica and Trinidad and Tobago.

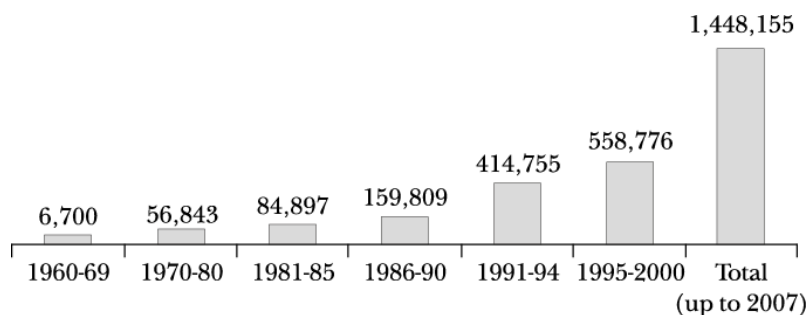
1.2 WHERE? GUATEMALAN MIGRATION PATTERNS AND DESTINATIONS

The characteristics of the Guatemalan labor market, along with past armed conflicts led to strong patterns of labor migration to more developed countries.

The 36 year long civil war that destroyed the country and ended in 1996, was one of the primary factors that caused a wave of migration of Guatemalan human resources to other countries. The number of migrants that left the country progressively increased after the earthquake of 1976, and then during the 1980s and 1990s.

⁵ Based on the National Survey of Income and Family Expenditures (ENIGFAM), National Statistics Institute (INE).

Graph 7. Guatemalan Migration
(1960-2007)



Source: IOM Guatemala

Starting from 1998, there was a major increase in migration to the US as a result of the economic effects of Hurricane Mitch on economic activity, and in particular on the agriculture sector. Nonetheless, migration levels reduced dramatically in 2001 as a result of the events of 9/11, and then subsequently increased again.

An estimated 97% of Guatemalan migrants live in the US, followed by Canada and Mexico, with 0.5% each. In the US, the cities with the highest concentration of Guatemalans are Los Angeles, New York and Miami, although there are significant numbers in Washington, D.C., Houston, Boston and Chicago. In the aggregate, these cities account for three quarters of Guatemalan migrants.

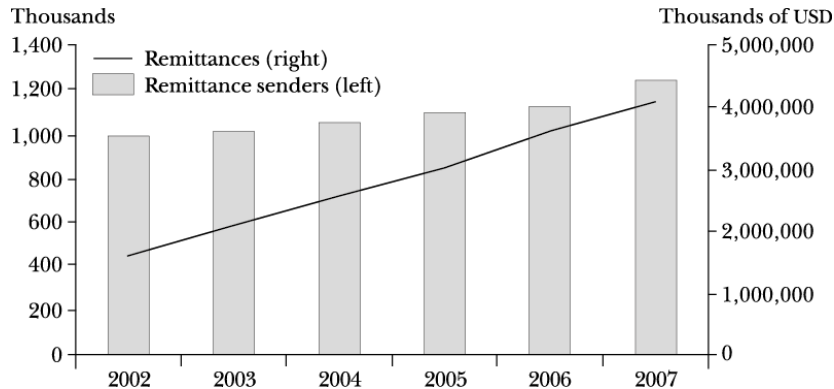
Table 3. Distribution of Guatemalans in the US by State
(2008, in thousands of people)

| State | Number of People in Thousands | State | Number of People in Thousands |
|-----------------------|-------------------------------|--------------------|-------------------------------|
| California | 463 | Colorado | 17 |
| New York | 148 | Arizona | 11 |
| Florida | 112 | Alabama | 9 |
| Texas | 92 | Oklahoma | 8 |
| District of Columbia | 59 | Ohio | 8 |
| Virginia | 49 | Pennsylvania | 8 |
| Georgia | 43 | Connecticut | 8 |
| Massachusetts | 37 | Kansas | 6 |
| Illinois | 31 | Michigan | 6 |
| Maryland and Delaware | 31 | Oregon | 4 |
| New Jersey | 27 | Nebraska | 4 |
| North Carolina | 24 | Indiana | 3 |
| Tennessee | 20 | Mississippi | 3 |
| Rhode Island | 19 | Rest | 7 |
| Nevada | 18 | | |
| Total | | 1.3 million people | |

Source: IOM (2008), *Remittance Survey 2008 and Environment (Migration Workbook, No. 26, September)*.

Approximately 1.3 million Guatemalans⁶ resided in the US in 2008, equivalent to 11% of the total Guatemalan population. Almost 85% of them send remittances regularly to their families in Guatemala.

Graph 8. Remittance Senders Compared to Remittance Volume 2002-2007



Source: Banco de Guatemala., INE Census 2002 and 2003-2007 IOM projections (2007).

The distribution of Guatemalans outside the country by their Department of origin is: Guatemala (20.6%), San Marcos (9.7%), Huehuetenango (9.7%), Quetzaltenango (6.3%), Jutiapa (5.0%), Alta Verapaz (4.9%), Chiquimula (4.1%) and Escuintla (3.9%).

1.3 HOW MUCH?

1.3.1 Evolution of Remittance Volume 2000-2008

In 2008, two out of every ten US dollars of remittances transferred worldwide went to Latin America and the Caribbean for a total of USD 69.2 billion. Of this amount, 18% went to Central America and Guatemala received 4.3 billion USD, which represented a 5% annual increase and made Guatemala the fourth largest recipient of remittances in Latin America and the Caribbean after Mexico, Brazil and Columbia (see graph 10). Nonetheless, in 2009, as a consequence of the world economic and financial crisis, income from remittances fell by 9% (see graph 11).

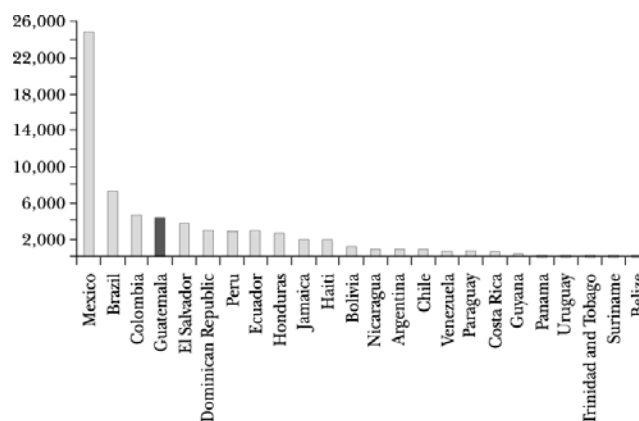
1.3.2 Importance of Remittances in Guatemala

Remittance inflows during 2008 were equivalent to 11% of GDP and 80% of exports, making remittances the most important source of hard currency for Guatemala. Remittances are more important than tourism, coffee exports and traditional agricultural products, and are equivalent to six times foreign direct investment.

Even though Guatemala was the principal destination of remittances in Central America in 2008, it came in fourth in relation to GDP, behind Honduras, El Salvador and Nicaragua.

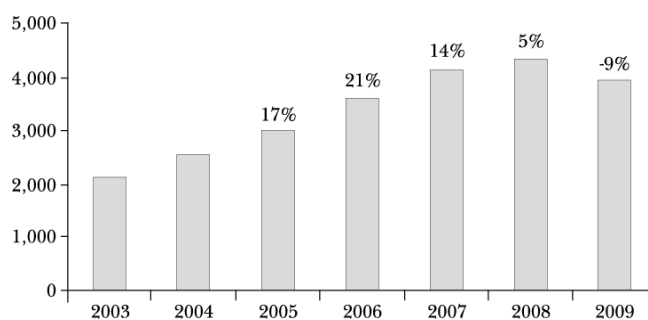
⁶ IOM (2008)

Graph 9. Remittances in Latin America
(2008, in millions of USD)



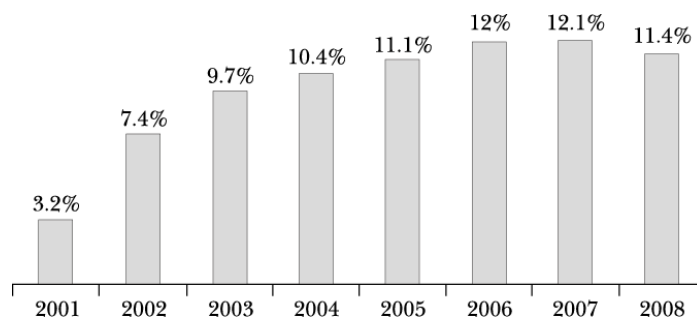
Source: FOMIN/IADB 2009.

Graph 10. Remittance Volume to Guatemala
(2003-2009, million of USD and annual growth rate)

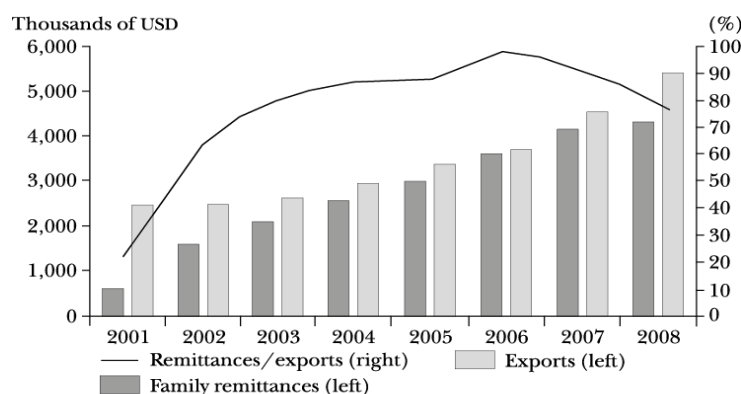


Source: Banco de Guatemala.

Graph 11. Remittances as a % of GDP
(2001-2008)



Source: Banco de Guatemala.

Graph 12. Remittance Volume in Relation to Exports, 2001-2008

Source: Banco de Guatemala.

Table 4. Importance of Remittances in Central America
(2008, in millions of USD)

| Country | Remittances | GDP | % GDP |
|-------------|-------------|---------|-------|
| Guatemala | 4,315 | 37,867 | 11% |
| El Salvador | 3,788 | 22,115 | 17% |
| Honduras | 2,701 | 14,077 | 19% |
| Nicaragua | 1,000 | 6,592 | 15% |
| Costa Rica | 624 | 29,834 | 2% |
| Panama | 325 | 23,088 | 1% |
| Total | 12,753 | 133,573 | 10% |

Source: FOMIN/World Bank

1.4 WHO?

1.4.1 Profile of Remittance Receivers in Guatemala in 2008⁷

An estimated 30.4% of the Guatemalan population received remittances in 2008, of which, 44% went to urban areas and 56% to rural areas.

- Remittance reception by gender: 55% of remittance beneficiaries are women.
- Remittance reception by age: remittance beneficiaries are relatively young: 62% are less than 30 years and 10% are senior citizens (60+ years)
- Remittance reception by family relationship: 47% of remittances go to children of the sender, 32% to spouses, 10% to siblings, 5% to parents and the rest, 6%, to other relatives (e.g. grandchildren, in-laws etc.); less than 1% goes to non relatives.
- Remittance reception by education level:
 - 51% have some elementary education (16% have completed elementary school and 35% have not)
 - 16% have some secondary school education (7.4% have completed secondary school and 8.4% have not)

⁷ IOM (2008), Remittance survey 2008 and environment (*Migration workbooks, no. 26, September*).

- 6.4% have some high school or professional training (1.6% completed and 4.8% incomplete)
 - 3% have some university education (1% have completed university and 2% have not)
 - 2% have no education and 12% did not provide information.
- Remittance reception by occupation: 25% are in the commercial sector, 24% in agriculture, 14% in industry, 10% in services, 7% in education, 5% in construction, 5% in transportation, 4% in financial services and the remainder, 7%, in other occupations.

1.4.2 Geographic Distribution of Remittance Beneficiaries

All regions of the Republic of Guatemala receive remittances. Nevertheless, two regions, Guatemala City Metropolitan area and the Southeast Region, account for about half of all income from remittances. By Department, 21% of remittance beneficiaries reside in the Guatemala Department, which has the highest population, while a quarter of remittance beneficiaries are found in three other Departments: 9% in Huehuetenango, 10% in San Marcos and 7% in Quetzaltenango.

1.5 WHAT FOR? REMITTANCE USE

Remittances represent an important source of household income for Guatemalan beneficiaries and are largely used by them to finance daily consumption. According to IOM data for 2008, 48% of remittances were used for consumption, 15% for the purchase of inputs for economic activities, 25% for investment and savings, and 12% for social investments, principally health and education.

Table 5: % Remittance Beneficiaries by Region
(2007)

| <i>Geographic Area</i> | <i>Beneficiary Population (%)</i> | <i>Geographic Area</i> | <i>Beneficiary Population (%)</i> |
|--------------------------|-----------------------------------|------------------------|-----------------------------------|
| <i>Metropolitan Area</i> | 21 | <i>Southeast</i> | 9 |
| Guatemala | 21 | Jalapa | 3 |
| <i>Southwest Region</i> | 26 | Jutiapa | 4 |
| Sololá | 2 | Santa Rosa | 2 |
| Totonicapán | 2 | <i>Central</i> | 8 |
| Quetzaltenango | 7 | Chimaltenango | 2 |
| Suchitepequez | 4 | Sacatepéquez | 2 |
| Retalhuleu | 3 | Escuintla | 4 |
| San Marcos | 10 | <i>North</i> | 8 |
| <i>Northwest</i> | 13 | Alta Verapaz | 5 |
| Huehuetenango | 9 | Baja Verapaz | 3 |
| El Quiché | 4 | <i>Petén</i> | 4 |
| <i>Northeast</i> | 12 | | |
| El Izabal | 4 | | |
| Progreso | 2 | | |
| Zacapa | 2 | | |
| Chiquimula | 3 | | |

Source: Proprietary with data from IOM (2008).

1.6 WHEN? REMITTANCE TRANSFER FREQUENCY

Two thirds of Guatemalan remittance beneficiary households receive money monthly, 9% every two months, 7% quarterly, 6% every six months, 5% every four months, and the rest, 11%, with other frequencies.

1.7 HOW? REMITTANCE TRANSFER METHODS

Over the last few years there has been an important change in the instruments used for sending remittances to Guatemala. In 2002, 60% of remittances were sent by postal order and 32% by electronic transfer, while in 2007, 93% of remittances were sent via electronic transfer, of which 10% were bank transfers and 5% payment orders. Furthermore, in 2007, 1% of remittances were sent via travelers and another 1% through other methods.

While a small percentage of remittances have been made via bank account deposits, this percentage has stayed relatively stable during the last six years and has only increased by 0.4% from 2002 (9.7%) to 2007 (10.1%). This is partly due to the lack of access to the financial system of Guatemalan migrants at the point of remittance origin. 70% of Guatemalan migrants do not have a bank account, while in Guatemala the proportion of population per bank account is less than two.⁸

⁸ Bank Superintendency

2 UNDER WHICH RULES?

General Principle 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.

2.1 REGULATORY ENVIRONMENT AND THE REMITTANCE MARKET

The mission found no law or regulation that specifically referred to remittances, remittance service providers (RSPs) or the remittance market in general in Guatemala. Although the majority of remittances go through authorized financial institutions, mainly commercial banks, these institutions act as payment agents for international money transfer operators (MTOs). There is no registration or licensing regime which applies to entities providing remittance services.

The main RSPs in Guatemala which are not supervised by the Bank Superintendency are cooperative savings and loans, microfinance institutions and money transfer operators. With respect to money transfer operators, their only regulatory requirements are to be registered in the Business Registry and with the Tributary Administration Superintendency (*Superintendencia de Administración Tributaria*, SAT). Nevertheless, among their obligations, these companies are subject to the Law Against Money and Other Asset Laundering (Decree 67-2001) and must provide reports to the Special Verification Unit (*Intendencia de Verificación Especial*, IVE) of the Bank Superintendency. The cooperative savings and loans, federations and confederations are subject to State control through the Cooperative General Inspector (*Inspección General de Cooperativas*, INGECOP).

However, some laws and regulations apply indirectly to remittance services. To a large extent, these laws and regulations are those that regulate the activities of financial institutions, including the Organic Law of Banco de Guatemala, Monetary Law, the Financial Supervision Law and the Law of Banks and Financial Groups. The anti-money laundering legislation also applies to remittance services (Law Against Money and Other Asset Laundering), as well as that aimed at the fight against terrorism financing.

The Law of Free Negotiation of Foreign Currencies and the Law of Banks and Financial Groups led to, among other results, an increased interest on the part of national commercial banks in the money transfer and remittance market. Article 1 of The Law of Free Negotiation of Foreign Currencies (Decree 94-2000) provides for the: “free provision, possession, contracting, remittance, transfer, buying, selling, charging and payment by and with foreign currency”. The Law also explicitly permits financial institutions to have and administrate foreign currency deposits and accounts, as well as to denominate any type of financial intermediation in foreign currency. Article 41 of the Bank Law includes a list of all operations permitted to banks in Guatemala. On this list, parts a), b) and c) refer to money collection activities, payments, money transfers and management of credit and debit cards.

According to the third paragraph of Article 133 of the Political Constitution of the Republic of Guatemala and Article 1 of Decree 18-2002 (Financial Supervision Law), all financial entities supervised by the Bank Superintendency must comply with the legal requirements which guarantee the integrity of their internal procedures, and they must submit periodic reports to the supervisor. The Bank Superintendency does not supervise non-financial institutions.

Table 6. Legal Framework for Remittances and Remittance Service Providers

| <i>Law</i> | |
|---|----------------|
| Law of Free Negotiation of Foreign Currencies | Decree 94-2000 |
| Organic Law of the Bank of Guatemala | Decree 16-2002 |
| Monetary Law | Decree 17-2002 |
| Financial Supervision Law | Decree 18-2002 |
| Law of Banks and Financial Groups | Decree 19-2002 |
| Consumer Protection Law | Decree 06-2003 |
| Law Against Money or Other Assets Laundering | Decree 67-2001 |
| Cooperatives Law | Decree 82-1978 |

Source: Proprietary with information from Banco de Guatemala.

The current anti-money laundering and financing of terrorism legal framework does not include any specific references to the remittance market. A series of Articles in the anti-money laundering law indicate that institutions must comply with this law (Article 18), fundamentally with respect to the application of internal controls to identify and inform the appropriate authorities of suspicious transactions.

2.2 PAYMENTS SYSTEM REGULATORY FRAMEWORK

Although the 2002 Organic Law of Banco de Guatemala is not specific about the role of the Central Bank in the payment system, it does establish its regulatory and supervisory roles. In this respect, the Law does contain a general declaration stating that the Central Bank should endeavor to assure the smooth functioning of the payment system (Article 4, Subsection c). The Law also empowers the Monetary Board to regulate the Bank Clearing House or any other similar instrument or mechanism (Article 26, Subsection d).

The first milestone for the present payments system regulatory framework was the approval of Bank Clearing House Regulations by the Monetary Board in Resolution JM-51-2003 in 2003, which, among other aspects, provides for speedy and secure procedures through an electronic clearing house. The Resolution of the Monetary Board, JM-166-2005, contains the Regulations for the Real Time Gross Settlement System. Additionally, in August 2007, the Monetary Board approved the Regulations for the Automated Clearing House (ACH) –Resolution JM-140-2007.

Table 7. Payments System Regulatory Framework in Guatemala

| Resolution | |
|-------------|---|
| JM-51-2003 | Bank Clearing House Regulations |
| JM-166-2005 | Regulations for the Real Time Gross Settlement System |
| JM-140-2007 | Automated Clearing House Regulations (ACH) |
| JM-189-2007 | Modification of Bank Clearing House Regulations |

Source: Proprietary with information from the Banco de Guatemala.

In December 2008, Guatemala signed the Payment Systems and Securities Settlement Treaty of Central America and the Dominican Republic, which was ratified by Congress and the President of the Republic of Guatemala. The Treaty lays out the fundamental provisions for a properly functioning and modern payments system, and gives Central Banks supervisory powers over payments systems in the aggregate. Moreover, the Treaty contains general provisions for a whole set of key topics, including legal protection of recognized payments systems (Article 3), the irrevocability and strength of money and securities transfer orders (Articles 4 and 5), the applicable regime of guarantees inherent in recognized payments systems (Article 7), and explicit provisions and definitions about the supervisory function of the system. It also contains an Article detailing the creation and application of a regional payments system (Article 13).

2.3 CONSUMER PROTECTION, TRANSPARENCY, COMPETITIVENESS, GOOD GOVERNANCE AND RISK MANAGEMENT REGULATORY FRAMEWORKS

Guatemala's Constitution sets out the State's fundamental obligation to defend consumer rights in Article 119, Subsection i:

Article 119: Obligations of the State. The State's fundamental obligations are:

The defence of consumers and users in terms of the preservation of the quality of domestic and exported consumer products in order to guarantee the health, security and legitimate economic rights of consumers;

The Consumer Protection Law, Decree 006-2003, states, as its general objective, that consumer rights should be promoted, divulged and defended. The Law also establishes infractions, sanctions and applicable consumer protection procedures.

Table 8. Specific Consumer Protection Legislation

| | |
|---------------------------------|--|
| Law Decree N° 006-2003 | User and Consumer Protection Law (March 11, 2003). |
| Governing Agreement N° 777-2003 | User and Consumer Protection Law Regulation (December 10, 2003). |

Source: Proprietary with information from the Banco de Guatemala.

There is no consumer protection regulation that applies to the financial sector, and there is no specific protection for remittance service users under the Guatemalan Consumer Protection Law.

The Law of Banks and Financial Groups and the Regulations of the Bank Superintendency, obligate banks and other regulated financial institutions to publish their fees for all public services in general, without specifically mentioning remittance services. Current legislation does not subject RSPs to any specific obligation to provide transparent pricing or other information related to international remittance services.

In Guatemala, the Consumer Protection Law provides for alternate dispute resolution through conciliation by mediation and arbitration. The consumer protection agency can also impose sanctions on providers who infringe on the law. They can initiate official investigations which can culminate in sanctions where necessary.

Guatemala has no law or government agency regulating competition. Even so, a draft competition law exists and an intense debate has taken place over the last few years over the creation of an independent competition agency, although neither have materialized as of yet.

General Principle 5: Governance and Risk Management

Remittance services should be supported by appropriate governance and risk management practices.

The relatively low value of remittances means they do not tend to generate any systemic risk. Nevertheless, RSPs assume financial, legal and operational risks, as well as risks of fraud and of reputation.

With regard to good governance and risk management, there is no specific law in Guatemala which regulates the functioning of RSPs, with the exception of the laws and regulations applying to commercial banks and certain anti-money laundering and terrorism financing requirements applicable to all RSPs.

3 WHO'S WHO?

Roles of remittance service providers and government authorities

A. Role of remittance service providers: Remittance service providers should participate actively in the implementation of the General Principles.

B. Role of public authorities: Public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the General Principles

3.1 AUTHORITIES

Given the importance of migration and remittances to the economy, national authorities are ever more committed to remittance related issues and have begun to involve a wide spectrum of government agencies in the formulation of remittance related public policy.

Institutional responsibility for remittances is not centralized in Guatemala and different aspects of the remittance industry, and of the General Principles, fall under the jurisdiction of various authorities such as Banco de Guatemala, the Ministry of the Economy (consumer protection and competition), the Ministry of External Affairs and the Bank Superintendency.

3.1.1 Banco de Guatemala

Banco de Guatemala's fundamental objective is to contribute to the creation and maintenance of favorable conditions for the orderly development of the national economy. To that end, Banco de Guatemala should create favorable monetary, exchange rate and credit conditions which promote general price level stability (Article 3 of Decree 16-2002 of the Congress of the Republic of Guatemala, Organic Bank Law of Guatemala).

Likewise, Banco de Guatemala has, among other functions determined by the Organic Law (Article 4 of Decree N16-2002 of the Congress of the Republic of Guatemala, Organic Bank Law of Guatemala) the following obligations:

- a. To be the sole issuer of the national currency;
- b. To assure an adequate level of liquidity in the banking system through the use of the instruments outlined in its Organic Law;
- c. To ensure the correct functioning of the payments system;
- d. To receive bank reserves on deposit and legal deposits referred to in its Organic Law;
- e. To administrate international currency reserves in accordance with the guidelines set forth by the Monetary Board;
- f. To carry out other functions compatible with its role as the Central Bank as assigned by law.

As a part of the institutional structure of the payments system, Banco de Guatemala fulfills various important roles, including acting as a regulator, administrator, participant and settlement bank.

Banco de Guatemala has made several efforts over the last few years to encourage the participation of other authorities and the banking community in a global reform of the national payments system. Cooperative efforts with other authorities in this area in particular have been limited, and

there is no inter-institutional committee that allows the participation of other authorities to express opinions about the development of the payments system.

With regard to remittances in particular, Banco de Guatemala has carried out economic research and statistical measurement of remittance flows. Banco de Guatemala has also recently initiated basic education and sensitization campaigns about the payments system and remittances through the publication of information pamphlets.

3.1.2 Bank Superintendency

As laid out in Article 133 of the Guatemalan Constitution, the Bank Superintendency is the entity responsible for the supervision of banks, credit institutions, financial and insurance companies. Likewise, Article 1 of the Financial Supervisory Law enumerates the types of entities which are subject to supervision by this Superintendency. Thus, the Bank Superintendency is the institution that oversees the money transfer operations made by supervised institutions. Non-authorized companies which engage in money transfers have no obligation or requirement to inform the Superintendency about these operations.

As a result of the aforementioned, the Bank Superintendency has had a limited role in the remittance industry, with the exception of the reception of information from institutions related to money laundering and the financing of terrorism.

3.1.3 Ministry of the Economy

The Ministry of the Economy supervises consumer protection and competition. The Consumer Protection Agency in Guatemala is not an independent institution and operates as part of the Ministry of the Economy.

The Consumer Protection Law was introduced in 2003 (Decree 6-2003) and provides for the creation of a consumer protection unit, the Consumer Assistance and Attention Directorate (*Dirección de Atención y Asistencia al Consumidor*, DIACO), inside the Ministry of the Economy. The powers of this agency are limited to consumer education campaigns and mediating consumer claims and complaints.

Remittance claims can be submitted to the DIACO, and the agency can attempt to mediate between the parties, but it does not have any coercive power and has to depend on good will in its negotiations. In some cases, if the RSP is authorized by the Bank Superintendency, the customer can make a claim before this institution but, due to the fact that many RSPs are not supervised and the amounts involved are small, many clients do not bother to resolve their problems in this way.

Currently, Guatemala is undergoing an important institutional transformation process in consumer protection. Article 107 of Decree 6-2003 calls for the creation of an independent consumer protection agency, with independent powers and its own budget.

Additionally, the Consumer Protection Law provides for the creation of consumer associations to represent consumers as a group. These associations must be inscribed in the Civil Registry and the DIACO. Guatemala has five registered consumer associations. One of the two most active is the Consumer League (*Liga del Consumidor*, LIDECON) which has its own budget and is active in consumer education programs and information campaigns through schools. The Civil Association of International Consultant Organizations for Fair Trade and Responsible Consumption, which focuses on producers, is the other.

As for competition, the Department for the Promotion of Competition in the Ministry of the Economy is the current agency responsible for ensuring that laws of competition are respected. Nevertheless, lack of specific legislation hinders its operation, the use of mechanisms for investigating anti-competitive practices and its ability to apply corrective actions.

3.1.4 Ministry of Foreign Relations

The Ministry of Foreign Relations (through the General Directorate of Migratory and Consular Affairs) has led the efforts to maintain contact with Guatemalan migrant associations. It works to disseminate improved information about migration and other policies, investment opportunities in Guatemala and also listen to and address the concerns of the migrant community.

Furthermore, the Ministry has continued the expansion of the Consular Identity Card (*Tarjeta de Identidad Consular*, TIC), a program which allows Guatemalan migrants in the US to have a valid form of identification which, in particular, permits them to have access to authorized financial institutions.

The Ministry also actively engages in cooperation with authorities in the US such as the US Treasury.

Remittances are one specific aspect identified by the Ministry in its National Council of the Guatemalan Migrant (*Consejo Nacional de Atención al Migrante de Guatemala*, CONAMIGUA) program.

3.1.5 National Council of the Guatemalan Migrant

The National Council of the Guatemalan Migrant (*Consejo Nacional para la Atención al Migrante de Guatemala*, CONAMIGUA) was created in November 2007 by Decree 46-2007. One of the Decree's fundamental principles is "the inter-institutional coordination of Guatemalan government departments and institutions to be better able to serve the demands and needs of Guatemalan migrants who live outside Guatemala". Article 12 states that all public entities are obliged to cooperate and collaborate with the CONAMIGUA so that it can fulfill its objectives.

The CONAMIGUA was formally established in October 2008 and its regulations came into force on April 16, 2009. The latter establishes its organization and operation, and defines its administrative units and their functions. The Council has seven members, including the Minister of Foreign Relations, who acts as President of the Council, the Vice-Minister of the Economy, the Vice-Minister of Labor and the General Manager of the Central Bank.

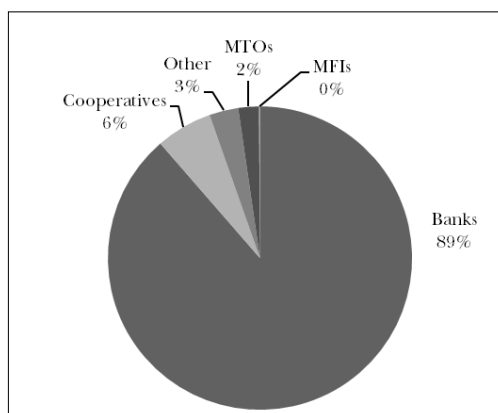
3.2 REMITTANCE SERVICE PROVIDERS

General Principle 4: Market Structure and Competition

Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry.

The remittance market in Guatemala has been more dynamic over the last few years as a result of the entry of new providers (cooperatives and microfinance institutions), and the commercial banks taking on a more active role in terms of capturing and disbursing remittances to beneficiaries. As a result, commercial banks paid out 89% of remittances received in Guatemala, financial cooperatives followed with 6% of the market and microfinance institutions with 0.1%. graph 13 shows the market share of the main providers.

Graph 13. Guatemala: Remittance Market Shares
(2007)



Source: Proprietary with data obtained by the mission.

3.2.1 Commercial Banks

At December 31, 2008, 21 of the banks operating in Guatemala handled remittance payments. However, an estimated 83% of the market is concentrated among three banks: Banrural, Banco Industrial and G&T Continental.

The three main remittance disbursing commercial banks in Guatemala have areas within their operating structures which offer specific campaigns and products designed exclusively for the remittance market.

At the time of the mission, Banrural was the leading remittance payer in Guatemala, handling almost half of the country's remittance volume. In 2007, Banrural paid out more than 1.7 million USD (4.4 million transactions with at an average value of 390 USD per transaction).

In 2002, Banco Industrial entered the remittance business as a payment agent for one of the major money transfer and courier service providers in the US. Over the last four years, Banco Industrial has doubled its market share, and at the time of the mission it was the second largest remittance disbursing bank with a 24% share of the market. In 2007, Banco Industrial paid out 982 million USD in remittances (2.6 million transactions, at an average value of 337 USD per transaction).

The third largest remittance disbursing bank was G&T Continental, with a 14% share of the market. In 2007, this bank paid 570 million USD (1.5 million of transactions).

Table 9. Banrural, Banco Industrial and G&T: Selected Remittance Figures
(2007)

| | <i>Banrural</i> | <i>Banco Industrial</i> | <i>G&T Continental</i> |
|--|-----------------|-------------------------|----------------------------|
| Average remittance amount, USD | 390 | 377 | 380 |
| Average monthly transactions, thousands | 370 | 217 | 125 |
| Volume of transactions, millions | 4 | 3 | 2 |
| Average transaction value, million USD | 144 | 82 | 48 |
| Value of annual remittances, million USD | 1,733 | 982 | 570 |

Source: Commercial Banks and proprietary.

3.2.2 Money Transfer Operators

According to current legislation in Guatemala, there are no limitations on remittance payments by international money transfer operators in Guatemala through their own offices. Western Union is

the only international money transfer company with local presence in Guatemala's remittance market.

In 2006, Western Union paid out 92 million USD, figure representing 2.5% of total remittances, through its own branches and 562 million USD through local banks, mainly G&T Continental and Banco Agromercantil.

3.2.3 Savings and Loan Cooperatives

Savings and loan cooperatives are non-profit financial institutions which offer savings accounts, credit and other financial services. Savings and loan cooperatives or credit unions are relatively important in Guatemala, and offer financial services to a growing number of remittance receiving individuals.

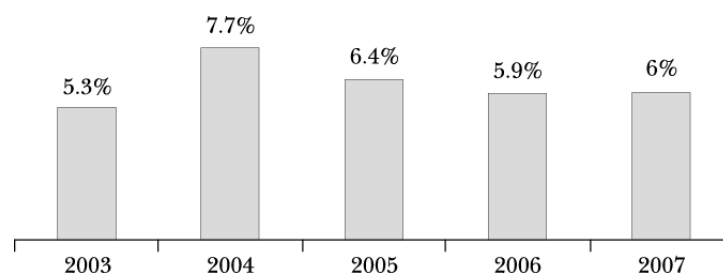
In Guatemala, the movement of federated savings and loan cooperatives is represented by the National Federation of Savings and Loan Cooperatives (*Federación Nacional de Cooperativas de Ahorro y Crédito*, FENACOAC). There are currently 25 cooperatives affiliated to FENACOAC with over 800,000 members. These cooperatives have presence in all the country's geographical areas and have more than 170 service points throughout the Republic. The Federation is a private institution and is a member of the World Council of Credit Unions (WOCCU). As for their affiliates, the Federation's functions include: their representation and defense, financial services from the central coffer, technical assistance and training, as well as IT support.

Among the products and services offered by savings and loan cooperatives to their members are: savings accounts, term deposit accounts, loans, remittances, insurance, ATMs and VISA credit cards or debit cards.

In 2001, FENACOAC, with the support of WOCCU, began paying remittances in Guatemala, in collaboration with Vigo. In June 2005, it started operations with Money Gram and in June 2007 with Orlandi Valuta. FENACOAC centralizes the flow of remittances and pays its members' balances.

At the end of 2007, credit unions had a 6.2% share of the market, as a result of the payment of 600,000 remittances for a total of 249 million USD (average value of 413 USD).

Graph 14. FENACOAC: Remittance Market Share
(2003-2007)



Source: FENACOAC.

Table 10. FENACOAC: Selected Data on Remittance Services
(2007)

| | Vigo | Money Gram | Total |
|-----------------------------------|--------|------------|--------|
| Average value of remittances, USD | 435 | 296 | 413 |
| Average monthly transactions | 42,459 | 7,668 | 50,127 |

| | | | |
|--|-----|----|-----|
| Volume of transactions, thousand | 510 | 92 | 602 |
| Average monthly value of transactions, millions of USD | 18 | 2 | 21 |
| Annual value of remittances, millions of USD | 221 | 27 | 249 |

Source: FENACOAC and proprietary

3.2.4 Microfinance Institutions

Microfinance institutions have recently started disbursing remittances in Guatemala. At the time of the mission, the market leader was Génesis Empresarial. Besides remittance services, this organization offers loans as well as technical assistance to small companies and small producers in urban and rural areas. Génesis Empresarial has 53 branches located in Guatemala's 22 departments through which it provides services to around 28,000 customers.

Génesis Empresarial began operating in the remittance market in 2005, when it disbursed 134,815 USD in 282 transactions. In 2007, it paid out 2.5 million USD, a figure representing a market share of less than 0.1%. All remittances are paid by check to the beneficiary once the funds reach their final destination. Recently, Génesis Empresarial has established an Alliance with Banco de Centroamérica (BAC Guatemala), giving it access to several international money transfer operators handling remittances.

Table 11. Genesis: Selected Data on Remittance Services

| | 2005 | 2006 | 2007 |
|---|-------|-------|-------|
| Average amount of remittances, USD | 478 | 380 | 357 |
| Average transactions | 282 | 2,082 | 7,000 |
| Annual value of remittances, thousands of USD | 134.8 | 790.3 | 2,500 |

Source: Genesis.

4 CASH OR CREDIT CARD? INSTRUMENTS FOR DISBURSING REMITTANCES IN GUATEMALA

General Principle 2: Payment system infrastructure

Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged

Remittance disbursements in Guatemala are mainly carried out with traditional instruments such as cash or bank account deposits. However, during the last few years remittance market operators have begun to introduce and explore potential interest in a range of new products, such as prepaid cards or debit cards which can be used to make ATM withdrawals.

4.1 CASH

In Guatemala, the main instruments for disbursing remittances are cash, bank account deposits or prepaid cards. Nevertheless, direct payment of remittances in cash accounts for over 90% of the total.

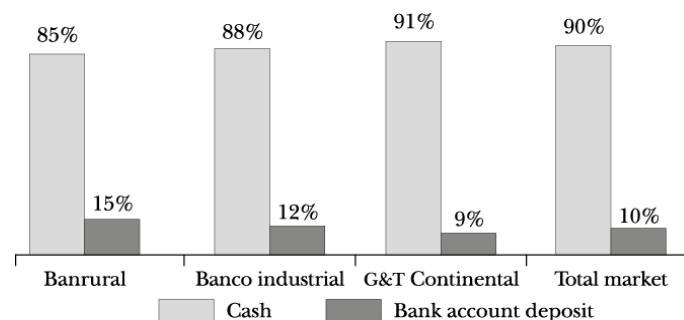
Although remittances can be paid in local currency or in US dollars in Guatemala, due to the fact that the use of US dollars is not generally widespread in the economy for small operations, 98% of remittance disbursements are made in quetzales.

4.2 BANK ACCOUNT DEPOSITS

Using this product, the individual sending money directly transfers the remittance to a local financial institution in the country of destination instead of the remittance being received in cash, the most common form of this type of transaction.

Two of the major commercial banks in Guatemala have established agreements with a major US bank for the direct deposit of money transfers.

Graph 15. Instruments Used for Disbursing Remittances by the Main Commercial Banks in Guatemala



Source: Proprietary with operator information.

4.3 REMITTANCE CARD DEPOSIT

Some commercial banks have developed new specific products for people receiving remittances, such as prepaid cards or debit cards which can be used for ATM withdrawals. For instance, the prepaid *Los Chapines Estamos Unidos* card, allows remittance receivers in Guatemala to make cash

withdrawals at ATM s or make purchases at VISA affiliated businesses. In Guatemala, there is no information on the volume of remittances paid through prepaid cards via ATMs.

Other operators offer Internet services allowing Guatemalans living abroad to pay services and purchase assets for their families in Guatemala. Furthermore, access to products and services for some specific customers has also been improved. The special configuration of 150 ATMs with instructions recorded in indigenous languages and illustrated instructions for customers who cannot speak, read or write Spanish is particularly noteworthy.

5 HOW ARE REMITTANCES SENT AND RECEIVED? REMITTANCE SERVICE ACCESS POINT NETWORK

General Principle 2: Payment system infrastructure

Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged

It is extremely important for the remittance market to develop money transfer channels offering transparent, safe and low cost services. As mentioned previously, in Guatemala remittances can be transferred through many different channels such as operators specialized in international money transfers, commercial banks, credit unions or microfinance institutions. In all of these cases it is always necessary to have some kind of network, i.e. access points where consumers can send and receive funds.

Additionally, the development and modernization of payment and settlement systems contributes to bolstering financial market liquidity and stability, thereby increasing the efficiency and safety of remittance services. The Central Bank has therefore been working to modernize Guatemala's payments system over the last few years, leading to the recent introduction of the Real Time Gross Settlement System (RTGS system) in 2006 and the Automated Clearing House (ACH), which started operations in October 2008. Commercial banks are the main remittance disbursement agents in Guatemala and they have direct access to the country's most important payment systems. For this reason, efforts to foster the development of a safer and more efficient payment infrastructure for channeling remittances are important.

Remittance Capture and Distribution Network

The smooth functioning of remittance services requires the existence and development of the infrastructures necessary to support the services offered. RSP normally use their own infrastructure (e.g. their access point network where funds can be captured and disbursed), those of their agents and the general payment structures existing in remitting and receiving countries.

This section examines the current situation and development in Guatemala of the access point network for capturing and distributing remittances, as well as the state of the country's financial infrastructure.

5.1 ACCESS POINT NETWORK

The number of access points for remittance service providers has increased rapidly during the last few years in Guatemala. Physical access points are part of the payment infrastructure and providers have created a network of efficient agencies at both ends.

In particular, during recent years commercial banks have multiplied the total number of remittance capture service points. The amount of access points in US states where immigrants live, has especially increased during the last few years. All RSPs have several agreements for the collection of remittances in the US, and the four main disbursing RSPs in Guatemala have agreements with at least ten international money transfer operators.

Banrural has over 80 service points in the US and works with international MTOs such as Money Gram, Viamericas, Bancomercio, Ria and Uniteller, among others, for transferring money to Guatemala. Banco Industrial has agreements with MoneyGram, Ria, Dolex, Grupex and La

Curacao. G&T Continental has established agreements with international partners such as Western Union, Afex, Reymesa, La Curacao or Viamericas. In 2005, Banrural and Banco Industrial made an agreement with the Wells Fargo bank in the US for transferring remittances to Guatemala.

Table 12. Agreements Between Guatemalan and US RSPs

| | <i>Own MTO</i> | <i>Agreement with US Bank</i> | <i>Western Union or Money Gram</i> | <i>Agreements with other int. MTOs.</i> | <i>Presence</i> | <i>Market share 2007</i> |
|---------------------------|----------------|-------------------------------|------------------------------------|--|--|--------------------------|
| Banrural | Yes | Wells Fargo | Money Gram | Viamericas, BHD, Global FX, Alante, La Nacional, Intermex, Pronto Envío, Bancomercio, Quisqueyana, Reymesa, Ría, Uniteller, Unigram, Order Express, La Curacao | | 48% |
| Banco Industrial | No | Wells Fargo | Money Gram | Ría, Dolex, Grupex, La Curacao | | 26% |
| G&T Continental | Yes | | Western Union | Afex, El Camino, Alante, Order Express, Reymesa, La Curacao, Quisqueyana, Ría, Uniteiller, Viamericas | California Rhode Island, Nevada, New York & New Jersey | 12% |
| Agromercantil | Yes | | Western Union | | Chicago, Illinois, California | 6% |
| Banco Azteca | Yes | | | Orlandi Valuta, Vigo | | |
| Banco Reformador | No | | Money Gram | Orlandi, Pronto Envíos, Girosol, Transfast, Uno, Ría, Afex, Motran(Services, Intercapitales) | | |
| Banco de los Trabajadores | No | | | Bancomercio, Order Express, Uniteller, Ciesa | | |
| FENACOAH | No | | Money Gram | Vigo, Rapid Money, Orlandi Valuta | | 6% |
| Genesis Empresarial | No | | | Viaméricas, Uno, Girosol | | |

Source: Proprietary.

Banrural and G&T Continental have had their own money transfer operators in the US since 2001. Thus, G&T Envíos de Dinero has 29 remittance capture points in the states of California (13 points), New York (7 points), New Jersey (7 points) and Rhode Island (2 points). Although these service points represent just 2% of total remittances, the banks attach great importance to these affiliates given that the physical presence allows them to obtain greater understanding and knowledge of the markets of origin.

5.2 LOCAL FINANCIAL INFRASTRUCTURE

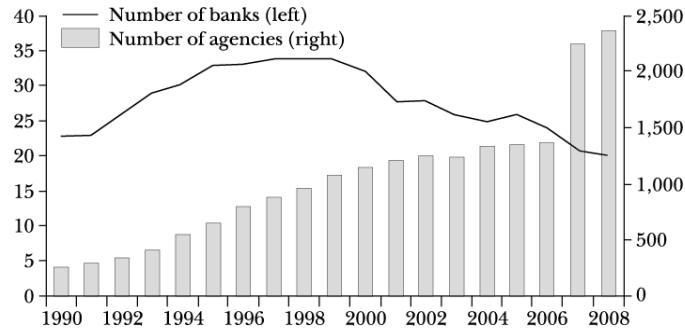
The level of development of the local financial infrastructure in the receiving countries is of utmost importance to guarantee the efficient and safe receipt of remittances.

5.2.1 Bank Network Coverage

The physical infrastructure of financial institutions in Guatemala has increased significantly, from 259 service points in 1990 to 2,245 in 2007. According to the Bank Superintendency, 868 new agencies were opened in 2007. The ratio of population to the number of service points has also

improved: in 1990 there were 34,392 individuals per service point; the figure fell to 9,644 in 2000 and to 5,944 in 2007.

Graph 16. Commercial Bank Branches in Guatemala
(1990-2007)



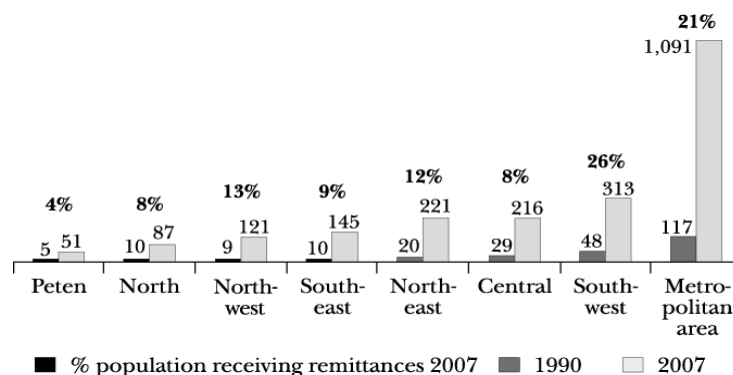
Source: Bank Superintendency.

One important factor is the recent trend of using bank agents (known locally as *subagentes*) as a complement to traditional bank branches. At present, drug stores, hardware stores and general stores act as commercial bank agents for carrying out some basic bank transactions, including remittance payments.

The bank agent model has developed rapidly in Guatemala, due to the low initial investment and low associated fixed costs as compared to the opening of a bank branch. The agents selected are almost always small and medium sized businesses which hold relevant positions in the community. Several risk reduction methodologies are also being implemented such as establishing a daily limit on the volumes agents can pay, or linking this limit with each agent's pending balance charge.

According to geographic distribution, the number of agents in rural areas has increased, particularly in zones with the highest concentrations of remittance receivers. In 2007, 21% of the population benefitting from remittances lived in Guatemala State, which has the highest number of inhabitants and almost half of all bank agencies in the country. The northeast and southwest regions account for almost 40% of the population receiving remittances and represent 19% of the total number of bank agencies. The States of Huehuetenango, San Marcos and Quetzaltenango, account for one fourth of the total population of individuals receiving remittances.

Graph 17: Branches and Bank Agents by Region Along with the Population Receiving Remittances
(1990 and 2007)



Source: IOM and Bank Superintendency.

Banrural has the largest national network of branches as well as the most extensive geographical coverage of the country, with 1,577 service points, 315 branches and access to 1,262 ATMs. Banco Industrial has more than 1,500 customer service points and 250 branches, while G&T Continental has a network of 194 agencies.

G&T Continental and Banco Industrial are currently widening their remittance payment networks through the use of bank agents. At the end of 2007, G&T Continental had more than 500 agents at the national level, 65% in rural zones and the remainder in the Guatemala City metropolitan area. Its target was to have two thousand *subagentes* in Guatemala by 2008. In 2007, G&T Continental carried out 300,000 remittance operations through *subagentes* for an equivalent of USD 75 million, a figure representing 16% of all remittances handled by G&T Continental. Banco Industrial began to open *subagente* access points in 2007, and currently has over 200 *subagentes* operating in Guatemala city.

5.2.2 Money Transfer Operator (MTO) Network Coverage

Regarding MTOs, Western Union disburses remittances through its main agent, Airpak, in 15 branches at the national level. Western Union also makes disbursements through local banks (G&T Continental, Banco Agromercantil and CHN, among others) and credit unions (see table 13).

Table 13. Western Union's Agent Network in Guatemala

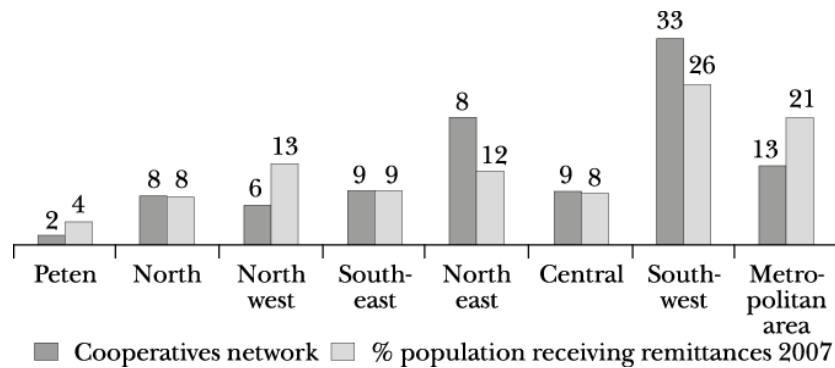
| <i>Main Agent</i> | <i>Subagentes</i> |
|-------------------|---------------------------------|
| Airpak | Cooperativa Cuilco |
| | Consest |
| | Coinver |
| | El Campesino |
| | Soinsa (Airpak) |
| | Banco Agromercantil |
| | El Crédito Hipotecario Nacional |
| | Banco Inmobiliario |
| | Banco Internacional |
| | G&T Continental |

Source: Western Union.

5.2.3 The Network Coverage of Credit Unions and Microfinance Institutions

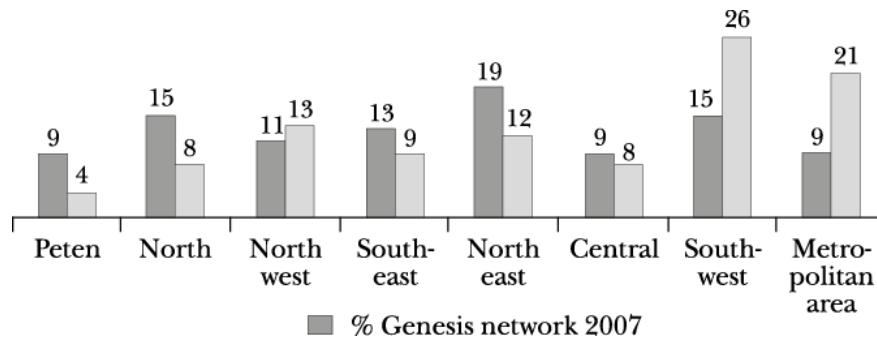
Over the last five years some credit unions and microfinance institutions, which generally offer services in rural areas, have increased their presence mostly in regions with the largest remittance receiving populations.

Graph 18. FENACOAC Cooperatives: Service Point Distribution and Population Receiving Remittances
(2007, in percentages)



Source: IOM and FENACOAC.

Graph 19. Genesis Empresarial: Service Point Distribution and Population Receiving Remittances
(2007, in percentages)

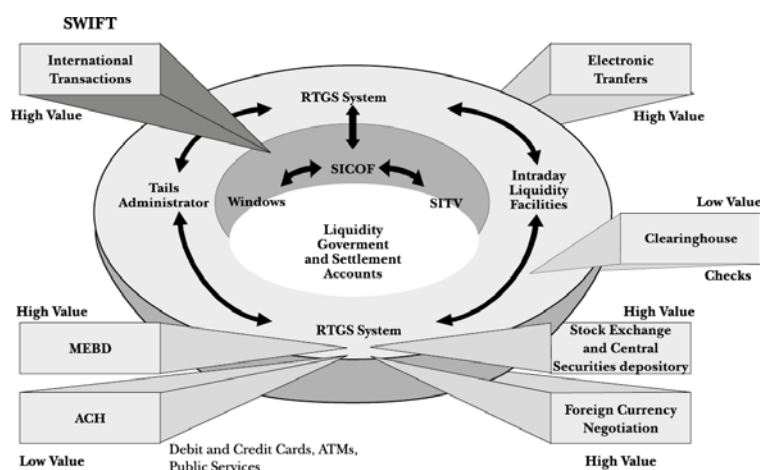


Source: IOM and Génesis Empresarial.

5.2.4 Payment Systems in Guatemala

As part of its efforts to modernize the national payments system, Banco de Guatemala introduced the Real Time Gross Settlement (RTGS) system in 2006 and the Automated Clearing House (ACH) in 2008. Due to the fact that commercial banks are the main remittance disbursing agents and are part of the most important payment systems, this effort also fosters development of a safer and more efficient payment infrastructure for channeling remittances.

Graph 20. Payment Systems in Guatemala



Source: Banco de Guatemala. (<http://www.banguat.gob.gt/publica/Spagos/BGdoc1c.pdf>)

5.2.4.1 High value payment systems

The Real Time Gross Settlement System began operating in Guatemala on January 27, 2006. The RTGS system allows commercial banks and financial organizations with deposit accounts at Banco de Guatemala, as well as other institutions expressly authorized by the Central Bank, to settle their high value financial transactions on line and in real time. Institutions in the RTGS system which are beneficiaries of the operations can be credited with deposits in their accounts on-line and in real time. As of December 31, 2008, 19 commercial banks, 3 financial institutions and Guatemala's National Stock Exchange (Bolsa de Valores Nacional, S. A.) used this system, making up a total of 23 participants.

5.2.4.2 Low value payment systems

Bank Clearing House

In Guatemala, small payments are mostly made by checks which are settled in the Bank Clearing House. The clearing house's regulations allow for it to be managed by a private institution contracted by Banco de Guatemala, in line with procedures set out in the corresponding law. At the time of the mission, the referred Clearing House was administered by the Guatemalan Banking Association (Asociación Bancaria de Guatemala).

Final net multilateral balances are settled in Banco de Guatemala through the RTGS system. In 2007, 22 banking institutions participated. Settlement is carried out in two daily sessions and funds are normally available in customers' accounts in $t+1$.

In 2007, more than 29 million checks were settled in the Bank Clearing House for a total value of 62.5 billion USD. In terms of volume, around 99% of all checks were denominated in local currency. However, remittances are not usually paid by check.

Automated Clearing House

The ACH is the payments system which settles electronic transactions—direct debits and credits—received by each bank or financial institution from other such organizations. The purpose of the ACH is to provide the automatic mechanisms which, via transparent, efficient and safe processes, allow participants to carry out operations electronically through net and deferred settlement in local or foreign currency.

Direct debits and credits are not widely used in Guatemala. At December 2008, these payment methods were mostly interbank and were demanded by major corporate customers for paying services and direct debits.

ATM and card networks

Commercial banks and other supervised financial institutions are the main issuers of payment cards. From a legal point of view, supervised institutions such as the ACH and microfinance institutions can issue credit cards.

Among the credit card companies, Visa has a 62% share of the market, followed by Master Card with 15% and Banco Industrial and its Bicrédito brand with 13%. Only 12% of households receiving remittances are debit or credit card holders.

The national ATM network consists of almost 1,400 ATMs and four interlinked networks mostly concentrated in urban areas (60% of the total). The non-bank organizations operating remittances, such as credit unions and microfinance institutions are not members of these networks. The four networks share their infrastructures in exchange for an operation fee.

5.3 CROSS-BORDER PAYMENTS

Most cross-border payments in Guatemala are made via the traditional system of bank correspondents offered by Banco de Guatemala through SWIFT. Half of all commercial banks are currently connected to SWIFT.

The ACH is expected to allow Guatemala's national payment systems to connect with similar infrastructures in other countries, both in Central America and those where remittance payments originate from, such as the US.

6 WHAT IS THE TOTAL COST OF SENDING REMITTANCES TO GUATEMALA?

General Principle 1: Transparency and consumer protection

The market for remittance services should be transparent and have adequate consumer protection.

In any market, the availability of full information, i.e. transparency, is important because it enables individuals to make well informed decisions and allows the market as a whole to function more efficiently. In the case of the remittance market, transparency is particularly relevant because the price to the consumer depends on two elements: any commissions charged and the exchange rate used.

6.1 TRANSFER COMMISSION

In Guatemala, the transfer commission, the most visible cost, varies considerably among the different operators in the market. During recent years this has fallen due to an increase in the volume of remittances and greater competition among the different service providers.

In 2007, the lowest commission for transferring USD 350 from US to Guatemala was that charged by members of the FENACOAC, USD 9.99 (through Vigo and CMCAC Money Gram); the second lowest was that of USD 11.60 charged by Banco Industrial. In the case of Western Union, the commission varied between USD 14.99 –for 15 minute delivery– and USD 11.99 –for *t+1* delivery.

6.2 EXCHANGE RATE MARGIN

One important part of the costs of sending remittances is the exchange rate margin, which does not form part of the transfer cost. As shown above, although remittances can be paid in US dollars, more than 98% of transactions in Guatemala are paid in local currency, implying the need for an exchange rate operation. According to commercial banks operating as disbursement agents, the exchange rate used to convert remittances to local currency in Guatemala is set by the money transfer company at the point of origin. Normally, the MTOs apply Banco de Guatemala's daily interbank reference exchange rate plus a margin of between 1 and 2%.

Table 14. Cost of Sending USD 350 from the US to Guatemala
(2008)

| | <i>Average remittance</i> | <i>Commission USD</i> | <i>Commission %</i> | <i>Exchange rate</i> | <i>Total cost %</i> |
|------------------|---------------------------|-----------------------|---------------------|----------------------|---------------------|
| Banrural | 350 | 11.99 | 3.5 | 2 | 5.5 |
| Banco Industrial | 350 | 11.60 | 3.4 | 2 | 5.4 |
| G&T Continental | 350 | 11.99 | 3.5 | 2 | 5.5 |
| Western Union | 350 | 14.99 | 4.5 | 2 | 6.5 |
| FENOAC | 350 | 9.99 | 3.0 | 2 | 5 |
| Vigo (WOCCU) | 350 | 10.00 | 3.0 | 2 | 5 |
| Money Gram | 350 | 10.25 | 3.0 | 2 | 5 |
| Weighted average | 350 | 12.11 | 3.7 | 2 | 5.7 |

Source: Proprietary.

If the transfer commission and the exchange rate margin resulting from the operation to change remittances into local currency are included, in 2001 the average cost for sending 200 USD from the US to Guatemala was 7.4% of this amount, as compared with 8.6% for Latin America and the

Caribbean as a whole. In 2007, the estimated cost of sending money to Guatemala was between 5.6 and 5.7% for 350 USD, in line with the average cost of 5.6% for the region.

The main determinants of this reduction in costs have been the greater competition in the remittance market during recent years, and the change in remittance transfer mechanisms from money orders to electronic transfers.

7 TOWARDS A MORE EFFICIENT REMITTANCE MARKET: A QUESTION OF PRINCIPLES

The previous sections of this document have described Guatemala's economic situation, in order to provide a clearer vision of the impact of remittances in the country. The most important features of each general principle have also been described.

This last section gives a summary of each of the five aspects of the remittance market highlighted in the General Principles for Sending International Remittances:

7.1 TRANSPARENCY AND CONSUMER PROTECTION

As in many Latin American countries, it is common practice in Guatemala to disburse remittances to the beneficiary in local currency, in this case the quetzal. Although it is possible to receive remittances in US dollars, 98% of them are paid in quetzals, meaning most remittance service providers must carry out one or more exchange rate operations to pay beneficiaries.

Most remittances Guatemala receives come from the US. The commissions, charges, exchange rate used as well as the time the transfer will take and where it will be received, are determined at the point of origin. According to US law, MTOs in that country must provide this information to customers in writing, and the remittance senders can refuse to make the transaction if they do not agree with the exchange rate offered.

There is generally a high degree of transparency at the point of origin. Remittance senders are informed of the equivalent in local currency of the US dollar transfer and the exchange rate before they make the operation. The latter is normally linked to the daily exchange rate published by Banco de Guatemala.

The fact that remittance beneficiaries do not have easy access to information allowing them to compare the cost of the transfer, the exchange rate or levels of service, means they may not know if lower costs or faster services exist.

Regarding consumer protection, as pointed out earlier, Guatemala enacted a consumer protection law in 2003 (Decree 6-2003) and created the Consumer Attention and Assistance Directorate (*Dirección de Atención y Asistencia al Consumidor*, DIACO) in the Ministry of the Economy.

Table 15. GPI: Transparency and Consumer Protection

| | Yes | No |
|---|-----|----|
| Consumer protection law | X | |
| Specifically mentions remittances and consumer protection | | X |
| Transparency of information in financial services (regulations for disclosure and publication) | X | |
| Transparency of information in remittance sending services (regulations for disclosure and publication) | | X |
| Consumer protection authority | X | |
| Independent consumer protection authority | | X |
| Defender of public interests in financial services | | X |
| Defender of public interests in remittance services | | X |
| Remittance services code of best practices | | X |
| Disclosure of prices for sending remittances | | X |
| Comparison of prices for sending remittances | | X |
| Consumer protection sanctions | | X |

However, the DIACO has no authority to oversee financial services, given that its competencies are limited to carrying out consumer education campaigns and creating mechanisms for consumer complaints. This institution therefore has no power to address complaints or impose sanctions, and can only act as negotiator or arbiter. In the case of remittances, faced with a complaint the DIACO can attempt to mediate in the situation, but depends upon both parties will to negotiate.

Furthermore, Guatemala does not have any consumer defense for financial services in general or for remittances in particular.

7.2 PAYMENT SYSTEM INFRASTRUCTURE

As mentioned above, as a result of Banco de Guatemala's efforts Guatemala now has the Real Time Gross Settlement System (RTGS system) and the Automated Clearing House (ACH).

Despite the fact that commercial banks are the main remittance disbursing agents in Guatemala, the existing payment infrastructure as well as payment instruments other than cash, are seldom used by remittance issuers and receivers. As a result of the aforementioned, the vast majority of transactions continue to be paid in cash (around 90% of the total).

Table 16. GP2: Payment System Infrastructure

| | Yes | No |
|-------------------------------------|------------|----|
| Payment systems | | |
| RTGS system | X | |
| Check clearing house | X | |
| Automated clearing house | X | |
| Instruments for remittance payments | | |
| Cash | X 90% | |
| Check | X | |
| Bank account deposit | X < 10% | |
| Prepaid cards | X | |

7.3 REGULATORY FRAMEWORK

At the time of the mission, legislation in force governing remittance services did not include regulations for remittance service providers, the obligation to divulge information on fees or other service charges, nor the disclosure of information produced by the transactions.

Neither was there any law or regulation specifically referring to remittances, remittance service providers or the remittance market in general. Although most remittances flow through authorized financial institutions, particularly commercial banks, these act as payment agents for international money transfer operators. There is no system of licenses or registration for remittance service providers.

As for the presentation of information before the authorities, the Bank and Financial Group Law, as well as Bank Superintendency regulations oblige commercial banks and other regulated financial entities to publicly disclose their fees for all the services they provide. However, these refer to banking and financial services in general and make no particular mention of remittance services. Based on current legislation, there is no specific obligation for RSPs regarding the transparency of costs and other information related to international remittance services.

Nonetheless, some laws and regulations indirectly cover remittance services. These are mostly laws and regulations controlling the activities of financial institutions, and the legal framework for preventing money laundering and combating the financing of terrorism.

Table 17. GP3: Remittance and Payment Systems Regulatory Environment

| | Yes | No |
|--|-----|----|
| Payment system supervision authority | X | |
| Specific regulatory framework for the remittance industry and its participants | | X |
| Remittance disbursing banks | | |
| License franchising | X | |
| Money laundering program | X | |
| Transaction tracking | X | |
| Provision of reports to the authorities | X | |
| Supervisory authority | X | |
| Sanctions | X | |
| Remittance disbursing MTOs | | |
| Registry | X | |
| License franchising | | X |
| Money laundering program | X | |
| Provision of reports to the authorities | | X |
| ID presentation requirement | X | |
| Supervisory authority | | X |
| Other remittance disbursing RSPs (credit unions and microfinance institutions) | | |
| Registry | X | |
| License franchising | | X |
| Money laundering program | X | |
| ID presentation requirement | X | |
| Supervisory authority | | X |

7.4 COMPETITION

The remittance market in Guatemala operates in a competitive environment. Users of remittance services have several options for sending and receiving money. During recent years the number of operators offering remittance services has grown substantially.

There is considerable competition for capturing remittances. The total number of money transfer company service points has increased over the last few years, and most of the main local agents have signed agreements with around 10 different international money transfer operators. Two of the major commercial banks have established their own money transfer operators in the US. In that country, only one commercial bank offers a specific remittance product for the US-Guatemala corridor.

The presence of exclusivity contracts in Guatemala is limited, and market agents recognize the benefits of having several agreements with RSPs in the market of origin. In this way, agents in Guatemala's local market have been more aggressive when negotiating open contracts with international money transfer operators than in other countries in the region. This is shown by the fact that the four largest remittance distribution channels in Guatemala function as payment agents for several large international MTOs.

On the disbursement side, commercial banks, credit unions, microfinance institutions and couriers offer remittance services. However, this market is concentrated in four large banks with a joint market share of over 80%.

Table 18. GP4: Market Structure and Competition

| | Yes | No |
|--|-----|----|
| Network for capturing remittances – channels for sending remittances | | |
| Electronic transfers | X | |
| Bank accounts | X | |
| Postal orders | X | |
| Traveler | X | |
| Others | X | |
| Remittance disbursement network | | |
| Banks | X | |
| Credit unions | X | |
| Microfinance companies | X | |
| MTO through their own offices | X | |
| Couriers | X | |
| Exclusivity agreements | X | |
| RSP have adequate access to payment systems | X | |
| Competition law | | X |
| Independent competition authority | | X |

Most RSPs in the country have increased their service point networks by opening new agencies and, in some cases, through the use of *subagentes*. Furthermore, access points for paying remittances are located in regions with high remittance receiving populations.

Guatemala lacks a legal and institutional framework which fosters economic competition. In fact, it is the only country in Central America without a law in this area.

Regarding access to national payment infrastructures, according to RTGS system and ACH regulations, only commercial banks and financial institutions regulated by the Bank Superintendency have direct access to these systems. Although the banking system is the main disburser of remittances, a growing number of non-bank institutions, such as microfinance institutions and credit unions, have begun disbursing remittances in recent years. Nonetheless, such institutions use commercial banks to obtain indirect access to payment systems for disbursing remittances.

7.5 GOOD GOVERNANCE AND RISK MANAGEMENT

Remittance service providers in Guatemala generally have appropriate administration manuals, codes and procedures, while their employees are well trained. These practices and procedures form part of commercial banks and financial institutions' regulatory framework. Commercial bank distribution agents are also trained and supervised by their correspondent banks.

In their role as remittance service providers, credit unions are trained and supervised by the FENACOAC. International MTOs operating in Guatemala through their own offices apply the procedures adopted by their head offices.

Table 19. GP5: Good Governance and Risk Management

| | Yes | No |
|--|-----|----|
| Major remittance service providers with internal procedures for regulating money transfer activities | X | |

7.6 THE ROLE OF THE PRIVATE SECTOR

There are no formal cooperation agreements among remittance market operators as a whole. Cooperation among banks is made through the Guatemalan Banking Association and is fundamentally focused on achieving greater interoperability in card payment networks and the use of the ACH, among others.

However, some of the largest RSPs have set up specific departments or dedicated personnel to remittance sending services, including the development of new products connected with providing other financial services, marketing campaigns and interaction with different business lines.

Table 20. The Role of the Private Sector

| | Yes | No |
|---|-----|----|
| Cooperation among RSPs | X | |
| Cooperation among RSPs in the application of General Principles | | X |

7.7 THE ROLE OF THE AUTHORITIES

As in many other countries, in Guatemala the various aspects of remittances come under the jurisdiction of different authorities such as Banco de Guatemala, the Ministry of the Economy (consumer protection, economic competition), the Ministry of Foreign Relations and the Bank Superintendency, among others.

Using information pamphlets, Banco de Guatemala has started basic education programs and sensitization campaigns about payment systems and remittances.

The Bank Superintendency has up to now played a minor role in the area of remittances, except in regards to the controls to prevent money laundering and the financing of terrorism.

The Ministry of the Economy's role in questions of consumer protection and the fostering of economic competition in the area of remittances has also been modest.

The Ministry of Foreign Relations (through the General Directorate of Migration and Consular Issues) has led efforts to contact Guatemalan migrant associations.

One positive event was the creation of the National Council for Assistance to the Guatemalan Migrant in 2007. This Council can play a significant role as a platform for coordinating the joint actions of different authorities in the area of remittances.

Table 21. The Role of the Authorities

| | Yes | No |
|--|-----|----|
| Cooperation among authorities | X | |
| Cooperation among authorities in the application of the General Principles | | X |

LIST OF ABBREVIATIONS

| | |
|--------------------|--|
| Banco de Guatemala | Banco de Guatemala |
| BID | Interamerican Development Bank |
| WB | World Bank |
| CSL | Cooperative Savings and Loan |
| ACH | Automated Clearing House |
| CONAMIGUA | National Council of the Guatemalan Migrant |
| CPSS | Payment and Settlement System Committee |
| DIACO | Consumer Assistance and Attention Directorate |
| ENIGFAM | National Survey of Income and Family Expenditures |
| MTO | Money Transfer Companies |
| US | United States of America |
| FENACOAC | National Federation of Savings and Loan Cooperatives |
| FOMIN | Multilateral Investment Fund |
| INE | National Statistics Institute |
| INGECOP | Cooperative General Inspector |
| IVE | Special Verification Unit |
| LIDECON | Consumer League |
| MCG | Guatemalan Consular Registry (Matrícula Consular de Guatemala) |
| IOM | International Organization for Migration |
| ILO | International Labor Organization |
| EAP | Economically Active Population |
| GDP | Gross Domestic Product |
| RSP | Remittance service provider |
| SAT | Superintendencia de Administración Tributaria |
| RTGS | Real Time Gross Settlement |
| SWIFT | Society for Worldwide Interbank Financial Telecommunication |
| TIC | Consular Identity Card |
| WOCCU | World Council of Credit Unions |

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