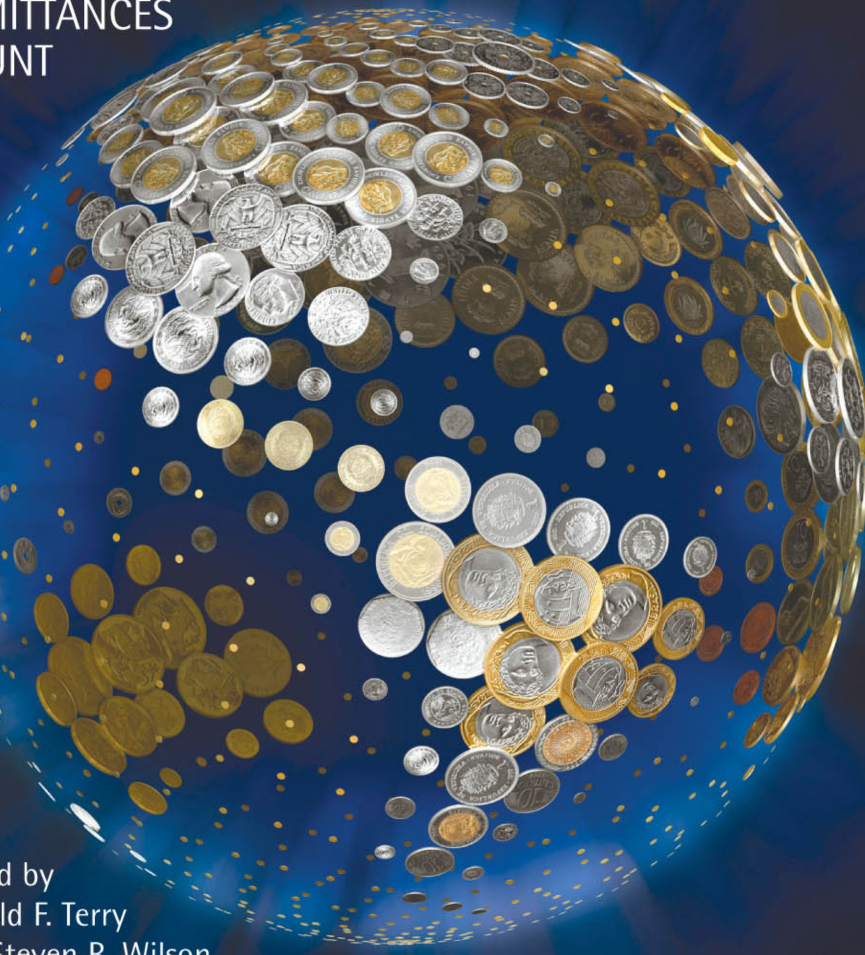
Beyond Small Change

MAKING MIGRANT REMITTANCES COUNT



Edited by
Donald F. Terry
and Steven R. Wilson

Inter-American Development Bank

This page intentionally left blank

Beyond Small Change

Making Migrant Remittances Count

Donald F. Terry

and

Steven R. Wilson

Editors

Inter-American Development Bank
Washington, D.C.

©2005 Inter-American Development Bank
1300 New York Avenue, N.W.
Washington, D.C. 20577

Produced by the IDB Office of External Relations

To order this book, contact:
IDB Bookstore
Tel: (202) 623-1753
Fax: (202) 623-1709
E-mail: idb-books@iadb.org
www.iadb.org/pub

The views and opinions expressed in this publication are those of the authors and do not necessarily reflect the official position of the Inter-American Development Bank.

Cataloging-in-Publication data provided by the
Inter-American Development Bank
Felipe Herrera Library

Beyond small change : making migrant remittances count / Donald F. Terry and Steven R. Wilson, editors.

p. cm.
Includes bibliographical references.
ISBN: 1931003866

1. Emigrant remittances—Latin America. 2. Emigrant remittances—Caribbean Area. 3. Economic development—Effect of emigrant remittances on. 4. Emigration and immigration. I. Terry, Donald F. II. Wilson, Steven R. III. Inter-American Development Bank.

332.042 B458--dc22 LCCN: 2005924297

Dedication

For those who leave because of love
And for those who remain behind,
This book is dedicated.

This page intentionally left blank

Acknowledgments

This book owes its existence to many people. Special thanks go to the President of the Inter-American Development Bank (IDB), Enrique V. Iglesias, who has been a visionary leader of efforts to improve the benefits of remittances for migrants and their families. As a result, the Multilateral Investment Fund (MIF) has been able to support many activities that have helped place remittances at the forefront of the world development agenda.

Fernando Jiménez-Ontiveros of the MIF was an early advocate for work in this area and has explored many ways to improve the development impact of remittances. His timely advice, insight, and networking abilities have greatly furthered the MIF's efforts in this area, particularly given his extensive experience in Mexico and Central America, where he developed a keen understanding of the economic and social causes of migration.

Pedro de Vasconcelos, the coordinator for MIF technical assistance projects and conferences related to remittances, knows the details of MIF activities in remittances inside and out and has been an invaluable source of technical advice and data throughout the preparation of this volume.

This book would have been impossible without two pioneers in the field of remittances research, Dr. Manuel Orozco and Sergio Bendixen. Dr. Orozco has been an endless source of information and insight on this subject. We could not have come this far without his tireless efforts and intellectual contributions to this subject.

The pathbreaking work of Sergio Bendixen, the undisputed leader of polling in the Latino community in the United States, has also been key to gaining a clearer picture of remittance volumes, profiles of senders and receivers, and other important data. His efforts, and those of his staff at Bendixen & Associates, have contributed much to the understanding of remittances.

Nancy Morrison provided invaluable editorial advice. Her support and numerous insights greatly improved the manuscript. We are indebted to her assistance. Heartfelt thanks go to Lyle Prescott, who provided early and valuable editorial support during a time of personal tragedy.

Many MIF colleagues have been very helpful. Winsome Leslie provided valuable assistance on matters relating to the Caribbean nations. Gregory Watson offered efficient technical support and facilitated the preparation of the document. Nathaniel Jackson kindly offered valuable background information on remittances securitization. Sandra Darville provided many insights on various aspects of remittances and investment operations. Kathryn Hewlett-Jobes, who understands the challenges of this kind of project, was a supportive fellow traveler. Alfredo Giró could always be counted on for a stream of provocative questions that forced clarity into any proposition related to remittances. Many thanks also go to Dora Moscoso, who seems to know how everything actually works in this organization. Isabel Auge pitched in selflessly and with great effect—usually during times of crisis. The top-flight administrative support of Pilar Meier and Cecilia Patiño has been crucial, and greatly smoothed the way for this book.

Claudia Sáenz, conference coordinator at the MIF, provided thoroughly efficient and professional support in every way, including organizing every MIF meeting and conference on the subject of remittances. Mónica Ribaudo, administrative assistant to the MIF manager, always went the extra mile to facilitate communications and other matters related to this book. The patience and advice of Rafael Cruz and Cathy Conkling-Shaker in the Department of External Relations at the Inter-American Development Bank are greatly appreciated.

Germán Zárate-Hoyos of the Colegio de la Frontera Norte and SUNY-Cortland was a ready source of information on remittances, particularly with respect to Mexico. Kai Schmitz of MicroFinance International Corporation was a valuable resource who was always available to discuss the technologies of money transfer.

Chris Stillson, based on his experience with remittances in Europe, kindly provided comments and feedback over the course of several drafts.

Several summer interns helped with research and other activities in support of this book. Many thanks go to Tomoko Furusawa, Andrew Miller, Nanako Saito, and Hector Salgado.

Very deep thanks are also due to Denise, Elizabeth, Meghan, Amy, and Eleanor Terry, and to Cathy, Sam, Marshall, and Elizabeth Wilson—for everything.

Contents

Foreword

Globalization has many human faces. One of its many facets is the perpetual movement of people across borders. Many of these are men and women from across the developing world who make the difficult decision to leave home and seek work abroad. After gaining employment, most of these workers begin to send money to their families at home. These remittances are typically made in small amounts, yet collectively these flows dwarf official development assistance and surpass the value of leading exports in many countries.

In Latin America and the Caribbean, for example, individual migrants send money home periodically, in amounts ranging from \$200 to \$300 monthly. Yet when added up, these remittances total more than most countries receive in official development assistance *plus* foreign direct investment. In 2004, fathers, mothers, sons, daughters, aunts, and uncles sent over \$45 billion to loved ones across the Americas. Remittances are now a major source of foreign exchange for migrants' countries of origin—often bringing in more than leading exports, including oil. As millions migrate north, billions flow south.

As the Inter-American Development Bank and others shed light on the dramatic growth of remittances—more stable than inflows of foreign direct investment—a new view of the migrant community is emerging that recognizes the hard work and commitment of workers seeking better lives for themselves and their families.

Although remittances are primarily intended to meet the basic needs of family members back home, these funds also generate opportunities for local communities and national economies. Nowhere is this more apparent than in Latin America and the Caribbean, the fastest-growing and highest volume remittance market in the world. Currently, more than 180 million separate transactions are sent each year from all over the world to approximately 18 million households across the region, mostly outside of the financial system.

And the process is accelerating, driven by the forces of a global economy and a fully integrating labor market within the Western Hemisphere. Simply put, the economies of developed countries need the skills and dedication of workers from the countries of Latin America and the Caribbean—which, in turn, do not generate enough jobs and income for their own populations.

Remittance flows are now the subject of public discussion and policy consideration, and progress is being made on several fronts. However, significant gaps remain. Competition and awareness have contributed to the decline in the costs of sending money—yet in an era of electronic transfers, they remain too high. Data collection is improving, but is still not comprehensive, uniform or systematic, thereby impeding informed policymaking. Moreover, remittances are financial flows in search of financial products, yet few financial institutions are meeting the needs of transnational families, and public authorities have done little to create the environment to leverage these flows.

The Inter-American Development Bank is working with major stakeholders—money-transfer companies and financial institutions, public authorities, civil society, transnational families, and other international organizations—to promote the development potential of remittances. This will require intense concentration on at least three areas: improving regulatory and institutional frameworks, increasing competition to lower transaction costs, and promoting financial democracy.

The road to financial democracy presents great challenges and historic opportunities. When financial systems across the region do not serve the majority of the population, an "intermediation gap" is reflected in the shallow financial markets that perpetuate inequality across the region—particularly in rural areas.

Yet the scale and scope of remittances can be a powerful lever to open up financial systems, mobilize savings, generate small business loans, and multiply development impact for local communities in many other ways.

Considered alone, remittances are a symptom of disparate opportunities among countries. But coupled with the right incentives framework and technical capacities, these can be an important resource for the development of poor countries. In sum, let us hope that the hard work, thrift, and devotion to family demonstrated by so many new migrants can be channeled into a source for the development of their homelands.

Enrique V. Iglesias
President
Inter-American Development Bank

PART 1

THE CHANGING WORLD OF REMITTANCES

This page intentionally left blank

Chapter 1

Remittances as a Development Tool

Donald F. Terry

Hidden in Plain Sight

Call it the case of the missing billions. For decades, millions of migrant workers have been sending billions of dollars back to their home countries to support their families. Yet the impact of these huge international flows of both money and workers is only beginning to be understood.

Foreign workers sent at least $175 billion to their countries of origin in 2004, the Inter-American Development Bank (IDB) estimates. More than $45 billion flowed from the rest of the world to Latin America and the Caribbean (LAC) alone in 2004—exceeding the *combined total* of foreign direct investment and foreign aid once again for the entire region (see map 1.1). And these figures undoubtedly underestimate the actual totals, because of problems in counting and tracking these flows—known as remittances.[1]

Moreover, these totals are cash amounts. They do not include periodic transfers of goods such as computers and household appliances. These can also serve as investment goods, especially in informal microenterprises—a major economic sector unit in all developing countries. These so-called in-kind remittances can amount to more

[1] Currently, there are no internationally comparable data on remittances—unlike other categories of financial flows, trade in goods and services, and various forms of technology transfer that are carefully monitored, documented, and reported. In this volume, various authors use different estimation methods and data sets to derive figures on remittances; these are documented in the respective chapters. The IDB estimates of remittances are based on survey evidence, rather than relying solely on the central bank data that underlie much other international reporting. This choice reflects the unanimous acknowledgment of experts that central bank data severely understate remittance flows. As a result, the World Bank documents "official remittance" flows at about $100 billion worldwide, but estimates that perhaps an equal amount of "unofficial remittances" are uncounted. The World Bank is in the process of developing uniform standards for surveys to be used to estimate remittance flows worldwide.

Map 1.1. Remittances Received in the Americas, by Country, 2004 ($millions)

Source: MIF-IDB 2005.

than a quarter of the value of monetary transfers in some households and communities.

Money and goods are one side of this international equation. Workers are the other. Workers leave their home countries for higher paid jobs abroad and, through a combination of hard work and thrift, send a portion of their earnings back home to support their families. Today, 1 in 10 people around the world is directly involved with remittances—either sending them or receiving them. Approximately 125 million workers send money to support another 500 million family members back home.[2]

[2] The estimate of 500 million people is based on the experience in Latin America, where remittances, on average, support 4.5 family members.

But these huge sums of money and flows of workers have been hidden in plain sight for decades. Why?

First of all, remitters to Latin America and the Caribbean usually send money in small amounts: $200 to $300 each month is most typical. In other parts of the world, monthly amounts can be much less, often ranging from as little as $50 to $100.

Moreover, workers often send remittances in ways that lie outside of any formal financial system. Some money is still hand-carried. Unlike in some other regions of the world, where banks play a more prominent role in sending money home, migrants from Latin America and the Caribbean mostly rely on international money-transfer companies or local neighborhood operators for their remittance transactions. Since the vast majority of these remitters and their families do not use banks, they have not traditionally been counted in the financial statistics collected to track international financial flows.

As a result, the main organization that tracks international financial flows, the International Monetary Fund, for years literally relegated billions of dollars of remittances to the "errors and omissions" category of its accounts. As central banks in Latin America are beginning to track remittances more thoroughly, they are revising their estimates upward by 200 to 300 percent for some countries. For this reason it is difficult to determine exactly how much of the recent "increase" in remittances is due to improved reporting and how much to increasing volumes—although 2004 figures now provide a much more accurate baseline for future comparisons.

There is another, even more basic reason why remittances have been undercounted: because the people who send them figuratively "do not count." They are typically poor and largely invisible—both at home and in the country where they migrate to work. Many come from poor areas in their home countries, where their extended families still reside. Many work in low-skill, low profile jobs—jobs that nevertheless are in high demand in their new countries. And they save a far higher percentage of their income than average households in rich countries do, and these savings translate into widening flows of remittances.

Redrawing the Map of Global Labor Markets

Family by family, worker by worker, migrants are redrawing the map of global labor markets. More than 25 million Latin American and Caribbean migrants form part of a large and growing global diaspora. Of these, approximately 22 million are in the developed economies of

North America, Europe, and Japan, while another 3 to 5 million work in neighboring countries of Latin America or the Caribbean.

For example, there are now significant concentrations of Bolivians in Argentina, Nicaraguans in Costa Rica, Guatemalans in Mexico, Haitians in the Dominican Republic, Colombians in Venezuela, and Peruvians in Chile (see chapter 9).

Although the fastest-growing increase in the percentage of remittances to Latin America and the Caribbean is from Western Europe (Spain, Italy, and Portugal), the United States remains by far the foremost destination for migrant workers from LAC. At least 12 million adults from Latin America and the Caribbean—over 60 percent of the total living in the United States—send money home to their relatives on a regular basis, typically once a month.[3] This ongoing process results in almost $35 billion a year in remittances to this region from the United States.

Within the United States, the map of foreign workers is also being redrawn. In fact, significant amounts (over $50 million) are sent annually from 37 states and the District of Columbia, demonstrating that the dispersion of this workforce extends far beyond traditional border states. Migrants in the most recent destinations for Latino workers[4] (Georgia, North Carolina, Virginia, Colorado, Massachusetts, Maryland, Nevada, and Washington) tend to send money home more often than migrants living in other states (map 1.2).

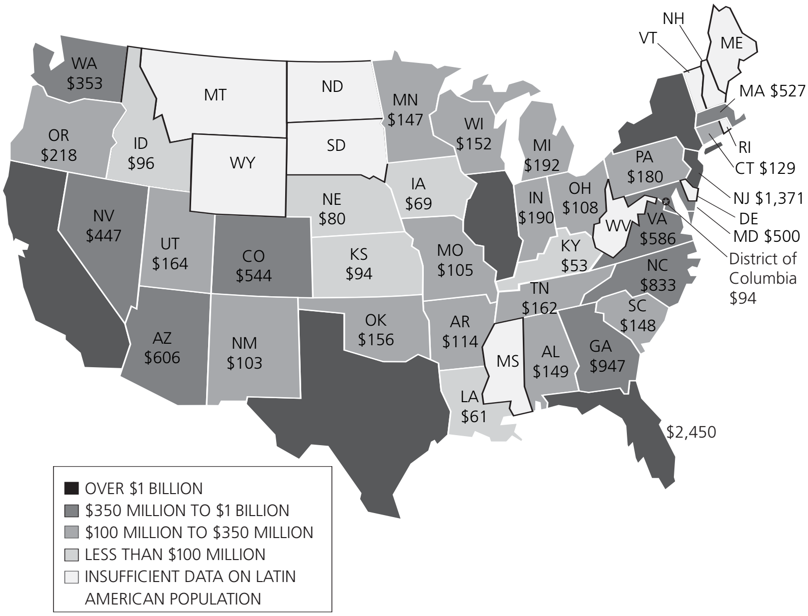
As a result, Latin America and the Caribbean comprise the highest volume remittance market in the world. Indeed, the Western Hemisphere as a whole is increasingly functioning as an integrated labor market.

This movement of labor across borders constitutes an international market in which people rationally move to where the jobs are. But the driving force behind this process is a fundamentally human connection: workers move abroad to support family members and protect their futures at home. The millions of decisions to go abroad and send money home are driven by both altruism and a mix of harder-nosed objectives described as "insurance motives" in chapter 3. Yet the commitment to family remains at the core of these flows. In this sense, remittances can be truly characterized as the human face of globalization.

[3] Another 2 to 3 million occasionally send remittances home to relatives.

[4] This analysis does not include remittances to Haiti or to Belize, Guyana, Jamaica, or other English-speaking countries in the Caribbean.

Map 1.2. Remittances Sent to Latin America and the Caribbean, by U.S. State, 2004 ($millions)



Source: MIF-IDB 2004b.

The process is also profoundly entrepreneurial. Facing increasingly limited prospects at home over the past two decades, workers in Latin America and the Caribbean—particularly from rural areas—have bypassed their own cities in favor of moving directly abroad. Like entrepreneurs who seek markets around the world, foreign workers cross borders in search of comparative advantages (see chapter 2). Although they see their immediate destination as a place to earn a better wage, they may still view their home country as a better place in which to raise their children or eventually retire.

In this regard, remitters and their families are forging a new kind of family—the transnational family—living in and contributing to two cultures, two countries, and two economies at the same time. This pattern, and this new wave of labor mobility, differ from previous ones. In the not-too-distant past, leaving the home country meant severing virtually all ties. Today, cheap air travel, long-distance communication, e-mail and computers, and a multitude of other links (including the growing potential for the electronic transfer of funds) are allowing families to convey money, information, and even affection relatively quickly and easily across borders. As a result, these families are surmounting traditional geographic boundaries, creating new forms of social and economic interconnections.

The Economic Power of the Poor: Leveraging the Impact of Remittances

If individual remitters and their families are too often invisible, the economic power of millions of the poor is increasingly evident. In fact, the dividing line between the poor and the non-poor is less about the existence of assets than about the *use of these assets*. The pioneering Peruvian economist Hernando de Soto's observations on the poor and property are equally germane to remittances: "For poor countries to develop, the poor and lower middle classes must be allowed to use their assets in the same way that wealthier citizens do…[these assets] can become more productive and generate capital for their owners, growth for the nation, and markets for industry" (de Soto, 2001, p. 1).

In a similar vein, Professor C.K. Prahalad, author of *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*, observes: "If we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity will open up" (Prahalad, 2004, p. 1).

Remittances have become critical to the survival of millions of families and to the health of many national economies. Yet this channel remains largely undeveloped with respect to providing the poor with more options in using their own resources to benefit their families and their local communities.

At the household level, remittances are a critically important source of support for about 20 million families in Latin America and the Caribbean, often averaging half or more of household income. The bulk of remittances—about 80 to 85 percent—are used to cover basic necessities such as food, housing, and utilities. For millions of these families, many living on a few thousand dollars a year, regular remittances and periodic transfers of goods make a huge difference in their standards of living.

Unlike foreign aid, remittances go directly to families in places that are the most difficult to reach with development assistance—such as those living in remote rural areas.

Remittances are also showing remarkable staying power—partly because they support household survival back home. While foreign direct investment and other capital flows have fluctuated with market cycles, remittances have increased—even during economic recessions (see chapter 8). For instance, remittance flows to Latin America and the Caribbean continued to grow during the U.S. economic downturn of 2001–02.

Besides their direct impact on current family incomes, remittances provide an essential development impact for another reason: they are also being used to fund investments in the future.

Families use them to pay school fees for children in the home country, thereby investing in "human capital" for the next generation. Some remittances are funneled into investment goods, such as tools or as a source of operating capital for small businesses. At least 40 percent of the start-up capital of Jamaican small businesses in one sample was funded by remittances, according to a study cited in chapter 11 of this volume.

Indeed, for many poor households with severely limited access to credit, remittances may be their *only* source of finance.

Moreover, remittances are used to purchase land or homes. Some remitters hope to return or retire to their home countries. Others send money to their families so they may repair or upgrade their homes. Such outlays are beyond ordinary consumption, given the primary importance of housing, as well as the fact that many productive activities take place in the home.

Up to 20 percent of remittances are available for savings, educational expenses, or small investments, various studies suggest. In Latin America and the Caribbean, for example, between a quarter and a third of remittance recipients put some of their money toward these uses.

While the percent of remittances going to such uses may be relatively small, given the total size of these flows, these cumulative amounts are significant (see chapter 2). At the country level, remittances serve as an important source of foreign exchange, facilitating imports that cannot be funded from domestic sources. At the same time that official development assistance and foreign direct investment have slowed or fallen in many developing countries, remittances continue to provide a reliable alternative source of foreign exchange that can compensate for diminishing inflows (see chapter 11).

Remittances also act as a cushion against shocks. Transfers tend to soar after hurricanes (such as Mitch in Honduras and Nicaragua), earthquakes (in Central America and Peru), and other natural disasters. Remittances are also a buffer against economic meltdowns caused by significant financial sector problems, or political instability. For low-income migrants and their families, remittances act as a kind of safety net and as a form of insurance (see chapter 4).

Given the magnitudes of these flows, remittances represent an enormous range of potential opportunities not only for individual families, but also for local communities and national economies. At the macroeconomic level, remittances can have a powerful impact through the multiplier effect—on GDP, job creation, consumption, and investment. In chapter 7, Germán Zárate-Hoyos found that remittance inflows in Mexico delivered significant income and production multipliers under a variety of scenarios. Conversely, each $100 decline in remittances from the United States leads to a $25 decline in physical investment and a $13 decrease in schooling investment, another study of Mexico shows. MIF has found that mainstreaming remittances into the financial systems of recipient countries can significantly increase the income multipliers of these flows (Hinojosa-Ojeda 2003).[5]

The Next Challenge: Financial Democracy

Five years ago, very little was known about remittances beyond anecdotal information. To help fill this void, the Inter-American Development Bank, through its Multilateral Investment Fund (MIF), commissioned a series of comprehensive remittance surveys in both sending and receiving countries.[6] Since 2000, the MIF has worked with government agencies, remittance institutions, and nongovernmental organizations to improve data and understanding of the amounts and demographic characteristics of this phenomenon, and help reduce the often exorbitant costs incurred in the process of sending money home.

Five years later, we now have a much more accurate accounting and understanding of LAC remittance flows and their development potential. Indeed, in 2004 the issue of remittances was front and cen-

[5] Despite the benefits of remittances at the household level, some observers have suggested that remittance inflows can cause "Dutch Disease," dependency, labor disruptions and other effects (see chapter 15). Others assert that "the bottom line is that remittances undoubtedly considerably raise the standard of living of recipient families and their returning members and have, on balance, beneficial macroeconomic effects for the migrant home country," as Lianos and Glytsos argue in chapter 12.
[6] For results, see the MIF web site at http://www.iadb.org/mif/v2/remittances.html

ter at three major international forums: The Summit of the Americas (January), the European Union/Latin American and Caribbean Summit (May), and the G-7 Summit (June).

Five years ago, the average cost of sending remittances to Latin America was more than 15 percent of the value of each transaction, underscoring the reality that it is indeed expensive to be poor. Five years later, with more competition, advances in technology, and improved awareness, the cost of sending money has been cut in half. As a result, sending and receiving families now have an additional $3 billion available each year for their own use and purposes.

Great progress has been made, but much more needs to be accomplished.

Clearly, the huge scale of LAC remittances can be a powerful lever to open up financial systems, mobilize savings, generate small business loans, and multiply the economic impact for millions of individual families, as well as the communities where they live.

But unleashing this potential will require fixing historic inequities in the financial systems of Latin America and the Caribbean and other developing regions. These current systems generally serve only the social and economic elites of their population. As a result, the great majority of families do not have access to savings accounts, loans, or mortgages, and small enterprises find it very hard to get credit or other financial services they need to grow their businesses. The resulting "intermediation gap" helps to perpetuate inequality.

Meanwhile, remitters are generating billions of dollars through hundreds of millions of individuals as "cash-to-cash" transactions totally outside of the financial system.

These remittances can be seen as financial flows in search of financial products. Yet few financial institutions are meeting the needs of these transnational families, and few public authorities are creating enabling environments to leverage these flows.

The very process of sending and receiving remittances provides an enormous opportunity for millions of families to enter the world's financial system: to open a savings account, or obtain a loan or mortgage. This is a critical first step to entering the financial mainstream for individual families and reaching the goal of financial democracy for a country.

Remittances can be the point of entry for many remitters and their families to the formal financial system. Most remittance families are either "unbanked" or have only limited dealings with financial institutions.

This represents an important business opportunity for banks, credit unions, microfinance institutions, and cooperatives—in both developed and developing countries—to introduce new customers to a range of financial services.

The beneficial possibilities of "banking" remittances have led MIF and others to explore ways to improve, widen, and deepen financial services to remitters and their families as a cornerstone of economic development. A recent study published by the North American Integration Department (NAID) at UCLA indicates significant development impact if there is an increase in remittances moving through the financial system, such as banks or credit unions (Hinojosa-Ojeda, 2003).

Financial democracy also requires new partnerships: with civil society, nongovernmental organizations, microfinance institutions, and others close to remitters and their families. One promising avenue is partnerships with Hometown Associations (HTAs). These are informal associations of emigrants who come from the same town or region in home countries. In recent years, they have spread across the United States, and have enjoyed some success in the channeling of remittances, building productive networks with hometowns and expatriate investors, and collaborating on the resolution of practical issues with home governments (see chapters 7, 8, and 10).

Financial democracy requires not only new partnerships and new initiatives to leverage the money; it requires new approaches and new attitudes toward handling it.

Public authorities are used to regulating and taxing money. Development institutions such as the World Bank, the IMF, and the IDB are used to putting conditions on the money they lend.

Remittances are different. They are essentially private transactions between private parties. The money is family money: family members work hard to get it and endure considerable sacrifice to accumulate it. It is not an exaggeration to say that the transfer of remittances represents the ultimate in family values: hard work, thrift, sacrifice, and hope for a better future.

Every party involved in the remittance process needs to be involved in order to provide more and better options for remittance families to use their own money. To this end, MIF has drawn up a set of core principles to help organize and focus priorities for this collective effort (see chapter 15). Underlying all of them is one basic fact: *It's their money*. Remittances amount to the hard-earned gains of hard-working people. The money rightly belongs to them and their families.

Recognizing Reality

The emergence of remittances as an important issue for development policy has generated some backlash among politicians and academics. It has also created some confusion about the nature of remittances.

Although the issue of remittances is now out in the open, many of the people who send them remain in the shadows. The substantial majority of LAC migrants live and work legally in developed countries—but there are millions of others who remain undocumented.

In this regard, President Bush of the United States recently noted that "family values do not stop at the border." But legal documentation does; thus remittances are becoming part of the politically charged debate surrounding immigration.

The reality is that globalization is undoubtedly accelerating and expanding the process of remittances. Over the past quarter century, international migration has increased at more than four times the rate of world population growth. Each year, millions of people continue to leave their villages and hometowns in developing countries to seek jobs and better lives for themselves and their families. Today, the number of economic migrants (approximately 175 million) would alone constitute the sixth most populous country in the world.

The basic economic equation continues to be quite simple: the economies of most developed countries need migrant labor, and their families back home need the remittances that come from their earnings. So people move "North" by the millions, and money moves "South" by the billions.

Over the past decade, the world's political system has adopted many new rules and mechanisms to facilitate the realities of international trade, investment, and communication. The same needs to be done for the people who move abroad as part of this globalization process. Even though this goal has become more complicated over the past few years because of border security issues raised by increased terrorist threats, no one seriously suggests that undocumented workers be repatriated to their home countries: too many economic sectors of too many developed countries would be adversely affected. So immigration laws need to reflect the reality of the new "labor markets" of our globalized economies.

Recognition of the scale and scope of remittances has also led to various concerns by academic experts about the role and viability of remittances as a strategy of economic development. Some of these concerns are addressed elsewhere in this book (see chapter 15). But while the experts debate and measure, the daily reality of remitters and their families is leading to an explosion of remittances. The millions of decisions made each year to migrate and remit are individual decisions made in the best interest of individual families. These decisions are grounded in the reality of the lives of the families involved, not by econometric models or abstract theory.

Indeed, Latin America and the Caribbean has become the fastest-growing remittance market because the region cannot produce enough jobs and income. Around the world, the growth in remittances is no cause for celebration: it is a call for better solutions.

In a related confusion, there are some who advocate reducing or eliminating foreign assistance to any country receiving significant remittances. Here again, it needs to be understood that these flows are neither charity nor foreign assistance. Remittances are derived from the payment for services rendered by migrant workers.

The Way Ahead

Over the past five years, remittances have undergone dramatic changes. Over the next five years, the system can be entirely transformed.

By the end of this decade, remittances to Latin America and the Caribbean can be moved from the current "cash-to-cash" system into the electronic or digital transfer system of "accounts-into-accounts." The technology is already available; what is needed are entrepreneurial business plans and appropriate regulations frameworks. The costs of sending money will continue to fall. More people will be brought into the financial system, and remittances will be leveraged by linking flows to local microfinance institutions, home mortgages, and even the securitization of bonds for on-lending to local small businesses.

Remittances are inseparable from the more politically visible issue of migration in host countries. As awareness of the enormity of remittances increases, the subject will at times blur into the broader discussion of immigration policy—particularly where a large constituency in host countries favors tighter immigration rules, both on economic and national security grounds. As Sheila Bair discusses in chapter 5, legitimate concerns regarding terrorism and money laundering (particularly in the United States) can complicate the discussion of migrant remittances.

The MIF has crafted a set of principles for remittance institutions, public authorities, and civil society, and is actively collaborating with other international organizations to improve the quality of remittances data and improve the impact of these flows on the lives of millions.

Remittances remain private flows in search of public opportunities. They are at once symptomatic of economic failure and of the heroic endurance of family values across time and space. Overall, the largest task remains: to provide remitters and their families with more financial options. To reiterate: it is their money. Greater financial choice will allow for millions to make more prudent decisions for themselves and their families.

It is MIF's hope that the studies in this book will contribute to the international understanding of remittances, lead to better policies and practices, and turn these hard-won resources into a source for the development of migrants' homelands.

About this Book

This book, drawing on survey evidence, detailed analysis of case studies, and comparisons across countries and regions, paints a picture of remittance flows that cross borders and sometimes generations to transform lives. While the emphasis is on Latin America and the Caribbean, various chapters also examine Europe, the Middle East, and Asia. Many of the book's policy implications are applicable around the world.

Part 1 takes a look at the changing world of remittances. **Chapter 2** by Roberto Suro, Director of the Pew Hispanic Center, Washington, D.C., presents a strong and original view of the importance of remittances—not just for developed countries, but for developing ones, as well. The chapter draws on original survey research and speaks movingly of the needs and aspirations of remitters and their families.

In **chapter 3**, Sergio Bendixen and Erin St. Onge of Bendixen & Associates use detailed public opinion research to provide more evidence of the increasing role played by remittances in the lives of transnational families in the Americas. Their work indicates that remittances now account for a quarter or more of the annual income of most recipients in countries across Latin America. Moreover, they find some significant geographical differences in the choices made by remittance senders and receivers, particularly between migrants in the United States and Japan, regarding the use of banks, savings, entrepreneurial plans, and other decisions.

Why, when, and how do immigrants remit money home? **Chapter 4** by Susan Pozo of the Department of Economics, Western Michigan University, finds that remitters and their families in the home country use remittances to smooth consumption, compensate for unexpected losses, and accumulate capital to make improvements or investments to enhance their wealth. Indeed, Pozo notes, risk-pooling arrangements among family members appear to substitute for a lack of formal insurance markets and safety net programs.

Part 2 looks at the money-transfer and financial industries that deal with remittance flows. The remittance market remains dominated by a few large companies. The most common means of dispatching remittances to Latin America and the Caribbean, for example, remain wire transfer companies such as Western Union or MoneyGram; 70 percent of senders to LAC report that they use such firms. In **chapter 5**, Sheila Bair, former U.S. Assistant Treasury Secretary for Financial Institutions, presents an analysis of what U.S. banks, thrifts, and credit unions need to do to serve an increasingly important customer base: recent Latin American immigrants in the United States.

Remittances and microfinance are the focus of **chapter 6** by María Jaramillo of ACCION International, Washington, D.C. Microfinance institutions (MFIs) offer a promising means of reducing transfer costs and leveraging the economic impact of remittances. They provide banking services to communities that receive remittances, and their infrastructure and experience providing microfinance products to low-income entrepreneurs place them in a good position to offer financial services tailored to the needs of immigrants and recipient households.

Part 3 presents a series of case studies on the scope and impact of remittances in Latin America and the Caribbean. Subregions including Central America, the Caribbean, and the Andean all report increases in remittances. Migration also follows a North/South pattern in movement within the region and to other parts of the world. **Chapter 7** looks at the largest, oldest, and arguably the most complex relationship of migration and remittances in the Western Hemisphere: the case of the United States and Mexico. "Given its 2,000-mile border with the world's most industrialized country, Mexico offers a unique opportunity for analyzing the economic and social impact of migration on both the home and source country," notes Germán Zárate-Hoyos of the Department of Economics, El Colegio de la Frontera Norte, Tijuana, Mexico.

The role of remittances in Central America is the focus of **chapter 8** by Manuel Orozco, Senior Associate at the Inter-American Dialogue, Washington, D.C. The economic and political crises of the 1970s and 1980s have led to a growing diaspora of Central Americans, which is changing many traditional social and economic practices across the region. This chapter analyzes these changes, paying close attention to the impact of family remittances.

In **chapter 9,** Patricia Weiss Fagen and Micah Bump of the Institute for the Study of International Migration, Georgetown University, Washington, D.C., look at remittances from middle-income to poorer countries in three representative cases: Nicaraguans remitting from Costa Rica; Haitians remitting from the Dominican Republic; and Bolivians sending money home from Argentina.

The role of remittances in the Andean region (Bolivia, Colombia, Ecuador, Peru, and Venezuela) is the focus of **chapter 10** by Andrés Solimano of the Economic Commission for Latin America and the Caribbean (ECLAC), Santiago, Chile. Remittances to the Andean countries have increased dramatically in recent years. Ecuador is currently the largest recipient in the Andean region, where remittances equaled about 7 percent of the country's GDP in 2002. Bolivia, Colombia, and Peru have also experienced a rapid surge in remittance flows.

Only a few studies in the last decade have assessed the role remittances play in the economic and social development of the English-speaking Caribbean. **Chapter 11** by Professor Claremont Kirton, University of the West Indies, Mona, Jamaica, attempts to fill this gap. The chapter analyzes trends in remittances to the 12 English-speaking CARICOM member-countries, explores the contribution of remittances to Caribbean regional development, and assesses policy options. It takes a special look at Jamaica because remittances to Jamaica are so significant in the Caribbean context.

Part 4 looks at other parts of the world to gain a broader understanding of the sweep and import of remittances. Of total global remittances, 32 percent originate in the United States, 35 percent in the Middle East (25 percent from Saudi Arabia alone), and 16 percent in the European Union. The role of remittances in Europe is the topic of **chapter 12** by Professor Theodore Lianos, Professor at the Athens University of Economics and Business, and Nicholas Glytsos, Principal Researcher of the Center of Planning and Economic Research in Athens, Greece. Europe is now a net receiver of migrants. Even southern Europe—a traditional source of migrants to the rest of Europe and the world—has become a net receiver of migrants. "Add the considerable movement of people within the European Union itself, and it is clear that migrants' remittances are transferring large amounts of foreign exchange."

The role of remittances in the labor-exporting countries of the Middle East and North Africa is the focus of **chapter 13** by Professor Mohammed El-Sakka, Department of Economics and Finance, Kuwait University, Kuwait City. These countries encompass the "old" labor exporters (including Algeria, Morocco, and Tunisia) and the "new" labor exporters (Egypt, Jordan, Sudan, Syria, and Yemen). The scale of emigration to the Gulf area has been massive, with several national populations becoming a minority in their own countries.

The Asian experience in remittances is examined in **chapter 14** by Professor Graeme Hugo, Director, National Centre for Social Applications of Geographical Information Systems, University of Adelaide, Australia. More than half the world's 175 million international migrants originate in Asia. Two main types of migrants send money to Asia. The first is a diaspora of permanent settlers of Asian origin, most of them living in OECD nations. The second are contract labor migrants, of whom Asia is the preeminent source in the world.

Finally, **Part 5** examines future trends and prospects for remittances. In **chapter 15**, Manuel Orozco of the Inter-American Dialogue and Steven Wilson of the Multilateral Investment Fund focus on future trends and emerging actors in the remittance market in Latin America and the Caribbean. Remittances have surged with the rise of transnational networks based on the "five Ts": tourism, transportation, telecommunications, nostalgic trade, and the transfer of remittances. The authors also discuss the critical views of remittances held by some. The chapter presents the recommendations and principles by the Multilateral Investment Fund of the Inter-American Development Bank to remittances institutions, public organizations, and civil society for improving the social and economic impact of remittances.

Bibliography

De Soto, Hernando. 2001. *The Hidden Architecture of Capitalism.* Lima: Institute of Liberty and Democracy (also available at www.ild.org.pe/eng/articles_en1.htm)

Hinojosa-Ojeda, Raul. 2003. Transnational Migration, Remittances and Development in North America: Globalization Lessons from the OaxaCalifornia Transnational Village/Community Project. Report prepared for MIF-IDB on behalf of the North American Integration Department, University of California, Los Angeles, and presented at MIF conference, Remittances as a Development Tool in Mexico, October 28, Mexico City.

Multilateral Investment Fund of the Inter-American Development Bank (MIF-IDB). 2004a. Leveraging the Impact of Remittances to Latin America and the Caribbean. Washington, D.C.: Multilateral Investment Fund.

———. 2004b. Sending Money Home: Remittances to Latin America from the United States. Washington, D.C.: Multilateral Investment Fund.

———. 2005. Transforming Labor Markets and Promoting Financial Democracy. Washington, D.C.: Multilateral Investment Fund.

Prahalad, C.K. 2004. *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits.* Upper Saddle River, N.J.: Wharton School Publishing/Pearson Education Inc.

This page intentionally left blank

Chapter 2

A Survey of Remittance Senders and Receivers

Roberto Suro

Remittances: Small Senders, Big Business

Until recently, the financial behavior of Latino immigrants in the United States and of their families back home aroused little attention outside their own communities. However, with the doubling of total remittance flows from the United States to Latin America and the Caribbean during the second half of the 1990s, attention has turned to what has become the largest single remittance channel in the world. By the standards of international finance, the size of the average remittance transfer by migrants is miniscule—$200 to $300—but the cumulative sums have now captured the attention of governments, international organizations, and financial institutions across the Western Hemisphere. Not long ago, remittances were part of a cottage industry in which cash was often hand-carried across borders. Now remittances are big business and are widely recognized as a source of vital income to many developing countries and an important form of economic activity among nations.

What has not changed is that the population of remittance senders and receivers is comprised primarily of people with modest education, low earnings, and a lack of familiarity with banking systems either in the United States or in their home countries. These are people whose voices are rarely heard in the halls of government or corporate boardrooms. Yet these same people create and consume wealth, and their financial decisions will shape the future of the remittance-transfer industry and have a profound impact on the economic development of their home countries.

In order to better understand remittance flows, the Pew Hispanic Center (PHC) and the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) have collaborated on a series of studies that have examined remittance sending and receiving from more than 15,000 individuals in the United States and Latin America (PHC-MIF 2003). The annual National Survey of Latinos conducted by the Pew Hispanic Center and the Kaiser Family Foundation in the United States in 2002 and 2003 collected data on the demographic characteristics and remittance-sending habits of Latinos in the United States (PHC-KFF 2002). Intensive interviews with 302 remittance senders conducted in 2002 in Miami and Los Angeles provided insights into financial practices and attitudes toward various means of transferring funds. In addition, a series of surveys and focus groups were conducted in 2003 in Ecuador, El Salvador, Guatemala, Honduras, and Mexico that explored the relationship between senders and receivers, how the remittances are spent, and the impact of remittance channels on migration.

Migration as an Escape Valve, Remittances as a Fuel Pump

At the simplest level, remittances reflect the profound emotional bonds and constant interaction between relatives separated by geography and borders. Remittances arise from individual and family decisions regarding migration and the need for additional income. These families, living partly in the United States and partly in their country of origin, are now highly integrated transnational economic units. In reality, families linked by remittances are quintessential players in the era of globalization. In common with entrepreneurs who seek markets, capital, and labor around the world, transnational families also hop borders in search of competitive advantages. They see the United States as a place to earn better wages, but may view Mexico as a better place to raise children. Remittance senders and receivers live in what sociologist Manuel Castells calls the "space of flows": a timeless place marked by transnational networks operating beyond traditional institutions and communities (Castells 1996). Although the term is usually applied to the very rich, it relates to people of much humbler origins as well. More than income, family networks are the key element in this space, enabling migrants to seek opportunity wherever it can be found. Their digital and family networks allow them to convey money, information, and affection across borders. They have successfully rebelled against geography and redrawn the map of the Western Hemisphere with new networks of economic interconnection.

Today's remittance flows to Latin America are an obvious outgrowth of the migration to the United States that has been building momentum for a quarter century. The U.S. economy demonstrated a tremendous appetite for immigrant workers during the boom of the late 1990s, and continued to provide job openings for substantial numbers of new arrivals, even during the slack times in 2001 and 2002. In Latin America, remittances have now become essential to the survival of millions of families and entire national economies. Remittances and migration form part of a single channel through which people move north and money moves south. The efficient functioning of this channel is now central to the social and economic stability of many countries across the hemisphere.

The PHC-MIF studies show that these funds prevent significant numbers of working-class families from slipping into poverty. If remittances were suddenly cut off, fragile domestic economies would be imperiled by declines in domestic consumption. Moreover, though most remittances are spent on food and rent, anywhere from a quarter to a third of remittance recipients report putting some of their money into savings, educational expenses, or small investments (PHC-MIF 2002). Given the size of the flow, the fraction of total remittances destined for these uses far exceeds the economic aid and development assistance that wealthy countries are putting into the region.

In the past, migration was often described as an "escape valve" that offered alternatives for workers who could not find jobs in their home countries. While this remains an important aspect of migration, the movement of people out of Latin America has also become an important source of sustenance for those who remain behind, as well as a significant source of income for Latin American economies. Migration is not only an escape valve—it is now also a fuel pump.

A Profile of Remittance Senders

Remittance senders are not evenly distributed across that population, but tend to be concentrated among more recently arrived immigrants. At least half of all Latino immigrants who have been in the United States for 10 years or less are regular remittance senders. Over time, the flow of money drops off among those with longer tenure. However, almost a quarter of the immigrants who have been away from home for 20 to 30 years still send money back to their relatives (MIF-IDB 2004b).

The MIF surveys confirm this pattern. In Mexico, for example, respondents with family members abroad for five years or less were almost twice as likely to receive remittances on a regular basis than families with relatives who have been abroad for longer periods. Two-thirds of remittance senders dispatch money at least once a month, and three-quarters of the most recent arrivals in the United States (those present for less than five years) send money at least once a month. Most remitters (56 percent) dispatch between $100 and $300 at a time.

Wire transfer companies such as Western Union and MoneyGram are by far the most common means of dispatching remittances, with 70 percent of senders reporting that they use such firms. Currently, only 11 percent of senders reported using banks, although several major U.S. banks have entered the market in the past two years with new remittance transfer products. A sizable 17 percent said they used informal means such as the mail or individuals who carry the funds by hand.

What do Latino immigrants know about the costs they pay to transfer money home? How do they choose among the various means of sending remittances? What do they think about U.S. banks and other institutions that are entering the remittance-sending business? In 2002, the Pew Hispanic Center and the Multilateral Investment Fund commissioned a study composed of in-depth personal interviews in order to understand the views remittance senders have of remittance transactions and of financial institutions (PHC-MIF 2002). Standard survey techniques to ensure random and representative sampling were judged inappropriate for this investigation because these methods frequently underrepresent the poor, the undocumented, and the foreign-born. Furthermore, bias is often introduced in polls that deal with personal finances and legal status because many people decline to disclose such information.

For this study, 302 participants were interviewed in July and August 2002 in Miami and Los Angeles. The participants were over 18 years old and were born in Latin America. All reside in the United States and regularly send remittances to their families in their home countries. The pool of participants reflects the distribution of national origins among foreign-born Latinos residing in the United States. All of the participants were interviewed in Spanish by two teams employed by Bendixen & Associates, a Miami-based public opinion research firm that specializes in the Latino population.

Almost all of the Latino immigrants interviewed send money home to help families pay for basic living expenses, such as rent, utilities, and food—rather than for savings or business endeavors. The desire to contribute to a family budget back home is a major factor in the decision to migrate to the United States. A majority of migrants send money home monthly, while a sizable minority remit at least quarterly. Given that the international transfer of funds is a major goal, it might seem surprising that a large proportion of those interviewed have no regular relationship with a bank or other financial institution.

In the Pew Hispanic Center/Kaiser Family Foundation 2002 National Survey of Latinos, 43 percent of the respondents who sent remittances regularly did not have a bank account, and 55 percent did not have credit cards. Among the senders who were interviewed in depth, 58 percent said they did not have bank accounts. A large majority of those interviewed in depth pay bills with cash and do not use checking accounts or credit or debit cards. Lacking bank accounts, many either purchase money orders or use friends' checking accounts when checks are needed.

Many migrants without checking accounts rely on costly check-cashing services that charge fees for every transaction—from cashing paychecks to writing money orders to paying bills. Low levels of awareness and financial literacy characterized many participants' money practices, both for remittances and for personal use. Since most remitters have no bank accounts, they rely on money-transfer firms to send money to their relatives in Latin America. However, even among those that do have bank accounts, relatively few use banks to send remittances.

Participants in the in-depth interviews placed high importance on sending money home. A large proportion send money home before paying their own bills. "*Before anything, I send them the money because they count on it,*" Marisela, a remittance sender, told the interviewers, referring to her family in Mexico. "*Then afterwards I pay my bills, my rent, but the first thing I do is send it.*" A substantial proportion also send all the money they have left over after paying their bills. All but a small fraction place a high priority on remitting compared to other uses of their funds. In fact, over three-quarters of those surveyed consider sending money home to be a top priority in their household budgets, often sending money home before paying their own bills.

The Pew Hispanic Center/Kaiser Family Foundation National Surveys of Latinos showed that remittance senders tend to be young, and those who immigrated at the age of 20 or below have the highest propensity to remit. People with this profile report sending money home for parents or spouses, which according to the participants is a sacred and intensely emotional duty.

As noted, most remittances are sent to pay for necessities, and most remitters exercise little control over these expenditures. "*No, I have never had control,*" said Elizabeth, an interview subject from Guatemala. "*They spend it on stuff like medicine for my mom and expenses they have to pay, and I don't know what else for.*" However, money sent for investment purposes is subject to greater control and oversight. "*Part of it is for them to save for me and the other is for their expenses,*" said Marisela. "*That's why I am so aware of it.*" While senders do employ a higher level of oversight for remittances aimed at savings and investment, they are no more knowledgeable about the remittance transaction process than those sending money for consumption.

The greatest concern expressed by most remitters remains the cost of sending money—even though these costs have been declining recently. Most remittance companies still charge flat fees—a regressive pricing structure that places the average Latino sender at a distinct disadvantage (MIF-IDB 2002a). Given that low-income senders in the United States send small amounts on a regular, often monthly basis, flat fees impose the highest percentage costs on those with the least amount of money. Adding in the fees charged by check-cashing services for converting paychecks into remittances, and the costs of remittances can be disheartening for the unwary remitter.

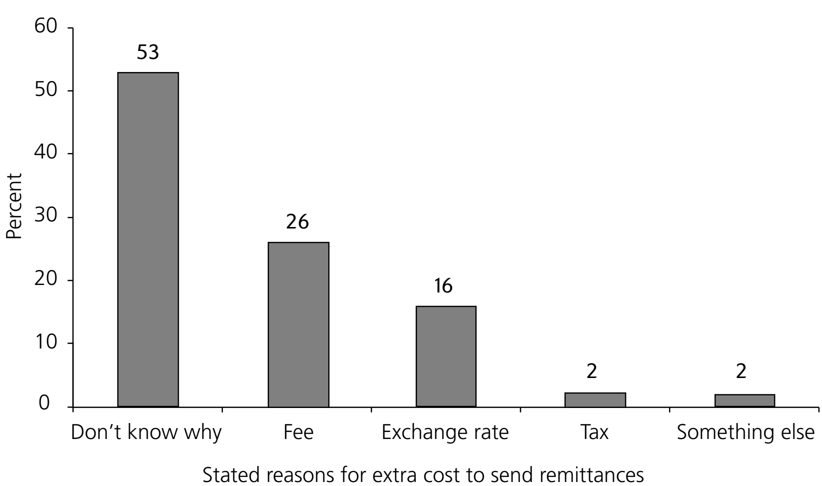
Remitters incur a second set of important, but less recognized costs. These include the fees charged by wire transfer services and banks to convert remitted dollars into local currency—at exchange rates set by these firms. In addition, other fees are sometimes deducted at the receiving end. Senders in this study revealed a lack of awareness as to the total costs of remittances, and many reported that they were surprised that the delivered amount was less than they had expected. For example, Elizabeth, an immigrant from Guatemala, said, "*When they [my relatives back home] go to change it [a remittance] they [the moneychangers] take away 60 quetzales over there. They say it's so that something is left; but I really don't know why or what for. But they have always taken something away.*"

Most commonly, remittances shrink on the receiving end because of profitable exchange rate differentials. Mexican respondents living in Los Angeles were well aware of the extent to which currency conversion reduced the size of their remittances. Many of these participants said they knew the official exchange rate from daily reports in the Spanish-language media and were aware that the rates used by money-transfer agencies were often less favorable. However, this study found that a majority of remitters remains unaware that there are costs in addition to the flat fees charged for a wire transfer. In numerous interviews, participants seemed surprised when the process was explained to them and commented that they had not given it much attention.

As figure 2.1 shows, more than half the participants interviewed had no idea why the sums received by their relatives were less than expected. Only a small percentage of the participants identified exchange rate differences as the source of additional costs. As with consumers in any market, the lack of knowledge among remittance senders limits the efficiency of the marketplace for transfer services and leads to artificially high costs because of lack of effective competition. Some remitters report that they have tried to avoid the costs arising from currency conversion by sending U.S. dollars to their families, only to be thwarted by transfer services that require the exchange of funds into local currency.

More than three-quarters of the participants in this study revealed that they were not well informed regarding the various options for sending remittances. Work by the MIF (MIF-IDB 2001) shows that the proximity of the transfer agency and the speed of delivery are more important to many remitters than the cost of service. The advice of friends and family, advertising, and brand loyalty are also more important for many migrants than cost in making remittance decisions. Habit plays a large role, reflected by the fact that two-thirds of

Figure 2.1. Participants' Perceptions of Why Money-Transfer Services Charge Extra Costs



remittance senders reported that they had done no comparison-shopping with other money-transfer services. Of the few who had checking or savings accounts, less than a quarter understood that banks could also send remittances.

The widespread use of ATMs and bank debit cards in the United States, along with new digital applications to international bank transactions, raise the prospects for increased efficiency in the remittance-sending process. In the United States, Latino remittance senders tend to be young, poorly educated laborers, according to the Pew Hispanic Center/Kaiser Family Foundation National Surveys of Latinos. At first glance, this might seem an unlikely market for computerized methods of money transfer. Yet participants in this study responded enthusiastically when informed about modern banking techniques that might be applied to remittance sending. While these remitters do not have much experience with such technology, the barriers to the use of such tools are hardly insurmountable.

Some participants interviewed in Los Angeles had seen bank advertising offering remittance services via ATM technology. While many remitters have some familiarity with ATMs, credit cards, and other methods to transfer funds, many remain unaware that these tools could be used to remit money to their families. Participants in this study were introduced to a hypothetical banking product similar to those recently launched by several U.S. banks in partnership with overseas banks, primarily in Mexico. This product would permit the use of ATMs at both ends of a remittance transaction. In effect, the remittance sender would make a deposit at a financial institution in the United States and the recipient would make a withdrawal in the home country. Every participant said that they understood such a product, and an overwhelming majority signaled that they would use such a system—particularly if it offered tangible cost savings. In addition, participants cited the potential benefits of speed, convenience, reliability, and safety of such a product. Most respondents, however, were well aware that ATMs and most other advances were not yet available to their families.

Of those who use bank accounts to send remittances, however, many expressed dissatisfaction with the costs of transfers, as well as the cost structures for checking accounts. Typically, consumers must choose the trade-off between minimum account size and fees for services (that is, fees decrease as the minimum balance increases). Minimum balances that eliminate fees—often as much as $1,000—are too high for many Latino immigrants, who send home most of their disposable income in remittances. These criticisms of banks tend to overlook the fact that money-transfer companies, charging flat flees, can prove expensive when sending numerous small transactions. Moreover, bank fees do not seem so high when considering the relatively expensive fees charged by check-cashing services. Nonetheless, there is the widespread perception among remittance senders that bank accounts are not for lower-income people, and that they charge too much for the services they do deliver.

A lack of legal status and accompanying documents are major factors that reduce the participation of remittance senders in the banking system. In fact, remittance senders cite the legal status of immigration as a more significant impediment to banking than any other factor. According to several estimates, at least two-fifths of the adult Latino immigrant population is not authorized to be in the United States (Lowell and Suro 2002). These people cannot legally obtain a social security number, which until recently was a typical requirement to open a bank account. This group also often lacks other forms of identification frequently required by banks, including driver's licenses or rental leases.

Aside from problems associated with documentation, some participants were fearful that applying for a bank account could lead to detention or deportation. The growing acceptance by U.S. banks of Mexican consular ID cards is helping to alleviate this predicament for undocumented Mexican immigrants. For many decades, Mexican consulates have issued a simple identity card for Mexican citizens living abroad known in Spanish as a *Matrícula Consular*. The *matrícula* attests that a Mexican consulate has verified the individual's identity and home address in the United States. To obtain this document, an individual must present a Mexican birth certificate, another official identity document such as a Mexican voter's registration card or driver's license, and proof of an address in the United States, such as a utility bill. The card does not connote any legal status other than Mexican citizenship, nor can it be used for travel, employment, or driving in the United States or in Mexico.

The *matrícula* has become useful for large numbers of Mexican immigrants, and more than any other factor has helped to reduce the barriers to banking for remittance senders. According to Mexico's Secretariat of Foreign Relations, consulates in the United States issued some 740,000 *matrículas* in the first nine months of 2002.[1] Several interrelated factors have produced this surge. For the past several years,

[1] Press Release No. 220/02. October 13, 2002. Secretaría de Relaciones Exteriores. Tlatelolco, D.F. Mexico.

and particularly since Vicente Fox became president of Mexico in 2000, the Mexican government has aggressively expanded the consular services it offers its citizens living in the United States. The terrorist events of September 11, 2001 greatly increased the demand for better identity documents because of increased law enforcement scrutiny of the foreign-born. In the wake of the attacks, a growing number of municipalities from Los Angeles to Waukegan began accepting the *matrícula* as a valid identity document.

By the end of 2002, the Mexican government reported that these documents were accepted by 66 banking institutions, 801 police departments, and could be used to acquire driver's licenses in 13 states. Currently, only the Mexican government offers a specific identity document for its expatriates, although several Central American governments are considering a similar service for their nationals in the United States. To the extent that such documents facilitate remittance flows, they will directly benefit immigrants' home countries.

U.S. banks are moving aggressively to capture a greater share of the remittance market, with the encouragement of both the U.S. and Mexican governments. In principle, the engagement of banks, credit unions, and other financial institutions should produce benefits in the form of lower fees, greater investments in technology, and more efficient remittance flows. However, greater effort will be required by all the parties involved to overcome substantial obstacles. This study, along with early successes by banks that have marketed to Latino immigrants, indicate that a large segment of the remitting population is open to new methods of sending money home. However, the habits formed through familiarity, convenience, and simplicity keep many remitters returning to wire transfer services like Western Union—even when they think they are paying excessive transaction fees and foreign exchange costs. This study also confirms a widespread wariness among remitters with respect to banks, largely because of fees and minimum balance requirements.

These findings suggest that a wholesale move by remitters to banking channels will take place only if banks improve on the services and costs provided by wire transfer firms, at both ends of the remittance transaction. This will involve more than a simple product launch to compete with existing products. Most remittance senders and receivers currently do not have any type of bank account—and probably never have. Banks are challenged to convince two populations—Latino immigrants in the United States and their families in Latin

America—to put their money into institutions that may be unknown and/or viewed with suspicion.

Substantial challenges also face the remitters. A lack of knowledge regarding fees, a reliance on cash, little effort made to learn about sending alternatives—all bespeak low levels of financial literacy. The failure to understand the fundamental workings of a bank account can spell disaster for the neophyte in the form of bounced checks, cancelled accounts, and rapidly mounting fees. Problems that challenge many an American college student could prove all the more daunting to a Latino immigrant trying to manage international money transfers.

Achieving financial literacy will require that remitters change some deeply imbedded behaviors in order to make effective use of U.S. banks. For example, fixed transaction fees are now a standard feature of some new remittance products. Fees for Bank of America's *SafeSend*, for instance, are $10 or $15 for each deposit made in the United States (up to a maximum single deposit of $500, depending on the type of account) into accounts that recipients can draw on using an ATM card in Mexico. Under this system, a remitter who maintains old habits of repeatedly moving small amounts will pay far more than one who accumulates funds and makes a single transfer for the maximum amount. Such programs also allow subscribers to make a minimum number of withdrawals without a fee. *SafeSend*, for example, allows one free ATM withdrawal for each deposit. Thus the recipients will have to change their behavior in order to benefit from such programs.

If Latino immigrants can break the financial cycle of living month-to-month, they will reap benefits beyond reduced costs of remittances. Forming the habit of depositing money in banks is an important first step toward full engagement with the U.S. financial system. This can lead to lower banking costs, interest-paying savings accounts, access to credit, and enjoyment of the tax benefits that accrue to home ownership and retirement savings accounts. When remittances facilitate entry into the U.S. economy, the long-term benefits to the Latino immigrant population—and the overall economy—will be quite substantial.

Remitters will need help in making this transition. Some examples of assistance include various programs of financial literacy training offered by banks to new customers. For example, the North Shore Bank of Brookfield, Wisconsin has mounted registration drives with Mexican consular officials to obtain *matrículas* for immigrants, and then sign them up for bank accounts. Each new customer is offered free training in the basic skills for managing checking and savings accounts. Some Latino groups, such as the National Council of La Raza (NCLR) through its network of 270 affiliate organizations around the country, have promoted successful financial literacy programs. These programs are tied to specific products and tailored to specific audiences, and are delivered by groups or individuals who are trusted by the target community (Yzaguirre 2002).

The nation's regulators also have responsibilities in this area. Sheila C. Bair, then Assistant Treasury Secretary for Financial Institutions, said at an international conference on remittances in 2002, "I would like to reiterate Treasury's support for efforts that will expand the availability and affordability [of] remittances to Latin America. We particularly encourage initiatives that, in addition to providing remittance services, will bring groups that have traditionally been outside of the mainstream banking system into it." A key challenge for federal officials, Bair said, will be to implement anti-terrorism and anti-money laundering regulations that do not interfere with legitimate remittance transfers. Moreover, such regulations have to apply equally to the wire transfer services that now dominate the remittance industry and the banks that are moving into it. "A level playing field provides an incentive for traditional banking institutions to enter the remittance business, thereby providing additional market competition and leading to lower prices for remittance services," Bair (2002) said (see also chapter 5, this volume).

A Profile of Remittance Receivers

The PHC-MIF studies conducted in five Latin American countries demonstrate that remittances are reaching a broad swath of the population. The economic impact of these flows is enhanced by their remarkable consistency. While foreign direct investment and other capital flows have fluctuated with market cycles, annual aggregate reports on remittance receipts by the IDB, the International Monetary Fund, and the World Bank all reveal steady increases—even during economic downturns (see MIF-IDB 2004a; IMF 2003; World Bank 2003). For instance, the PHC-MIF surveys demonstrate that remittance flows were largely unaffected by the U.S. economic downturn of 2001–02.

Extensive nationwide surveys show that a significant portion of adults—ranging from a low of 14 percent in Ecuador to a high of 28 percent in El Salvador—receive remittances from a family member living abroad. These findings dispel the perception that this phenomenon is concentrated among the very poor. In Mexico, for example, remittance receivers have virtually the same distribution of monthly incomes and educational attainment as the overall population. In Ecuador, on the other hand, receivers are highly concentrated among those just beyond the bottom rungs of the economic ladder. About half the remittance recipients earn between $250 and $500 a month, a segment that makes up a little more than a quarter of the population. In terms of formal education, however, remittance recipients in Ecuador are overrepresented among those with a high school education.

These findings are important for two reasons. First, any decline in remittance flows will adversely affect the fragile midsection of several countries, threatening poverty for many. Economic dislocations striking this segment of the population have contributed to political instability across the hemisphere. Second, the widespread reliance on remittance income poses a new challenge for certain kinds of economic development strategies. These should reflect the broader base of remittance flows. For instance, promoting the channeling of remittances into microenterprises and other job-generating activities must reach beyond the poorest and lowest-skilled levels of the population in order to reach their maximum impact. Similarly, programs aimed at diminishing migration, often mentioned as a long-term component of a U.S.–Mexico migration accord, should better reflect the characteristics of senders and receivers of remittances.

The widening impact of migration and remittance receipts is dramatically evident in geographic terms in Mexico. For several decades, five states in Mexico's central highlands—Guanajuato, Jalisco, Michoacán, San Luis Potosí, and Zacatecas—have been the primary source of migrants to the United States and the chief recipients of remittances, in return. In all of the surveys, clear majorities of remittance receivers said they (and typically, three to four additional people) used the funds to pay for basics such as food, housing, and utilities.

The way people collect funds differs across countries. In Ecuador and Central America, wire transfer services are utilized by 60 percent of receivers. In Mexico, however, 22 percent of receivers used such services, and the share of people using banks to collect remittances was twice that in the other countries (43 percent versus 20 percent in Central America, and 19 percent in Ecuador). In Mexico, 33 percent of remittance receivers report having bank accounts, compared to 22 percent of the general population. In addition, the use of banks reflects the growth in arrangements in which remittances sent from a wire transfer service in the United States are collected at bank branches in Mexico.

Remittance Scenarios

The specific types of migration patterns and the remittance flows they generate vary across countries. The MIF-PHC studies identified three models for the establishment of robust flows of remittances.

Ecuador—Remittances as a Crisis Response

Typically, remittances are seen as the *outcome* of migration. However, Ecuador's recent experience illustrates that remittances can also be an important *cause* of migration. In the traditional construct, migration results from a combination of "push" factors in the home country, such as rising unemployment, and "pull" factors, such as available work in the destination country. The Ecuadorian case points to a new factor in understanding the motive to migrate: the need to respond quickly to acute crises by producing a monetary flow from abroad. This agility and mobility are increasingly becoming a means of dealing with the economic, political, and environmental crises of much of Latin America.

Remittance flows to Ecuador appear to have grown gradually in the early 1990s, before breaking the $500 million level in 1996 (MIF-PHC 2003). Then, the effects of El Niño and a depressed oil market set in motion an economic collapse that was compounded by a period of political instability. The closure of banks, rapid currency depreciation, commercial bankruptcies, and an overall atmosphere of financial instability all greatly influenced migration decisions. Transfers from migrants exploded, roughly tripling over the next six years (MIF-PHC 2003). In the MIF-PHC survey conducted in March–April 2003, around two-thirds of Ecuadorians with a close family member living abroad said their relative had left within the previous five years. About three-quarters of remittance receivers reported getting money from relatives abroad only in the past three years or less.

In the Ecuadorian case, evidence suggests that the ability to send money home was the key motive for migration—even more than individual considerations of a better life elsewhere. In the MIF-PHC survey, 83 percent of respondents said they agreed with the statement, "One of the principal reasons that people leave Ecuador is so that they can send money back to their families." Among the five countries examined in the 2003 MIF-PHC studies, Ecuador is the only one that experienced a large-scale emigration *after* the overall surge in remittances began in the late 1990s. In the many cases, migration has driven remittances, but in Ecuador since the late 1990s, remittances have driven migration.

Central America—Crisis Response Becomes Normalcy

As with Ecuador, migration from Central America to the United States began in response to acute crises in the migrants' home countries. The political turmoil of the 1980s and early 1990s sent large numbers of Central Americans to the United States, and intervening calamities such as Hurricane Mitch in Honduras, bouts of political instability in Guatemala, and economic difficulties across Central America have continued to generate spikes in migration. From 1980 to 1990, the value of remittance inflows to the three countries studied here—Guatemala, El Salvador, and Honduras—increased more than a hundredfold, from approximately $55 million to $649 million (in constant 2001 dollars) according to data from the World Bank's *World Development Indicators, 2002* (World Bank 2003). During that time, the number of migrants from those countries living in the United States increased fourfold from 197,000 to 800,000, according to the U.S. Census Bureau.

The 2003 MIF-IDB study reveals that these remittance flows have had remarkable staying power. El Salvador has the longest experience with large-scale migration, with 58 percent of adults surveyed having family members abroad for at least 10 years, and 54 percent of remittance receivers saying money had been arriving from the same relative for more than five years. A similar pattern exists in Guatemala and Honduras, although long-standing remittance flows to those countries are less than those to El Salvador.

Remittance flows that arise in response to specific events tend to evolve into a fact of life for both receiving countries and their diasporas. The value of remittances to El Salvador has almost tripled since its civil war ended in 1992. Moreover, the pattern of emigration linked to remittance-sending has continued to replicate itself in response to both crises and ongoing lack of economic opportunities. Across the region, 12 percent of remittance recipients said they had begun to receive money in the past year and 30 percent said the funds had been arriving for one to three years. Even in El Salvador, where emigration has dropped in the years since the civil war era, 29 percent of recipients said their remittances had been coming for three years or less.

The very rapid growth in remittances as a crisis response, followed by sustained flows, ensures that remittances become an essential element of a nation's economy. According to the compilation by the Multilateral Investment Fund of the Inter-American Development Bank of central bank reports on remittance flows, *Sending Money Home: An International Comparison of Remittance Markets,* remittance receipts accounted for 15.1 percent of El Salvador's gross domestic product in 2002 (MIF-IDB 2003). Under this scenario, transnationalism becomes an essential characteristic of a nation's population. When El Salvador's civil war began in 1980, the U.S. Census Bureau counted 94,447 immigrants from that country. Now, with more than 1 million Salvadorans in the United States, more than half of all adults in El Salvador (52 percent) report having a family member living in the United States.

Mexico—Momentum and Acceleration

The migrant stream and related remittance channel linking Mexico and the United States are older and larger than any other in the Western Hemisphere. No particular crisis or combination of events caused this migration. Rather, it results from a web of human and economic relationships dating far back in the histories of the two neighboring nations. Nonetheless, despite an absence of catastrophic events, both the migrant flows and remittance transfers between Mexico and the United States have accelerated in recent years.

The U.S. Census of 2000 found that about half of the 9.2 million Mexicans living in the United States had entered in the previous decade, and nearly a quarter had entered before 1980. Thus the Mexican migrant population is both new and old, a mix that is reflected in its remittance flows. The 2002 PHC-MIF study found that 14 percent of remittance recipients were receiving money for less than a year, and another 38 percent said that receipts had been coming from between one and three years previously. These findings echo IDB estimates of the remittance flows to Mexico, increasing from $6.8 billion in 1999 to $10.5 billion in 2002, and $13.2 billion in 2003 (MIF-IDB 2003). While Mexican and Central American migration and remittance channels developed under very different circumstances, both cases demonstrate that a channel can reach a critical magnitude, then surge—without crises or catastrophes.

Remittances and Migration

A great variety of factors determine the migration flows from Latin America to the United States. These result from thousands of individual decisions and many different circumstances. The difficulties of isolating any specific explanatory factor are evident in the findings of the 2003 MIF-IDB survey. For example, the survey queried Mexican respondents as to the impact of increased security measures in the United States, including more stringent border controls following the September 11, 2001 terrorist attacks. The survey revealed a widespread impression that new U.S. security measures made it more difficult to enter the country without proper documents. Nearly three-quarters (73 percent) of the Mexican population surveyed said an illegal crossing had become more difficult. In response to another question, 45 percent said their fellow Mexicans would likely migrate without documents—regardless of increased security measures. Another 9 percent said people are now actually more disposed to enter the United States illegally. In any case, it is difficult to know how such sentiments will play out in actual migration decisions.

The MIF-PHC and MIF-IDB studies took several approaches to exploring the link between remittances and migration. In Ecuador, as noted above, a substantial majority of respondents cited the potential to generate remittances as the chief reason people leave the country. In the Central American surveys, only 16 percent of respondents said sending remittances was the most important reason for migration, while a majority (61 percent) cited the desire to improve one's own life.

But even where remittances are not critical to the decision to migrate, they often facilitate migration. In Central America, family loans that were repaid with remittance transfers were most often cited (by 41 percent of respondents) as the main source of financing migration. In Mexico, the link between remittances and the recent migration was revealed by the fact that 51 percent of respondents with family members away for less than five years reported that family members had a prior commitment to send money home. In contrast, only about a fifth of those with relatives away for more than 10 years had such a promise up front (MIF-IDB 2003). In any case, transnational links are clearly stronger in families that engage in remittance transfers than in those that do not. For example, remittance receivers are nearly three times more likely to have telephone conversations with their relatives abroad at least once a week than those who are not getting money (31 percent versus 11 percent) (MIF-IDB 2004b).

In the 2003 MIF-IDB survey of the Mexican population, 19 percent of all adults, representing some 13.5 million people, answered positively when asked, "Are you thinking about emigrating to the United States?" That average, however, masked some substantial differences. Males, the young, and Mexicans living in areas that traditionally have sent large numbers of migrants north were more likely to consider emigration. Interestingly, there were no significant differences in the intention to migrate based on education and income. The greatest predictor of the intention to migrate was whether the respondent received remittances. Mexicans getting remittances from abroad were much more likely (26 percent) to have migration in mind than those who are not (17 percent). Indeed, the remittance channel not only reflects past migration, but it also seems likely to influence future flows of people northward.

Bibliography

Bair, Sheila C. 2002. Remarks by the U.S. Assistant Treasury Secretary for Financial Institutions to the Multilateral Investment Fund of the Inter-American Development Bank Second Regional Conference, February 26, Washington, D.C.

Castells, Manuel. 1996. *The Rise of the Network Society: The Information Age: Economy, Society and Culture, Volume 1*. Malden, Mass.: Blackwell Publishers, Inc.

Gutierrez, Luis. 2002. Issues Regarding the Sending of Remittances. Prepared statement to the U.S. Senate Committee on Banking, Housing, and Urban Affairs, February 28. Washington, D.C.

International Monetary Fund (IMF). 2003. *Balance of Payments Yearbook*. Washington, D.C.: International Monetary Fund.

Lowell, B. Lindsay, and Roberto Suro. 2002. How Many Undocumented: The Numbers behind the U.S.–Mexico Migration Talks. Washington, D.C.: Pew Hispanic Center.

Multilateral Investment Fund of the Inter-American Development Bank (MIF-IDB). 2001. Survey of Remittance Senders: U.S. to Latin America. Report by Bendixen & Associates. Washington, D.C.: Multilateral Investment Fund.

———. 2002a. Attracting Remittances: Market, Money and Reduced Costs. Report prepared by Manuel Orozco. Washington, D.C.: Multilateral Investment Fund.

———. 2002b. Remittances to Latin America and the Caribbean. Washington, D.C.: Multilateral Investment Fund.

———. 2003. Sending Money Home: An International Comparison of Remittance Markets. Washington, D.C.: Multilateral Investment Fund.

———. 2004a. Sending Money Home: Remittances to Latin America and the Caribbean. Washington, D.C.: Multilateral Investment Fund.

———. 2004b. Survey of U.S. Remittances Senders: State by State. Report by Bendixen & Associates. Washington, D.C.: Multilateral Investment Fund.

Multilateral Investment Fund of the Inter-American Development Bank and Pew Hispanic Center (MIF-PHC). 2003. Survey of Remittance Recipients in Ecuador. Report by Bendixen & Associates. Washington, D.C.: Multilateral Investment Fund.

Pew Hispanic Center and the Kaiser Family Foundation (PHC-KFF). 2002. National Survey of Latinos. Washington, D.C.: Pew Hispanic Center and the Kaiser Family Foundation.

Pew Hispanic Center and Multilateral Investment Fund (PHC-MIF). 2002. Billions in Motion, Latino Immigrants, Remittances, and Banking. Washington, D.C.: Pew Hispanic Center and Multilateral Investment Fund.

The World Bank. 2003. *World Development Indicators, 2002*. Washington, D.C.: The World Bank.

Yzaguirre, Raul. 2002. Prepared statement to the U.S. Senate Committee on Banking, Housing, and Urban Affairs, February 6, Washington, D.C.

Chapter 3

Remittances from the United States and Japan to Latin America: An In-depth Look Using Public Opinion Research

Sergio Bendixen and Erin St. Onge

Detailed public opinion research that closely questions the individuals in the remittance process has provided a clear picture of *who* remittance senders are, *why* sending remittances home is such a priority in their lives, *how* they send the money, and *what* the benefits are to both themselves and to the people back home who are receiving the money. In the past five years, Bendixen & Associates, a leading international public opinion research firm, has undertaken a series of studies with the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) to compile this picture.

These studies, in the form of opinion polls, focus groups, and executive interviews, have furnished baseline data that not only yield estimates of the amount of money remitted, but also information that has helped businesses, governments, and communities understand and influence the practice of sending and receiving remittances. Studies include:

- A detailed look at Hispanic remittance senders in the United States (see http://www.bendixenandassociates.com/sbendixen.html).
- The first major study of its size and scope ever conducted of the immigrants who remit money from Japan to their families in Latin America (2005).
- Work in receiving countries in the Americas, including Brazil (2004), Colombia (2004), the Dominican Republic (2004), Ecuador (2003), El Salvador (2003), Guatemala (2003), Honduras (2003), and Mexico (2003), that reveals much about who remittance receivers are and the important role that

remittances play in their lives. Additional studies are planned for 2005–06 in Bolivia, Haiti, Paraguay, and Peru.

A detailed account follows of what the recent years of polling and focus groups have shown about the Latin American remittance process and its participants.[1]

Remittances in Latin America

In most receiving countries, remittances account for a significant portion (at least 25 percent) of the recipient's annual income (table 3.1). In Brazil and the Dominican Republic, the percentage of income is even greater, leading one to wonder how people in these countries would make it without remittances.

The money that remittance receivers get from their relatives is used primarily to help them meet their basic needs, such as food, shelter, and clothing. A significant percentage of receivers—albeit much smaller—are saving their remittances, investing them in business or homes, or using them to pay for their children's education (table 3.2). This breakdown further illustrates the importance of remittances to the basic livelihood of millions of people and thousands of families in Latin America.

Across the eight countries in Latin America where studies have been conducted, similar demographic patterns emerge in most cases. The age distribution of remittance receivers generally reflects the age breakdown in each country (table 3.3). There are a few exceptions. In Brazil, the Dominican Republic, and Mexico, remittance receivers tend to be slightly younger than the overall population, whereas in Ecuador the recipients are a bit older.

Women are more likely to receive remittances than men (table 3.4). Given that men are more likely to venture abroad for work, it follows that women are more likely to stay in the home country. In nearly every country studied, women are overrepresented as recipients relative to their proportion in the overall population. In Brazil, Ecuador, and Mexico, women make up over 60 percent of remittance receivers.

[1]Many Latin Americans, particularly in Ecuador and the Dominican Republic, emigrate to Europe to live and work and also send remittances to families back home. Not a great deal of research has been done on remittance senders in Europe. However, a 2002 study by Bendixen & Associates commissioned by the MIF-IDB offers some insights into the Latin American immigrants who live and work in Spain and send remittances home.

Table 3.1. Impact of Remittances on the Annual Income of Remittance Receivers in Latin America

Country	Average annual income ($)	Average annual remittance ($)	Share of total income made up of remittances (%)[a]
Brazil	5,515	4,151	43
Dominican Republic	2,496	1,410	36
El Salvador	4,104	1,700	29
Honduras	3,552	1,360	28
Guatemala	3,504	1,200	26
Mexico	4,699	1,330	22
Colombia	4,241	1,115	21
Ecuador	6,339	1,400	18

[a]Total income is calculated by combining average annual income and average annual remittances.
Source: MIF-IDB 2003a, 2003b, 2004b, 2004c, 2004d.

Not surprisingly, most remittance recipients are at the lower end of the socioeconomic scale. While a significant percentage of recipients in most Latin American countries have earned a college degree or at least have had some college, most have a high school education or less (table 3.5). The countries studied that have the least educated remittance recipients are Brazil and Ecuador (79 percent and 81 percent, respectively, have a high school education or less). Conversely, the countries with the most educated remittance recipients are the Dominican Republic and Mexico (48 percent and 40 percent, respectively, have at least some college).

Brazilians are more likely to use the banking system than are most other Latin American groups. U.S. senders, particularly Dominicans, Colombians, Guatemalans, Ecuadorians, and Hondurans, rely heavily on international transfer companies (or remittance companies) such as Western Union and MoneyGram. While significant percentages of Mexicans and El Salvadorians use banks, they also rely on less formal means for transmitting remittances. Mexicans, possibly because of their proximity to the United States and the relative ease of sending mail between the two countries, use the mail to transmit remittances more than any other group of Latin Americans. El Salvadorians, on the other hand, are more likely than other Latin Americans to use couriers or people to hand-carry the remittances (table 3.6).

In many cases, it is siblings who are transmitting remittances to one another. One sibling goes abroad to find work, while another stays in Latin America and looks after the family and home. In nearly all the

Table 3.2. How Remittances Are Used by Latin American Recipients
(percent)

Use	Brazil	Colombia	Dominican Republic	Ecuador	El Salvador	Guatemala	Honduras	Mexico
Daily expenses[a]	46	68	60	61	84	68	77	78
Education	13	12	17	2	4	7	10	7
Business	10	7	5	8	4	10	4	1
Savings	9	4	5	8	4	11	4	8
Property	7	3	4	4	0	0	0	1

Note: Columns do not sum to 100 percent because of "don't know" and "other" survey responses.
[a]Food, rent, utilities.
Source: MIF-IDB 2003a, 2003b, 2004b, 2004c, 2004d.

Table 3.3. Age of Remittance Receivers in Latin America
(percent)

Age	Brazil	Colombia	Dominican Republic	Ecuador	El Salvador	Guatemala	Honduras	Mexico
18-35	55	47	65	37	45	53	47	65
36-49	26	31	18	32	20	30	15	19
50+	19	22	17	31	35	17	38	16

Source: MIF-IDB 2003a, 2003b, 2004b, 2004c, 2004d.

Table 3.4. Gender of Remittance Receivers in Latin America
(percent)

Gender	Brazil	Colombia	Dominican Republic	Ecuador	El Salvador	Guatemala	Honduras	Mexico
Male	35	41	43	34	48	42	48	37
Female	65	59	57	66	52	58	52	63

Source: MIF-IDB 2003a, 2003b, 2004b, 2004c, 2004d.

Table 3.5. Educational Attainment of Remittance Receivers in Latin America
(percent)

Education	Brazil	Colombia	Dominican Republic	Ecuador	El Salvador	Guatemala[b]	Honduras	Mexico
Grade school or less	35	—	21	27	46	53	57	28
Some high school	8	14[a]	14	21	19	15	16	32[c]
High school graduate	36	50	17	33	21	20	17	—
Some college or more	21	36	48	18	14	9	10	40

— Not available.
[a] For Colombia, the response category of "grade school or less" was included within the "some high school" response.
[b] Data for Guatemala do not sum to 100 percent because of "don't know" and "other" survey responses.
[c] For Mexico, the response category of "high school graduate" calculation was included with the "some high school" response.
Source: MIF-IDB 2003a, 2003b, 2004b, 2004c, 2004d.

Table 3.6. How Remittance Receivers in Latin America Receive Remittances (percent)

Method	Brazil	Colombia	Dominican Republic	Ecuador	El Salvador	Guatemala	Honduras	Mexico
Remittance company	29	81	84	67	47	80	64	26
Bank	61	10	1	17	34	7	18	44
Courier	2	6	5	9	13	6	9	8
Mail	6	1	9	5	5	6	6	21
Other	2	2	1	2	1	1	3	1

Source: MIF-IDB 2003a, 2003b, 2004b, 2004c, 2004d.

Table 3.7. Type of Family Member Sending Remittances to Latin America (percent)

Family member	Brazil	Ecuador	El Salvador	Guatemala	Honduras	Mexico
Brother/sister	33	29	31	48	32	39
Mother/father	9	14	18	12	16	12
Son/daughter	7	29	27	19	27	21
Husband/wife	19	13	6	9	9	10
Other	32	15	21	19	16	18

Note: Data are not available for Colombia and the Dominican Republic. Some columns may not add to 100 percent because multiple responses were allowed.
Source: MIF-IDB 2003a, 2003b, 2004b, 2004c, 2004d.

countries studied, at least a third of the remittance recipients said that the person who sent the remittance to them was their brother or sister (table 3.7). A significant percentage of recipients may also be the parents, offspring, or spouse of the remittance sender. Extended families, including aunts, uncles, or cousins also participate in the process.

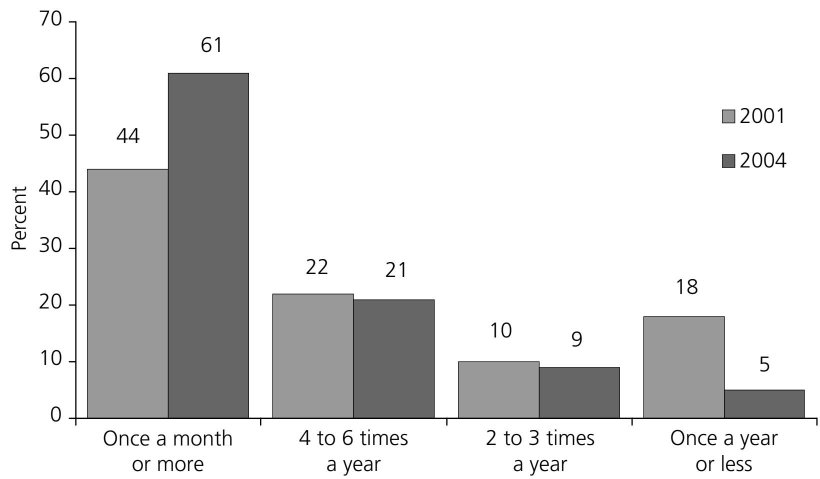
Remittances to Latin America from the United States

About three-quarters of the remittances sent to Latin America—$36 billion of the estimated $40 billion a year as of 2004—come from the United States.[2] Two studies of Latin American immigrants in the United States by Bendixen & Associates paint a picture of who the U.S. senders are and what motivates them to send. The first study, conducted in November and December of 2001, found that seven out of ten Latin American immigrants with relatives abroad were remittance senders. The follow-up study, conducted between January and April of 2004, was unique in allowing for state-by-state breakdowns as well as national analysis. The 2004 results confirmed not only that a substantial majority of Hispanic immigrants with family living in the United States were remittance senders, but that the percentage of Latin American immigrants who send remittances had increased, from 69 percent to 75 percent since 2001.

The frequency with which U.S. immigrants send remittances to Latin America also increased (figure 3.1). The share sending remittances at least once a month grew from 44 percent to 61 percent from 2001 to 2004. In the same period, the average amount sent increased

[2]These data differ from those published by the Multilateral Investment Fund (MIF) because the MIF also includes remittances bound for the countries of the English-speaking Caribbean.

Figure 3.1. Frequency of Sending Remittances from the United States to Latin America



Source: MIF-IDB 2001, 2004a.

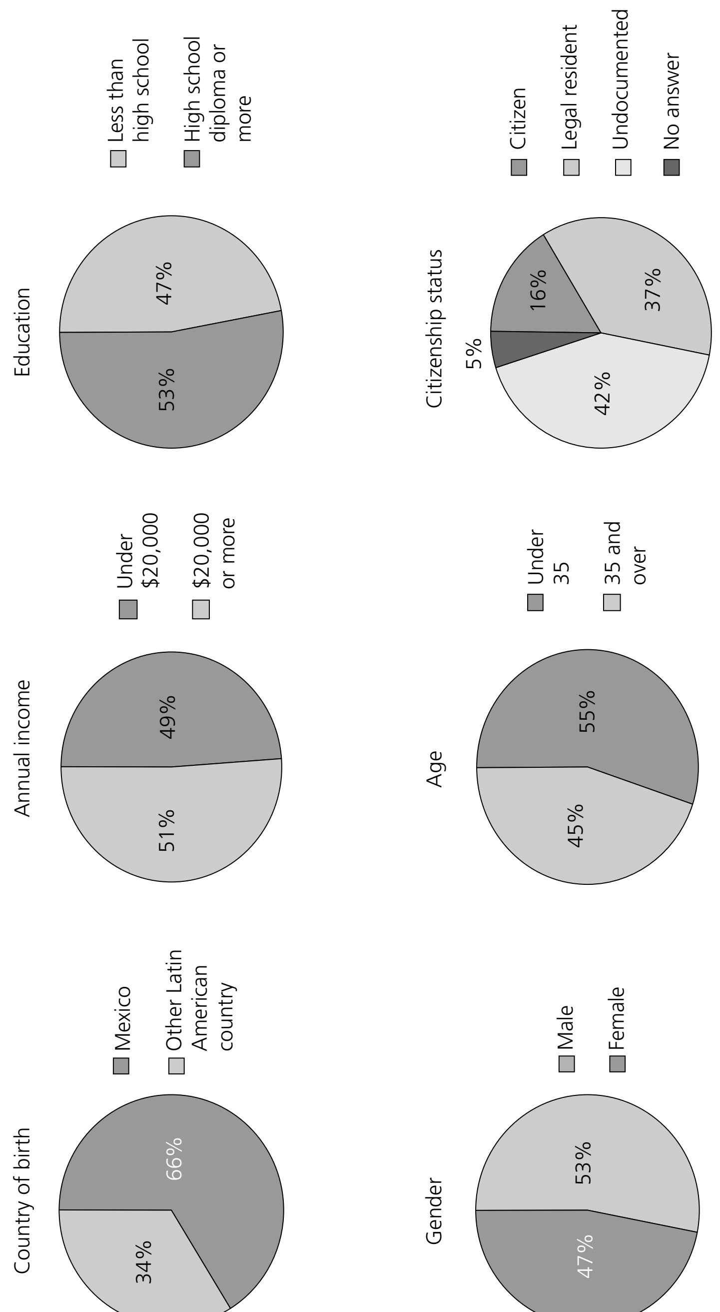
from $200 to $240. In just three years, the annual amount sent nearly doubled, from $18.6 billion to $30 billion.

A demographic "snapshot" of Latin American immigrants living and working in the United States who send remittances to their families back home appears in figure 3.2. Two-thirds of U.S. remittance senders are Mexican, while the remaining third are from a number of other Latin American countries. More men than women are remittance senders. About 16 percent of the senders are citizens of the United States, while another 37 percent are legal residents. Many, however, are undocumented immigrants. U.S. senders have relatively low incomes and education levels by U.S. standards.

The people responsible for remitting this $30 billion to Latin America each year in recent years are fairly young. By 2004, more than half the remittance senders in the United States were under 35 years old. Another third were between 35 and 50 years old. The relative youth of these remittance senders becomes even more apparent when compared to the age breakdown of the overall Latin American immigrant population in the United States (table 3.8). The average age of remittance senders has remained relatively unchanged over the past few years.

Men are slightly more likely to be remittance senders than are women (table 3.9). As has been well documented, when a Latin

Figure 3.2. Profile of Latin American Remittance Senders in the United States



Source: MIF-IDB 2004a.

Table 3.8. Age of Latin American Remittance Senders, Compared to the Overall Latin American Immigrant Population of the United States (percent)

Age (years)	Remittance senders 2001	Remittance senders 2004	All Latin American immigrants
18–24	13	17	15
25–34	39	37	28
35–49	34	31	34
50+	14	15	23

Source: MIF-IDB 2001, 2004a; U.S. Census Bureau 2000.

American family decides that someone should go abroad to find better work and send money home, it is often the men who journey to the foreign land in search of work. Furthermore, many of the key jobs that are filled by migrant and immigrant workers from Latin America, such as construction, landscaping, and other manual labor jobs, are traditionally held by males.

The Hispanic immigrants in the United States who are regularly sending remittances home to their families fall toward the lower end of the socioeconomic scale. Nearly half of all senders earn less than $20,000 a year and just over half have a high school degree. The socioeconomic indicators for the Hispanic population overall (either U.S. or foreign-born) are not much higher. Hispanics, particularly immigrants, have some of the lowest income and education levels, on average, when compared to other racial and ethnic groups in the United States; they are janitors, parking attendants, housekeepers, construction workers, and dishwashers. Thus it is not surprising that remittance senders also have low levels of education and income (tables 3.10 and 3.11).

What is surprising is that these people, who are poorer than most in the United States and who have fairly low levels of formal educa-

Table 3.9. Gender of Latin American Remittance Senders, Compared to the Overall Latin American Immigrant Population of the United States (percent)

Gender	2004 Remittance senders	All Latin American immigrants
Male	53	51
Female	47	49

Source: MIF-IDB 2001, 2004a; U.S. Census Bureau 2000.

Table 3.10. Annual Household Income of Latin American Remittance Senders in the United States
(percent)

Annual income	Remittance senders 2001	Remittance senders 2004
Under $20,000	49	48
$20,000–$29,999	29	36
$30,000–$39,999	10	8
Over $40,000	12	8

Source: MIF-IDB 2001, 2004a; U.S. Census Bureau 2000.

tion, manage collectively to send some $30 billion to their family members in Latin America a year in recent years. According to the 2004 poll, they are sending on average $2,880 each year, and their average annual income is roughly $24,000 before taxes. Thus, on average, remittance senders in the United States are sending approximately 12 percent of their income to their families in Latin America each year. This is a remarkable accomplishment, especially given that the average American saves only about 1.2 percent of his or her annual income (U.S. Department of Commerce 2005).

Immigrants from Mexico make up the largest segment of the remittance-sending population (figure 3.3). However, a significant percentage of immigrants from every country in Latin America send remittances to their family back home. For example, while Dominicans make up only about 5 percent of all Latin American remittance senders in the United States, 86 percent send remittances to their families in the Dominican Republic.

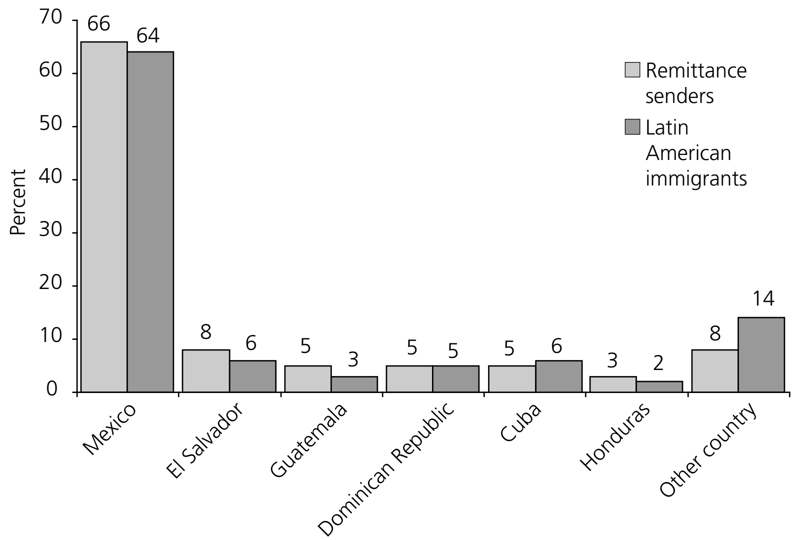
Most have been in the United States for five years or more. Only a quarter of these remittance senders have lived in the United States

Table 3.11. Educational Attainment of Latin American Remittance Senders, Compared to the Overall Latin American Immigrant Population of the United States
(percent)

Educational attainment	Remittance senders 2001	Remittance senders 2004	All Latin American immigrants
Less than high school	44	48	50
High school graduate	34	36	25
Some college or more	22	16	25

Source: MIF-IDB 2001, 2004a; U.S. Census Bureau 2000.

Figure 3.3. Country of Birth of Latin American Remittance Senders and of Latin American Immigrants in the United States



Source: MIF-IDB 2001, 2004a; U.S. Census Bureau 2000.

for less than five years. Very few of the people who send remittances to Latin America from the United States have been in their adopted country for less than a year (table 3.12).

During their first year in the United States, immigrants are most likely trying to secure a job, housing, and other basic necessities. Nonetheless, half (50 percent) send money home—and more frequently than immigrants who have been in the United States longer—although in much smaller amounts (table 3.13).

Those who have been in the United States for between one and ten years send money home frequently and also send the largest amount. Those who have been living in the United States for more than ten years remit least frequently. It seems that once immigrants have settled and have been in the United States for a year, most get into a routine of sending around $240 about once each month to their family members in Latin America. Both the amount and frequency of each remittance decrease once an immigrant has been in the United States for more than ten years. Despite the fact that most remittance senders have been in the United States for many years, just 16 percent are U.S. citizens (see figure 3.2). The remaining remittance senders are

Table 3.12. Length of Residency in the United States for Latin American Remittance Senders
(percent)

Years in the United States	2001	2004
Less than one	2	3
One to five	22	22
Five to ten	22	26
Ten or more	53	49

Source: MIF-IDB 2001, 2004a.

either legal residents of the United States (37 percent) or are undocumented immigrants (42 percent). These statistics are not surprising, as male immigrants are more likely to be in the United States illegally than are female immigrants (Capps and others 2003). Furthermore, since such a large number of remittance senders in the United States are Mexican, it is important to understand the role and impact of the *Matrícula Consular* when considering the legal/illegal status of remittance senders (see chapter 5).[3]

The majority of the people sending remittances from the United States to Latin America use international money-transfer companies such as Western Union and MoneyGram. While 82 percent of those who send remittances once a month or more use these types of international money-transfer companies (or remittance companies), 64 percent of those who send remittances one to three times a year use them. About a quarter of those who send with less frequency rely on a courier or a person traveling to their home country to send the remittance home (table 3.14).

The gender of the sender is another factor that seems to have an impact on the method of sending remittances to Latin America. The great majority of men and women rely on remittance companies.

[3]By presenting a Mexican birth certificate along with another official identity document (such as a driver's license or voter registration card from Mexico) and a document indicating their address in the United States, Mexicans living in the United States can obtain this *Matrícula Consular*. This card does not connote any legal status other than Mexican citizenship and cannot be used for travel, employment, or driving in the United States. It bears the individual's photograph and U.S. address and simply attests that a Mexican Consulate has verified the individual's identity and home address in the United States. In spite of this, the *Matrícula Consular* has become useful in recent years to many Mexican immigrants. Many municipalities have begun to accept it as a valid form of identification. More importantly in the context of remittances, a number of banks have also begun to accept the *Matrícula Consular*. In some U.S. states, *matrícula* holders can even use that document to acquire a driver's license. Many other Latin American countries are considering offering documents similar to the *Matrícula Consular* for their citizens living in the United States.

Table 3.13. Remittance Patterns of Latin American Immigrants, by Number of Years Living in the United States

Years in the United States	Percent that send remittances	Average remittance amount ($)	Average annual frequency of remittances
Less than one	50	126	16
One to five	85	243	13
Five to ten	83	204	13
More than ten	71	167	11

Source: MIF-IDB 2004a.

However, women are more likely than men to use banks or credit unions, as well as couriers or people traveling to their home countries (table 3.15).

The relationship of remittance senders with the banking system also plays an interesting role in the practice of sending and receiving remittances. While most Latin American remittance senders in Japan have bank accounts, fewer sending in the United States do. In 2004, just 43 percent of Latin American remittance senders in the United States had a bank account in the United States. These figures cannot be dismissed as merely a function of living abroad and perhaps being undocumented. As discussed below, the country of origin of senders also has an impact on whether immigrants will open a bank account when they go abroad. Moreover, just 53 percent of senders report that the person they send money to in Latin America has a bank account there.

Table 3.14. Method of Sending Money to Latin America from the United States, by Frequency Sent
(percent)

Sending method	Frequency sent (times per year) 12 or more	4 to 6	1 to 3
Remittance company	82	77	64
Bank/credit union	8	7	7
Mail	1	4	5
Courier/traveling person	7	11	23
Internet	0	0	1

Note: Columns do not sum to 100 percent because of “don’t know” and “other” survey responses.
Source: MIF-IDB 2004a.

Table 3.15. Method of Sending Money to Latin America from the United States, by Gender of Sender
(percent)

Sending method	Male	Female
Remittance company	84	72
Bank/credit union	6	10
Mail	2	3
Courier/traveling person	8	13
Internet	0	1

Source: MIF-IDB 2004a.

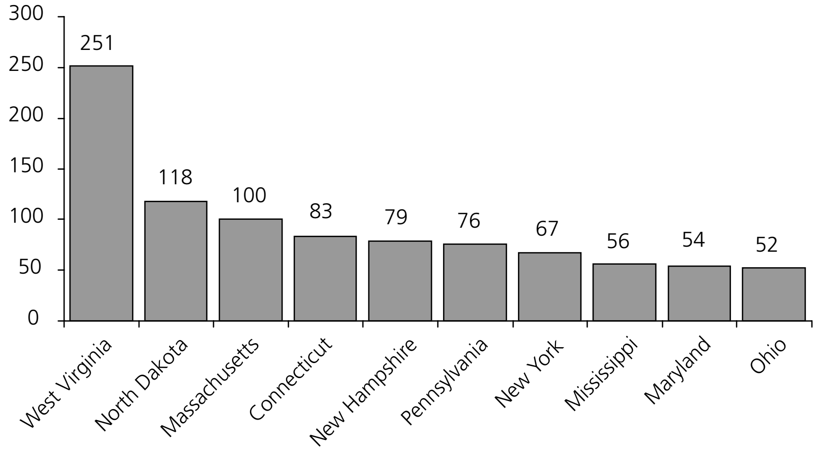
Many factors affect the rise in the total remittance amounts, the average amount of each remittance, and the frequency of sending remittances. The population increase plays a major role in the increase. The number of foreign-born Hispanic adults in the United States increased by over 3 million from 2000 to 2003, to 15,429,665, according to the U.S. Census. This 24 percent increase in the Hispanic adult population was more apparent in some U.S. states than in others. Some states have a large and fairly stable population of Hispanic immigrants, such as California, Texas, Florida, and New York. Others have populations that are small by comparison, but that are growing rapidly.

Indeed, states like West Virginia, North Dakota, and Massachusetts have the fastest-growing Hispanic immigrant populations in the country (figure 3.4). These percentages must be placed in context. In the case of West Virginia, although the population increased by 251 percent from 2000 to 2003, the actual population went from 1,814 to 6,367. So while the increase is significant, the overall Hispanic immigrant population is still quite small compared to many other states.

In some cases, states with the smaller Hispanic populations may have the greatest impact on the future of remittances. Again, the states with the highest dollar amounts of remittances being sent to Latin America are California, New York, Texas, and Florida. However, Hispanic immigrants in states like Georgia, North Carolina, Virginia, and Maryland send over half a billion dollars in remittances annually to Latin America (figure 3.5 and table 3.16). Furthermore, in 31 states, Latin American immigrant residents send more than $100 million in remittances each year to their families back home.

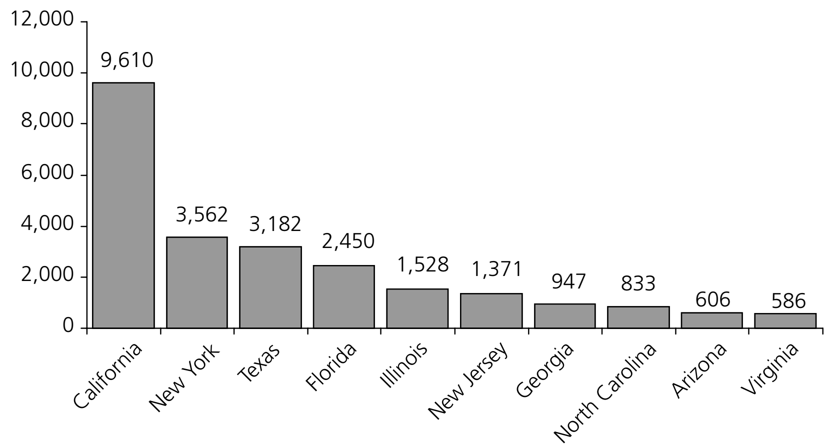
Although remittance senders in California clearly send the largest amount of money in remittances to Latin America each year

Figure 3.4. Top Ten U.S. States with the Fastest-Growing Hispanic Immigrant Populations
(percent increase)



Note: The figure shows the percent increase of Latin American immigrant adults from 2000 to 2003.
Source: U.S. Census Bureau 2000, 2003.

Figure 3.5. Top Ten U.S. States with the Greatest Amount of Money Sent Home by Latin American Immigrants
($millions)



Source: MIF-IDB 2004a.

Table 3.16. Other U.S. States Where Latin American Remittance Senders Send Home \$100+ Million a Year

State	Total amount of remittances ($ millions)
Colorado	544
Massachusetts	527
Maryland	500
Nevada	447
Washington	353
Oregon	218
Michigan	192
Indiana	190
Pennsylvania	180
Utah	164
Tennessee	162
Oklahoma	156
Wisconsin	152
Alabama	149
South Carolina	148
Minnesota	147
Connecticut	129
Arkansas	114
Ohio	108
Missouri	105
New Mexico	103

Source: MIF-IDB 2004a.

(over $9.6 billion), it is not even in the top ten states in terms of percent of Hispanic immigrants who send remittances. Indeed, only four of the top ten sending states are in the top ten in terms of percentages sent (table 3.17). For example, while Latin American immigrants in Missouri send $105 million annually in remittances to Latin America, 79 percent of the Hispanic immigrant population there sends money home.

States with large and relatively stationary Hispanic populations, such as California, New York, Texas, and Florida, will continue to have a significant impact on the amount of money sent annually in remittances to Latin America. States with smaller but rapidly increasing Hispanic populations, such as Massachusetts, Connecticut, and Pennsylvania, should not be ignored. As the Hispanic population in the United States continues to grow and the dollar amount of remittances continues to increase, some states with smaller Hispanic immigrant

Table 3.17. Top Ten U.S. States with the Highest Percentage of Latin American Remittance Senders

State	Percent
North Carolina	84
Virginia	84
Georgia	81
New York	81
Massachusetts	80
Maryland	80
Missouri	79
Alabama	78
Indiana	76
South Carolina	76

Source: MIF-IDB 2004a.

populations may emerge as some of the most important players in the remittance process.

Remittances to Latin America from Japan

Japan and Latin America have a unique and historic connection. In the early 20th century, when work was scarce and the overall economic situation in Japan was quite bleak largely because of the Sino-Japanese War, many Japanese men and women set out to try to find a better life for themselves (Murono 2002). Many settled in Latin American countries such as Argentina, Brazil, Bolivia, and Peru. Over the years, with varying degrees of assimilation, these Japanese migrants blended into the communities of their newfound homes in Latin America or remained in Japanese enclave communities.

Japan traditionally has had strict immigration and visa policies. In 1990, however, because of economic progress and a strong demand for manual laborers, Japan modified its immigration law to grant work visas to people of Japanese descent who had no set of specific skills and who were no more than three generations removed from their Japanese-born ancestors. This change led to a large influx of Latin Americans of Japanese descent into Japan to work. The result is a rapidly growing Latin American population in Japan, which has been having a growing impact on the international remittance market.

To better understand the remittance process between these two regions, the Multilateral Investment Fund commissioned Bendixen &

Associates to conduct a poll of Latin Americans living and working in Japan. In-person interviews were conducted with Latin American adults in Japan from February 2 to 28, 2005. The findings provide the first glimpse of the practice of sending remittances from Japan to Latin America.

The overall numbers are significant. More than 300,000 Latin Americans living in Japan send an estimated $2.65 billion to their families in Latin America each year. Some 70 percent of Latin American immigrants have sent remittances in the past year, and another 11 percent have sent them more than a year ago. Nineteen percent have never sent remittances.

The average Japanese remitter sends more money with each transaction and sends remittances with a greater frequency to his or her relatives in Latin America than do senders in the United States. Remittance senders who live in Japan send an average of $600 with each remittance, approximately 14.5 times per year (table 3.18).

A demographic "snapshot" of immigrants in Japan who remit money to their families in Latin America is presented in figure 3.6. Most of the remitters in Japan are originally from Brazil. This reflects the fact that Brazil has the largest Japanese-descendent population of all Latin American countries and thus presumably has the highest number of people going back to Japan to work. Like Latin American immigrants in the United States, those in Japan tend to be young (under the age of 35) and male. However, unlike U.S. remittance senders, the majority of remittance senders have a high school diploma or college education, and 45 percent have annual incomes of $40,000 or more. A slight majority has children. While many of those children live in Japan, nearly as many migrants have children living in their countries of origin in Latin America.

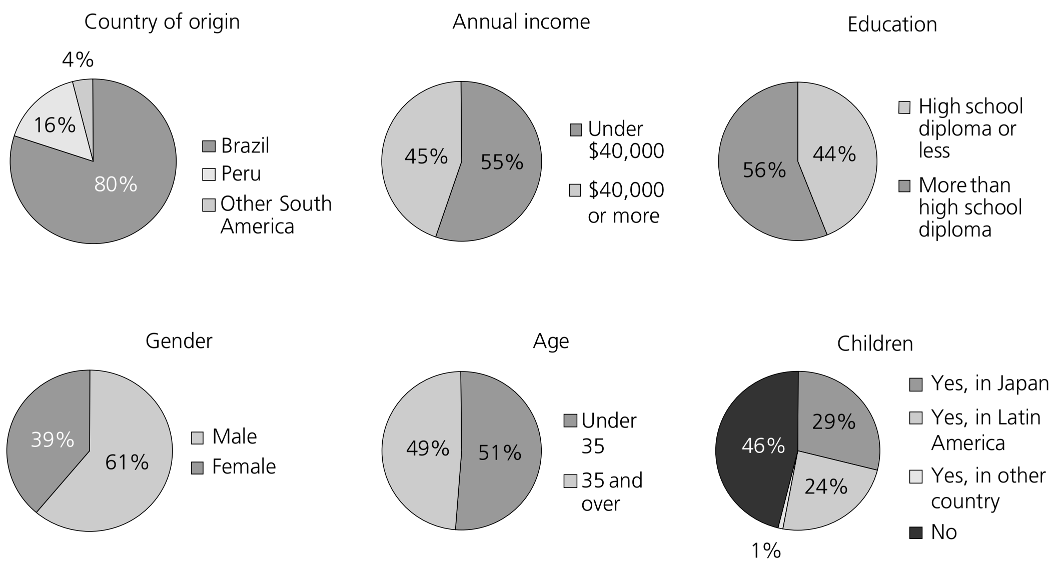
Like U.S. senders, remittance senders in Japan are relatively young. Ninety-three percent of all Latin American immigrants in

Table 3.18. Frequency of Remitting by Latin Americans Living in Japan

Frequency	Percent
More than once a month	6
About once a month	59
Four to six times a year	15
Two to five times a year	15
About once a year	2
Less than once a year	2

Source: MIF-IDB 2005.

Figure 3.6. Profile of Latin American Remittance Senders in Japan



Source: MIF-IDB 2005.

Japan who send money to their families regularly are under the age of 50. The majority are under 35 years of age. The Latin American remittance senders in Japan are significantly younger than the aging Japanese population overall (table 3.19).

A substantial percentage of both Latin American immigrants and remittance senders in Japan are men. Just four in ten Latin American remitters in Japan are female. This again illustrates the point that males are more likely to be the ones who go abroad in search of work and end up sending money to their family back home (figure 3.7).

Over half (54 percent) of the Latin American remittance senders in Japan have children, slightly greater than the percentage of the overall Latin American immigrant population in Japan that has children (47 percent). While the majority (54 percent) of those children live with them in Japan, a significant minority (44 percent) have children living in their home country in Latin America. Supporting one's children who stayed behind in the home country could certainly be a main reason for sending remittances there.

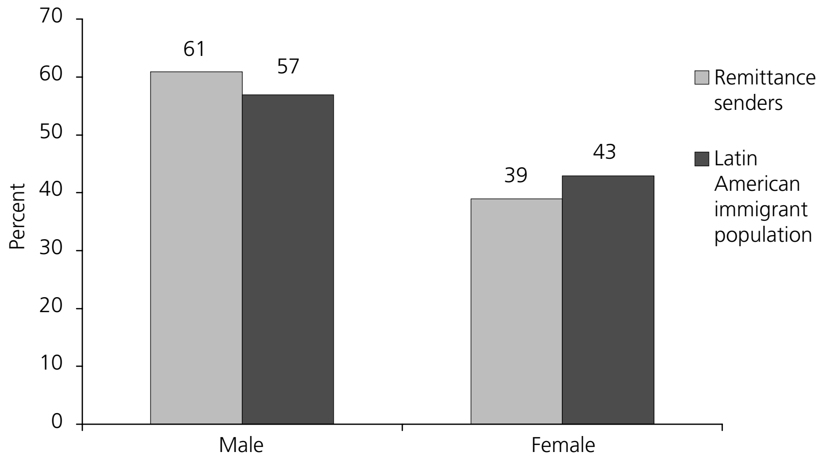
While in the United States Latin American remittance senders come from all over Central and South America, in Japan the majority of the Latin American immigrant population comes from Brazil and Peru. This fact can be traced back to the unique Japanese-Latin American diaspora; the original Japanese immigrants who went to South America settled largely in those two countries. Several other South American countries have had smaller populations of Japanese settlers and some of their descendents have returned to Japan to work, as well. Of the overall immigrant population in Japan, 82 percent are from Brazil and 14 percent are from Peru. The remaining 4 percent are from several other countries in Latin America. Reflecting their shares in the migrant population of Japan, Brazilians comprise fully 80 percent of

Table 3.19. Age of Latin American Remittance Senders in Japan, Compared to the Overall Japanese Population and U.S. Remittance Senders

Age (years)	Remittance senders in Japan (%)	Japanese population (%)	Remittance senders in United States (%)
18–24	10	11	17
25–34	41	18	38
35–49	42	23	31
50–64	6	26	13
65+	1	23	2

Source: MIF-IDB 2005; Japan Statistics Bureau 2005b.

Figure 3.7. Gender of Latin American Remittance Senders in Japan, Compared to the Overall Latin American Immigrant Population



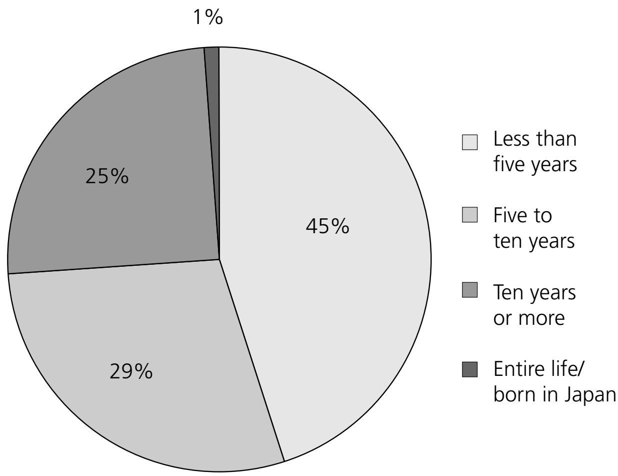
Source: MIF-IDB 2005.

the sending population, and Peruvians represent 16 percent of remittance senders among immigrants in Japan.

The vast majority of these immigrants have not lived in Japan for very long, probably because immigration policy has changed only recently. Three-quarters of the Latin American immigrants in Japan have lived there for less than 10 years (figure 3.8). Whereas nearly half the Brazilian immigrant population has lived in Japan for less than five years, the Peruvian immigrant population, on average, has lived in Japan longer (figure 3.9).

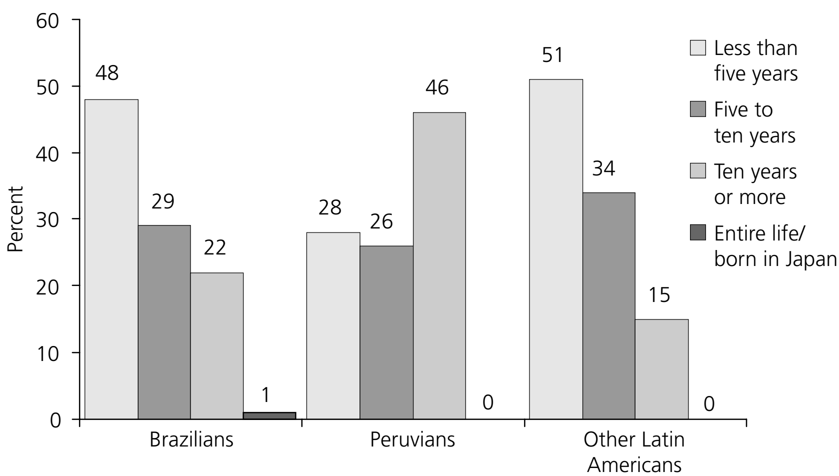
Unlike many other countries, many immigrants come to Japan more than once. While many Latin American immigrants stay in Japan for more than three years by renewing their visas, others return to Latin America when their visas expire and go back to Japan later. When asked if this was their first time in Japan, about a quarter (23 percent) of the Latin American immigrants there said no; they had lived in Japan before. This is, in part, due to the way that the visa system in Japan is set up for immigrants of Japanese descent. When the new policy was passed in 1990, it allowed for those with Japanese ancestry to come live and work in Japan for a period of one to three years. Second-generation immigrants of Japanese descent were granted three-year visas, while third-generation immigrants of Japanese descent received one-year visas (Takenaka 1997). Therefore, many

Figure 3.8. Length of Residency of Latin American Immigrants in Japan



Source: MIF-IDB 2005.

Figure 3.9. Length of Residency of Latin American Immigrants in Japan, by Country of Origin



Source: MIF-IDB 2005.

immigrants come to Japan and earn as much money as they can working for one to three years, then return to their country in Latin America to start their own business or buy a home, and then come back to Japan several years later.

The socioeconomic status of the Latin American remitters in Japan is quite different from that of those in the United States. By Japanese standards, these senders are still on the lower end of the income spectrum, but they earn significantly more than Latin American senders who live and work in the United States, where the income standard is on par with that of Japan. The mean income of Latin American immigrant remittance senders is closer to the mean income of the overall Japanese population (table 3.20).

The case is similar for educational attainment. Unlike remitters in other countries, the majority of those in Japan (56 percent) have had at least some college or technical schooling or have completed a college degree. About a third (30 percent) have completed high school, and only 14 percent have had less than a high school education.

These relatively high levels of income and education do not completely set the remitters in Japan apart from those in other countries. As discussed, senders in the United States send approximately 12 percent of their income as remittances each year. The statistic is similar but somewhat higher for senders in Japan. While remitters in Japan tend to make more money than those working in the United States, they also send more money to their families in Latin America than their U.S. counterparts. With an average annual income of $41,171 and an average annual remittance amount per person of $7,200, Latin American immigrants in Japan send roughly 17 percent of their income to their family back home each year in the form of remittances.

Unlike remitters in other countries, particularly the United States, those in Japan rely heavily on the banking system. Whereas few Latin American immigrants living in the United States have bank

Table 3.20. Percentage Gap between the Average Household Income of Latin American Remittance Senders in Japan and the Overall Population

Average household income	United States	Japan
Overall average ($)	58,036	60,908
Remittance sender average ($)	23,141	41,171
Percentage gap (%)	60	32

Source: MIF-IDB 2004a, 2005; U.S. Census Bureau 2000, median household income in 2003 inflation-adjusted dollars without earnings; Japan Statistics Bureau 2005a.

accounts, nearly all Latin American immigrants living in Japan have a bank account (table 3.21).

As discussed, few Latin American remitters in the United States tend to use the banking system; they rely more on the international transfer companies such as Western Union and MoneyGram. However, the Latin American remitters in Japan do rely on banks to send money home. Eight in ten remitters in Japan (82 percent) name a bank as the top method to send money to their family in Latin America. Just 11 percent use international transfer companies. A few rely on other methods such as the mail. The method of sending is not the same for the different groups of Latin Americans living in Japan. While Brazilians rely heavily on banks, particularly Banco do Brasil, Peruvian immigrants rely more on remittance companies such as Convenio Kyodai (table 3.22). This can most likely be attributed to the fact that

Table 3.21. Likelihood that Latin American Immigrants and Remittance Senders Who Live in Japan or the United States Will Have a Bank Account
(percent)

	Latin Americans in Japan		Latin Americans in the United States	
Bank account status	All immigrants	Remittance senders	All immigrants	Remittance senders
Have a bank account	92	95	47	43
Do not have a bank account	8	5	53	57

Source: MIF-IDB 2004a, 2005.

Table 3.22. Method Chosen by Remittance Senders Living in Japan to Send Remittances, by Country of Origin
(percent)

	Country of origin		
Sending method	Brazil	Peru	Other Latin American countries
Banco do Brasil	80	28	47
Other bank	13	7	27
Convenio Kyodai	1	41	5
Aelucoop	0	18	1
Mail	3	1	1
Other method	1	4	19

Note: Some columns do not sum to 100 percent because of "don't know" and "other" survey responses.
Source: MIF-IDB 2005.

Banco do Brasil is a Brazilian-based bank and therefore caters to the needs of the Brazilian community, whereas Convenio Kyodai is a Peruvian money-transfer company that focuses on accommodating the needs of the Peruvian immigrants living in Japan.

Not only do the immigrants in Japan use banks, but so do their relatives in Latin America. Almost eight in ten Latin American immigrants say that the family member that they send money to in their home country also has a bank account. Since such a high percentage of remitters in Japan use banks to send money home, it makes sense that the receivers of the remittances would have bank accounts as well. Again, the percentage is skewed by the Brazilian populations, whose use of banks for transmitting remittances is greatest.

The percentage of Latin American immigrants in Japan that are saving money as they work in Japan and send regular remittances to their family back home is impressive. Eighty-five percent of these immigrants say they are saving money over and above sending remittances. Some of the reasons for saving money are general, such as trying to improve one's quality of life, while others are more specific, such as starting a business, buying a home, or paying for education for one's children.

A very high percentage of Latin American immigrants in Japan plan to start their own business. A majority (55 percent) say they have plans to start a business, either in Japan, in their home country, or in some other country. Just a quarter (24 percent) say they do not have plans to start a business. A substantial 21 percent are unsure. The percentage of immigrants who plan to start a business is even higher among remittance senders. Sixty-two percent of remittance senders have plans to start their own business.

Most of those with plans of starting their own business say they will open their business in their home country in Latin America (73 percent). However, a quarter (25 percent) of the immigrants who want to start their own business say that they plan to stay in Japan and open a business there.

Conclusion

Ongoing research by Bendixen & Associates underscores the growth of remittances and the increasing role these resources play in the lives of transnational families in the Americas. Migrant remittances now account for a quarter or more of the annual income of most recipients in countries across Latin America and the Caribbean. These households are clustered on the lower end of the socioeconomic scale, and hence spend most of their remittances on food, shelter, and clothing. However, significant amounts are also dedicated to education, and to a lesser extent, to business, savings, property, and other productive uses.

Discerning year-to-year increases in remittances is difficult given the current state of data collection, but the dramatic increase of remittances into Latin America and the Caribbean in recent years is beyond doubt. This partly reflects a surge of migration in the United States and other host countries, as well as average increases in both the frequency of sending money and the amounts sent since 2001.

Geography reveals some significant differences in the behavior of senders and receivers. Remittance senders in the United States use the banking system far less than do their counterparts in Japan. Not surprisingly, Brazilian remittance receivers (often receiving monies from Japan) are more likely to use banks to receive than do migrants in other countries of the region.

Migrants in both the United States and Japan tend to be younger, male, and remit a percentage of their incomes that far exceeds average household savings rates of nationals in both host countries. However, migrants in Japan send home a higher proportion of their earnings, and more often, than do migrants in the United States. Moreover, in addition to the remittances they send, migrants in Japan are able to amass savings of their own, and report plans to launch or support new businesses back home.

In sum, remittances and savings earned abroad have become a fixture of the economic, financial, and social landscape in Latin America and the Caribbean. Given the demographics of migration, these flows should remain robust over the next several years.

Bibliography

Capps, Randy, Michael Fix, Jeffrey S. Passel, Jason Ost, and Dan Perez-Lopez. 2003. A Profile of the Low-Wage Immigrant Workforce. In Immigrant Families and Workers section, Urban Institute Web site, <http://www.urban.org/url.cfm?ID=310880>

Instituto Nacional de Estadística, Geografía e Informática (Mexico). 2000. *XII Censo General de Población y Vivienda,* <http://www.inegi.gob.mx>

Japan Statistics Bureau. 2005a. Annual Report on the Family Income and Expenditure Survey 2004. Ministry of Internal Affairs and Communications, Tokyo. January 28.

———. 2005b. Annual Report on Current Population Estimates. Ministry of Internal Affairs and Communications, Tokyo. February 21.

Johnson, Hans P., Belinda I. Reyes, and Richard Van Swearingen. 2002. Holding the Line? The Effect of the Recent Border Build-up on Unauthorized Immigration. Public Policy Institute of California, San Francisco.

Multilateral Investment Fund of the Inter-American Development Bank (MIF-IDB). 2001. Survey of Remittance Senders: U.S. to Latin America. Report by Bendixen & Associates. Washington, D.C.: Multilateral Investment Fund.

———. 2002. *Las Remesas de Emigrantes entre España y Latinoamérica*. Report by Confederación Española de Cajas de Ahorros. Washington, D.C.: Multilateral Investment Fund.

———. 2003a. Survey of Remittance Recipients in Central America. Report by Bendixen & Associates. Washington, D.C.: Multilateral Investment Fund.

———. 2003b. Survey of Remittance Recipients in Mexico. Report by Bendixen & Associates. Washington, D.C.: Multilateral Investment Fund.

———. 2004a. Survey of U.S. Remittance Senders: State by State. Report by Bendixen & Associates. Washington, D.C.: Multilateral Investment Fund.

———. 2004b. Public Opinion Study of Remittance Recipients in Brazil. Report by Bendixen & Associates. Washington, D.C.: Multilateral Investment Fund.

———. 2004c. Public Opinion Study of Remittance Recipients in Colombia. Report by Bendixen & Associates. Washington, D.C.: Multilateral Investment Fund.

———. 2004d. Remittances and the Dominican Republic: Survey of Recipients in the Dominican Republic and Survey of Senders in the United States. Report by Bendixen & Associates. Washington, D.C.: Multilateral Investment Fund.

———. 2005. Remittances from Japan to Latin America: Study of Latin American Immigrants Living and Working in Japan. Report by Bendixen & Associates. Washington, D.C.: Multilateral Investment Fund.

Multilateral Investment Fund of the Inter-American Development Bank and Pew Hispanic Center (MIF-PHC). 2003. Survey of Remittance Recipients in Ecuador. Report by Bendixen & Associates. Washington, D.C.: Multilateral Investment Fund.

Murono, Alexis Frances. 2002. "History of the Japanese Immigrants in Peru." In *Peruvian Japanese Internment.* Wake Forest University. <http://www.wfu.edu/users/muroaf1/asia-pacific/background.htm>

Pew Hispanic Center and Multilateral Investment Fund (PHC-MIF). 2002. Billions in Motion, Latino Immigrants, Remittances, and Banking. Washington, D.C.: Pew Hispanic Center and Multilateral Investment Fund.

Takenaka, Ayumi. 1997. "Toward 'Nikkeism'?: Japanese (Nikkei)–Peruvian Migrants a New Ethnic Minority." In *Beyond Boundaries: Selected Papers on Refugee and Migration Issues*. Arlington, Virginia: American Anthropological Association.

U.S. Census Bureau. 2000. Census 2000; using American Factfinder. <http://www.census.gov>

———. 2003. 2003 American Community Survey; using American Factfinder. <http://www.census.gov>

U.S. Department of Commerce. 2005. National Income and Product Accounts. Table: Personal Income and Its Disposition. Bureau of Economic Analysis, National Economic Accounts, Washington, D.C.

This page intentionally left blank

Chapter 4

On Remittances and Risk

Susan Pozo

An earlier view of the economics of migration presumed that a major cause of migration were wage and earnings differentials between labor-exporting and labor-importing areas, as expressed in the influential Harris-Todaro model (Harris and Todaro 1970). In this view, migrants moved because expected earnings were relatively higher elsewhere. In contrast, an emerging perspective identifies risk-mitigating opportunities as among the key variables that influence individual decisions to migrate to other regions and countries. By taking into consideration the risks that exist in different locations, families can achieve a diversified pool of earnings by taking advantage of risk-sharing opportunities.

The greater diversification of earnings permitted by the migration of individual family members is important for a variety of reasons. For one, the dispersion of earnings may help families and individuals within families experience smoother consumption over time (see Stark and Levhari 1982; Rosenzweig and Stark 1989; Townsend 1994; Hoogeveen 2002.) A family affected by a natural disaster in one region is better able to maintain consumption, live more comfortably, and avoid extreme deprivation when members in another region send money to compensate for unanticipated losses. A lack of formal insurance markets and safety net programs prevents many individual households from undertaking even low-risk investments that could enhance their wealth. However, the diversification of family earnings may enable families to engage in a beneficial process of calculated risk-taking. In fact, risk-pooling arrangements among family members are a mechanism that appears to substitute for a lack of formal insurance markets. In other words, remittances give rise to a variety of informal insurance arrangements.

This chapter argues for a refocused view of remittances that allows for better tracking, prediction, and understanding of the international transfers undertaken between immigrant workers and families remaining in the home country. In addition to identifying patterns observed in the transfer of funds across national boundaries, this study provides evidence that individuals who remit money home are cognizant of several risks inherent in these transfers. In addition, immigrant behavior reveals recognition of the benefits of activities to mitigate or share risks, to reduce the variability of consumption, and possibly permit greater investment.

Evidence regarding the interplay of remittances and risk is organized by addressing the following three key categories of "how," "when," and "why" with regard to international remittances:

- *How do immigrants remit money home?* Are banks and credit unions used, or money-transfer firms? Are formal or informal methods used? Do immigrants resort to risky or safe money-transmission methods when sending earnings home? What factors come into play in determining the choice of money-transfer methods?
- *When do immigrants remit money home?* Are there patterns over time with respect to remittance flows? How do remitters respond to host country economic conditions? Do home country variables influence the timing of remittance flows? Can the timing of remittances and their correlation to macroeconomic trends shed light on what motivates remitters?
- *Why are remittances sent home?* Are remittances sent to support consumption by family members left home? Are remittances sent to buy insurance? Do remittances constitute precautionary savings? Can microeconomic or individual-level information provide clues about the migrant's motives with respect to sending money home?

At this juncture, it is important to note that, until recently, policymakers and researchers have paid little attention to international remittances. One unfortunate consequence of this lack of attention is an almost total absence of harmonized or standardized data on the subject. Much of the microeconomic data available today to study the remitting habits of immigrants result from the opportune placement of one or two questions in a survey instrument that was designed to study other economic phenomena and hence only imprecisely measures remitting behavior. Similarly, the macroeconomic data reported by central banks on international remittances vary in their theoretical definition and in the ability of the central banks to obtain a comprehensive and accurate measure of these flows. As such, it is important to recognize the limitations inherent in any empirical research that uses these micro or macroeconomic data in analysis and to caution about making comparisons across studies.

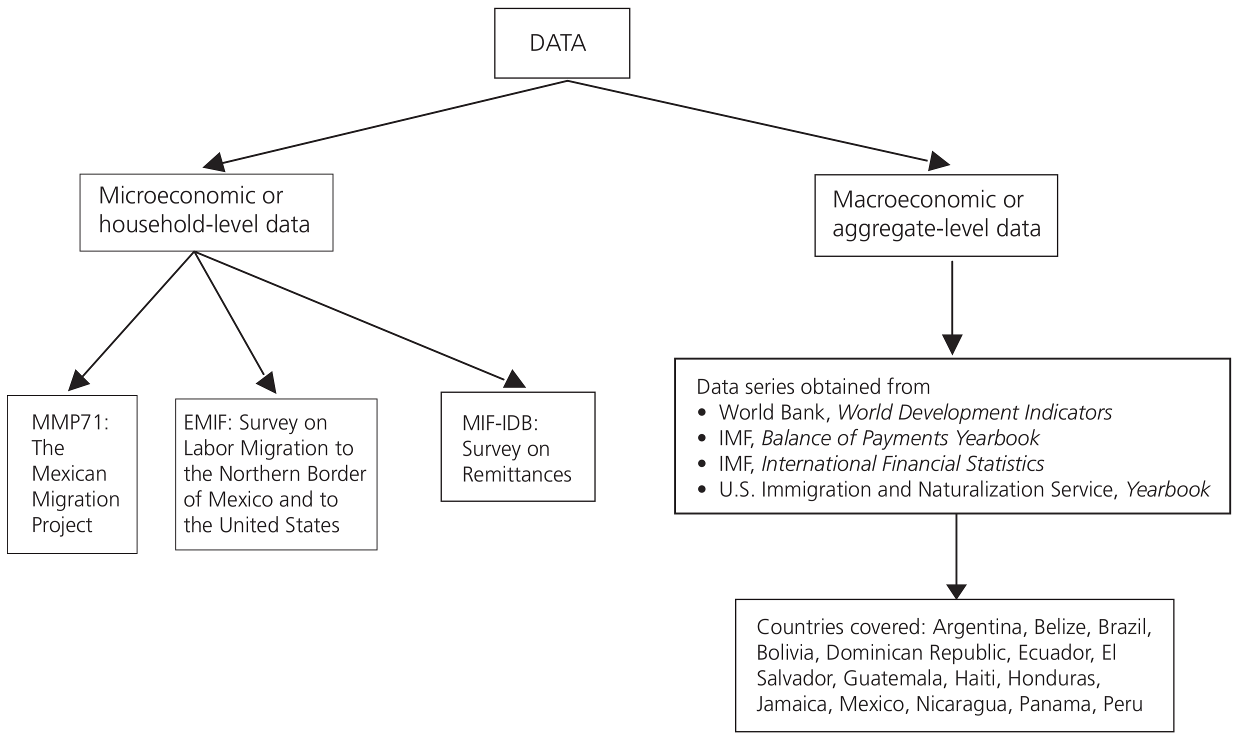
Taking into consideration the limitations of the data, this chapter addresses the questions outlined above using several different categories and sources of microeconomic and aggregate data (figure 4.1). Much of the microeconomic data used is derived from surveys of Mexican immigrants who reside or have resided in the United States, including the Mexican Migration Project (MMP71) and the *Encuesta sobre Migración en la Frontera Norte de México* (EMIF). An additional source of information, Survey of Remittance Senders (MIF-IDB 2002), cites results from a representative survey of all Latin American immigrants in the United States, and provides evidence that our overall results are not unique to Mexican-origin immigrants. The aggregate macroeconomic data used in this study were compiled from several sources as specified in figure 4.1 and are from a number of countries in the Latin American and Caribbean region.

This chapter provides evidence that remittances are sent in a variety of ways, ranging from very safe to more risky modes of transmission. Migrants are sensitive to risk, and the choice of the money-transmission method is rational and consistent given the constraints facing the immigrant. This chapter shows that when immigrants opt for more risky modes of money transmission, they do so because of a lack of alternatives.

This study provides additional evidence of the degree to which immigrants are sensitive to risk by tracking the time pattern of remittances, while controlling for other variables that vary over time, and correlating these with variations in the level of remittances sent home by immigrant workers. This chapter shows that immigrants' behavior is consistent with the notion that immigrants take concrete steps to reduce their exposure to risk. They send money home when the risks of doing so (with respect to its future value in the host destination) are minimized.

A final set of questions more directly addresses the motives of remittance senders. The evidence presented supports the view that individual immigrants both calculate the risks inherent in their future streams of income and plan accordingly. Levels of remittances appear to reflect the degree of risks experienced by migrants in host destinations. Remittances appear to be a mechanism used by immigrants to

Figure 4.1. Categorization of Data and Data Sources



insure against risk exposure. Individuals bearing more risk appear to send home a greater level of remittances. Such behavior is consistent with the objective of insuring against variability in income.

A concluding section makes the case for a strong relationship between remittances and risk. In order to understand remittances, it is necessary to consider the roles of risk and uncertainty, and recognize that immigrants employ rational strategies to reduce or compensate for the levels of risk that they confront. Recognition of these links can help policymakers design better strategies to channel remittances for economic development.

How Do Immigrants Remit Money Home?

Researchers often express concern over the prevalence of informal methods to remit money home. The data in this study support the conclusion that a relatively small number of immigrants, particularly from Latin America and the Caribbean, remit monies to friends and families at home using the formal banking system. Money-transmitting firms (MTFs) such as Western Union and MoneyGram, along with methods such as sending cash via the mail and using informal courier services, are far more popular ways to send money home.

The underutilization of the banking system for money transmittal is problematic because strong financial intermediaries are an important element in economic development. Rousseau and Wachtel (1998) show the central role played by financial intermediaries in promoting long-run economic growth in Canada, Norway, Sweden, the United Kingdom, and the United States. By channeling "idle" funds from savers to investors, banks play a pivotal role in enabling capital formation and market development. Thus it is important to encourage the use of banking institutions. If migrants were to use the money-transmittal services of banks, then both senders and recipients would become more comfortable with institutions that promote financial intermediation.

The underutilization of banking services for international money transfers comes as no surprise to those who have studied the banking habits of immigrants of Mexican origin in the United States. Information on bank usage by Mexican immigrants can be obtained from the migration file of the Mexican Migration Project (MMP71), which contains information on 2,886 Mexican or Mexican-origin households with U.S. migration experience. This survey began in 1982 as a collaborative effort of researchers located at the University of

Pennsylvania and Universidad de Guadalajara of interviews of households located in the United States and Mexico. Each household was asked to provide retrospective information on migratory movements and activities (see http://mmp.opr.princeton.edu/). Hence the survey captured information on Mexicans with U.S. migration experience who have returned to Mexico either permanently or temporarily, as well as Mexicans with migration experience who have remained permanently in the United States.

Table 4.1 presents MMP71 information on the use of banks by Mexican-origin immigrants. Overall, only 19 percent had bank accounts during their last residency in the United States. Given that over 80 percent of this population is unbanked, it follows that banks play a very small role in remittances to the home country. Figure 4.2 reveals that bank usage by Mexican immigrants in the United States has diminished with immigrant cohorts arriving after 1970. Immigrants arriving in the United States in the 1960s were more likely to have had bank accounts (23 percent of those surveyed) when compared to those who arrived in the 1990s (15 percent).

Declining bank account ownership among Mexican immigrants might be seen to indicate a downward trend in the use of all banking products, including remittances services. However, making direct comparisons across cohorts of immigrant arrivals is problematic. Unadjusted comparisons across immigrant arrival cohorts could lead to the premature conclusion that the behavior of immigrants has changed over time—when, in fact, this may not be the case. Given that the data are retrospective and interviews have been conducted more recently, it will be the case that immigrants who arrived in the 1960s are likely to be older and to have resided longer in the United States than the immigrant cohorts who arrived later. It may be that as the 1990s cohort

Table 4.1. Percentage of Mexican Immigrants with Bank Accounts, by Immigration Cohort and by Documentation Status

Entry period	Documentation status		
	All	Documented	Undocumented
Before 1961	99	12	55
1961–70	23	29	16
1971–80	21	51	12
1981–90	22	40	12
1991–99	15	27	44
All years	19	32	10

Source: Author's calculations from the MMP71.

Figure 4.2. Bank Account Ownership by Mexican Immigrants

Source: Computed by the author using the MMP71.

ages and spends more time in the United States, this group too will gain greater access and develop a greater taste for banking services. More analysis is necessary to correctly forecast trends in the demand for bank services among Mexican immigrants.

Returning to the issue at hand, by what avenue do immigrants remit? According to a survey of 1,000 Latin American immigrants in the United States conducted by the Inter-American Development Bank (MIF-IDB 2002), only 20 percent of Latin American-origin immigrants in the United States use the money-transfer services of banks or credit unions to remit sums of money to their countries of origin. The IDB survey further found that an astonishing 29 percent of immigrants remitted through the mail as well as through the services or goodwill of people traveling to the destination area (MIF-IDB 2002). Are remitters acting in an irrational manner by relying so heavily on informal and ostensibly riskier modes of transmission?

A closer look suggests that most migrants, subject to constraints and available information, make the appropriate choice of money transmission method. While riskier modes of transmission are in decline, special features in the money-transmittal market, along with emerging constraints and opportunities confronting both senders and receivers, suggest that expensive transmission channels will persist for some time.[1] Figures 4.3 and 4.4 present information on the mode of transmission based on a periodic survey of Mexican migrants—the *Encuesta sobre Migración en la Frontera Norte de México* (EMIF). These data were collected from 1993 to 2000 by the Colegio de la Frontera Norte (COLEF)[2] in eight different cities along the U.S.-Mexican border: Ciudad Juárez, Matamoros, Mexicali, Nogales, Nuevo Laredo, Piedras Negras, Reynosa, and Tijuana. Mexican migrants returning from the United States to Mexico—both permanently and temporarily—were asked if they remitted money home from their last month of pay while in the United States. If so, they were asked what method of transmittal they used. The percent that remitted via banks rose substantially from about 4 percent in 1993–94 to almost 17 percent in the 1999–2000 survey. The evidence suggests that the unbanked are shrinking as the banking sector realizes the potential in servicing immigrant markets (Handlin, Krontoft, and Testa 2002).

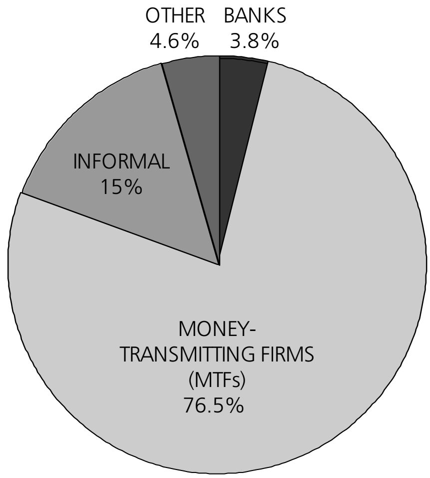
Documentation status is an important variable to consider in forecasting the choice of money-transmittal method. Data from the MMP71 demonstrate that undocumented immigrants are substantially less likely to have bank accounts. Table 4.1 shows that 32 percent of documented immigrants have bank accounts, while only 10 percent of undocumented migrants enjoy the use of bank accounts. Familiarity with banking institutions will undoubtedly be a factor in determining the propensity of immigrants to use banks in the money-transfer process.

The EMIF data also show that there has been a modest decline in the proportion of workers remitting via informal means, defined here as cash sent through the mail or personally carried by the migrant or a third party. In the 1993–94 survey (figure 4.3) 15 percent of the respondents claimed to remit via informal means, while in the 1999–2000 survey (figure 4.4), slightly less than 12 percent claimed to remit in this manner. Hence most of the rise in the use of banks appears to have come at the expense of money-transmitting firms (MTFs), with a smaller proportional decline in informal transfers. However, this study argues that those who remit using informal means do so for perfectly rational reasons. Many who persist in remitting via informal channels do so because they send money to rural, poorer

[1] In many instances, of course, improvements to the system must be made. Indeed, given the potential for market failures in the money-transmission business, and subsequent impact on development, there is a role for governments to promote improvements in the system.

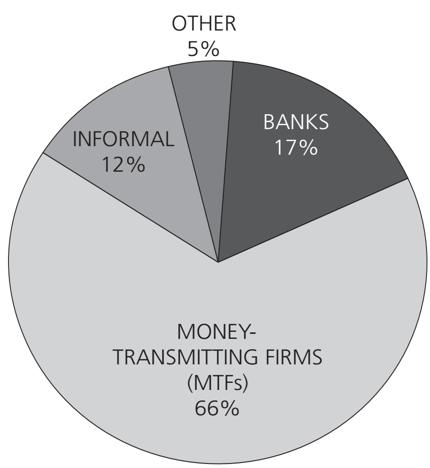
[2] COLEF carried out the survey for the Secretaría del Trabajo y Previsión Social and the Consejo Nacional de Población.

Figure 4.3. Money-Transmittal Method, 1993–94



Source: Computed by the author using the EMIF.

Figure 4.4. Money-Transmittal Method, 1999–2000



Source: Computed by the author using the EMIF.

areas and regions of countries that are underserved by banks and other formal money-transmitting institutions (see Amuedo-Dorantes and Pozo 2005).

Evidence from Orozco (2002) also supports the idea that informal transfer mechanisms are often rational choices for remitters. Orozco finds that 46.4 percent of Cubans in the United States use the goodwill or services of people traveling to Cuba to transfer money back home. These *mulas* (mules) are often family or friends, or individuals who travel to Cuba specifically to deliver remittances. They will often deliver goods, or in-kind remittances, a service not offered by large money-transfer enterprises. Given the demand for in-kind remittances in the Cuban economy, informal mechanisms such as *mulas* lower the transfer costs by bundling goods and money in the same transaction.[3]

To summarize, the underuse of the money-transfer services of banks and credit unions is due to several factors. Banks and credit unions have low market penetration in migrant communities; this, along with the scarcity of bank branches in receiving areas, makes alternatives attractive to many remitters. Greater convenience and bundled services offered by nonbank money-transfer agents attract remittances away from banks. In addition, remitters generally have poor access to banking services because of their immigration status and other personal characteristics. These market characteristics impede the ability of banks to channel accumulated savings into much-needed investment. Moreover, the increased transmission of migrants' remittances through formal banking channels would enhance the comfort, and hence the participation, of recipients in the banking system. These challenges must be dealt with if banks are to improve their share of the money-transfer market. In sum, despite their higher cost and risk, migrants will continue to use nonbank channels so long as they offer specialized and differentiated services not provided by banks.

When Do Immigrants Remit Earnings Home?

After asking *how* migrants remit, we will want to know *when* migrants remit. The answer is usually straightforward: migrants send money home based on the needs of their families and their own financial ability to do so. It is generally assumed that migrants are altruistic, desir-

[3] Transfer costs also include the information costs of seeking out and determining the reliability of a given transfer agent.

ing to improve the living conditions of family members left behind. In some instances, the migrant may be a parent, and he or she is providing for the basic needs of children. Alternatively, the migrant might be a working child, helping his or her family back home make ends meet. Or a sister or brother who has migrated may be sending payments home to finance the education of a sibling. Whatever the arrangement, it is assumed that remitters send money because they have a genuine desire to help their family. In economic parlance, altruism means that the migrant's utility, or feelings of well-being, is a function of the well-being of the recipient of the remittance. The sender is motivated by the satisfaction he or she derives by helping the recipient, and expects nothing in return.

But an alternative view of remittances stresses that individuals send money home as a "payment" for some service. For example, some argue that the motive for making remittances is often to ensure that family members back home perform various care-taking services (Lucas and Stark 1985). In such cases, periodic payments are made to secure the migrant's place in the family back home, and to ensure that possessions (farm, capital stock, chance of a future inheritance) will be cared for in the case of an eventual return.

The notion that migrants are "self-serving" suggests that there is likely a direct relationship between home economic conditions and the decision to send remittances. Improving economic conditions at home helps increase the value of goods left behind, and all other things being equal, increase the probability of the migrant's eventual return home. A greater likelihood of returning home increases the incentive for migrants to solidify claims on assets left behind, as well as to add to this base. Increased remittances may assume the form of investments in assets back home (such as financial assets, physical assets, farm implements, housing), or function as payments to relatives for goodwill or as a form of family-provided insurance. In essence, this view suggests that improved economic conditions at home motivate the remitter to increase his or her "insurance coverage" by sending a larger sum to secure appreciating assets and to "pay" for the increased probability of returning home.

Such reasoning has led a number of researchers to test the altruistic versus self-interested motives of remitters. These tests are carried out by correlating home economic conditions to the level of remittances. Are remittances forthcoming during good times in the remittance-receiving economy? Or do migrants send more home when economic conditions are unfavorable for their families back home? The presumption is that if remitters are altruistic, that home economic conditions and remittances should be negatively correlated. Deteriorating economic conditions at home should increase the level of remittances sent by families residing abroad, particularly when the immigrant himself is doing well in the host country. An inverse relationship between remittances and home economic conditions is thought to be consistent with the altruistic model. Conversely, if improvements in home economic conditions are followed by increases in remittances, it could be concluded that the immigrant's behavior is consistent with the self-interest model.

Several empirical studies have examined the relationship between home conditions and the migrant's volume of remittances. Schreider and Knerr (2000) find that sizable inheritances are necessary to ensure that the migrant continues to remit money home in Cameroon, lending support to the self-interested model. Agarwal and Horowitz (2002), on the other hand, present evidence suggesting that migrants from Guyana are motivated by altruism. Using macroeconomic data, Faini (1994) attempts to draw inferences about the relationship between aggregate economic conditions in the home country and the volume of remittances received. The study claims to find evidence consistent with the notion that migrants behave altruistically: that is, that remittances and home economic conditions are negatively related. However, Faini also points out that other macroeconomic variables are important when examining the determinants of remittance flows from sending to receiving nations. In general, empirical studies are inconclusive and have not yet resolved the altruism versus self-interest controversy.

It is not necessary to attribute a *single* motive to remitters. Individuals can be altruistic while also acting in their own self-interest. Migrants can take care of their families back home while at the same time advancing their own material self-interest, including watching over their "portfolio of investments" and making strategic payments to family members to secure an anticipated inheritance.[4] The discussion that follows suggests a reconciliation of the altruistic and self-interested view using aggregate macroeconomic time-series data.

Tracking remittances per migrant over time provides an alternative way to understand the causes behind the rise and fall of remittance flows. For example, figure 4.5 plots total annual aggregate work-

[4] For a theoretical model that permits the migrant to behave altruistically while at the same time displaying "self-interested" motives, see Amuedo-Dorantes and Pozo (2004).

Figure 4.5. Workers' Remittances, Dominican Republic, 1980–96

Note: the figure plots total annual aggregate workers' remittances to the Dominican Republic.
Source: World Development Indicators.

ers' remittances to the Dominican Republic, while figure 4.6 plots workers' remittances per Dominican emigrant received by the Dominican Republic. Note that when the *aggregate* flows are plotted (figure 4.5), the trend for remittances to the Dominican Republic continues upward. However, when the data are plotted *per emigrant*, the trend in flows is downward over most of the time period displayed (figure 4.6). In 1980, annual per emigrant remittances amounted to approximately $1,050, while in 1992 per emigrant remittances had fallen by approximately one-quarter to $750 annually. These data suggest that Dominican emigrants are becoming less generous over time.

To shed more light on the ups and downs in the flow of per emigrant remittances, we have studied these flows based on data collected from 1980 onwards for 15 Latin American and Caribbean countries (see figure 4.1 for details). Statistical analysis of the data supports the hypothesis that *both* altruistic and self-interested motives are relevant determinants of the level of remittances sent from migrants in the United States to their home countries. The results from this study are displayed in table 4.2.

The findings suggest that remittances are directly related to the ability to remit—as we found that remittances rise with increases in

Figure 4.6. Workers' Remittances per Emigrant, Dominican Republic, 1980–96

Source: Computed by the author from *World Development Indicators* and *Yearbook of the U.S. Immigration and Naturalization Service.*

U.S. per capita income. All other things being equal, improved economic conditions in the host country lead to increases in the level of remittances. In addition, it was found that declines in home country per capita income lead to increased remittances sent to home communities, implying that immigrants in the United States are more generous with their transfers home when economic conditions, as measured by per capita income growth in the home countries, are poorer.

Table 4.2. Panel Regression of Per Immigrant Remittances: Fixed Effects

Dependent variable: Log (per immigrant remittances from the United States to country *i*)

Independent variable	Coefficient estimate	Standard error
Intercept	11.40*	3.47
Log (per capita U.S. income)	3.02*	0.55
Log (per capita income in *i*)	–1.76*	0.61
Exchange market pressure	–0.07*	0.03
N	187	

* Statistically different from 0 at the 5 percent level or better.
Source: Author's calculations from *World Development Indicators* and *International Financial Statistics.*

This result is consistent with the altruistic motive, suggesting that the generosity of migrants increases as family needs increase.

We also looked at the effect on remittances of what can be called *exchange market pressure*—a measure of the health of the currency in the country where the migrant is sending money. When currency in the home country is depreciating vis-à-vis the U.S. dollar, there is a negative impact on the amount of migrants' remittances. This relationship also holds when migrants expect *future* depreciation. In either case, migrants tend to postpone sending money until the home country currency stabilizes at a new depreciated rate. In effect, remitters behave as astute investors by taking into consideration the time path of the currency and strategically sending money to maximize its value in local currency. Hysenbegasi and Pozo (2002) also found evidence of this pattern in the timing of remittance flows in relation to international economic conditions, while Higgins, Hysenbegasi, and Pozo (2004) find that increases in exchange rate uncertainty slow remittance flows to home communities.

While these studies support the altruistic aspect of remitters' behavior, exchange-related calculations are likely a mix of both self-interested and altruistic motives. Self-interested remitters wish to gain maximum credit for their gifts to the family back home, and hence time their transfers to occur when the exchange of dollars for local currency is at its best. Alternatively, it could be that remitters are simply paternalistic, holding back until the value of the remittance is at its highest. In all likelihood, both motives are at work. Overall, the results of this estimation are in line with the notion that migrants are astute remitters who take into consideration the risks and timing decisions inherent in converting U.S. dollars into local currency. These findings also support the altruistic view that immigrants are more generous to family members when the need arises.

Why Do Immigrants Send Earnings Home?

Immigrants incur high levels of risk when migrating between and within countries. The status of employment, housing, and wages in destination areas is often uncertain, particularly for those migrants with low levels of human capital. In many markets some form of insurance is the most common response to risk, where an individual exchanges the fear of a large loss for a smaller periodic payment. In the case of employment, of course, private insurance markets do not exist, because the enforcement of contracts and moral hazard make private employment insurance virtually unworkable. From the perspective of the migrant, the absence of private insurance markets makes insuring within the family a reasonable alternative.

This section examines the proposition that international remittances reflect informal insurance arrangements between family members at home and migrant members abroad. We hypothesize that the migrant makes periodic monetary contributions to the family, or de facto insurance premiums, to preserve the right to rejoin the family later on. This "contract" is an informal and implicit arrangement in which the migrant sends periodic payments to support the family in the home country, which in turn secures the emigrant's place in the case of a return home. How can the implicit family-insurance hypothesis be tested? In general, economists have found that the responses of people regarding their motives are often unreliable. For example, most people claim that they send money home for altruistic purposes. While there is no doubt that altruism plays a central role in remittance flows, we suspect that many remitters also expect something in return for their generosity.

Since responses to questions about motives are not very reliable, economists instead deduce motives by revealed behavior. To deduce whether remittances act as implicit insurance premiums, the remittance practices of immigrants with differing personal risk characteristics are compared. For instance, if it is observed that those facing greater risks are more likely to remit sums home, then such behavior is consistent with the use of remittances to insure against risk. In practice, the altruistic motive can coexist with the insurance motive; people both purchase insurance and contribute to charitable causes. In the same way, immigrants may send money home for both charitable reasons and to contract informal insurance arrangements.

Using the EMIF, we examined the remitting behavior of nearly 19,000 immigrants of Mexican origin with U.S. migration experience between 1993 and 2000. Table 4.3 divides these immigrants into two

Table 4.3. Propensity to Remit and Percent of Earnings Remitted, by Immigration Status, EMIF Sample

	Total sample	Documented	Undocumented
Sample size	18,718	12,766	5,953
Percent remitting	47.3	45.7	51.0
Remit/earnings (percent)	45.9	43.9	49.8

Source: Author's calculations using the EMIF.

groups: those who had documents during their last visit to the United States, and those who were undocumented. In this sample, 12,766 had documents, while 5,953 did not. The immigrants were asked about their employment while in the United States and earnings at their last job while residing there. If they had jobs, they were asked if they sent remittances home to Mexico, and if so, how much of their last month's earnings they sent.

Documentation status is an important risk characteristic of immigrants. Undocumented immigrants bear higher risks in the labor market in part because they are subjected to greater uncertainty with respect to their residency in the United States. Unauthorized immigrants are at risk for deportation, are more likely to be exploited by their employers, and generally have less stable working conditions. In short, illegal immigrants are subject to greater risks and uncertainty in their future stream of earnings. Therefore, it is hypothesized that illegal immigrants are more likely to remit in order to cover for these greater levels of uncertainty.

Table 4.3 shows remittances statistics based on documentation status. While 51 percent of the undocumented immigrants claim to send money home, only 46 percent of documented immigrants claim to remit. This supports the view that remittances are part of a strategy in which migrants reduce uncertainty in their future earnings stream by sharing some of their current earnings with their families in exchange for assurances of future support should the need arise. In addition, the data suggest that undocumented immigrants send a higher fraction of their earnings home. Documented remitters sent 44 percent of their earnings home, while undocumented immigrants remitted 50 percent of their last month's earnings. The results displayed in table 4.4 provide further evidence of remittance behavior relative to risk profiles. Workers in agriculture and mining—relatively seasonal

Table 4.4. Percent Remitting and Percent of Earnings Remitted According to Industry of Employment While in the United States

	Percent that remitted	Percent of earnings remitted
Agriculture and mining	56	51
Industry	43	42
Construction	51	46
Commerce	36	40
Services	42	43

Source: Author's calculations using the EMIF.

and cyclical sectors with greater variability in earnings—are more likely to remit. Moreover, this group also sends a larger fraction of their earnings home.

This is an opportune time to remind the reader of the danger of making comparisons of data across surveys. While the proportion of earnings remitted by this group of immigrants may appear high, recall that this is a select group and is not representative of the behavior of all immigrants in the United States, nor of all Mexican immigrants in the United States. The EMIF reports on the behavior of immigrants who have returned to Mexico, who reported on their own earnings, and who reported remitting from those earnings during the last month of their stay in the United States. In addition, these immigrants returned to Mexico by passing through the northern border region. Despite this selectivity, and despite the fact that this group of immigrants is not representative of all immigrants, useful information can still be derived on how personal risk characteristics affect remitting behavior.[5]

These percentages (displayed in tables 4.3 and 4.4) are unadjusted for many other conditioning variables that could explain differences in remitting patterns between the various groups described. However, using the described data, Amuedo-Dorantes and Pozo (2004) controlled for a series of characteristics of both documented and undocumented Mexican immigrants (including length of U.S residency), and showed that those subjected to more earnings uncertainty send more money home and send a larger fraction of their earnings, as well. While altruism figures to some extent in all such financial decisions, including the decision to remit earnings to the home family, few acknowledge that immigrants may also be insuring themselves against future earnings variability. This insurance may take the form of transfers to family members so that the migrant has a fallback position with the family. Alternatively, immigrants can self-insure by leveraging remittances into financial and/or physical assets back home, which can be drawn upon should the need arise.

[5] This is analogous to taking women between the ages of 30 and 40 and asking how different exercise regimes contribute to weight loss. While these women are not representative of the entire population, an analysis of weight loss according to an exercise regime for women between the ages of 30 and 40 can contribute to understanding the relationship between weight loss and exercise more generally. Similarly, while the EMIF group of immigrants is not representative of the universe of immigrants, by observing behavior among otherwise similar immigrants, one can derive conclusions regarding how risk characteristics influence remitting behavior more generally.

Discussion and Conclusions

The migrant worker can be viewed as a rational economic agent who takes calculated risks to seek a better life, while simultaneously hedging against risk. To substantiate this view, evidence is provided that immigrant workers facing relatively higher levels of risk and uncertainty in their projected earnings are more likely to remit earnings home. Moreover, findings suggest that those workers with greater uncertainty in earnings remit a higher fraction of their current earnings. Greater flows of earnings sent home by immigrants with greater earnings variability reflect individual strategies of risk minimization, primarily in the form of precautionary savings or intra-family insurance arrangements.

Of course, altruism is an important motive underlying the transfers of monies from immigrants to families. But in many cases the immigrant is also "insuring for a rainy day." We arrive at this conclusion by noting that while larger risks in *home* communities can explain remittances sent for altruistic purposes, it does not follow that larger earning risks in the *host* community increase remittances for altruistic purposes. Nonetheless, the data show that larger host-community risk prompts workers to remit more. It is logical to conclude that those additional remittances constitute a form of family-provided insurance or self-insurance against risk.

Macroeconomic data provide additional evidence that immigrants' remitting patterns respond to levels of risk. While findings suggest that flows of remittances per immigrant grow with the needs of households in the labor-exporting nations, it also appears that remitters time their financial transfers to coincide with better rates of exchange. When uncertainty and the probability of devaluation of the home currency are higher, remitters withhold remittances. This suggests that remitters weigh relative risks and are aware of the "return" to their U.S. dollar flows.

The choice of methods used by immigrants to remit money home is also consistent with the view of migrants as astute optimizers. The use of less formal and riskier money-transmission modes often reflects a rational assessment of the constraints facing individual migrants and their families. For example, the issue of *access* is a key reason why many immigrants use money-transmittal firms rather than banks to send money home. Undocumented migrants have easier access to money-transmittal firms than to banks. In the receiving communities, recipients often have easier access to money-transmittal firms because bank branches are not numerous in many poorer and rural areas. An additional reason for the preference for nonbanks is the possibility of bundling goods (and communications) with money transfers. These additional and complementary services are usually not provided by banks. Overall, this study finds that there are good reasons why migrants prefer particular money-transmittal methods.

With respect to the impact and development potential of remittances in receiving areas, this study offers several observations. First, dips and declines in economic performance in host areas do not necessarily reduce the flow of funds to home communities. Instead, increased risks and uncertainty in host areas increase the flow of migrants' resources toward their home communities. While host area risks do not necessarily reduce immigrants' remittances, the converse is not true. Macroeconomic stability in home countries is necessary to encourage a constant stream of remittance flows. Governments should not expect remittances to compensate for scarcities in resources during unstable periods. Overall, migrants are cognizant of home economic conditions and they time their remittance flows to improve the returns to their resources.

Extensive financial intermediation is crucial for channeling resources from savers to investors. Financial intermediaries play a critical role in the economic growth process. Remittances provide ample opportunities for individuals to become familiar with banks, and promoting these opportunities should be a key aspect of economic development programs. In addition, efforts to promote financial intermediation must address the issues of access, as well as the demand for additional services that is currently satisfied by nonbanks and informal money-transmittal mechanisms. Policies encouraging the use of banks must further compensate for the advantages that accrue to remitters when they send money home through informal and nonbank money-transmitting firms.

Bibliography

Agarwal, Reena, and Andrew W. Horowitz. 2002. Are International Remittances Altruism or Insurance? Evidence from Guyana Using Multiple-Migrant Households. *World Development* 30(11): 2033–44.

Amuedo-Dorantes, Catalina, and Susan Pozo. 2004. Remittances as Insurance: Evidence from Mexican Migrants. Western Michigan University working paper.

———. 2005. On the Use of Differing Money Transfer Methods by Mexican Immigrants. *International Migration Review* 39(3), forthcoming.

Faini, Riccardo. 1994. Workers' Remittances and the Real Exchange Rate: A Quantitative Framework. *Journal of Population Economics* 7(2): 235–45.

Handlin, Elizabeth, Margrethe Krontoft, and William Testa. 2002. Remittances and the Unbanked. *Chicago Fed Letter*, Federal Reserve Bank of Chicago Special Issue No. 175A (March): 1–4.

Harris, John R., and Michael P. Todaro. 1970. Migration, Unemployment and Development: A Two Sector Analysis. *American Economic Review* 60 (March): 126–42.

Higgins, Matthew L., Alketa Hysenbegasi, and Susan Pozo. 2004. Exchange-Rate Uncertainty and Workers' Remittances. *Journal of Applied Financial Economics* 14(6): 403–11.

Hoogeveen, J. G. M. (Hans). 2002. Income Risk, Consumption Security and the Poor. *Oxford Development Studies* 30(1): 105–21.

Hysenbegasi, Alketa, and Susan Pozo. 2002. What Prompts Workers to Remit? Evidence Using Latin American and Caribbean Nations. Western Michigan University working paper.

Multilateral Investment Fund of the Inter-American Development Bank (MIF-IDB). 2002. Survey of Remittance Senders: U.S. to Latin America. Second Regional Conference on Remittances as a Development Tool, February 26, Washington, D.C. www.iadb.org/mif/website/static/en/remit03.asp, downloaded on May 2, 2002.

Lucas, Robert E. B., and Oded Stark. 1985. Motivations to Remit: Evidence from Botswana. *Journal of Political Economy* 93(5): 901–18.

Orozco, Manuel. 2002. Challenges and Opportunities of Marketing Remittances to Cuba. www.thedialogue.org/publications/country_studies/

Rosenzweig, Mark R., and Oded Stark. 1989. Consumption Smoothing, Migration, and Marriage: Evidence from Rural India. *Journal of Political Economy* 97(4): 905–26.

Rousseau, Peter, and Peter Wachtel. 1998. Financial Intermediation and Economic Performance: Historical Evidence for Five Industrialized Countries. *Journal of Money, Credit, and Banking* 30: 657–78.

Schrieder, Gertrud, and Béatrice Kneer. 2000. Labor Migration as a Social Security Mechanism for Smallholder Households in Sub-Saharan Africa: The Case of Cameroon. *Oxford Development Studies* 28(2): 223–36.

Stark, Oded, and David Levhari. 1982. On Migration and Risk in LDCs. *Economic Development and Cultural Change* 31(1): 191–96.

Townsend, Robert M. 1994. Risk and Insurance in Village India. *Econometrica* 62(3): 539–91.

PART 2

SELECTED OPPORTUNITIES AND CHALLENGES

This page intentionally left blank

Chapter 5

Improving the Access of Recent Latin American Migrants to the U.S. Banking System

Sheila C. Bair*

Today there are 35.3 million Hispanics in the United States; one in eight Americans is Latino. We are more than one in ten workers, one in five students, and are a vital part of the economies of states, cities, and communities across the country…Latinos now have a buying power that exceeds $450 billion annually.

— Raul Yzaguirre
President, National Council of La Raza
Speaking before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, February 2002

This study identifies and discusses key issues affecting the access of Latin American immigrants to the U.S. banking system. It is based on extensive interviews with financial regulators, advocacy groups, and industry experts, as well as case studies of 10 institutions that are among the most successful in marketing and serving the Latino immigrant community (see list, appendix A).[1] The chapter is based on a research project commissioned by the Multilateral Investment Fund

* I would like to express my appreciation to my research assistant, Ellen Hatch, for her contributions to this article.

[1] The ten institutions surveyed for this chapter were: Arvest Bank (Rogers, Arkansas), Banco Popular, Bank of America, Bethex Federal Credit Union (New York), First Bank of the Americas (Chicago), Latino Community Credit Union (Durham, North Carolina), North Shore Bank (eastern Wisconsin), Second Federal Savings Bank (Chicago), Union Bank of California, and Wells Fargo. This list is not exclusive; there are scores of banks and credit unions in communities throughout the country making major commitments to expand services to Latin American immigrants. However, given finite resources, this study had to limit the number of institutions surveyed, and we believe their efforts are representative of many other banks and credit unions serving Latin American immigrant communities.

(MIF) of the Inter-American Development Bank (IDB). In the fall of 2002, MIF asked the University of Massachusetts Center for Public Policy and Administration to undertake a research project on ways to improve Latin American immigrants' access to the U.S. banking system.[2] The request was precipitated by MIF-sponsored research showing that while U.S. banks and credit unions have made major inroads into the remittance market, usually offering a significantly cheaper alternative to traditional wire transfer, most Latin American immigrants continue to use private money-transfer services to send money home (Pew Hispanic Center and Multilateral Investment Fund 2002). The research identified a number of factors that discouraged Latin American immigrants from establishing accounts at depository institutions, the most important of which were their legal status and lack of documentation, and to a lesser extent, fears regarding minimum balance requirements, high fees, and a general distrust of banks.

Consistent with the MIF's interest, this study focuses on access issues related to *recent* Latin American immigrants: that is, those in the country for less than 10 years. Thus it pays particular attention to best practices suited for customers who may lack conventional documentation ordinarily available to U.S. citizens, have limited ability to speak English, possess a cultural distrust of banking institutions, and have minimal experience in dealing with the U.S. banking system.

Anti-money laundering and terrorist financing issues are discussed at length in a separate section. These issues are integrally related to the ability of banks and credit unions to successfully serve the Latin American immigrant market, and are driven as much by statutory and regulatory requirements as they are by good business practice. Moreover, these issues appear to be perceived as primary obstacles to access, both by immigrants and some financial institutions. The chapter concludes with the finding that under recently established regulations, anti-money laundering and terrorist financing compliance issues can in fact be balanced with effective programs designed to bring Latin American immigrants into the financial mainstream.

Overview

Ten years ago, community advocacy groups bemoaned the scant interest being shown by major financial institutions in providing services

[2] References to the U.S. banking system include all federally insured depository institutions (banks, thrifts, and credit unions, whether federal or state chartered).

to low-income communities. Bank branch closings in economically distressed and predominantly minority neighborhoods were commonplace. While community banks and credit unions struggled to fill the void, aggressive alternative service providers seized the opportunities presented by these underserved neighborhoods. From 1993 to 1999, the number of check-cashing outlets in the United States doubled, and payday lending grew from 300 to 8,000 stores. By the year 2000, some 11,000 check-cashing outlets generated $60 billion in business annually (OCC 2001a).

Today, the story is much different. Hardly a week passes without another press account heralding the efforts of major financial institutions to expand services to minority communities.

For the Latin American immigrant community, this new marketing effort has been driven by a number of factors. First and foremost is the dramatic and growing market potential of this community. As of 2000, 14.5 million individuals born in Latin America lived in the United States—up markedly from 1.8 million in 1970—according to U.S. Census data. Mexicans alone accounted for 7.8 million of the total. Hispanic buying power will reach $800 billion by the year 2007, some studies project.[3] New research—much of it sponsored by the Multilateral Investment Fund—has documented the tremendous volume of remittance dollars being sent to Latin American countries by immigrants living in this country, and the lucrative fees being charged by traditional money-transfer services. The ability to offer lower-cost remittance products has enticed many banks and credit unions into the remittance field.[4] Finally, depository institutions have received a boost from the federal government. In a March 2002 report to Mexican President Vicente Fox and U.S. President George W. Bush, the Partnership for Prosperity—a public/private coalition led by the U.S. Treasury and State Departments to foster economic growth in Mexico—committed to "lower the cost to Mexicans working in the United States of sending money home by, in part, encouraging more banks to

[3] "Ethnic Minorities, Financial Services and the Web." Celent Communications, January 28, 2002. Retrieved on 2/14/03 from http://www.celent.com/PressReleases/20030128/Minority.htm

[4] In 2001, it cost from $15 to $24 to send a $300 remittance with Western Union, according to a study prepared for the MIF (MIF-IDB 2002). Though high, the cost still represented a significant decline from 1999, no doubt because of increased competition from banks and credit unions. A February 2003 analysis by the Greenlining Institute (2003) shows Western Union charging from $22.02 to $36.70, including both the fee and the spread on the foreign exchange rate. Major bank remittance charges ranged from $14.76 to $20.20.

market aggressively the opening of accounts to Mexican workers and offer remittance features in their accounts" (2002, p. 3).

In 1997 Wells Fargo was among the first to offer a remittance product, *InterCuenta Express*, which was followed by the more recent *Dinero al Instante*. Within the last two years, Bank of America has begun offering its *SafeSend* card, while Citibank has rolled out two new remittance products, C2it and Money Card. Officials from all three banks report that their interest in the Latin American immigrant community extends far beyond providing remittance services. Their goal is to build stable account relationships with this new customer base, and eventually cross-sell other products, including mortgages and consumer loans. Community banks and credit unions have also focused on remittances as a marketing tool. The Independent Community Bankers Association (ICBA) is launching a new remittance product that will cost $9 and be distributed through Travelex, which boasts a growing base of more than 600 outlets in Mexico alone. The World Council of Credit Unions has developed the International Remittance Network (IRNet), an electronic funds network that allows its members to transfer funds to thousands of distribution points in 41 countries, including Mexico and others in Latin America. In 2001—its first full year of operation—IRNet was used to transfer $4.2 million. Last year, that number jumped to $50 million.[5]

In addition, a growing number of depository institutions, both large and small, have started offering dual ATM cards with accounts opened in the United States. The account holder sends one of the cards to the beneficiary in Mexico or another Latin American country, and the account can be accessed at an ATM in that country for the cost of the network fee. Finally, as the Federal Reserve expands its Automated Clearing House (ACH) system to Mexico (and eventually to other Latin American countries), electronic fund transfers will be feasible at extremely low cost, just as they are now to Canada. On February 17, 2004, the Federal Reserve Bank announced the expansion of its FedACH International services to Mexico, with service costs of $0.67 per payment.[6]

As competition and technological developments reduce profit margins on remittance products, will banks and credit unions remain committed to the Latin American immigrant community? Notwith-

[5] "Wire Transfer Service." *Credit Union Journal*, February 24, 2003.

[6] "Federal Reserve Announces ACH Service to Mexico." Press Release of the Federal Reserve Bank Financial Services Policy Committee, February 17, 2004.

standing their increasingly intense marketing efforts, will they be able to overcome cultural distrust and fears regarding documentation, product complexity, and fees and make inroads into the market represented by the 43 percent of Latin American immigrants who are currently "unbanked"? Charles Kamasaki, Senior Vice President of the National Council of La Raza, maintains that the efforts of financial institutions to "bank" Latin American immigrants will be sustainable because of the tremendous economic power of the community. "It's being driven by business motives, and because of that, it will last," said Kamasaki in an interview for this chapter.

Anti-Money Laundering and Terrorist Financing Requirements

Interviews with financial institution officials, community activists, and others committed to bringing recent Latin American immigrants into regulated, federally insured depository institutions reveal that requirements under the Bank Secrecy Act (BSA) and the 2001 USA PATRIOT Act are viewed as potential obstacles to their efforts. The problem is twofold. For banks, particularly smaller community banks, there is concern that acceptance of foreign-issued documents, provision of remittance services, and/or maintenance of a customer base that includes a large number of foreign immigrants will result in heightened scrutiny by federal regulatory officials and increased costs to their Bank Secrecy Act compliance programs.

Many immigrants erroneously believe that a social security number—generally available only to U.S. citizens and certain foreign nationals with work permits—is required to open an account.[7] Alternatively, they fear that regulated banks will share information about their identities with immigration officials. Thus they prefer more expensive alternative money-service businesses (MSBs) because, in general, MSBs do not require identification documentation for transactions under $3,000. As will be discussed below, the growing number of banks willing to accept foreign government-issued ID and Individual Taxpayer Identification Numbers (ITINs) in lieu of social security numbers has gone a long way to address these fears and bring thousands of "unbanked" immigrants into the financial mainstream.

[7] The Social Security Administration has initiated efforts to make it easier for immigrants to obtain social security numbers. Under the new procedure, immigrants applying for work visas may at the same time apply for a social security card in their home country.

Education efforts by banks, credit unions, and community groups regarding banks' reporting obligations to federal officials have helped ease concerns about identification information being shared with immigration officials, while at the same time emphasizing that having a bank account in no way "legalizes" the status of any immigrant.[8]

Interviews with federal officials, and an analysis of the BSA compliance practices of the banks and credit unions that serve recent Latin American immigrants, suggest that compliance requirements associated with the BSA/USA PATRIOT Act need not be an impediment to "banking" unbanked immigrants. The important issue is that correct procedures be followed. James F. Sloan, Director of the Financial Crimes Enforcement Network (FINCEN), expressed concern in an interview over the perception by some that federal regulatory and law enforcement officials are biased against banks or other financial service providers serving particular ethnic groups or immigrant communities. "It's simply not the case," Sloan said, "and we are actively engaged in community outreach to address that issue."

Best Practices in Providing Remittance Products

U.S. banks and credit unions are entering the remittance market at a rapid rate. Though much of the recent expansion has focused on the Mexican market, many banks and credit unions are providing services to other Latin American countries as well.[9] One method that banks and credit unions are increasingly using to remit money involves the issuance of dual ATM cards when an immigrant opens an account; one can be sent to the remittance beneficiary in Mexico or another Latin American country and can be used to access funds in the U.S. account. Several of the larger U.S. banks have also become money-transfer agents through arrangements with Mexican banks. Traditional wire transfer also continues to be widely used.

In addition to these more common forms of remittance products, some banks are offering the creation of special savings accounts that are periodically swept into the bank accounts of beneficiaries in Latin America. Another relatively new remittance method, stored value cards (SVCs), which can be "reloaded" using cash, credit, or

[8] Federally regulated depository institutions, while keeping extensive records, generally are required to notify federal officials of individual customer transactions only when an activity is "suspicious" or involves a cash transaction in excess of $10,000.

[9] A number of institutions surveyed provide wire transfers throughout Latin America, although at this point third-party transfer arrangements seem to be confined primarily to Mexico.

debit cards, seem to be gaining popularity. In common with wire and third-party transfers, SVCs can usually be purchased from banks by both account and non-account holders.

In general, bank regulatory officials welcome the entry of regulated depository institutions into the remittance market, as this process brings greater transparency and ease of enforcement. Federally insured depository institutions are subject to extensive federal regulation and routine examinations by highly trained bank regulatory staff. Banks, in general, are subject to much more extensive recordkeeping and reporting requirements, as well as customer identification and verification rules. As a consequence, there can be greater scrutiny of the originators and recipients of international money transfers in regulated institutions. This enhances the ability of federal officials to monitor such transactions and distinguish legitimate transfers from those conducted for money laundering or terrorist financing purposes.

Although the expansion of regulated depository institutions into the remittance market can lead to enforcement benefits, such institutions should understand that remittance products can pose high risks. These risks must be addressed with the adoption of appropriate due diligence, monitoring, and other controls. For example, while remittance products can allow for quick, inexpensive transmission of funds across borders, depending on the method of transmission, these vehicles may provide an uncertain audit trail. Purchasers of remittance products such as SVCs, and the beneficiaries of remittances, do not necessarily have to have bank accounts and thus may not be subject to the same identification documentation requirements as account holders.[10] In addition, beneficiaries of debit cards and SVCs may pass these instruments on to others—in which case, there is no record of the identity of the actual beneficiaries of remittances.

Below is a list of best practices to address risks associated with remittances, gleaned from interviews with federal bank regulators and industry experts. Federal regulators are still gaining experience with new forms of remittances such as dual ATM cards and SVCs. Thus, approaches to addressing risks associated with these products are still developing and will no doubt evolve over time.

Due Diligence on Purchasers and Beneficiaries of Remittance Products: Steps should be taken to appropriately identify and verify

[10] Customer identification and documentation requirements apply to all account holders under the USA PATRIOT Act. In general, they do not apply to a single transaction by a non-account holder, a so-called "one off" transaction, unless the transaction exceeds $3,000.

the identities of purchasers of remittance products (the originators) and the beneficiaries, even though identification information is legally required only for individuals either opening accounts or remitting funds in excess of $3,000 (identification requirements are discussed in the following section). Ideally, banks should obtain the same type of identification documents for any purchaser and beneficiary of a remittance product as is required for customers opening accounts. However, this may not be practicable for remittance beneficiaries in remote locations outside the United States. At a minimum, bank staff should seek to determine the name and address of the beneficiary, his or her relationship to the purchaser of the remittance, and, where dual access to an account will be provided, the nature and frequency of the beneficiary's use of the account. Account holders should also be asked to keep beneficiary profiles updated. Many banks surveyed already conduct this type of due diligence formally or informally, as a matter of sound business practices, as well as for BSA compliance purposes.

Bank regulators also express a strong preference for banks to control the mailing of debit cards and SVCs, or the distribution of funds, as an additional way to check the identity of the beneficiary, and guard against theft or misuse of the card. Finally, both purchasers and beneficiaries of remittances must be checked against the Office of Foreign Assets Control (OFAC) list as well as any other list of known or suspected terrorists circulated by an agency of the federal government, as referenced under Section 326 of the USA PATRIOT Act.

Card and Transaction Limits: Daily and/or monthly limits should be established for remittance products. Virtually all banks surveyed have established some type of limit. Daily limits frequently range from $200 to $1,000, though the limit may go as high as $3,000 for wire transfers. Monthly limits range from $1,000 to $3,500. Some banks also put a limit on the maximum balance that can be maintained in an account with multiple access or an SVC.

Monitoring: Institutions should establish monitoring programs to identify unusual activity. For instance, these programs should be able to flag and analyze remittances that exceed a certain dollar amount over a month's time, accounts with unusually large balances, and accounts where withdrawals are made at unusual locations, or in locations that pose high risks for money laundering. They should also be able to identify, evaluate, and monitor remittances with the same beneficiary or address.

Account Opening Requirements

Compliance with Section 326 of the USA PATRIOT Act: On October 26, 2001, President Bush signed into law the USA PATRIOT Act, PL 107-56. Passed in the aftermath of the September 11 terrorist attacks, the USA PATRIOT Act was designed to give federal law enforcement and financial regulatory officials important new tools in the fight against terrorist financing and money laundering. These tools included several changes to the Currency and Foreign Transactions Act, more commonly known as the Bank Secrecy Act (BSA), originally enacted to prevent banks and other financial service providers from being used as conduits or repositories to hide the transfer or deposit of funds derived from criminal activity. Among the many new provisions added to the BSA by the USA PATRIOT Act was a requirement under Section 326 that the Secretary of the Treasury prescribe regulations setting forth minimum standards for the identification and verification of persons who apply to open an account at a financial institution.

On July 23, 2002, the Treasury Department and federal financial regulators jointly published proposed rules for implementing Section 326, and on April 30, 2003, the Treasury finalized the regulations.[11] The Section 326 rules apply not only to federally insured depository institutions, but securities brokers and dealers, mutual funds, futures commission merchants, and introducing brokers, as well as credit unions, private banks, and trust companies that are not generally subject to federal regulation.

Consistent with the prescriptions of Section 326, the regulations require financial institutions to establish a customer identification program (CIP) for all new accounts, regardless of whether the customer is a U.S. citizen or foreign national. The CIP must be in writing and approved by the institution's board of directors or committee of the board, and have specific procedures in the following areas:

1. *Identification:* The CIP must specify the type of identifying information required to open an account. For U.S. citizens,

[11] The rules applying to banks, savings associations, and credit unions were issued jointly by three bureaus of the Department of Treasury (the Financial Crimes Enforcement Network-FinCEN, the Office of the Comptroller of the Currency-OCC, and the Office of Thrift Supervision); The Board of Governors of the Federal Reserve System; the Federal Deposit Insurance Corporation (FDIC); and the National Credit Union Administration (NCUA). The Treasury Department also issued joint Section 326 rules with the Securities and Exchange Commission and the Commodity Futures Trading Commission that apply to accounts with securities and futures firms. Though separate rules were issued to accommodate differences in business models, they are designed to ensure that minimum requirements be standardized across the various financial industry segments.

the institution must obtain at a minimum: name, address, taxpayer identification number, and date of birth. For non-U.S. citizens, the regulations allow the institution to decide whether it will require a taxpayer identification number. Other acceptable documents include "a passport number and country of issuance; an identification card number from a country other than the United States; or the number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard." The summary of the Section 326 regulations contained on the Treasury Department's website, as well as Treasury's Report to Congress on Section 326, state that "the proposed regulations do not discourage bank acceptance of the *Matrícula Consular* identity card that is being issued by the Mexican government to immigrants."

2. *Verification:* The CIP must establish procedures for verifying the identity of account applicants. The procedures must be risk-based and carried out within a reasonable period of time after the account is opened. While setting minimum standards, the rules provide institutions with flexibility regarding how verification will be accomplished. Ultimately, the institution is responsible for "exercising reasonable efforts to identify customers" that enable it to "form a reasonable belief that it knows each customer's true identity."
3. *Recordkeeping:* Institutions must maintain records of the information used to obtain and verify a customer's name, address, and other identifying information. Where discrepancies have been found, there must also be a record of how the discrepancy was resolved.
4. *Comparison with government lists:* Institutions must check the names of customers against any list of known or suspected terrorists or terrorist organizations circulated by the federal government. Procedures must also be in place for responding when a customer is determined to be on such a list.
5. *Account refusal/closing:* Institutions must develop procedures for determining when an account should not be opened, or when an existing account should be closed, as a result of an inability to verify the identity of a customer. The procedures must also specify the circumstances under which an account may be opened pending verification, and whether a suspicious activity report (SAR) should be filed.

Best Practices in Procedures to Open Accounts: Virtually all institutions surveyed exceed the minimum requirements of the Section 326 regulations by requiring at least two forms of documentation, typically a *Matrícula Consular* for Mexican immigrants or comparable form of government-issued photo ID for other Latin American immigrants, and an Individual Taxpayer Identification Number (ITIN).[12] Several surveyed institutions required both a primary (photo) ID (the *Matrícula Consular* being one acceptable form), and a secondary ID, in addition to an ITIN. Most surveyed institutions stressed that their ability to bring recent Latin American immigrants into the banking mainstream hinged on their ability to accept non-U.S. government identification and ITINs in lieu of a social security card.

Anecdotal reports associated with the increasingly widespread acceptance of the Mexican government's *Matrícula Consular* bear this out. For instance, Wells Fargo estimates that it has opened at least 60,000 new accounts with the *Matrícula Consular* since November 2001, when it first started accepting the card. The Mexican Consulate in Chicago has undertaken an aggressive campaign to "bank" unbanked Mexican immigrants, utilizing "mobile units," which consist of consulate representatives, banking officials, and an IRS Acceptance Agent for ITINs. Last year, the Mexican Consulate partnered with several financial institutions serving Mexican immigrants, including North Shore Bank in Milwaukee and Banco Popular in Chicago. The units were located in the offices of each financial institution. Using a "one stop" approach, the units simultaneously accepted and processed applications for a *Matrícula Consular*, an ITIN, and a bank account. Thousands of immigrants turned out for these mobile units, and more are planned for next year.

More than 500,000 *matrículas* were issued nationwide in 2001.[13] During this time, the Chicago Consulate issued 92,688 *matrículas*. Carlos Sada, the Consul General of Mexico in Chicago, has estimated that as many as 25 percent of those applying for the *matrícula* do so to obtain access to bank accounts. According to Michael Frias of the Federal Deposit Insurance Corporation's Chicago office, 15,000 new

[12] In 2002 the Guatemalan government began issuing a Guatemalan Consular Identification Card to migrants. Wells Fargo, among others, has begun accepting the card as one form of identification for opening an account. Other Latin American countries are rumored to be following with similar ID cards.

[13] Data from an article published in the March 2002 issue of *Enlace*, the monthly newsletter of the Consulate General of Mexico in Chicago.

accounts with total deposits of $50 million have been opened in the Chicago area since banks started accepting *matrículas* and ITINs.

1. *The Matrícula Consular:* Federal officials have not endorsed use of the *matrícula*, going only so far as to say that the Section 326 regulations do not "discourage" its use. The clear intent behind the Section 326 regulation is to give institutions flexibility in designing their CIP to fit individual business operations. "Banks will differ significantly in terms of their business model, products, and customer base; we wanted to give them flexibility to design CIPs that best suited their own operations," said David Aufhauser, General Counsel of the U.S. Treasury Department, and the Department's lead in drafting the USA PATRIOT Act regulations. Aufhauser also emphasizes that ultimate responsibility resides with the institution as to whether sufficient efforts were made to form a reasonable belief that it knows each customer's true identity. Thus in the final analysis, it is up to the institution to determine whether the *Matrícula Consular* is a reliable form of identification for opening customer accounts.

   Advocates of the *Matrícula Consular* appear to have made a solid case that the new High Security *Matrícula Consular* (MCAS) is one of the more secure forms of identification available. Following the September 11 attacks, the Mexican government realized the increased need of U.S. law enforcement officials to document all persons residing within the United States. As a consequence, Mexican officials took several steps to strengthen the security of the *Matrícula Consular*, assist U.S. law enforcement, and enable undocumented Mexican citizens living in the United States to emerge from anonymity and fully contribute to the economy without the use of false documents.

   To obtain a *Matrícula Consular*, the applicant must present an original birth certificate, another official ID with a photo, personal information, and a document with the applicant's current address, such as a utility bill. The MCAS has nearly a dozen security features designed to deter falsification. These features include a holographic image with hidden marks, such as the person's name appearing over the picture when viewed with a decoder; an official seal over the photo that changes color in natural light; and issuance on green security paper with the Mexican seal printed in a special security pattern. The Mexican government boasts that the security standards used with the MCAS are the same as those used by the U.S. government in its own official documents.

No form of identification is immune to falsification or fraudulent use. Government officials have testified before Congress about the relative ease with which U.S. official documents can be falsified, including social security cards. The standard under Section 326 is to verify the identity of customers "to the extent reasonable and practicable," taking into account "the types of identification available." Under this standard, use of the MCAS to open accounts would seem appropriate in most cases under the Section 326 regulations.

Industry experts on the Bank Secrecy Act (BSA) who have reviewed the card have expressed comfort with banks' acceptance of it for identification purposes in appropriate circumstances. Nearly 40 financial institutions accept the card in the Midwest alone. As noted, a number of major banks, including Citibank, Bank of America, Wells Fargo, and U.S. Bancorp, now accept the card nationwide.

Though the MCAS is gaining increasing acceptance among financial institutions large and small, a number are still reviewing it, and some have decided against accepting it. Its use is also garnering criticism from immigration control groups, as discussed in the next section.

2. *ITINS:* Social security numbers (SSNs) generally are available only to U.S. citizens and aliens authorized by the Immigration and Naturalization Services (INS) to work in this country. In certain limited circumstances, SSNs can also be issued to aliens who do not have work permits for certain nonwork purposes. The Internal Revenue Service requires all individuals to file U.S. tax returns if they have gross income subject to U.S. tax that equals or exceeds the exemption amount. Non-U.S. citizens are classified as resident and nonresident aliens. No distinction is made between legal and illegal status.

   For most taxpayers, the IRS uses their SSN as their tax identification number. In 1996, the IRS introduced the ITIN to facilitate voluntary compliance with federal tax laws for those who cannot obtain a SSN, including nonresident and resident aliens, their spouses, and dependents. However, because the ITIN was designed solely for tax compliance purposes, the IRS did not adopt the same rigorous documentation standards employed by the Social Security Administration for SSNs. For instance, the IRS will accept notarized documents in lieu of originals, and does not verify birth certificates with issuing agencies. Applicants do not need to appear in person, but rather may apply for an ITIN by mail or through an authorized ITIN Acceptance Agent.[14] The IRS has issued over 5 million ITINs since the program's inception, and each year receives more than 1 million applications for ITINs. In the 2000 tax year, however, only 1.5 million ITINs were reflected in filed returns.

The IRS has initiated a review of its ITIN program for several reasons, including the relatively low proportion of ITIN recipients filing tax returns, instances of state and local government misuse of the ITIN for issuing documents such as driver's licenses, and reports of ITIN abuse to facilitate refund fraud. In its report to Congress on Section 326, the Treasury Department (2002b, p. 23) concluded that until a more reliable U.S. government system for identifying foreign nationals can be developed, financial institutions should try to obtain ITINs for foreign nationals not eligible for a SSN at the time of account opening. The report also cautioned that "because they are issued without rigorous verification, *financial institutions must avoid relying on the ITIN to verify the identity of a foreign national*" (emphasis added) (2002b, p. 23). The report points out that when used in conjunction with other, more reliable forms of identification, the availability of an ITIN could "provide law enforcement with important clues in the event of an investigation" and "could be used to link various transactions together" (2002b, p. 23). At the same time, the report does not require that financial institutions obtain an ITIN from foreign nationals, given its limited utility and the fact that requiring it may not be appropriate in all circumstances, such as when a foreign national who does not reside in the United States places savings here because of the integrity of the U.S. financial system.

[14] Information about the ITIN program and the application process can be found at the IRS website, www.IRS.treas.gov

None of the institutions surveyed for this chapter relied solely on ITINs as proof of identify for new customers. Interviews with bank officials suggested that they were well aware of the ITIN's limited utility. "We obtain it for tax reporting purposes. It is not viewed as an identification document," commented one senior bank official.

Survey results and interviews with bank officials suggest that institutions marketing to the Latin American immigrant community take their obligations seriously under the Bank Secrecy Act and USA PATRIOT Act. Most institutions conducted extensive due diligence regarding adherence to account opening, identification, verification, and record-keeping procedures. Several bank officials pointed out that their marketing strategies of community outreach, hiring bank staff from the community, and relying on "word-of-mouth" to bring in new customers had important benefits from a security standpoint as well. They expressed the view that bringing in new customers who are acquainted with bank employees, or who are the friends and neighbors of other long-standing bank customers, helped bank officials develop better knowledge of their new customers and guard against identity fraud.

Immigration-related Issues Regarding Implementation of Section 326

The use of foreign government documents is growing in acceptance. However, this practice is coming under increasing criticism from immigration control groups. For instance, the Federation for American Immigration Reform (FAIR) charges on its website that acceptance of the *matrícula* undermines immigration enforcement and compromises U.S. security. Congressman Tom Tancredo (Republican, Colorado), the Chairman of the Immigration Reform Caucus, has introduced legislation to prohibit federal agencies from accepting foreign government-issued IDs. The Center for Immigration Studies recently published an analysis of the *Matrícula Consular,* calling it a "piecemeal approach to securing an amnesty for the 3 to 5 million Mexican illegal aliens in the United States."[15]

[15] "IDs for Illegals: Mexico's '*Matrícula Consular*' Facilitates Illegal Immigration." Center for Immigration Studies. Press Release, January 28, 2003. Washington, D.C.

Latino advocacy groups and the Mexican government counter that the *Matrícula Consular* is simply an identification card. It does not legalize the status of any immigrant, nor can it be used to obtain public benefits. They argue that important law enforcement benefits can be derived from the U.S. and Mexican governments working together to secure identification so that both countries can know who is in this country. They challenge the assumption that the *Matrícula Consular* is only for illegal immigrants. They point out that many people who are in the United States lawfully may not have a passport or picture ID. One of their allies, Congressman Ruben Hinojosa (Democrat, Texas), has introduced legislation expressly authorizing financial institutions to accept the *Matrícula Consular* as valid identification for new customers.

Bank officials and federal regulatory officials generally expressed aversion in interviews to wading into the public policy debate over immigration policy. However, as a group they expressed universal opposition to requiring banks to check and verify the immigration status of foreign account holders. The Treasury Department's Section 326 report to Congress explained that banks could not currently verify the identity of foreign nationals by comparing the names against government databases because no such comprehensive databases exist or are available to banks. The report concluded, "Any system requiring further verification of the identity of foreign nationals by consulting with appropriate government agencies would be inappropriate given the current situation" (U.S. Department of the Treasury 2002b, p. 25).

The crux of the problem, according to the Treasury report, is that the U.S. government lacks a universal type of documentation for foreign nationals and a central database for tracking foreign nationals residing in this country. The report points out that multiple categories and types of visas are issued to foreign nationals. There are also a number of classes of visitors who can visit this country lawfully with no status or identification document. Thus the report recognizes an "inherent need" to allow banks to rely on foreign documents to verify identity. It concludes that financial institutions should not be required to consult with the INS to verify the identity of foreign nationals "until there is a single database that is accessible by financial institutions and contains the relevant information needed to verify the identity of foreign nationals" (U.S. Department of the Treasury 2002b, p. 25).

The Treasury report also recognizes the need to balance issues associated with the use of foreign government-issued identification with the benefits of bringing "unbanked" immigrants into the financial mainstream. Having a bank account provides immigrants with a safe, low-cost place to deposit their paychecks and build their savings. It eliminates the need to carry around large amounts of cash, making a person a less tempting target for criminals. News articles have described how criminals target unbanked immigrants for robbery as they leave check-cashing outlets. Others have cited cases of people losing their life savings in fires because they kept cash hidden in their homes.

Banks and credit unions can also provide a lower-cost, safer venue for remitting money back home. As U.S. Treasurer Rosario Marin has pointed out, an increase in the level of remittances can have a significant positive influence on local economies in Latin America, and—over the long run—can improve local economic conditions in Latin America and will help lessen incentives to immigrate to the United States.

It is highly questionable that being able to open a bank account will influence individual decisions to immigrate or remain in this country illegally. Consequently, denying banks the ability to serve this community might not do much to accomplish immigration control objectives. Instead, this population would be forced to rely on higher-cost, less-regulated financial service providers, with the resultant loss in regulatory oversight and transparency of Latin American remittances. It could also prompt retaliatory measures against U.S. government-issued identification, to the detriment of U.S. citizens visiting or residing within Latin American jurisdictions.

Customer Service Issues Associated with Serving Recent Latin American Immigrants

When examining issues associated with banks and credit unions serving recent Latin American immigrants, consumer advocates, regulators, and industry experts generally separate the issues into two categories. First are those such as identification documentation requirements, language barriers, and cultural differences that are of particular relevance to this community. Second are issues that are generally applicable to serving the "unbanked." A survey conducted in late 2001 by Bendixen & Associates of 1,000 Latin American immigrant families showed that 44 percent had no formal relationship with a depository institution. The number rose to 62 percent for those respondents making less than $20,000 per year (MIF-IDB 2001; see also PHC-MIF 2002). Recent census data indicate that Latin American immigrants, as a group, continue to have lower income and fewer assets, and are younger and less educated than native-born residents (U.S. Census Bureau 2002).[16] These data are consistent with broader surveys showing that "unbanked" households tend to be overrepresented among minority families with lower incomes.[17] As a consequence, the following discussion addresses issues of particular relevance to Latin American immigrants, as well as those generally applicable to serving low-income individuals with limited experience in dealing with financial institutions.

Bilingual Services

Just as acceptance of identification documents that are issued outside of the United States is a core access issue, so is the provision of bilingual services. Bob Gnaizda, General Counsel of the Greenlining Institute, an advocacy organization for communities of color, argues that it is not enough simply to provide written bilingual materials; bilingual staff should be available "behind the table" to provide assistance. All surveyed institutions placed a high priority on providing a full complement of bilingual services. All provided key documents, such as information on how to open an account, product descriptions, and financial education materials, in both Spanish and English. Several reported providing Spanish-language information on their websites as well. Many also reported providing Spanish-language assistance at their customer call centers. Virtually all placed a high priority on hiring and training bilingual staff to assist customers with limited English-speaking ability.

Three of the banks surveyed for this chapter—Wells Fargo, Bank of America, and Union Bank—were also included in a survey of bilingual services conducted in October and November 2002 by the Greenlining Institute (Pelayo 2002). Site inspections were conducted of bank branches serving California's Imperial and Coachella Valleys, which are 70 percent Latino, and the San Joaquin Valley, which is 40 percent

[16] For instance, the medium household income for Latin American immigrants in the United States is $29,400, compared to $41,400 for a native household. The poverty rate among Latin Americans is 22 percent, compared to 11 percent for the native population. Only 50 percent of Latin Americans have a high school education, compared to 87 percent for the native-born population.

[17] Estimates of the size of the "unbanked" population range from 10 to 12 million. See, for example, Moser (2001). Surveys have found that the groups most likely to be unbanked are low-income households headed by African-Americans and Hispanics, households headed by young adults, and households that rent homes. See, for example, Caskey (2002).

Latino. In general, the three institutions received good marks, with the Greenlining Institute's report concluding that they "demonstrated a sincere desire to serve the needs of the Spanish-speaking community by providing the bilingual staff and literature necessary for cultivating successful banking relationships with their customer base."

Credit History

The lack of a credit history is a problem for recent immigrants with no experience with mainstream banking services. In addition, immigrants in seasonal jobs may establish different patterns of debt-payment history, accumulating high levels of debt when they are not working, and eliminating debt when they are employed. Many of the surveyed institutions, though not all, had developed alternative products and/or criteria for serving customers with little or no credit history. Most indicated that they tried to provide products and services tailored to meet customers' individual needs. Most offered secured credit cards and loans to customers with little or no credit history. Some had specific programs to help customers without credit histories.

For instance, the Latino Community Credit Union (LCCU) reported that it provides small, unsecured loans of up to $500 for individuals who for six months have been LCCU customers, or lived at the same address, or worked for the same employer. Timely repayment of the loan helps the customer build an account history and qualify for larger loans. Arvest reported offering a "CD loan." The bank loans the customer $1,000, which is used to open a CD, which in turn, is used as collateral as the customer pays back the loan to establish a credit history. Second Federal Savings had instituted a First-Time Borrowers program that would make loans of several thousand dollars to customers with no credit history, so long as they met alternative criteria, such as whether they had consistently paid their utility bills on time.

As for customers with impaired credit histories, several surveyed institutions reported participation in the "Get Checking Program." This program provides six hours of basic instruction in managing personal banking services, including how to budget, manage credit, and handle a checking account. Those who complete the course, pass a skills test, and repay any outstanding credit balances receive a certificate that allows them to open a qualified checking or savings account at the participating institution.

Product Structure and Costs

Accounts with high minimum balances, initial deposits, or monthly service fees can be prohibitively expensive for lower-income Latin American immigrants and other underserved populations. Moreover, checking accounts that charge stiff overdraft penalties or overdraft protection at high cost can be at least as expensive as fees charged by alternative service providers, such as payday lenders. The survey by the Pew Hispanic Center and the Multilateral Investment Fund (PHC-MIF 2002) suggests that negative views about the cost structure of checking accounts discourage many Latin American immigrants. Though the single largest impediment identified by survey respondents to opening a bank account was the perception that banks required documentation of legal immigration status (39 percent), 13 percent cited minimum deposit requirements and fees as reasons for not opening a bank account.

Virtually all financial institutions surveyed offer introductory, no-fee savings accounts with relatively low minimum balance requirements to new "unbanked" customers. Frequently, these accounts also provide debit card access. Most institutions give these customers time to gain experience with savings accounts, as well as financial educational resource materials, before introducing them to a checking account. Institutions varied regarding how quickly they would try to cross-sell checking accounts, with smaller, community-based organizations generally taking longer to transition new customers into checking accounts.

The PHC-MIF (2002) survey strongly suggests that many Latin American immigrants may not want checking accounts. Rather, their financial needs consist of a safe place to deposit their money and grow savings, remit money back home, and pay a small number of bills each month. This finding is consistent with research by the National Council of La Raza (2001), which concludes that many Latino families do not write a sufficient number of checks to make checking accounts worthwhile. Responding to this reality, several surveyed institutions offered bill paying services that did not require having a checking account, as well as low-cost or free money orders to individuals with savings accounts.

Consumer advocates interviewed for this chapter expressed concern about so-called "overdraft protection" policies of many major banks. According to Martin Eakes, CEO of Self-Help Credit Union in North Carolina, overdraft protection is frequently offered as part of a "free" checking account to bank customers who are not experienced in managing a checking account and/or who do not fully understand the high costs of the service. He and other critics argue that charging fees as high as $35 for overdraft protection far exceeds a bank's actual cost in providing the protection. Moreover, they point out that the bank sustains low risk in providing the protection for direct deposit customers. They equate this "service" with high-cost "payday loans" provided by alternative financial service providers. Proponents counter that customers want the service, that the fees are justified, and that it is better for consumers to have overdrafts covered with a one-time fee than have a check bounce, miss a car or mortgage payment, and pay even higher penalties.[18] However, some industry proponents have acknowledged that there have been problems with the way in which certain overdraft programs have been designed and marketed.[19]

Significant regulatory issues have been associated with overdraft protection programs. Regulators have pointed out that such programs could have ramifications under the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Equal Credit Opportunity Act, and the Federal Trade Commission Act's prohibition on unfair and deceptive trade practices, as well as safety and soundness issues. The Office of the Comptroller of the Currency (2001b, p. 4) has raised both legal and policy issues with at least one overdraft protection program, noting that it was designed to encourage customers to write checks from accounts with insufficient funds and that "[t]his use of the Program could promote poor fiscal responsibility on the part of some customers."

It is clear that overdraft protection, while responsive to the needs of some customers, is easily misused by inexperienced bank customers and can result in high transaction costs, thereby undermining a key benefit of bringing "unbanked" individuals into banks in the first place. Competitive market forces may, however, provide at least a partial solution. For instance, the North Carolina State Employees Credit Union is now offering its members a Salary Advance loan program that offers an open-end, reusable line of credit with a maximum loan level of $500. To participate, members must have their payroll check direct-deposited into their account at the credit union. The loan balance is repaid in full on the member's next payday by means of

[18] "In Defense of Check Overdraft Coverage Policies." Paul Nadler, *American Banker*. January 29, 2003. Community Banking: Comment, p. 7.
[19] "Overdraft Program Well Worth the Effort, if Run Responsibly." John M. Floyd, *American Banker,* February 7, 2003. Retrieved 2/13/2003 from www.americanbanker.com.

automatic transfer. The annualized percentage rate (APR) on the advance is 11.75 percent, which the credit union estimates to be less than \$2.50 for most borrowers. The program was launched in January 2001. As of December 2002, it was operating at a profit for the institution, with over 22,000 members using the service. The North Carolina program seems to suggest that overdraft protection can be provided at relatively low cost, and will perhaps provide competitive impetus for other institutions to lower charges for this service.

Financial Education

Closely related to the cost issue is the need to provide financial education support services to many Latin American immigrants. Virtually all banks and credit unions surveyed indicated that they were interested in building long-term relationships. Thus they were willing to provide extensive one-on-one financial education support in the hope of establishing a permanent and growing customer base to which they could eventually cross-sell other financial products, such as car loans and mortgages. To accomplish this objective, educating their customers about product options and the fee structures attendant with each is crucial. If this new and growing group of customers begins to run into trouble with high fees, penalties, or overdraft charges because of a lack of understanding of product features, they will no doubt quickly close their accounts and return to alternative service providers.

For financial education to be effective, information must be presented by well-trained staff and delivered at those times when customers are most receptive. "It's like a murder case; you need motive and opportunity," said Charles Kamasaki, Senior Vice President of the National Council of La Raza (NCLR), in an interview for this chapter. "You need the opportunity to present the information and the customer needs to have the motive to receive it." Kamasaki believes financial education programs are most effective when provided at a time when the customer is undertaking a significant financial transaction, such as opening an account, preparing a tax return, or taking out a loan. He indicates that NCLR has had particular success with its Individual Development Account (IDA) and homeownership counseling programs.

Consistent with this thinking, several surveyed institutions provided financial education at the time of account opening, most notably the Latino Community Credit Union, which provided a 45-minute individual session for each new customer. Similarly, Citibank provided financial education when opening accounts under its "Bank at Work" program. First Bank of the Americas, among others, reported providing financial education in conjunction with free tax preparation services. Wells Fargo offered a first-time homebuyers' bilingual training program. Virtually all had some type of loan counseling programs.

Through community outreach, banks are also finding venues outside their institutions to provide financial educational services. All institutions surveyed partnered with community groups and faith-based organizations to provide information about the services they offer and their costs as compared to alternative service providers. In Chicago, First Bank of the Americas has partnered with Kennedy-King College to provide financial training as part of their English as a Second Language (ESL) program. A number of surveyed institutions have established banking programs in local schools, which they find to be particularly effective for the children of immigrant families. Native-born residents typically learn about opening bank accounts from their parents. However, in a high percentage of Latin American immigrant families, the parents are "unbanked." Thus school banking programs are a good way to introduce these children to bank accounts—and, as First Bank of the Americas' Pamela Voss (2002) points out, the students share the information they obtain at school with their families at home.

Lack of knowledge and awareness of banking technology may also impede the ability of Latin American immigrants to make effective use of lower-cost bank/credit union services. The PHC-MIF (2002) survey suggests that many Latin American immigrants do not have firsthand experience with ATMs, online banking, and other types of technology that are commonplace in personal banking services. This inexperience is a potential obstacle—though not an insurmountable one—for some individuals in using ATMs as a low-cost way to remit money back home. Issues arise regarding ATM usage on this side of the border as well. For instance, officials at the Latino Community Credit Union were having great difficulty convincing customers to use the ATMs located outside their offices, and teller lines were becoming long and unmanageable. As a consequence, individualized instruction in ATM use was offered and a raffle held, with eligibility for the prize being dependent upon using the ATMs. The strategy was highly successful, dramatically reducing lines at their teller windows.[20]

[20] Interview with John Herrera, Board Chair of Latino Community Credit Union, December 19, 2002.

Finally, financial education, combined with community-based marketing and outreach (as discussed below), are important to win customers' trust. Research conducted by the Fannie Mae Foundation indicates that historically unstable banking industries in some Latin American countries, combined with a lack of deposit insurance, make many immigrants suspicious of banking institutions—including those in the United States.[21] Distrust of banks was cited by 9 percent of respondents in the PHC-MIF (2002) survey as their reason for not opening a bank account. Institutions surveyed for this report also frequently cited distrust of banks as a key impediment in their efforts to open accounts in Latin American immigrant communities.

Federal financial regulators seem uniquely suited to address the trust issue. The Federal Deposit Insurance Corporation (FDIC), capitalizing on its role as guarantor of bank deposits of up to $100,000, has become highly proactive in providing financial education to the public in general, and to the Spanish-speaking community in particular. The FDIC's "Money Smart" adult education curriculum—which includes 10 modules covering everything from checking accounts and credit cards to homeownership and household money management—is available in Spanish and provided free of charge to interested parties.[22] The FDIC projects that 1 million people will learn financial education through Money Smart over the next five years.

Physical Access

The lack of bank branches in inner-city communities and minority neighborhoods is a serious problem of long-standing concern. Individuals interviewed in connection with this chapter uniformly expressed the view that physical access is critical to serving the Latin American immigrant community. Personal interaction with bank staff—particularly with those recruited "from the neighborhood"—is key. Institutions that want to market to this community will have to provide that access. If they do not, community-based institutions and alternative providers that are located in easily accessible locations will have the competitive edge.

The trend of bank branch closings appears to be reversing in some regions. Michael Frias of the FDIC's Chicago regional office

[21] See www.fanniemaefoundation.org .

[22] Federal Deposit Insurance Corporation. 2002. "FDIC Announces Release of Spanish Language Version of Money Smart Program." Press Release. June 25. And for more information, see http://www.fdic.gov/consumers/consumer/moneysmart/index.html.

indicates that many of Chicago's large banks are going back to bricks and mortar. They have found that banking by phone or the Internet are poor substitutes for serving inner-city neighborhoods, and that they are losing market share to community banks. Several large banks are eyeing Latino neighborhoods for new branches. Two banks, LaSalle Bank and Charter One, have recently opened new offices in predominantly Hispanic neighborhoods.

Several individuals interviewed pointed out that check cashers and other alternative service providers are more accessible with regard to hours of operation, as well as physical location. These alternative providers are frequently open late into the evening and on weekends, which is important to low-income customers who may work long or unconventional hours. As discussed in more detail below, three surveyed institutions—Union Bank, Banco Popular, and Bethex Credit Union—have adopted a hybrid competitive strategy in response to this market, offering check-cashing services at unconventional locations and hours, and using check-cashing services to convince unbanked users to open bank accounts. In another example, one of the Wells Fargo branches we visited in El Paso was located in a grocery store, and was open on weekends.

In addition to location, the physical appearance of a bank or credit union can impact its accessibility to Latin American immigrants. A number of individuals interviewed for this chapter suggested that check-cashing and currency exchange storefronts have a friendlier, more familiar feel in terms of their size and appearance. Banks in particular are often housed in large "institutional" buildings that may be threatening to immigrants already distrustful of banking institutions. To respond to this issue, some banks and credit unions in Latino neighborhoods have adopted more of a "storefront" appearance, with smaller buildings or kiosks, and colorful, bilingual signage, some even providing play areas for children to use while their parents transact business. Chicago's First Bank of the Americas is a good example, boasting a colorful tile mosaic storefront, which assumes the festive, friendly atmosphere of the neighborhood and surrounding buildings. Bank of America and Wells Fargo have also decorated many branches in festive, Latin American colors and created more seating for the families of customers.

Marketing

All institutions surveyed had marketing strategies to reach the Latino community that addressed particular needs in terms of language and culture. All emphasized the importance of community outreach, including the hiring of staff from the neighborhoods served by their institutions, as well as partnering with community groups and faith-based organizations to provide services to those neighborhoods. Not surprisingly, the larger institutions—in addition to community outreach—had committed substantial funds to marketing, the most noteworthy being the $40 million Bank of America (BofA) commitment to multicultural advertising. BofA marketing, however, also recognizes the importance of personal outreach and incorporates recruiting and hiring from Latino communities, partnering with Hispanic grassroots organizations, and providing bank staff with Hispanic cultural awareness training. Bank officials at all levels are provided with Spanish-language instruction, including Chairman and CEO Kenneth D. Lewis.

At the other end of the spectrum is the Latino Community Credit Union, which has no separate budget for advertising and marketing. The LCCU is opening several hundred new accounts each month, relying almost exclusively on word-of-mouth from bank staff and existing customers, thus underscoring the value of interpersonal relationships in marketing to the Latino community.

Products as Marketing Tools: Perhaps the most powerful way for depository institutions to market to Latino immigrants is to offer those products that best meet the immediate needs of this community.

1. *Remittances:* Survey data consistently show that the ability to remit money back home is at the top of Latin American immigrants' financial service needs. Most institutions surveyed indicated that remittances were an important marketing tool, and had developed marketing strategies to offer accounts and other financial products using that tool.

   Banks and credit unions are becoming more creative—and competitive—in terms of the type of remittance product they are offering. As previously noted, dual ATM cards are increasingly popular. Dual ATM cards are attractive because they are low cost and also require the customer to open a bank account to use the service. Surveyed institutions reported, however, that for some customers, dual ATM cards can have significant disadvantages, particularly where the beneficiary does not have easy access to an ATM, or does not want to accept payment in foreign currency. For these customers, more expensive wire or third-party money transfers were still offered by virtually all surveyed institutions.

Latin American financial institutions are also trying to use U.S. remittances as a marketing tool to persuade *beneficiaries* to receive and keep remitted money in banking accounts. One of the most interesting innovations comes from Mexico's Bank for National Savings and Financial Services (BANSEFI). BANSEFI operates 578 branches in Mexico, 300 of which are located in rural areas. It is working with other parts of the Mexican government and the Multilateral Investment Fund to enhance savings and expand access to regulated financial services, particularly in Mexico's poor rural areas. Part of its strategy is to partner with U.S. institutions to provide remittance products that will help Mexican beneficiaries establish relationships with BANSEFI branches and increase productive investment of remitted funds.

The World Council of Credit Unions (WOCCU) is one of the U.S. financial trade organizations working with BANSEFI. According to David Grace, WOCCU's Financial and Regulatory Affairs Manager, WOCCU is also actively working in other Latin American countries such as El Salvador, Guatemala, and Honduras to utilize remittances as a tool to build financial infrastructure and "bank" unbanked beneficiaries. "We believe remittances can serve the Latin American community on both sides of the border," said Grace of WOCCU's efforts.

2. *Check cashing:* As mentioned, Union Bank, Banco Popular, and Bethex Federal Credit Union have developed programs that seek to offer hybrid check-cashing/banking services to Latin American immigrants and other underserved populations. The programs were developed in response to the exponential growth in the 1990s of check-cashing outlets (CCOs) and other alternative service providers in Latino and other minority neighborhoods. These institutions recognized that the traditional product mix provided by depository institutions did not meet the needs of low- and moderate-income families living in these neighborhoods, and that a hybrid approach—providing lower-cost check cashing and money orders, as well as transitional products, such as a low minimum balance savings account—could make the institutions more competitive with CCOs.

According to survey data and information provided by the Retail Financial Services Initiative,[23] Union Bank's "Cash and Save" program has shown significant success in converting CCO customers into depositors. Union Bank reports that of its repeat check-cashing customers, 43 percent convert to deposit accounts, and this percentage has been steadily increasing since the program began in 1992. Product offerings include a savings account with a $10 minimum balance, a money order plan that costs $10 a year for six money orders a month, and a basic checking account that costs only $1 to open and $3 a month in fees. It includes an ATM card and five free checks a month. The bank offers services in such nontraditional locations as supermarkets and shopping centers.

Banco Popular's Popular Cash Express (PCE) offers check cashing, wire transfer, money orders, and bill payment, as well as a host of nonfinancial services such as stamps, copying, phone cards, and depending on the state, Department of Motor Vehicle documents. Banco Popular is unable to offer depository account services at PCE offices because of bank holding company restrictions, though PCE customers are referred to Banco Popular branches located nearby. PCE has 100 locations and over 50 mobile units that travel to worksites on payday to cash checks. PCE stores are open evenings and weekends.

Bethex has a partnership with RiteCheck, a check-cashing service, to encourage people using check cashing to open a membership at the credit union. Bethex advertises at the check casher's store and also has a Bethex point-of-banking (POB) terminal. The POB terminal looks and functions like an ATM, except that when making a deposit, the customer hands the money to a cashier who verifies that the funds are deposited. Checks drawn on a Bethex account are cashed for free by RiteCheck. Those from other issuers are cashed at a discount rate for Bethex members. The credit union has a video playing at RiteCheck outlets that adver-

[23] The Retail Financial Services Initiative (RFSI) is a three-year project to expand access to financial services and wealth-building opportunities for low- and moderate-income consumers. It was organized by the National Community Investment Fund (NCIF), which is an independent nonprofit trust and certified Community Development Financial Institution (CDFI) (see www.cdfifu.gov/overview/index.asp).

tises the benefits of becoming a credit union member. RiteCheck cashiers also tell customers about the credit union. RiteCheck has 11 check-cashing outlets in the Bronx and Manhattan. Bethex has five full-service branches, in addition to operating part-time teller windows in a church, senior citizen center, and several other nontraditional locations.

The melding of check cashing with traditional banking services has not been without controversy, though the programs summarized above have generally received good marks from community activists and the regulatory community. Some attempted affiliations have been blocked by regulators. These have involved safety and soundness issues for the most part, as well as "charter rental" concerns. The latter occurs when existing check-cashing outlets seek affiliation with a nationally chartered bank to enjoy the benefits of federal preemption of state consumer laws. Some advocacy groups have also expressed concern about the provision of two-tiered banking services, one for low-income neighborhoods that focuses on check cashing and basic lifeline account services, and another for middle- and upper-income neighborhoods that offers the full complement of bank services.

Employer Partnerships as a Marketing Tool: Most surveyed institutions had developed marketing programs centered on employer partnerships. This is an area offering a tremendous marketing opportunity for banks and credit unions, given that an estimated 25 million workers still receive paper checks. Employer partnerships provide an excellent venue for financial institutions, frequently in partnership with community groups, to deliver financial educational material about banking services to large numbers of "unbanked" workers. Moreover, employers like being able to provide this service to their employees. In addition, where the bank or credit union successfully convinces employees to open accounts, payroll checks can be deposited via direct deposit. Electronic deposit can mean payroll administrative savings for employers of up to 75 percent. It is a safer, less costly way for their employees to receive their pay.

Payroll cards—a relatively new innovation—are being marketed to "unbanked" workers by banks and credit unions, and are also offered by alternative service providers. A worker's pay is electronically transferred to a stored value card (SVC), which can then be used by the worker to withdraw cash from ATMs and make purchases where debit cards are accepted. Even when offered by banks and credit unions, the cards do not always involve establishing an account, and fees can be higher than they are for more conventional checking or savings accounts accessed with a debit card.[24] Thus while payroll cards offer clear advantages over paper checks, they are an inferior alternative to traditional bank accounts. In addition to being potentially more expensive, they do not establish a banking relationship that forms the basis for asset accumulation, the benefits of deposit insurance, or access to other bank products and services. To the extent that banks and credit unions use payroll cards as transitional products to establishing accounts, however, they may be useful in reaching out to the "unbanked." They are also useful for workers with bad credit histories who cannot qualify for a checking account. Debit card-accessed savings accounts are also a viable alternative for such workers.

Employer partnerships to bank "unbanked" employees can provide immediate benefits in terms of payroll savings for employers, and safety and convenience for employees. A pioneering program undertaken nearly a decade ago by First National Bank and Trust of Rogers, Arkansas (Arvest) shows that such partnerships can have longer-term benefits as well.

In 1994, Arvest entered a partnership with North Arkansas Poultry, a Tyson Food subcontractor with a workforce that is comprised of more than 90 percent Latino immigrants. The program began with a series of financial literacy seminars offered at the plant during regular working hours. Workers were paid to attend the seminars. A Spanish-speaking bank employee taught the course, which included instruction on how to establish credit histories and obtain home mortgages. The program was tremendously successful from both the employer and bank's perspectives, resulting in new customers for the bank and a more stable workforce for the employer. Through this and similar partnerships, Arvest was able to capture over half the Latin American immigrant market in the Rogers, Arkansas area. This new business generated over $25 million, including $20 million in mortgage loans, $5 million in deposit accounts, and $1 million in consumer loans. As of November 2000, Arvest had helped over 700 immigrant families buy homes, while

[24] Fees charged by payroll card issuers included $7 to open the "account," monthly service fees of $4.30, $10.50 to replace a lost card, and 40 cents to make an ATM balance inquiry ("Payroll Cards: A Direct Deposit Solution for the Unbanked." Celent Communications, December 19, 2002. Retrieved on 2/14/03 from http://www.celent.com/PressReleases/20021219/PayrollCards.htm

at the same time North Arkansas Poultry's employee turnover rate declined dramatically—from 200 percent in the early 1990s to 15 to 20 percent in 1995. Other chicken-processing plants partnering with Arvest saw similar declines (Schoenholtz and Stanton 2001).

Tax Preparation Services

A number of surveyed institutions reported partnering with community and faith-based groups to provide free tax preparation services in low-income neighborhoods. Though offered primarily as a community service, free tax preparation can also lead to new accounts. Frequently, taxpayers open new accounts at the same time their taxes are being prepared. By doing so, they can use their new bank account number to obtain direct deposit of their refunds, thereby cutting weeks off the waiting time to receive the refund. As banks open new accounts, previously "unbanked" taxpayers enter the financial mainstream with a safe, convenient place to put their refund.[25]

Individual Development Accounts

Some institutions have discovered that Individual Development Account (IDA) programs are an effective means of bringing "unbanked" Latin American immigrants and other "unbanked" populations into bank accounts. IDAs are dedicated savings accounts that are matched at specified rates by outside public and private sources. They are designed to help low-income families build savings for a particular purpose, such as buying a home, starting a small business, paying for education, or job training. Usually IDAs involve partnerships between financial institutions and nonprofit groups. Because of their forced savings feature, some view them as analogous to 401(k) plans for low-income families, enabling families who would otherwise live paycheck to paycheck to accumulate assets for specified needs. A recent article published in the *Chicago Fed Letter* found that IDA programs in the Chicago Federal Reserve Bank's five-state region were flourishing.

[25] For instance, in Chicago under the auspices of the Center for Economic Progress, churches, community groups, and banks have formed a consortium to provide free tax preparation in low-income neighborhoods. They cite such efforts as a way to combat so-called "refund anticipation loans" or RALs, which some major tax preparation firms are marketing in low-income communities (RALS can involve annual fees and interest of 200 to 400 percent). Some banks have "unbanked" outreach programs centered on the Earned Income Tax Credit (EITC). Because the EITC is available only to U.S. citizens, such programs may not be particularly effective in reaching Latin American immigrants. Non-U.S. citizens are eligible for the child-care tax credit.

Sixty-three institutions were offering IDA programs: 49 banks and 14 credit unions. The article characterizes IDAs as "a mechanism for drawing 'unbanked' households into the financial mainstream, while showcasing the importance of economic education" (Newberger 2002, p. 1). The article also observes that the primary incentive for institutions participating in IDA programs is community service, not business motivation. Until the business potential of IDAs is proven, it may be difficult to achieve major expansion of IDA programs. For this reason, some IDA supporters and their Congressional allies such as Senators Rick Santorum (Republican, Pennsylvania) and Joseph Lieberman (Democrat, Connecticut) have proposed tax credits to mitigate the cost of IDAs for financial institutions.

Conclusion

Many institutions—both those surveyed in this study and many others throughout the country—are increasingly successful in reaching "unbanked" Latin American immigrants. Evidence suggests that this population can be brought into mainstream depository institutions with the right product mix and marketing strategy. Anti-money laundering and terrorist financing requirements need not be an impediment to institutions trying to bring Latin American immigrants into their customer base. On the contrary, industry experts and financial regulatory and enforcement officials highlight numerous benefits associated with bringing "unbanked" immigrants into federally insured depository institutions.

All trends point toward a continuing effort on the part of banks and credit unions to include Latin American immigrants as an important and permanent part of their customer base. Advocacy groups for the "unbanked"—organizations such as the Multilateral Investment Fund of the Inter-American Development Bank, among others interested in Latin American economic development—are interested in promoting alternatives to more expensive providers. In addition, federal financial regulators and the U.S. Treasury Department (through its involvement in the Partnership for Prosperity and support for programs such as First Accounts and Electronic Transfer Accounts) have signaled that they support the efforts of banks and credit unions to establish depository relationships with Latin American immigrants and other "unbanked" populations. It appears there is a "perfect storm" where the interests of business, community groups, and government have come together to the benefit of Latin American immigrants and their families.

Appendix A. Interviews Conducted for this Study

Aufhauser, David. 2003. General Counsel, U.S. Treasury Department. Interview, January 12.

Batdorf, Louise. Community Affairs Specialist, Office of Thrift Supervision. Interview, November 12.

Boyd, Anna Alvarez. 2002. Deputy Comptroller for Community Affairs, U.S. Office of the Comptroller of the Currency. Interview, November 14.

Brown, Yolanda. 2003. Senior Vice President, Union Bank of California. Interview, February 4.

Buck, Carolyn. 2002. Chief Counsel, Office of Thrift Supervision. Interview, November 12.

Dunham, Connie. 2002 Senior Financial Economist, U.S. Office of the Comptroller of the Currency. Interview, November 14.

Eakes, Martin. 2002. CEO, Self-Help Credit Union. Interview, November 19.

Frias, Michael. 2003. Community Affairs Officer, Federal Deposit Insurance Corporation, Chicago. Interview, November 12.

Gambrell, Donna. 2003. Deputy Director, Compliance and Consumer Protection, Division of Supervision and Consumer Protection, Federal Deposit Insurance Corporation, Chicago. Interview, November 12.

Gnaizda, Bob. 2003. General Counsel, The Greenling Institute. Interview, February 13.

Grace, David. 2003. Financial and Regulatory Affairs Manager, World Council of Credit Unions. Interview, February 14.

Hernandez, Nelson. 2003. National Coordinator for Community Affairs, Federal Deposit Insurance Corporation, Washington, D.C. Interview, November 12.

Herrera, John. 2002. Board Chair, Latino Community Credit Union. Interview, December 19.

Kamasaki, Charles. 2003. Senior Vice President, National Council of La Raza. Interview, February 3.

Kelderhouse, Liz. 2002. Community Affairs Officer, Federal Deposit Insurance Corporation, Kansas City region. Interview, November 12.

Marin, Rosario. 2003. Treasurer of the United States. Interview, January 12.

Mohar, Javier Gavito. 2003. President, BANSEFI (Bank for National Savings and Financial Services, Mexico). Interview, January 12.

Riese, Richard. 2002. Director, Compliance Policy, Office of Thrift Supervision. Interview, November 12.

Sada, Carlos. 2003. Consul General of Mexico (Chicago). Interview, January 9.

Sloan, James F. 2003. Director, Financial Crimes Enforcement Network, U.S. Treasury Department. Interview, January 13.

Stipano, Dan. 2002. Deputy Chief Counsel, U.S. Office of the Comptroller of the Currency. Interview, November 19.

Waters, Blake. 2003. President, Garden City Region, Security Savings Bank, Garden City, Kansas. Interview, January 9.

White, Sonja. 2002. Director, Supervision Policy, Office of Thrift Supervision. Interview, November 12.

Williams, Julie. 2002. General Counsel, U.S. Office of the Comptroller of the Currency. Interview, November 14.

Bibliography

American Bankers Association. 2002. Industry Resource Guide: Identification and Verification of Accountholders. January. Washington, D.C.

Bair, Sheila C. 2002. Remarks before the Multilateral Investment Fund of the Inter-American Development Bank. Second Regional Conference on Impact of Remittances as a Development Tool. February 26, Washington, D.C.

Caskey, John P. 2002. "Bringing Unbanked Households into the Banking System." *Capital Xchange.* January. Web-based journal available at http://www.brookings.edu/es/urban/capitalxchange.htm.

Consulate General of Mexico, Sacramento. 2002. Briefing Materials on *Matrícula Consular*, Mexican Government Consular ID.

Dunham, Constance R. 2001. Roles of Banks and Nonbanks in Serving Low- and Moderate Income Communities. Paper presented at conference, Changing Financial Markets & Community Development, April 5–6, Federal Reserve System, Washington, D.C.

Gosnell, David. 2002. A Tough Market to Crack. *Debit Card Report* 15(1): 50.

Grassroots. 2001. SECU Launches Low Cost Alternative to Payday Lenders. 17(1): 1 (Monthly for members of North Carolina State Employees Credit Union).

Greenlining Institute. 2003. The Cost of Sending Money to Mexico from the U.S. February 11. Berkeley, California.

Handlin, Elizabeth, Margaret Krontoft, and William Testa. 2002. Remittances and the Unbanked. *Chicago Fed Letter,* Federal Reserve Bank of Chicago, Special Issue No. 175A (March): 1–4.

Hartnack, Richard. 2001. Union Bank of California Brings Convenience Banking to Communities. *Community Developments* (U.S. Office of the Comptroller of the Currency Community Affairs Newsletter) Summer: 8.

Herrencia, Roberto. 2002. Keynote Speech by President, Banco Popular, North America, at the U.S. Office of the Comptroller of the Currency's Hispanic Banking Forum, July 31, Chicago (conference materials provided by the OCC).

Hogarth, Jeanne M., and Jinkook Lee. 2000. Banking Relationships of Low-to-Moderate Income Households: Evidence from 1995 and 1998 Surveys of Consumer Finances. Paper presented at the fall conference, Association for Public Policy Analysis and Management, Seattle.

Hogarth, Jeanne M., and Kevin H. O'Donnell. 1997. Being Accountable: A Descriptive Study of Unbanked Households in the U.S. From the Proceedings of Association for Financial Counseling and Planning Education. Board of Governors of the Federal Reserve System, Washington, D.C.

———. 1999. Banking Relationships of Lower-income Families and the Governmental Trend toward Electronic Payment. *Federal Reserve Bulletin* 85(7): 459–73.

Jean-Paul, Lesly, and Nathan Luxman. 1999. Check Cashers: Moving from the Fringes to the Financial Mainstream. *Communities and Banking* (Public and Community Affairs Development of the Federal Reserve Bank of Boston) Summer (26): 2–15.

Kamasaki, Charles. 2002. Remarks by Senior Vice President, National Council of La Raza, at conference, Passage to Banking: Linking Immigrants to Mainstream Financial Services, November 21, sponsored by the Federal Reserve Bank of New York.

Kim, Anne. 2001. Taking the Poor into Account: What Banks Can Do to Better Serve Low-Income Markets. *Policy Report*, Progressive Policy Institute (July). Available at www.ppionline.org.

Moser, James T. 2001. Fostering Mainstream Financial Access. *Chicago Fed Letter,* Federal Reserve Bank of Chicago, No. 162 (February).

Multilateral Investment Fund of the Inter-American Development Bank (MIF-IDB). 2001. Survey of Remittance Senders: U.S. to Latin America. Report by Bendixen & Associates. Available at http://www.iadb.org/mif/v2/remittancesstudies.html.

———. 2002. Attracting Remittances: Market, Money and Reduced Costs. Report prepared by Manuel Orozco. Washington, D.C.: Multilateral Investment Fund.

National Council of La Raza. 2001. Financial Insecurity Amid Growing Wealth: Why Healthier Savings Is Essential to Latino Prosperity. Issue Brief 5 (August). Washington, D.C.

National Immigration Law Center. Fact Sheet: Proposals to Preclude the Use of Foreign Identity Documents (undated). Washington, D.C.

Newberger, Robin. 2002. Financial Institutions as Stakeholders in Individual Development Accounts. *Chicago Fed Letter,* Federal Reserve Bank of Chicago, No. 184 (December).

North Carolina State Employees Credit Union. 2002. Press Packet. December 11. Raleigh.

Orozco, Manuel. 2002. Changes in the Atmosphere? Increase of Remittances, Price Decline but New Challenges. Update Report. Inter-American Dialogue, Washington, D.C.

Partnership for Prosperity. 2002. Report to President Vicente Fox and President George W. Bush. March 22. Monterrey, Mexico.

Pelayo, Icela. 2002. Part II: Due Diligence Report on VIB's Bilingual Services. Greenlining Institute, San Francisco.

Pew Hispanic Center and the Multilateral Investment Fund (PHC-MIF). 2002. Billions in Motion: Latino Immigrants, Remittances and Banking. Washington, D.C.: Pew Hispanic Center and Multilateral Investment Fund. Available at http://www.iadb.org/mif/v2/remittancesstudies.html .

Quinones, Sam. 2002. Finding a Place for the Unbanked. *Community Banker* November: 62–64.

Robinson, Michael. 2001. Statement before Subcommittee on Social Security, House Ways and Means Committee, Washington, D.C., May 22. Special Agent, Office of the Inspector General, Social Security Administration.

Schoenholtz, Andrew, and Kristin Stanton. 2001. Reaching the Immigrant Market: Creating Homeownership Opportunities for New Americans. Georgetown University for the Study of International Migration. Prepared for the Fannie Mae Foundation. Available http: www.fanniemaefoundation.org.

Stegman, Michael A. 1998. Electronic Benefit's Potential to Help the Poor. *Policy Brief* No. 32 (March). Brookings Institution, Washington, D.C.

Summers, Lawrence H. 2000. Speech presented to the Consumer Bankers Association. Washington, D.C. May 8. U.S. Treasury Office of Public Affairs. Available at www.treas.gov.

Tillett, Doug, and Liz Handlin. 2003. Tapping the Potential of the Unbanked—Private Sector Interest Increases. *Chicago Fed Letter,* Federal Reserve Bank of Chicago, No. 185a (January).

U.S. Census Bureau. 2002. Coming to America: A Profile of the Nation's Foreign Born (2000 Update). Census Brief: Current Population Survey. February.

U.S. Office of the Comptroller of the Currency (OCC). 2000. *Bank Secrecy Act/Anti-Money Laundering Comptrollers Handbook*. September.

———. 2001a. *Community Developments* (Community Affairs Newsletter) Summer: 9.

———. 2001b. Interpretive Letter #914. September. Washington, D.C.

U.S. Department of the Treasury. 2002a. Customer Identification Programs for Banks, Savings Associations, and Credit Unions. Federal Register. Proposed Rules. Vol. 67, No. 141. Page 48289. July 23.

———. 2002b. A Report to Congress in Accordance with Section 326(b) of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act) (P.L. 107-56). October 21. Washington, D.C.

———. 2002c. Integrating Financial Education into School Curricula. October.

U.S. Senate Banking, Housing and Urban Affairs Committee. 2002a. Hearing on the State of Financial Literacy and Education in America. February 6.

———. 2002b. Hearing on Remittances. February 28.

———. 2002c. Hearing on the Unbanked.

Voss, Pamela. 2002. Serving Chicago's Mexican-American Community. *Community Developments* (U.S. Office of the Comptroller of the Currency Community Affairs Newsletter) Summer.

Woodstock Institute. 2000. Community-Bank Partnerships Creating Opportunities for the Unbanked. *Reinvestment Alert* No. 15 (June). Chicago.

———. 2002. The Foundation of Asset Building: Financial Services for Lower-Income Consumers. February.

This page intentionally left blank

Chapter 6

Leveraging the Impact of Remittances through Microfinance Products: Perspectives from Market Research

María Jaramillo*

Remittances are the earnings sent by immigrants living in countries such as the United States and Spain to families in their countries of origin. These capital flows surpass some countries' flows of official development assistance (ODA), and totaled some $45 billion to Latin America and the Caribbean alone in 2004. The increased volume of funds in recent years, sent mostly to low-income families, has prompted an increased interest by donor institutions, banks, money-transfer companies, microfinance institutions (MFIs), and others to identify mechanisms that can lower the costs of these transfers and increase their economic impact, particularly through the active involvement of regulated financial institutions.

The growing participation of microfinance institutions in the delivery of remittances offers a promising means of reducing transfer costs and leveraging the economic impact of these funds. Increasing access to savings and credit products tailored to low-income families can help families receiving remittances channel these funds toward future investments, such as in housing, education, or microenterprise.

Microfinance institutions occupy a unique position in the remittance market. These organizations provide banking services to communities that receive remittances, and understand the needs of this target market. Their existing infrastructure and experience in providing microfinance products to low-income entrepreneurs place these

* Thanks to Elisabeth Rhyne, Patricia Lee Devaney, and Monica Brand for valuable editing and coordination support. Special thanks also go to the staff of Apoyo Integral in El Salvador and BancoSol in Bolivia for their participation in this research.

MFIs in a good position to offer credit, savings, and other financial services tailored to the needs of immigrants and recipient households.

ACCION International and its affiliated MFIs have become interested in remittances both because they see this as a useful service that their clients need and because there is a market opportunity for new players that can offer better prices and services than many competitors.[1] Remittances can attract new clients, provide fee-based revenues, and create opportunities to cross-sell microfinance products to recipient families. Consequently, ACCION and its network of affiliates are identifying ways in which MFIs can enter the remittance market and expand the outreach of banking-related services to recipient families. ACCION is working on a money-transfer model that will improve access to mainstream financial services for both immigrants in the United States and recipient families. The long-term goal is to link banking services between immigrants and their families. ACCION's model will link transmitted funds directly to microfinance products, creating transnational financial products that can help immigrants and their families accomplish investment goals, such as building or improving a home, educating their families, and starting a microenterprise.

To begin developing remittance-microfinance products, ACCION International undertook an extensive market research study supported by the United States Agency for International Development (USAID). The purpose of the study was twofold: to explore the financial needs and investment goals of immigrants and recipient families in countries of origin, and to assess the broader market potential for products linked to microfinance. ACCION designed and implemented the market research in partnership with professional market research firms.[2]

This research suggests that remittances go far beyond simple flows of cash; rather, they are best understood in the broader context of a complex relationship between senders and receivers. These flows reflect the emerging role of the transnational family, in which family

[1] ACCION International is a private, nonprofit organization founded in 1961. ACCION's mission is to give people the financial tools they need—microenterprise loans, business training, and other financial services—to work their way out of poverty. ACCION operates through a network of independent banks and financial institutions in Latin America and the Caribbean, Africa, and the United States. For more information, see www.accion.org

[2] The market research companies that ACCION partnered with to implement this research were Roslow Research Group, based in Port Washington, New York; Apoyo Opinión y Mercado, based in La Paz, Bolivia; and J. B. Consultores, based in San Salvador, El Salvador.

members living abroad maintain an active role in their families in home countries. Research points toward opportunities for linking microfinance and remittance services in ways that facilitate the channeling of these flows into important investments. This chapter explores that research and those opportunities, particularly for microfinance institutions.

Research Methodology

ACCION used a standard focus group methodology to explore the financial needs and investment goals of recipients and senders of remittances. Qualitative research was a perfect complement to the publicly available quantitative surveys on remittances undertaken in the past.

Focus groups were conducted in the United States (seven groups in three cities) and Latin America (nine groups each in Bolivia and El Salvador). In both Bolivia and El Salvador, the sample focused on microentrepreneurs receiving remittances, including both actual and potential clients of ACCION's partner institution in that country. In the United States, the target market included immigrants from Bolivia and El Salvador, as well as Guatemala and Ecuador, living in Los Angeles, New York, and Washington, D.C. Groups in the United States were limited to people who had sent or were interested in sending remittances for investment or savings purposes—as opposed to consumption alone.

ACCION began its market research in El Salvador and Bolivia because of their respective market potential, the strength of the institutional partners, and characteristics that make them attractive for exploring a potential link between remittances and microfinance (see table 6.1).

El Salvador is the third largest receiver of money transfers from the United States, behind Mexico and Brazil, and its microfinance market is increasingly competitive. Apoyo Integral, ACCION's partner in El Salvador, specializes in housing, a product with a strong possibility of linkage with microfinance. In addition, Apoyo Integral is in the process of a transformation into a for-profit, regulated microfinance institution, making it ripe for new product development. The difficult social and economic environment in El Salvador has stimulated a strong and growing outward migration, especially within low-income populations. The most recent National Population Census (1992) estimated that at least 2.2 million Salvadorans were living in the United States. The majority are undocumented immigrants.

Table 6.1. Characteristics of Markets Chosen for Market Research

Country	Remittance market	Microfinance market	ACCION's institutional partner
El Salvador	Third largest remittances receiver, following Mexico and Brazil.	Increasingly competitive.	Apoyo Integral Competitive advantage in housing, a key link with remittances. Transforming into a for-profit financial institution.
Bolivia	High migration to Argentina and Spain. Smaller migration to the United States.	Very mature industry with high levels of product diversification and customer sophistication.	BancoSol Competitive advantage in a broad array of products, including remittances and housing. Market leader able to promote new product concepts.

Bolivia is one of the most mature microfinance markets in Latin America, and Bolivian microentrepreneurs have significant experience with newer financial products. BancoSol, ACCION's Bolivian affiliate, offers nearly a dozen different products, including savings, loans, insurance, and debit cards. Innovations are continually being introduced, making Bolivia an ideal laboratory for relatively complex products linked with remittances. As the leader in its market with a strong reputation, BancoSol is well positioned to promote these innovative product linkages. Although remittance flows into Bolivia originate for the most part in Argentina, rather than in Spain or the United States, the products being tested are applicable in all markets.

ACCION's market research was carried out in July and August 2003. Focus groups were held in Bolivia's three largest cities, La Paz, Cochabamba, and Santa Cruz (see table 6.2). In El Salvador, the focus groups were conducted in smaller secondary cities outside of San Salvador (see table 6.3).

In the United States, focus groups were conducted in cities that were selected on the basis of the relative concentration of immigrants from each country. With respect to El Salvador, the cities in the United States with the largest concentration of migrants are Los Angeles and Washington, D.C. For Bolivians, the cities of focus were New York City and Washington, D.C. Additional focus groups were carried out in

Table 6.2. Focus Groups in Bolivia

City	Population	No. of focus groups per city	Description of focus groups
La Paz	1,004,440	3	• Men and women, from low-income socioeconomic backgrounds. • Receive remittances either from the United States (two groups per city) or Spain (one group per city). • Clients of an FFP/mutual/bank/credit union, including but not limited to BancoSol.[a] • Express interest in obtaining business or housing credit.
Santa Cruz	1,034,070	3	
Cochabamba	616,022	3	

Total number of participants: 70
Approximate number of participants per group: 8

[a] FFP, Private Financial Fund or *Fondo Financiero Privado*, is the regulatory category under which microfinance and consumer lending institutions operate in Bolivia.
Source: For population statistics, *www.worldstates.ws/World_States/South_America/Bolivia/Population/*

Table 6.3. Focus Groups in El Salvador

City	Population	No. of focus groups per city	Description of focus groups
Apopa	135,750	1	• Men and women, from low-income socioeconomic backgrounds. • Receive remittances from the United States. • Clients of Apoyo Integral or of another microfinance institution.
Usulután	79,981	1	
Zacatecoluca	71,871	1	
Sensuntepeque	48,644	1	
Santa Ana	262,314	1	
Lourdes, Colón	61,634	1	
Nueva Concepción, Chalatenango	33,970	1	
San Miguel	87,628	1	
San Francisco Gotera	24,726	1	

Total number of participants: 95
Approximate number of participants per group: 10

Source: For population statistics, "Household Surveys–2002." General Census Bureau, Ministry of Economics, San Salvador, El Salvador.

New York with immigrants from Ecuador and in Los Angeles with immigrants from Guatemala, in order to explore potential regional differences. Finally, an additional focus group with clients of ACCION, New York was held to explore linkages in the United States between microenterprise services and money transfers. Table 6.4 provides a summary of the immigrant communities that participated in the U.S. focus groups.

Participants were economically active immigrants in the United States, representing a diverse combination in terms of age, marital status, family size, employment status, occupation, and years of U.S. residency. The average age of participants was just under 40, with ages widely ranging from under 30 to over 50. On average, respondents had been in the United States for approximately 12 years, with a distribution from 1 to 16 or more years.

In Latin America, focus group participants were required to meet the following criteria:

- To have received remittances from the United States. In the case of Bolivia specifically, to have received remittances from Spain or the United States.
- To be clients of a microfinance institution, bank, or credit union, including but not limited to ACCION's partner institutions (Apoyo Integral in El Salvador and BancoSol in Bolivia).
- To be interested in obtaining a credit for their business or for housing.

In the United States, respondents had to meet one of the two following criteria to qualify:

- To have sent money to their country for savings or investment purposes (such as "saving for a future goal," "to buy property or a home," "to assist family with buying property or a home," or "to assist family with a business or business start-up"), or

Table 6.4. Focus Groups in the United States

City	No. of groups	Target market	Description of focus groups
Washington, D.C.	2	Bolivian immigrants, Salvadoran immigrants.	• Men and women of at least 18 years of age.
Los Angeles	2	Salvadoran immigrants, Guatemalan immigrants.	• Residing in the United States for at least three years.
New York	3	Bolivian immigrants, Ecuadorian immigrants, ACCION New York clients.	• Had sent money to their home country at least four times in the past year.

Total number of participants: 47
Approximate number of participants per group: 7

- To be "very interested" in a money-sending service that included savings and/or investment options as described above.

Not surprisingly, a high percentage of focus group participants in the United States owned a home or had a savings account in their home country, and as a group expressed strong interest in linked remittance and savings or investment products. This profile of participants offered a prime opportunity for researchers to envision the possible details of a linked microfinance/money-transfer product. While this sample of migrants is not representative and the results presented below cannot be generalized, the number of migrants with a strong interest in investment appears to be substantial.

Investment Goals of Immigrants and Family Members

The habits of those interviewed in this study were similar to those of other remittance senders in terms of frequency and amounts sent. Most senders sent between $100 and $300 per transfer on a monthly or bimonthly basis to their home country. Across the seven groups in the study, the typical respondent used remittance services eight or nine times a year, sending amounts averaging around $200 in each transaction. In the course of a year, therefore, average respondents were sending a total of approximately $2,000.

The study found, in common with several other studies, that the majority of remittance funds were used to pay for basic household and living expenses such as food, health, and basic services.[3] Remittance senders noted that it was difficult to give a detailed breakdown of the uses of funds because of the unpredictable needs of the families back home. Some funds were sent for education expenses, particularly when the recipient was responsible for the care of children left behind by the sender. Some recipients reported that funds were also sent to pay for their own debts, or debt incurred to support the migration of their relatives. In other cases, funds were invested in a business to purchase merchandise, machinery, or supplies. Some participants stated that they were saving in order to expand their businesses or to purchase property or land.

To better understand the purposes and the uses of remittance flows, the initial emigration decision and its consequences for a family should be considered. The process by which decisions are made

[3] See for example, MIF-PHC (2003).

creates economic and social commitments that can in turn lead to the development of joint investment projects between the person emigrating and his or her family. The Multilateral Investment Fund and the Pew Hispanic Center identified a typical approach to the decision to migrate (MIF-PHC 2003). In this approach, both the decision itself and related financial arrangements arise from a joint consultative and financial effort within families. Participants in this study relied mainly on loans from family or friends, or from a financial entity, to finance the trip of the family member. Some people sold or mortgaged property, and in such cases, remittance money from the family member is used to pay outstanding debts or mortgages or to replace property that was sold.

In addition to financial obligations, social commitments also arise from emigration. Families take responsibility for raising children left behind, and also watch over elderly relatives or parents. These financial and social commitments are key elements of the migration process and are a main motive behind the flow of funds back home. These commitments also drive joint investment projects, or the shared acquisition of land or housing between the immigrant in the United States and his or her family.

When families make migration decisions as a unit and jointly finance the process, plans to acquire assets and investment goals are also often carried out within a family partnership. Typical comments made by migrants who send money home from the United States underscored the nature of some of these joint investment projects:

- *"I send $200 a month to my brother. We're like partners; he manages the money for me. We're investing in some property there."*
- *"I send to my parents once a month. Part is for them, and part is for my plans. Usually $350 or $400."*
- *"I send my brother $300 every three months. We save it together."*
- *"I send to relatives to save up for a house I want to buy there. Every two to three months I send $200."*

The majority of participants interviewed in the United States report migrating for economic reasons, leaving home to secure better financial futures for themselves and better conditions for their children and family back home. Consequently, decisions to save or invest in their home countries are influenced by their plans for returning home, the need to ensure a better future for family members, and the advantages of diversifying assets.

For immigrants intending to return home, saving and investing in their countries of origin become a prime method for controlling and planning the process of their eventual return. For other participants, improving the financial security of families back home is the overriding priority. For many that face an unstable employment situation in the United States, there is little chance of ensuring a continued stream of remittances to families back home. Hence there is a widespread desire to move families toward economic independence and away from dependence on remittances.

Many participants report sending money home to start businesses with their families, or to support the improvement of an existing family business. Others cite asset diversification and retirement planning as the main factors behind decisions to save and invest back home. Regardless of motive, the desire to save or invest back home persists among immigrants who have been in the United States for a long time.

Overall, a significant number of participants were already actively engaged in pursuing assets back home. These included buying property or houses, dedicating a portion of their remittance funds to paying off a mortgage, investing in a business, or repaying a loan.

- *"I send my Mom $100 every month, and I send my sister a few hundred dollars every three months for construction on the rental building we're building. It's property I inherited from my grandparents. It's my property, and my sister manages it for me."*
- *"My goal? College for my children…and to build up my business in Guatemala. I have a business there with my Mom. I send her merchandise, and she sells it for me."*
- *"I would like to own my home [in the United States]…and buy some property in Guatemala for my children."*
- *"I want to build a house in my country."*

Products to Facilitate Investment Goals

Many migrants in the United States send home targeted lump sums for investment in land or a house. In other instances, investment funds are bundled with money also intended to meet basic household needs. These funds are usually managed by a family member in the home country. This arrangement often works well for senders, but at other times it diverts savings from investment and toward unexpected expenses or household emergencies.

However, the key factors that influence how funds are channeled for investments back home are the level of access senders have to financial services in the United States, and the access recipients in home countries have to banking services. Recognizing the importance of the relationships that senders and receivers have with financial institutions, ACCION undertook market research to examine the interest in a range of currently available and hypothetical products.

Savings Products

Direct Deposit of Money Transfers

Direct deposit products enable a sender to transfer remittances directly into a savings account in a local financial institution in the home country. This is the most popular product among both senders and recipients in the focus groups. Senders described this product using a series of positives, such as "*more secure,*" "*less risky,*" "*fast,*" and "*easy*." Respondents noted that thieves sometimes lurk outside the money-transfer locations in their home countries, making direct deposit an attractive alternative.

Several participants commented that this product would allow them to avoid *two* lines: the first, to receive their remittance (which is often sent as a check or money order in countries like El Salvador and Guatemala), and the second, when they go to a bank to cash it.

Across the countries in this survey, participants expressed two main concerns about direct deposit products. Overall, the majority cited a fundamental lack of confidence in financial institutions in their home countries. In addition, several focus groups mentioned added costs associated with savings accounts, such as account fees and high exchange rates applied for depositing transfers in local currency.

Direct Deposit with a Debit Card

Surprisingly, a debit card that could be used for ATM withdrawal was ranked less attractive than a savings account alone. While participants valued the convenience of a debit card, many were concerned about lost and stolen cards, family members forgetting the personal identification numbers, or elder relatives being challenged by the technology of the card and ATMs. Bolivian participants showed the most interest in this product, believing that this would be a quicker, more secure, and easier way to access funds. The following feedback from recipients in Bolivia illustrates these attitudes:

- *"It would imply waiting less time in line at the bank."*

- *"The amount not used would stay as savings and earn an interest rate; one could withdraw only what was needed."*
- *"This would be convenient because sometimes I am concerned about carrying the cash transfer with me."*

In El Salvador, more than half the focus group participants had a savings account at a bank. Yet many of these respondents did not use ATMs. Thus a debit card for withdrawal at ATMs did not appeal as much in this market.

Programmed Savings Products

Programmed savings products enable immigrants to designate a percentage of each transfer to be deposited in a savings account. Money can then be automatically saved for future expenses such as education, a home, or health care. While some focus group participants in the United States liked this idea, it was far less compelling as compared to direct deposit into a savings account. In general, participants ranked programmed savings products at or near the bottom of the concepts discussed. Some participants commented that they were able to save with few problems, and that the programmed arrangement was unnecessary. Others insisted that relatives' needs required maximum flexibility to ensure that the recipient have money as needs arise. A lack of confidence in financial institutions surfaced again, as well as concern over unfavorable exchange rates, with respect to programmed savings products.

- *"You can't impose on them what to do with the money. It's difficult because you don't know what's going on there."*
- *"I already have this, and it works fine. I send the money, it's used as needed, and we put the rest toward the property we're buying."*
- *"It's good and it's bad. It helps people save …but it has to be a trustworthy bank, like Citibank."*

This and other market research undertaken by ACCION support the finding that the interest in this type of product is greatest when it is linked to specific uses, such as home purchases, education, or holidays. Clearly, programmed savings products are most attractive to senders who want direct control and the ability to manage the allocation of the funds they send.

The type of responses from Salvadoran participants regarding programmed savings products depended on the income level of the region in which the focus groups were held. For example, in Usulután, a region hit hard by El Salvador's economic recession, the appeal of the product was limited. In Nueva Concepción and Lourdes, with higher income levels, the appeal for this savings product was higher. However, regardless of the location of participants, the concerns regarding this product were the same: stability and credibility of the financial institution, fees charged, and the need to adapt savings products to the needs of the target market.

Products Linked to Housing Credit

Credit products that enable remittance senders to earmark funds for a down payment on a home, either as a lump sum or over time, have solid market potential. Several respondents revealed that they were planning on saving in order to purchase a home or property, or were already doing so. Others stated that they had the money and had attempted to purchase a home, but were prevented from doing so because of extensive paperwork, complicated processes, bank requirements for guarantors, and other red tape.

While a product of this type is attractive, participants identified several potential obstacles to its success: the lack of credibility of home-country institutions, high interest rates, burdensome procedures, and legal issues. Responses like these were typical:

- *"Maybe it would be OK…but you would have to know the bank, know the reputation of the bank."*
- *"I would do the loan here [in the United States]. The rates are much lower."*
- *"If we can provide money for investing in our country, that's excellent."*
- *"It is really hard for them to access a loan back home. They ask for guarantors, and a lot of paperwork is needed."*
- *"The loan would be given to her, but I would make the down payment, which is the hardest thing, so we both would have rights to the property."*

Participants in the United States indicated that they would commit a portion of remittances for a home down payment, but only if the savings were in dollars, and only with a credible institution or a U.S. bank. The following comments were typical:

- *"I would prefer to do that here. I have more confidence in a bank here."*
- *"Everything you save has to be in dollars. These are very difficult times over there."*

Responses to this product in Latin America varied. Several participants were sensitive about asking relatives to enter into a financial obligation of this nature, as well as the possible complications involved in sharing property. Others were uncertain as to whether relatives in the United States had the money to cover a down payment. Responses varied depending on the average length of time migrants had been residing in the United States. In Bolivia, for example, the citizens of Santa Cruz and Cochabamba were more enthusiastic about such a product than those in La Paz. In these two cities, families had relatives in the United States for a shorter period (one to five years) than those in La Paz (three to seven). It appears that investment-related products might be better targeted to more recent arrivals in the United States.

- *"This is a good idea, it would make it easier for me because we want to buy a house."*
- *"This is good because we were talking to my sister about doing something like that."*

Remittances and Loan Guarantees

This instrument would channel remittance flows from relatives in the United States into a certificate of deposit in a home-country financial institution, which in turn would serve as a loan guarantee. Thus remittances could allow the relative in the United States to provide collateral to increase his or her family's ability to take out business or property loans in the home country. In the United States, this product elicited very mixed responses. Many respondents thought that the personal liability and other risks were too high. Comments such as these are common:

- *"Even with a relative, you run a risk."*
- *"If the property were in my name, then what's in it for them? Why would they make the mortgage payments then?"*

For others, this idea is seen as mutually beneficial for the sender and his or her family:

- *"You're helping your family as well as yourself."*
- *"I like this. Maybe it will ultimately lessen their dependence on us."*
- *"This is exactly my dream! You would have the liberty to go [and stay in the house], maybe a few months a year. My brother could live in it and then, when I go [home to Colombia, the house] is there for me."*

The appeal of such a product increases somewhat where loans would be for tangible property, such as real estate, or would be made in the sender's name. However, this product was ranked as less attractive than the others because of concerns regarding personal liability.

In Latin America, this product also received mixed responses. Several participants found the idea attractive, yet many were not sure if their families in the United States would have sufficient funds or be willing to provide a guarantee.

- *"It would depend on their possibilities [in the United States]. They earn well but they also have a lot of expenses."*
- *"They don't always have a job in the United States."*

Other participants expressed a high degree of interest in such a product, particularly those from the cities (such as Santa Cruz in Bolivia) where relatives had been in the United States for a relatively short period of time. Other participants noted that such a product would eliminate the need for guarantors, which are becoming increasingly difficult to find. In lower-income areas, such as in parts of El Salvador, several participants did not believe that their relatives would have sufficient funds for this type of arrangement.

Other Credit-related Concepts

Participants in the United States were also asked their views of proposed life and health insurance products for family members back home. While both were appealing, health insurance was of far greater interest. Most expressed strong interest in an inexpensive health plan, provided that it included coverage for private hospitals. Other potential products discussed in some of the U.S. focus groups include the concept of "reverse collateral." Reverse collateral schemes involve using collateral and/or experience from the home country to help procure a loan in the United States. Several participants were not interested in this product because of a poor credit history in their home countries. Others, particularly those owning property in home countries, thought this concept was promising.

Attitudes of Migrants toward Banks and Money-Transfer Mechanisms

In addition to examining existing and hypothetical products, ACCION's market research also investigated the relationships of the respondents to banks and money-transfer organizations. The intent was to discover whether the respondents felt comfortable working with banks and to learn more about how they chose the money-transfer mechanisms they currently use.

Current Use of Banks

Many of the U.S. participants had checking and/or savings accounts with banks in the United States. Most participants also had credit cards and/or debit cards. Only one or two participants were not familiar with a debit card. A significant number of U.S. participants indicated that they or their families had bank accounts in their home countries. Some used accounts in the name of a relative for their own personal savings and investment goals back home. For example, several Guatemalan participants in Los Angeles maintained accounts in Guatemala. In one case, the participant had an account in his sister's name and had his family deposit a portion of the remittance he sent into that account for his savings goals. Another participant had a joint account with his mother and used the deposited funds "for saving for future investment, maybe to start a business."

The degree to which participants in the United States open bank accounts back home is directly related to the confidence they have in banks and financial systems in their home countries. This confidence varies significantly, based on the country of origin. Participants from Guatemala and Ecuador were less likely to have savings accounts in their home countries. They had little confidence in their respective banking systems, and were generally concerned with the stability of the overall economy in their home countries. Several mentioned the history of bankruptcies and mismanagement of funds that has involved banks.

On the other hand, Salvadoran participants had more confidence in banks in El Salvador. Several believed that saving in Salvadoran banks was preferable to saving in the United States. Among the group of Salvadorans living in Los Angeles, more than half had savings accounts in El Salvador—concrete demonstration of their trust.

- *"I haven't really thought about saving it here. With my Mom [in El Salvador], it's in good hands."*
- *"Here it's difficult, especially when you have no legal documentation. It's just easier there."*
- *"There's more of a sense of security saving and investing it there. At least it's our home. Here you might get picked up!"*

- *"With the money there, it's more accessible to my family…in case they need it."*

U.S. participants from Bolivia fell somewhere in the middle in terms of confidence in their local banks. Approximately half the Bolivian participants had savings accounts back home.

- *"I send money to my brother. We're saving to buy land and start a business. He puts the money in a credit union. The interest is better [than at a bank in the United States]."*
- *But you can't trust banks there. The economy is very bad, anything can happen from one day to the next!"*

Responses like these suggest that the level of confidence in local financial institutions and the stability of local economies will play a key role in any effort to develop a model that channels funds through formal financial institutions. Moreover, the use of bank accounts in countries of origin by immigrants in the United States demonstrates a demand for savings mechanisms in their home countries. This demand appears to be bolstered by the obstacles to banking that immigrants face in the United States.

Perceptions of Money-Transfer Products Offered by Banks

Given that significant numbers of migrants have some relationship with banks in the United States, it is an interesting question as to why remittance senders do not, by and large, use bank transfers, bank deposits, or ATM withdrawal methods. Respondents struggled to answer this question; no predominant answer emerged. The perception that such methods are more costly explains much underutilization of these services. Participants believed that bank products charged fees associated with both the sending and receiving ends of the transaction. Charges to send money are broadly accepted, but most participants found added fees on the receiving end to be unacceptable. Participants from non-dollarized countries also questioned the "hidden" costs they associated with exchange rates. A few participants were simply unaware that such transfers were possible. The following comments are representative of many:

- *"I have sometimes used bank-to-bank wiring. But they charge over there to pick it up, so there's a double-charge, at both ends." (New York to Bolivia)*

- *"I changed to Western Union. Western Union is expensive, but at least they only charge on this end. The bank charged at both ends, and I don't want them charging them at pick-up. I don't want anyone charging my family." (Los Angeles to El Salvador)*
- *"[Direct deposit to a bank in Colombia] is too expensive. They charge on both ends. When it's $500 or more, I use direct deposit."*

A lack of legal documentation most likely plays a role in the choices of transmission method. Only four of the 95 focus group participants in El Salvador had relatives that had legally migrated to the United States.

While most focus group participants acknowledged that ATMs were widely present in their home countries, some felt that their elderly relatives would be hesitant to use the cards. Paradoxically, most senders had bank accounts in the United States, many or most recipients had bank accounts in the home countries, and most seemed to feel that such methods made sense and were do-able, yet few utilized them. Only one of 47 participants in the United States reported ever using a bank deposit/ATM withdrawal system. Comments were varied:

- *"You would need to have the same bank at both ends…like Citibank…and I have Chase." (New York to Bolivia)*
- *"It's just too expensive!" (Washington, D.C. to Bolivia)*
- *"Yes, they use ATMs in Bolivia…but there are charges!" (Washington, D.C. to Bolivia)*
- *"Why not have a setup where you deposit the money here and they use an [ATM] card to withdraw it there? They offer that in other countries." (Los Angeles to Guatemala)*
- *"My Mom uses an ATM card. I deposit the money here at Citibank and my Mom withdraws it there. The last time was an emergency, so I used Western Union. But I usually use the bank deposit/ATM system. But with the ATM there's a limit on how much they can withdraw." (New York to Bolivia)*

Salvadoran recipients and senders, on the other hand, were very comfortable using Salvadoran banks that operate in the United States as money-transfer companies for sending remittances to their families. Participants categorized their service as a "bank transfer," although in the United States these Salvadoran banks do not operate as bank institutions, but as money-transfer companies.

Latin American banks operating as money-transfer companies in the United States are seen by those participants who use their services as offering speed, convenience, security, and in one case, lower cost.

- *"I use a bank transfer. From my bank here I transfer directly to Banco de Comercio [in El Salvador]. It costs $9 for $100 to $300." (Los Angeles to El Salvador)*
- *"Banco de Comercio, you just give them the cash and they send it to El Salvador." (Washington, D.C. to El Salvador)*
- *"I used to use Gigante Express, but it was slow. Sometimes it would take three or four days. With a bank transfer, it's fast, and directly deposited into their account or, if you give them the PIN number, they can just cash it." (Washington, D.C. to El Salvador)*
- *"There are [branches of] Guatemala banks here in LA and you can use bank transfers from these places." (Los Angeles to Guatemala)*

Perceptions of Money-Transfer Companies

Participants regularly used companies like Western Union and Delgado Travel. The biggest advantage participants noted about these remittance companies is speed. The typical transfer takes only a few hours, at most, to arrive at the destination. The focus groups revealed a lack of strong customer loyalty to Western Union. Among the seven focus groups, only a few participants were consistent and loyal customers of Western Union, with others using Western Union only occasionally. While fast and reliable, Western Union was regarded as more expensive, and often less friendly and service-oriented, than competitors. Further, participants reported that Western Union employees did not always speak Spanish.

- *"Western Union is very fast, like 15 minutes! But there aren't many Western Union branches in El Salvador." (Washington, D.C. to El Salvador)*
- *"I use Western Union sometimes, when necessary. But they're expensive. Bank transfers are less." (Washington, D.C. to El Salvador)*
- *"They give you a free three-minute phone call, and their rates have come down a lot recently." (Los Angeles to Guatemala)*
- *"Western Union is quick…but they don't always speak Spanish…and they're not always so friendly." (New York to Ecuador)*

- *"I use Delgado Travel or Western Union. They give you a free call so they know it's coming…and they give the address where to pick it up. And they give it in cash." (New York to Bolivia)*

Delgado Travel, along with other smaller local transfer companies, held greater appeal for participants. These companies were highly regarded by all, and were very popular with Bolivian and Ecuadorian participants. These firms tend to be local companies whose employees speak the language and always provide a high level of personal attention. These services were considered reliable, efficient, fast, and service-oriented.

- *"Delgado? Not only do they speak Spanish, they're even Ecuadorian!" (New York to Ecuador)*
- *"I use Deluxe Express. It's just like Western Union, but less expensive because they give a better [exchange] rate." (Los Angeles to Guatemala)*
- *"We could send through a bank, but the agency [Delgado Travel] is cheaper, faster, and better. It's there the next day." (New York to Ecuador)*

The focus group in Washington, D.C. with Bolivian immigrants identified a particularly popular money-transfer company called Telegiros Virginia–Harasic. This company had a strong Bolivian identity and had built a reputation based on reliability and security. It has only one office in the Washington, D.C. metropolitan area, and is located in the basement of a townhouse. It lacks obvious signs, making it difficult to locate. In Bolivia, the company has one office in each of the four largest cities. This case demonstrates how achieving trust within a specific immigrant community is a key factor for the success of a money-transfer service.

Perceptions of Courier Services and Other Mechanisms

Courier services such as Gigante Express or King Express were also viewed favorably by focus group participants. These courier services provide senders a money order and envelope so that parcels such as letters and photos can be sent in conjunction with the money order. This service was rated at least as popular as traditional money-transfer methods. These packages usually take between one and four days to arrive, and are typically delivered directly to the home of the recipient. These courier services were particularly popular with the Salvadoran and Guatemalan communities.

Considering the emphasis attached to speed of delivery, one might wonder why this method holds such appeal. Moreover, a courier service is less convenient than a traditional money-transfer method. The recipient receives a money order that must be exchanged for cash or a check. Checks then must be cashed at a bank. Fees are associated with each transaction, many of which are not transparent at the beginning of the process. However, several focus group participants also indicated that in some cases the deliverer could cash the money order for the recipient upon delivery.

However, the focus groups revealed that for many, delivery in three days or less was reasonable. Together with the advantage of home delivery for the recipient and the perceived low price, the service was appealing to many. Finally, the sentimental value of sending letters and photos seems to override any of the negative attributes of the service.

- *"They deliver to their door, and the money order is only $1." (Los Angeles to El Salvador)*
- *"I use Flores Express. It's just like Gigante Express. You get an envelope with a money order, so you can send along a letter." (Los Angeles to El Salvador)*
- *"I also use Gigante Express. You can include pictures, letters, and it goes directly to their home…and the person who delivers it in El Salvador will even cash it right there for them." (Los Angeles to El Salvador)*

Two respondents used postal money orders, and some occasionally used friends and relatives as couriers. One Bolivian participant in New York sends money through a Western Union service available on the Internet through terra.com.

- *"I use a [regular U.S. Postal Service] money order sometimes… and then send it priority mail. But it's expensive—$6—and it's a little more difficult for them to cash." (Los Angeles to El Salvador)*
- *"My Dad goes [to Ecuador] four times a year…so we load him up." (New York to Ecuador)*

Implications

The findings of this market research have direct implications for the design of remittance products in general, and in particular for microfinance institutions that seek to link their products to remittances. Some findings concerning the relationship between the immigrant and the family, as well as those concerning the choice of transfer provider, challenge some of the traditional thinking about remittances.

The Transnational Family

Transnational financial ties demand transnational financial services. Market research challenges the image of immigration as a one-way process. It offers the picture of a new, transnational way of life that immigrants create for themselves. Immigrants do not simply leave their past lives behind, as earlier generations were forced to do. With access to international air travel and communications technology, contemporary immigrants strive to stay active in their families' lives and to participate simultaneously in two communities. Immigration stretches the strong social and financial ties within families, but it does not break them.

Providers of financial services must respond to this transnational way of life. It is no longer sufficient to view remittances as a simple transfer of cash from one set of hands to another. Instead, good remittance products must seek to enhance the ability of immigrants to participate in the lives of their families back home, while pursuing their own long-term goals in the home country.

ACCION's market research revealed immigrant demand for financial products that can address the needs of families back home. For focus group participants in the United States, a major goal is to help their families remaining at home contribute to their standard of living and achieve greater financial security. Both senders and recipients expressed interest in products ranging from simple liquid savings accounts to health and life insurance. Research also underscores the drive of many immigrants to pursue their own long-term goals in their countries of origin, beginning with the debt obligations incurred to finance migration and continuing with home building, business investment, and saving for retirement.

In addition, market research showed that the relationship between sender and recipient plays a role in the choice of a money-transfer provider. Notably, while the U.S. relative usually chooses the remittance mechanism, recipients have a say in the decision. Recipients evaluate the service, and will recommend changes in companies when problems arise, the money sent is late, the service is bad, or hidden charges emerge. This points out the opportunity that exists to differentiate remittance products by the added value that they offer recipient families.

Choice of Money-Transfer Mechanism

Market research revealed a complicated picture of the experiences and attitudes of migrants with respect to banking services. On the one hand, a high percentage of focus group participants, even in receiving countries, have some kind of experience with bank accounts. On the other hand, decisions are strongly influenced by traditional mistrust of banking institutions, by preference for institutions with a link to the home country, and by the desire for personal service, such as the chance to send a letter or photo home. This juxtaposition of modern and traditional elements suggests that clients may be willing users of technology—*if* the technologies are part of a service that responds to their "softer" needs. Research also points to the need to improve the image of banks, particularly in receiving countries. Overall, the research confirmed the importance of key factors that influence the choice of provider: speed, cost, safety, customer service, and convenience.

Product and Service Design Implications

Market research reveals that opportunities may indeed exist for linking remittance services with microfinance products. These are most easily identified on the savings side—and perhaps more easily developed. But there are possibilities on the credit side as well. Channeling remittances directly into savings accounts, whether in the name of the sender or of the relative, is an attractive first step toward helping immigrants and their families achieve investment goals. The interest in savings accounts is particularly strong among those groups whose language ability, literacy, and lack of legal status pose the greatest barriers to banking in the United States.

On the credit side, opportunities to link remittances to microenterprise or housing loans may exist. However, the process of integrating these flows raises a number of practical questions. For example, some credit products linked with remittances would require that the family member in the home country receive power of attorney from their relatives in the United States. Many participants in the United States and Latin America were familiar with this type of legal instrument; consequently, such a process might not present insurmountable problems. More immediately, microfinance institutions can seek mechanisms to incorporate remittance streams into their credit evaluations, and thereby help clients leverage this income into larger loans.

For upper-income clients and corporations, products exist to facilitate international transactions. This market research outlines a broader vision of seamless transnational financial services that enable even small clients to conduct their financial business from afar, paying, for example, for financial obligations back home directly from the United States. Instruments such as cross-border guarantees or cross-border leasing, usually used in international trade operations, should also be explored for this market.

For microfinance institutions in receiving countries, the possibility exists to consider the immigrant in the United States as part of their potential client base. To appeal to these clients and their families, MFIs must focus on strengthening their institutional image and marketing, going well beyond the approach they employ in their traditional credit business. Both remittance senders and recipients look for solid, transparent financial institutions. The need to develop a relationship of trust and confidence in the institution is key. Attention to customer service, as well as to the design of products that support family goals, will be essential elements in successful product launches. Marketing becomes particularly important, as people tend to remain with their existing services, and need a strong reason to switch. To provide the kind of convenient and high-quality service demanded, MFIs will have to adapt and improve their back-office and management information systems as well.

Finally, the market research in this study yields one overwhelming message: financial services that respond to the dynamics of the transnational family have the strong potential to generate significant development impact—in terms of improving the quality of life for families on *both* ends of the remittance transaction.

Bibliography

Multilateral Investment Fund of the Inter-American Development Bank (MIF-IDB). 2005. Transforming Labor Markets and Promoting Financial Democracy. Washington, D.C.: Multilateral Investment Fund.

Multilateral Investment Fund of the Inter-American Development Bank and Pew Hispanic Center (MIF-PHC). 2003. Survey of Remittance Recipients in Ecuador. Report by Bendixen & Associates. Washington, D.C.: Multilateral Investment Fund.

Orozco, Manuel. 2003. *Worker Remittances in an International Scope: Issues and Best Practices.* Working paper. Inter-American Dialogue, Washington, D.C. (October).

PART 3

FOCUS ON LATIN AMERICA AND THE CARIBBEAN

This page intentionally left blank

Chapter 7

The Development Impact of Migrant Remittances in Mexico

Germán A. Zárate-Hoyos

Given its 2,000-mile border with the world's most industrialized country, Mexico offers a unique opportunity for analyzing the economic and social impact of migration on both the home and source country. The increasing financial flows associated with migration are having a major economic and social impact in Mexico. Yet the dynamic relationship between migration and its related financial effects remains poorly understood in Mexico and elsewhere.

A decade ago, a report by the RAND Corporation noted that studies on the effect of emigration on source countries tend to be theoretical and focused on selected issues, such as the size of remittance flows (Asch and Reichmann 1994). More recently, the Population Division of the Department of Economic and Social Affairs at the United Nations issued a call to "understand better the causes of international flows of people and their complex interrelationship with development" (United Nations 2002, p. 28). Yet even today much of the available economic analysis of international migration is at a microeconomic level, based on individual or household sample survey data that focus primarily on the individual migrant worker and the migrant household. Some macro-level studies have examined the macroeconomic implications of migration in the context of economic development (see Paine 1974; Griffin 1976; Piore 1979). More recent studies have started to focus on the impact of labor and remittance flows on macroeconomic variables such as output, employment, and capital formation (see Stahl and Habib 1989; Habib 1985; Glytsos 1993).

This chapter looks at the complex financial and social impact of one aspect of migration: the financial flows commonly known as remittances. Remittances are broadly defined as comprising all sums of money from current income and savings transferred by residents working abroad to their home country. For developing countries, remittances have become a major issue within the broader context of migration since these flows constitute a flow of resources from developed countries surpassing other sources of foreign exchange (see Stalker 1994; MIF-IDB 2003).

International remittances have a profound and growing impact in most developing countries on poverty, income distribution, and economic development, especially in rural areas. Until recently, awareness of this phenomenon in Latin America and the Caribbean and elsewhere remained quite low. For example, as long ago as 1994–95 in India, net private transfers from Indians working abroad were about \$6.2 billion, while the flow of direct and portfolio foreign investment together totaled \$4.9 billion (Patnaik and Chandrasekhar 1998). Yet only a few years ago remittances were "scarcely ever mentioned, let alone celebrated, in the International Monetary Fund–World Bank literature, in government statements, or even in the international and the national press, while figures on foreign investments approved are presented with tedious regularity" (Patnaik and Chandrasekhar 1998, p. 361).

Mexico is a unique case because of its long tradition of migration to the United States and its impressive growth of remittance flows over the past decade. In 1996, Mexico was ranked first in the volume of remittances received in the world; in 2000, Mexico ranked second (MIF-IDB 2003). Despite the growing importance of remittances, most research in Mexico has focused on local development, case studies, and nonrepresentative data (Durand and Massey 1992).

Improving data and research methods will be crucial for assessing the broader economic impact of remittances. To date, most research analyzing the direct use of remittances in Mexico has concluded that these flows have little productive impact.[1] Examining the direct uses of remittances, this body of research suggests that only a small portion of remittances is spent on productive activities, and when remittances have been directed to productive activities, they have failed to generate significant employment. Given the increasing importance of these flows, it is also necessary to take an in-depth look at the possible indirect effects of remittances on the Mexican economy in order to derive a more complete picture.

This chapter deals with the flows of remittances associated with Mexican migration to the United States. It examines the available

[1] For a recent review of such studies, see Taylor and Adelman (1996).

information on the quantitative aspects of remittances and the socioeconomic characteristics of households receiving remittances. The chapter then looks at the economic impact of remittances in the Mexican economy, and surveys the recent role of hometown associations in leveraging remittances for development purposes. It concludes with some policy suggestions.

Mexico-U.S. Migrants and Remittances

Mexican migration to the United States has been a complex and dynamic process spanning more than 100 years. Consequently, social researchers and policymakers have been interested in quantifying migration and remittance flows as well as inquiring into the socioeconomic characteristics of remitters and the effects of remittance flows on the sending communities.

The Numbers Game: Quantifying Remittances

Since the 1930s, the ebb and flow of people crossing the border has generated debate concerning the actual number of Mexican migrants to the United States and the volume of monetary remittances (Durand and Massey 1992). Massive deportations of Mexicans during the Great Depression focused the empirical debate in the 1940s on estimates of the actual number of Mexican deportees (Durand and Massey 1992). The *Bracero* Program, a temporary worker program initiated by the U.S. government in 1942 to cope with wartime labor supply constraints, unintentionally induced a greater flow of undocumented migration northward. As the number of applicants exceeded the number of official work permits, many undocumented workers simply made the trek north on their own. The *Bracero* Program ended in 1964, yet flows of undocumented workers continued to increase, leading to a growing concern among politicians and academics (Durand 1994).

Only recently has consensus emerged regarding both the actual flow and stock migrants (Durand and Massey 1992). According to the 2000 U.S. census, the Mexican-origin population in the United States is 20.8 million, which is an estimate of those already in the United States (BLS 2000). In the late 1990s, the yearly flow of migrants was estimated to be between 750,000 and 1 million, although the *net* inflow was only between 200,000 and 300,000 migrants a year. More recently, the Mexican National Population Council (CONAPO 2002) estimated that 360,000 Mexicans a year migrated to the United States from 1996 to 2000, and estimated the stock at 9.5 million for 2002, of which around one-third (3.5 million) are believed to be undocumented.

As individuals flow across international borders, remittances flow in the opposite direction. Where measurements of remittances rely on estimates of the undocumented population, obviously this directly influences the projected volume of remittances. Not surprisingly, empirical estimates of the volume of remittances to Mexico vary. A good starting point is to look at the official reports of the Central Bank of Mexico, since it reports these data to the Balance of Payments Division of the International Monetary Fund (IMF). Importantly, this is also the only time-series data for remittances in Mexico. Before 1989, the Central Bank had a very incomplete accounting of household remittances, since they accounted only for what they called "family remittances" through the postal and telegraph services surveys done by the Transportation and Communications Ministry.

After 1989, the Central Bank devised a more comprehensive methodology for recording remittances.[2] This methodology included two new surveys. One was the Family Remittances Survey, which was applied to the two major banks and exchange houses. The other, called the Family Remittance Census, was extended to 18 other commercial banks and almost all exchange houses. The Central Bank defines family remittances as "any unilateral transfer from a Mexican resident abroad to a Mexican resident in Mexico, assuming that they are both related and the money goes to the maintenance of the receiver" (Banco de México 1991, p. 2).

The Central Bank's definition omits two possibly significant sources of remittances. The first omission is that of the so-called "commuter" migrants, or workers living in Mexican towns along the U.S.-Mexico border who commute daily to the United States for work. The monies received by these migrants are considered "factorial payments" and are therefore registered in the labor income category in the Mexican balance of payments. A second omission concerns transfers in the form of goods and services known as "in-kind transfers," which may or may not be accounted for in the trade and commerce statistics.[3] According to the Foreign Ministry, in December 1997, 1 million migrants returned to Mexico for the Christmas and New Year's holidays. On average, more than half carried $500 in cash and merchan-

[2] For a review of the methodology, see Banco de México (1991).

[3] Cash is money that migrants bring during their returns to Mexico. In-kind transfers are those goods bought abroad that migrants bring upon their return to Mexico.

dise, according to information contained in robbery reports filed with the government.[4] Finally, the Central Bank methodology has no systematic way to account for remittances that migrants carry on return visits to Mexico. According to one estimate, pocket transfers could be as much as 30 percent of the total flow (Lozano 1993).

Table 7.1 presents estimated remittances (nominal time-series data) from 1990 to 2000 under the new methodology reported by the Central Bank of Mexico. The adjustments category in table 7.1 includes rough estimates of electronic transfers and cash and in-kind transfers, since the Central Bank of Mexico did not start accounting for the amounts in these categories until 1994. The upward trend in the amount of remittances sent by Mexican migrants abroad in the last decade is obvious. The amounts shown do not include money brought by Mexican migrants upon their return to Mexico, or remittances using other informal mechanisms such as letter or personal carriers. Estimates of the volume of remittances take on greater importance in light of the devaluation of the peso; this is clear in the data for the period 1995–2002, when remittance flows increased 262 percent. From 1989 to 2000, remittance flows to Mexico nearly quadrupled (CONDUSEF 2002).[5] The latest Central Bank report puts family remittances at $9.8 billion for 2002 and preliminary figures for 2003 are $13.2 billion (Banco de México 2004).

The latter statistics have drawn the attention of multilateral organizations to the great potential of these monies in the receiving communities. For example, the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) organized the first Latin American and Caribbean Regional Conference on Remittances as a Development Tool in May 2001. This event was followed by several other conferences across the region aimed at documenting the growth of remittances, promoting lower transaction costs, and promoting the economic impact of remittances.[6] Given the magnitude and complexity of remittances to Mexico, no single study can provide a complete account of these flows. Moreover, some studies done by Mexican researchers using data from national surveys in the 1990s have concluded that the actual flow of remittances to Mexico may be lower than the amount reported in official Bank flows.

[4] "Trusted Friends, New Firms Offer Cheaper, Safer Methods," *San Jose Mercury News*, April 12, 1998.
[5] Remittances for 1989 (not shown) were $1.76 billion.
[6] See MIF-IDB website at www.iadb.org/mif

Table 7.1. Estimated Remittances, by Type of Transmittal, Mexico, 1990–2001 ($millions)

	Year											
Type of transmittal	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Money orders	1,375	1,215	1,026	602	1,622	1,456	1,520	1,732	1,949	1,448	1,434	803
Telegraph and postal drafts[a]	464	524	679	784	888	894	705	588	352	—	—	—
Checks	140	112	221	145	49	26	76	77	61	51	9	10
Electronic transfers[b]	—	—	—	—	504	996	1,516	2,048	2,795	3,935	4,642	7,784
Cash and in-kind[c]	—	—	—	—	629	299	405	418	442	475	488	298
Adjustments[d]	513	806	1,143	1,800	—	—	—	—	—	—	—	—
TOTAL	2,494	2,658	3,070	3,333	3,694	3,672	4,224	4,865	5,602	5,909	6,573	8,895

[a] Not reported after 1998.
[b] Not available for 1990–93.
[c] Not available for 1990–93.
[d] Electronic transfers and cash and in-kind were collected starting in 1994, so adjustments were made for prior years.
Source: Banco de México, Annual Reports for 1997–2002, respectively.

One of the most important of these studies is the Emigration to the Northern Border Survey (*Encuesta de Migración a la Frontera Norte,* or EMIF).[7] Although this survey provides a comprehensive look at the flows of migrants through the border towns, it could count migrants more than once since it really counts "events" and not individuals. It also omits an accounting of the flow of documented migrants who use the air transportation system to reach the United States. Nevertheless, the estimate of remittances obtained from the EMIF survey is around $2.1 billion for the period between March 1993 and February 1994, while the flow was estimated at about $1.5 billion for the period between March 1996 and March 1997 (CONAPO 1998). In contrast, the Central Bank of Mexico indicates a much higher flow of about $4 billion for the 1996–97 period. More recently, Corona and Santibañez (2004), using the National Survey of Demographic Dynamics, estimate the amount at $2.7 billion for 1997, which is only about 55 percent of the Central Bank estimate. Although this estimate does not include in-kind remittances or cash brought by the migrants themselves, which is included in the Central Bank figures, this category amounts to less than 2 percent of the total flow. More importantly, Corona and Santibañez's (2004) figures include monies brought home by "commuter migrants," which the Central Bank figures did not include. From the ENADID survey, Corona and Santibañez identified 111,092 migrants who reside in Mexico's border towns but work in the United States. These workers, commonly known as "daily commuters," cross the border on a daily basis but are not officially considered migrants. In 1997 they brought almost $1 billion into Mexico, resulting in Corona and Santibañez's estimate of around $3.7 billion for the total flow for 1997.

Another government agency, the National Institute of Statistics, Geography and Information Science (INEGI in Spanish), using a different survey instrument called the National Income and Expenditure Survey of Mexican Households (ENIGH-96), puts the flow of remittances at $2.1 billion for 1996 (CONAPO 1999). This is only half the flow reported by the Central Bank for that year. Although all surveys have their particular shortcomings, there seem to be sufficient discrepancies to warrant further investigation. A possible explanation for these divergent sets of estimates may lie in the cyclical nature of remittances. Some evidence suggests that in the second and third trimester of the year (April–September), the flow of remittances is relatively

[7] For the EMIF methodology, see Santibañez and Corona (1994).

larger than the rest of the year.[8] Yet the timing of most national surveys coincides with the first and last trimester of the year, so any inferences for the year based on this information may underestimate the total flows. The quantitative nature of this bias is yet to be explored.

The Socioeconomic Characteristics of Migrants and Households

The studies cited above can also show relationships between the size of remittances, the sociodemographic characteristics of migrants, and, in particular, the type of migration. Some studies propose that the type of migration—temporary, recurrent, or permanent—affects the variability of remittance flows, with corresponding impacts on Mexican households. Others suggest that the type of migration impacts how remittances are used. In one study, for example, temporary migration is associated with current consumption and housing expenditures, and permanent migration with investment-type expenditures (Verduzco and Unger, 1998).

Although there is no estimate of remittance flows by migratory status (documented or undocumented), table 7.2 shows that permanent migrants, even though residing permanently in the United States, continue to send remittances. This group sent a smaller gross amount than temporary migrants, but remittances from permanent migrants represent about 28 percent of the total flow. The permanent migrant group sent about a quarter (25.6 percent) of their earnings, while the temporary migrants sent about half (55.6 percent) of their earnings. Permanent migrants earn more while in the United States, possibly because of their greater experience and assimilation in the U.S. labor market, but they sent about the same per migrant as the temporary group. The data suggest that as migrants become assimilated into the U.S. labor market and move permanently with their families, they send fewer remittances. However, it would be a serious mistake to ignore remittances sent by permanent migrants. With the number of Mexicans living in the United States in 2010 projected to be approximately 36 million, there is an enormous potential for increased flows in the future.

Another important source of household data on migration in Mexico is the National Survey of Demographic Dynamics (ENADID) carried out by the National Institute of Statistics, Geography and

[8] Author's calculations based on the *Encuesta de Migración a la Frontera Norte* (EMIF).

Table 7.2. Remittance Flows into Mexico by Type of Migrant, 1993–94

	Temporary migrants		Permanent migrants	
Type of migrant	Total ($ thousands)	Amount per migrant[a] ($)	Total ($ thousands)	Amount per migrant ($)
Monthly earnings	285,297	851	190,336	1,218
Monthly remittances	158,824	474	48,754	312
Yearly remittances	1,470,110	4,385	585,045	3,745

[a] Based on the average number of months worked in the United States (9.25 months).
Source: Corona 1994.

Information Science (INEGI) at the end of 1997 (INEGI 1997). One of the study's most important findings is that 23 percent of households receiving remittances do not have a migrant from the household. This indicates that a significant number of households may be part of extended families that receive remittances but lack working-age adults who can use remittances for productive investment. Further, the overwhelming majority of households with migrants (returned or permanent) do *not* receive remittances. This group is estimated at just over 3 million households, or 14.3 percent of the Mexican population (Corona and Santibañez 2004). By contrast, only 4.1 percent (some 870,000 households) receive remittances, including those that do not have a migrant or that had a migrant before 1992. It is widely known that remittances are an important source of income for these households. But data from the ENADID show significant differences among these populations. In remittance-receiving households without a migrant or with a migrant who went to the United States before 1992, remittances constitute nearly half (45.8 percent) of total income. For remittance-receiving households with a returned migrant or permanent migrant, remittances from the United States are twice as much as any other income source, including regular work (Corona 1994).

Among the salient characteristics of households receiving remittances: approximately one-third have at least one other relative living with them; 44 percent of the heads of remittance-receiving households without migrants are over 64 years old. Further, they have less health coverage, either through the Mexican social security (IMSS) or through the State Workers Institute for Security and Social Services (ISSSTE). Four out of ten remittance-receiving households do not receive income from other members of the household. A smaller proportion of this population receives other forms of income, such as rent, interest, government subsidies, or pensions. The majority (59 percent) of remittance-receiving households with returned migrants are in larger localities (with populations of 100,000 or larger), while the majority of those with permanent migrants live in smaller localities (with populations of less than 25,000).

A more recent Mexican source for remittance research is the National Income and Expenditure Survey (ENIGH) carried out by the National Institute of Statistics, Geography and Information Science (INEGI). Until recently, this data set, collected at the household level to obtain data on consumption patterns in Mexican households, has been largely unexplored in remittance studies.[9] The ENIGH database contains a detailed disaggregation of income sources. One such source is the category "gifts and donations from foreign sources." This can be used as a proxy for remittances from migrants in to the United States, since the destination country of 99 percent of migration from Mexico has been the United States. The ENIGH survey is also representative of the urban and rural sectors, if one accepts the categorization of the urban sector as the "high population-density area" and the rural sector as the "low population-density sector." The low population-density sector refers to towns of less than 2,500 inhabitants, while the high-density sector refers to those towns with populations larger than 2,500.

Evidence from this survey indicates that the number of households receiving remittances increased moderately between 1989 and 1994, and increased sharply from 1994 to 1996 (see table 7.3). While the absolute number of households receiving remittances increased by less than 3 percent between 1989 and 1994, they increased by almost two-thirds between 1994 and 1996. Table 7.3 also shows that in relative terms, the percentage of Mexican households receiving remittances in the low-density (rural) areas is higher than in the high-density (urban) areas. By 1996, 3.8 percent of households in urban zones received remittances, while fully 10 percent of households in rural zones received remittances. These figures indicate the severity of the 1995 Mexican crisis after the peso was devalued by 50 percent in December 1994. By 2000, 6.1 percent of Mexican households were receiving remittances from migrants in the United States. The pattern of remittances in rural and urban zones is illustrated in figure 7.1.

Some of the demographic characteristics of migrant households are obvious. The presence of extended families in migrant households is higher than in the total population. Recipients are likely to be

[9] ENIGH surveys were carried out in 1989, 1992, 1994, 1996, 1998 and 2000, although there were a few notable changes between the 1989 survey and the subsequent surveys.

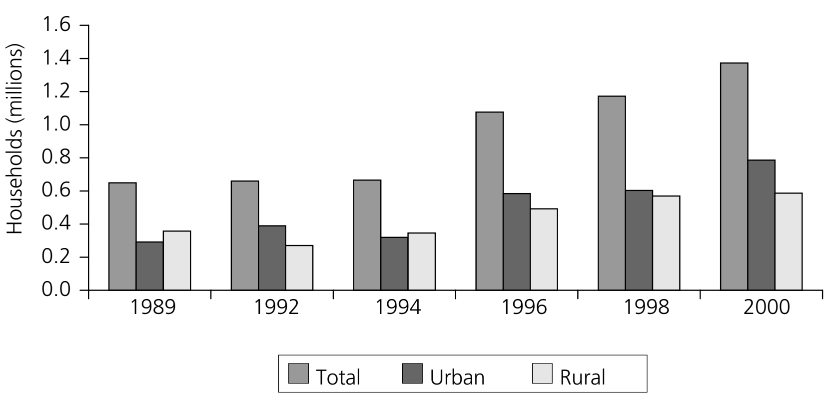
Table 7.3. Total Number of Households Receiving Foreign Remittances by Low- and High-Density Sectors and by State, Mexico, 1989–2000

	Total		Remittances from foreign sources			
			High population density		Low population density	
Year	Number of households receiving remittances	Remittances ($ thousands)	Number of households	Remittances ($ thousands)	Number of households	Remittances ($ thousands)
1989	648,886	630,264	291,519	272,864	357,367	357,400
1992	659,673	1,393,736	389,109	903,959	270,564	489,777
1994	665,259	1,443,734	319,746	778,128	345,513	665,607
1996	1,076,207	2,089,953	584,293	1,311,717	491,914	778,234
1998	1,171,989	2,429,533	602,737	1,454,404	569,252	975,129
2000	1,372,468	2,834,451	786,131	1,612,612[a]	586,337	1,221,839[a]

[a] Estimated by the author based on previous years.
Source: Author's calculations.

female (7 out of 10 recipients are female) (CONAPO 2003). Moreover, remittance-receiving households have a higher ratio of nonproductive members to productive members (0.67) compared to other households (0.50). Another indicator of economic dependence is the proportion of economically inactive people per 100 of the economically active population. In remittance-receiving households, this ratio is 108; in households that do not receive remittances, it is 75. In rural areas, some 40 percent of the members of recipient households are out of work and 50 to 60 percent of recipients are self-employed. This indicates that these rural households may have a higher entrepre-

Figure 7.1. Urban and Rural Mexican Households Receiving Remittances, 1989–2000



Source: INEGI, National Household Income and Expenditure Survey (ENIGH), for 1989, 1992, 1994, 1996, 1998, and 2000.

neurial potential than households that do not receive remittances (under 30 percent of the total labor force are self-employed).

The Emigration to the Northern Border Survey (*Encuesta de Migración a la Frontera Norte,* or EMIF) carried out by El Colegio de la Frontera Norte, Tijuana also provides a rich description of the socioeconomic characteristics of migrants, based on data from migrants who enter the United States through the crossing points along the U.S.-Mexico border. The profile emerging from this survey is of a population predominantly male and between 25 and 34 years of age. With an average of six years of education, this group has a lower educational attainment than the rest of Mexico's population, which averages 7.5 years of schooling. About 58 percent are married and 38.6 percent are single. As expected, a large number of migrants (41 percent) come from the traditional labor-exporting areas in northwestern Mexico, mainly Coahuila, Durango, Guanajuato, Jalisco, Michoacán, and Zacatecas. Migration from urban areas is a recent phenomenon, and is increasing relative to rural areas (56 percent versus 42 percent). Unemployment is an obvious motive in labor migration; 28 percent of migrants have no job in Mexico before departing for the United States. For those who have been in the United States at least once, 63 percent previously had a paid job there. About three-quarters of these migrants had already been in the United States on at least one other occasion and half had been there three times or more.

The profile of households receiving remittances portrayed by these surveys seems to underscore serious obstacles to the developmental use of remittances. These households have substituted remittances for wage income; they are more likely to have extended families; and significant proportions are older persons. On average, they have a lower level of education than the rest of the population. These constraints should be considered when elaborating programs to assist this population in business creation or other development projects.

Remittances are a major source of income for many households in Mexico. While in rural areas, one in 10 households receives remittances, this estimate misses the crucial importance of remittances in most receiving households in Mexico. Using ENIGH data, Canales (2004) shows that while international remittances represent about 5 percent of total national household current income, for receiving households in the top three recipient states, remittances represent more than 50 percent of their household current income.[10] Furthermore, in

[10] Canales (2004) used Guanajuato, Jalisco, and Michoacán as the top three states receiving remittances.

remittance-receiving households, income from wage labor is about a third of the wage income of households with no remittances. This ratio suggests that for these households, remittances substitute for wages and are key to daily maintenance—rather than serving as additional income. It follows that many households might find it difficult to direct some portion of these monies toward productive investment.

Despite these constraints, remittance-receiving households do indeed behave rationally and allocate scarce resources to their most productive uses. Most remittance-receiving households spend the majority of their money on current consumption, while spending little on productive investment. This pattern is not unique to Mexico; it is found in many other developing countries (see Stalker 2000). Yet it should not lead to pessimistic conclusions regarding the potential for productive uses of remittances, particularly given that the definition of investment is in itself problematic. The fungible nature of remittances can make it difficult to distinguish consumption expenditures from other broadly productive uses to which these funds could be put.

The numerous ways in which remittances are spent may—or may not—be viewed as "productive." For example, funds allocated to new housing and housing improvement have a positive impact on hygiene and physical well-being, raise labor productivity, and enhance property values. Outside observers may overlook productive enhancements funded by remittances, and argue instead that these expenditures fuel inflation without adding to the capital stock of the nation. In other instances, largely anecdotal evidence of "demonstration effects" implies that households receiving remittances have a higher tendency to consume than their neighbors, and therefore are unlikely to divert resources to production-related activities. However, such assertions cannot be supported because no studies have used a control group to compare consumption patterns of households receiving remittances with those that do not.

Some evidence of the consumption patterns of remittance-receiving households and non-remittance receiving households is presented in table 7.4. Two clear patterns emerge from the data in table 7.4. The remittance-receiving households (RRH) in the urban areas clearly have a lower average of expenditures per household in almost all categories, with the notable exception of vehicle purchases. This pattern is somewhat reversed in the rural areas, where the RRH tend to have higher expenditures per household in some categories such as clothing, housing maintenance, and furniture/appliances. Vehicle purchases and housing investment also seem to be relatively higher for the

Table 7.4. Distribution of Current Spending, by Category, for Households Without and With Remittances (Mexican pesos)

Expenditure categories (all per capita figures yearly)	Households without remittances: High population density, Per capita	Total	Low population density, Per capita	Total	Households with remittances: High population density, Per capita	Total	Low population density, Per capita	Total
Food and beverages	1,116	10,992,781	639	3,281,070	994	281,852	610	210,575
Clothing and accessories	253	2,201,484	145	621,661	202	44,847	166	49,083
Housing and utilities	212	2,062,069	72	363,472	172	49,144	79	27,523
Furniture, appliances and household maintenance	273	2,697,595	139	730,322	211	59,139	176	62,303
Health care	144	919,045	106	354,292	95	21,760	101	26,862
Transportation and communication	442	3,917,250	151	717,867	307	70,560	134	52,492
Transportation	402	3,450,457	143	670,527	265	55,087	140	47,219
Public	151	960,822	117	275,837	158	20,543	89	13,779
Special services	84	255,976	41	90,504	57	8,313	58	9,474
Purchase of private vehicles	3,762	948,961	164	111,757	8,194	9,786	813	14,691
Vehicle maintenance	413	1,284,698	365	192,429	371	16,445	156	9,275
Communication	115	466,793	54	47,340	112	15,473	32	5,273
Education and recreation	423	3,306,299	154	495,236	205	42,324	118	23,871
Other goods and services	273	2,676,545	122	623,862	176	46,892	232	82,125
Total current expenditures	2,880	28,773,068	1,356	7,187,781	2,115	616,518	1,496	534,835
Total nonmonetary expenditures[a]	563	2,982,945	369	1,458,782	585	106,736	392	98,920
Imputed value of home ownership	859	6,599,065	202	1,018,619	488	123,931	220	77,466
Total expenditures[b]	3,837	38,355,079	1,820	9,665,182	2,905	847,185	1,987	711,220
Investment expenditures								
Housing purchases	3,458	400,889	1,219	43,526	834	2,264	4,320	11,328
Equipment purchases	866	64,549	714	63,597	78	772	1,211	8,537
Debt payments	469	236,979	324	102,818	231	2,618	492	14,481
Savings	1,056	1,797,180	845	342,781	325	14,970	718	31,133

[a] Non-monetary expenditures include self-consumption, in-kind payments, and gifts.
[b] Total expenditures are current expenditures plus non-monetary expenditures and the imputed value of home ownership.
Source: Author's calculations based on ENIGH 1989.

RRH in the rural areas, and expenditures per household on equipment and machinery are significantly higher on average. These patterns indicate that these migrant families are in fact investing remittances in productive activities.

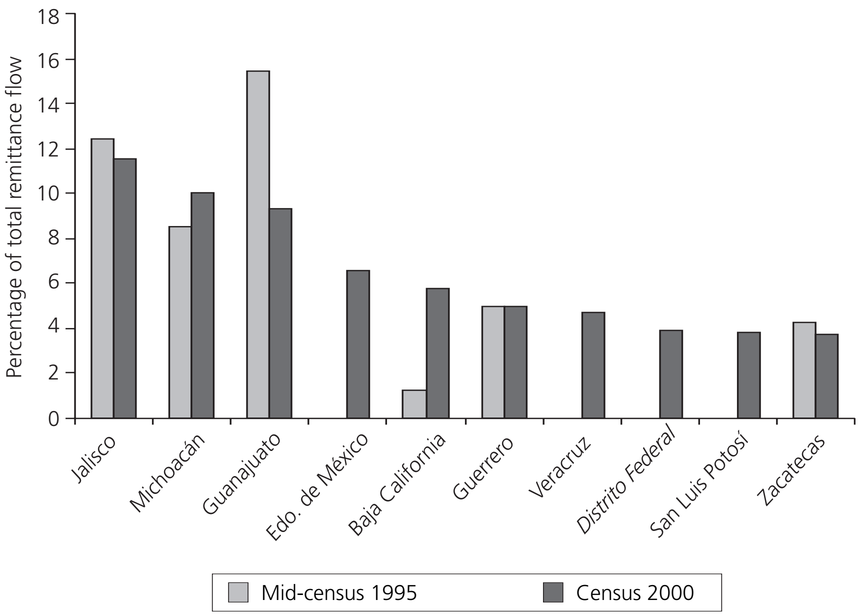
One likely result of these remittance flows is that they allow rural households to overcome liquidity constraints. This may enable them to invest in productivity-enhancing activities, as well as incur more debt. It is possible that many migrant households finance further migration through debt, reflected above by the higher debt incurred by the RRH group than by the non-RRH group. Regardless of migrant patterns of consumption and savings, it is primarily the role of financial institutions—not of migrants—to channel funds from savers to productive investment.

At the regional level, the uses of remittances and their impact on the migrant-sending regions are of great interest in the literature. Several studies analyze the uses of remittances in a village setting. Work on the dynamics of remittances at the village level was first done by Adelman and Taylor (1988), who showed that remittances—both from within Mexico and from the United States—are vital to the village economy. Their work highlights the vulnerability of the village economy to external shocks resulting from a change in U.S. immigration laws. More recently, Mexican state governments have also recognized the potential impact of remittances and have pursued policy options to promote their use for development in their states by matching funds, such as the 3-for-1 Program, or by providing modest amounts of seed money for possible business ventures.[11]

To better understand the impact of remittances in the wider regional economy, it is important to recognize that Mexican migration to the United States has a specific geographical distribution. Traditional migrant-sending states in northwestern Mexico—Durango, Jalisco, and Zacatecas—have become a somewhat smaller part of these flows as states such as Nuevo León, and particularly the *Distrito Federal,* occupy a larger proportion of total migration flows. For the last 80 years, four states—Guanajuato, Jalisco, Michoacán, and Zacatecas—have consistently been among the top contributors of migrants to the total flow. The EMIF survey reveals a similar pattern, with about 68 percent of migrants coming from the top eight states in Mexico. Recent data show the significant changes in the diffusion of migration in

[11] The 3-for-1 Program consists of matching each remittance dollar with a dollar from the federal, state, and municipal branches of government, respectively. These monies are earmarked for social projects in the recipient communities.

Figure 7.2. Percentage of Total Remittance Flow Received by Mexican States, 1995 and 2000



Source: CONAPO 1996, 2001.

Mexico. States such as Mexico, San Luis Potosí, Veracruz, and in particular the *Distrito Federal*, which in 1995 received less than 1 percent of the remittance flow, are now receiving around 4 to 6 percent of the recent flows, as illustrated in figure 7.2.

Despite the fact that over 90 percent of municipalities in Mexico received some remittances in 2000, about 463 municipalities out of more than 2,443 receive almost half the remittance flows (ECLAC/CEPAL 2001). Table 7.5 presents the breakdown for the six states that account for about half (51 percent) of remittance flows.

The importance of remittance flows for the different regions in Mexico is shown in table 7.6. Remittances are clearly important for those states that send numerous migrants to the United States. Migrant-sending states receive significantly more funds from remittances than from federal expenditures, and up to 14 times the level of federal social spending, as in the case of Guanajuato. A similar pattern prevails in a few other states not shown in the table, such as Hidalgo, Puebla, and

Table 7.5. Remittance Distribution, Top Six Mexican States, 2000

State	Distribution (%)	Remittances ($ millions)
Guanajuato	13.7	900.4
Jalisco	11.4	749.3
Michoacán	11.2	736.1
San Luis Potosí	5.8	381.2
Zacatecas	4.5	295.8
Distrito Federal	4.5	295.8
Other states	48.9	3,213.9
Total	100.0	6,572.5

Source: ECLAC/CEPAL 2001.

more recently, Oaxaca and Veracruz. Even though in absolute terms these latter states receive fewer remittances, in relative terms they represent more than 100 percent of federal outlays in these states.

The expenditures of remittances on household consumption have direct and indirect effects on the migrant-sending country. The direct effect is on the individual or the remittance-receiving household. Indirect effects result from the increased consumption by migrant families. Some argue that remittances lead to conspicuous consumption, with attendant social pressure and debt-driven consumption to "keep up with the Joneses" (Keely and Tran 1989). Nevertheless, from the viewpoint of society, the most important indirect effects are the multiplier effects of remittances on the wider economy.

Table 7.6. Remittances versus Government Expenditures in Key States, Mexico, 1996 ($ millions)

		Government expenditures		
State	Remittances	Education	Health	Social programs[a]
Guanajuato	652.3	312.1	190.9	45.8
Jalisco	523.9	438.6	389.4	43.0
Michoacán	360.1	389.7	152.5	71.2
San Luis Potosí	283.7	267.1	115.3	46.6
Guerrero	211.9	406.1	121.4	11.8
Chihuahua	186.4	259.2	216.0	43.7
Zacatecas	179.6	174.8	65.9	40.7

[a] Social programs are category XXVI expenditures and represent government expenditures in social programs such as poverty abatement.
Source: Author's calculations based on Banco de México 1995, 1998.

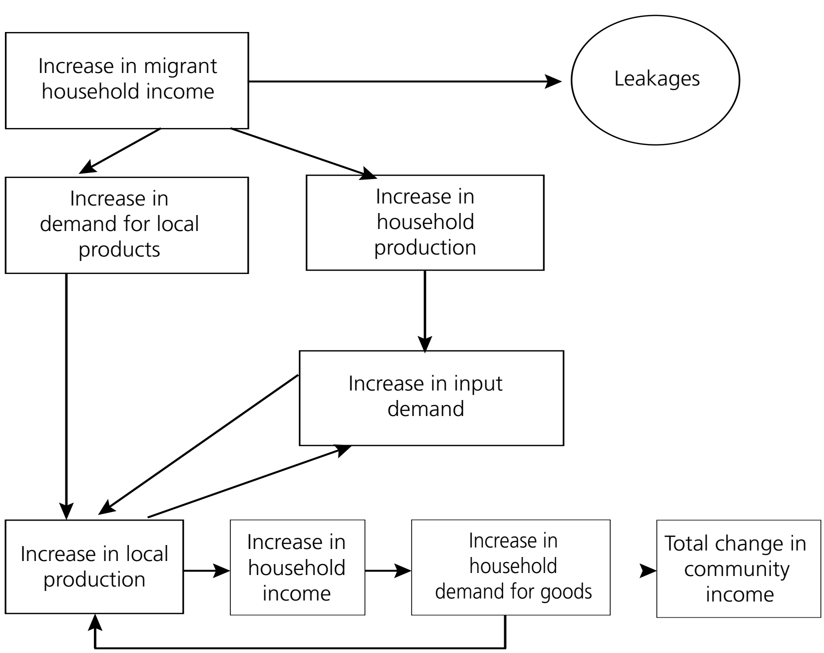
Remittance Multipliers and Economic Development

The fundamental finding of microeconomic analysis at both the individual and family level is that emigration and the subsequent flows of remittances do indeed raise the standard of living of recipient families. But the impact on the migrant-sending economies is less clear-cut, as Arnold (1992) notes. The analysis of impacts at the national level requires an economy-wide view. Thus to gain a better understanding of the impact of remittances on the sending country, it is useful to look at some macroeconomic variables such as output, income, employment, consumption, savings and investment, and the balance of payments.

Remittances have significant multiplier effects at the country, regional, and local levels. An increase in household income due to remittances from the United States could be spent either in Mexico (injections) or in imports (leakages). Figure 7.3 portrays the basic flow of income and expenditures within an economic system.

No studies have examined the direct and indirect effects of remittances to Mexico on domestic output and employment. Mexico

Figure 7.3. Effect of Remittances on Community Income



presents an interesting case study, as it is a developing country with a continual increase in the flows of migrant workers in and out of the largest economy in the world, namely the United States. This flow of workers, in turn, generates an increasing flow of southbound remittances. Although several village and community studies have looked at the impact of Mexico-U.S. migration on Mexican communities, no single national-level study has been done on the impact of these flows on consumption, output, and employment in the Mexican economy.

A study undertaken by Zárate-Hoyos (2000) utilizing a social accounting matrix (SAM) multiplier model extends input-output analysis to an examination of the inter-sectoral flows in the production accounts, including government, financial, and household sectors. The SAM analysis shows the structure of production, the distribution of value added among the factors of production, and the distribution of income among households. SAM analysis allows simulations to examine the possible effects of an inflow of remittances on macroeconomic variables such as output, income, and employment.

The social accounting matrix constructed for Mexico models the aggregation of the economy into major economic sectors.[12] These include the agriculture sector (agriculture, forestry, game and fishing) and livestock (livestock and other animal production); the industrial sector, including nonrenewable resources, (nonrenewable resources, petroleum, and minerals), processed food, textile, wood, and paper (including printing, chemical products, and derivatives); manufacturing, including home electrical appliances, automobiles, other small manufacturing, and other manufacturing industries; and the services sector (including communal and private services, construction, electricity, gas, and water).[13]

The SAM simulations are used to analyze the economic impact of 5,170 million pesos ($2 billion) of remittances sent from the United States by migrants into the Mexican economy in 1989.[14] This simulation is performed under three different scenarios in order to yield a low, medium, and high estimate of the actual multiplier. The high or optimistic scenario corresponds to an economy with excess capacity by producers and no ability to substitute goods by consumers. This upper bound estimate shows that real GDP increased by an additional

[12] The actual SAM for Mexico can be found in Zárate-Hoyos (2000).

[13] Even though this is a broad aggregation of economic sectors, it takes into account some of the sectors that more closely reflect migrants' expenditure patterns.

[14] To convert these figures to U.S. dollars, the author used the average 1989 exchange rate of 2.5118 pesos per dollar from the Banco de México Annual Report for 1990.

Table 7.7. Production Multiplier Effects: Three Scenarios

Assumption	Higher estimate: Standard[a]	Medium estimate: Non-unitary elasticities[b]	Lower estimate: Supply constrained[c]
Production sectors	$100.00	$100.00	$100.00
Agriculture	20.52	10.98	0.00
Livestock	9.71	10.05	0.00
Nonrenewable resources	2.49	12.58	1.86
Processed food	35.31	17.29	28.32
Textile, wood, etc.	16.45	20.07	12.83
Chemical products	16.67	16.88	11.52
Other manufacturing	8.33	7.71	6.48
Electrical, automobile	3.15	5.92	2.41
Services (construction)	102.02	76.38	84.91
Total production effect	214.65	177.85	148.33

Note: The table presents the range of possible production multiplier effects due to an inflow of $100 under the three different scenarios discussed in the text.

[a] The standard assumption is that the economy has excess capacity and can respond adequately to an increase in demand, but there is no substitution in expenditures as demand increases.

[b] The non-unitary elasticities allow a substitution effect in consumer expenditures to occur as demand increases.

[c] The supply constraint elasticity assumes that there is no excess capacity in agriculture due to the fixed input (land); therefore agricultural output does not increase as demand increases.

Source: Author's calculations based on SAM analysis.

6,191 million pesos ($2.5 billion): a 1.3 percent increase in total domestic output.

Under the same scenario, the sectoral distribution of these economic impacts is as follows: agricultural and livestock sector output increases by 1,562.8 million pesos ($622 million), the industrial sector's output increases by 4,260.1 million pesos ($1.7 billion), and the service sector's output increases by 5,274.6 million pesos ($2.1 billion). The higher absolute effects are in the service, food processing, and agricultural sectors, respectively. The effects on the latter two sectors are expected, given that these areas are where most remittances are spent: on consumption for family maintenance. Thus remittances induced an increase in total production 2.14 times the initial transfer.

Table 7.7 presents the range of possible production multiplier effects due to an inflow of $100 under the three different scenarios discussed above. For comparison, this study performed a similar simulation under two less optimistic scenarios. The medium estimate reflects an economy with excess producer capacity, but where consumers can substitute to adjust to the increased supply of goods. The lower estimate is based on an economy in which suppliers cannot meet increased demand, particularly in the agricultural and livestock sector, because land is a fixed factor of production. The results of this scenario are presented in the "supply-constrained" column (the lower estimate).

Table 7.7 shows that in absolute terms, the service sector has the highest total production multiplier under all three scenarios. This broad sector encompasses many activities to which remittances are destined, such as domestic services, medical and educational services, recreation, communications, construction, home improvement, wholesale and retail, plus hotel services. For example, research in the state of Jalisco indicates that households receiving remittances spend most of these monies on food items, electricity, water, medicine, domestic animals, and home construction and repair (Vega 2004). In the third, least optimistic scenario, it is clear that when the agriculture and livestock sector cannot respond to increased demand, the sector receives no injection of money. Nevertheless, other sectors do receive some of the impact of the initial remittance expenditures. In sum, it can be said that the actual production multiplier is somewhere between 2.1 and 1.5 per dollar sent in remittances.

Table 7.8 presents the range of estimates of possible income multiplier effects resulting from an inflow of $100 under the same scenarios previously outlined. The effects on different households as a result of an increase in income of $100 under three scenarios are divided into the first-round effect (the direct increase due to remittances) and the second-round effect (the indirect effect after several rounds of additional production demand). Value added and incomes generate demand linkages in the SAM framework. In all cases, the largest income multiplier is generated in the urban household sectors.

In particular, urban businesses show a significant income multiplier, although by assumption, this sector did not receive any direct inflow of remittances (or the first-round effect). This result indicates that rural households generate demand linkages with more economically dynamic agents and sectors in medium and large cities. It is worth noting that the *campesino* household sector, defined as small agricultural owners and agricultural laborers, receives a significant amount of the multiplier effect. This result tends to support the claim that agricultural development induces a more equitable distribution of the benefits of economic growth.

There is a leakage from the multiplier process in the form of government taxes, savings, and imports. An initial amount of remittances induces an increase in gross savings of between 1.3 and 2.0 percent. There is also a modest increase in induced imports of between 0.8 and

Table 7.8. Income Multiplier Effects under Three Scenarios

	Standard			Non-unitary elasticity			Supply constrained		
Assumption	Multiplier	1st round	2nd round	Multiplier	1st round	2nd round	Multiplier	1st round	2nd round
Households									
UWKLE	42.70	31.57	11.13	41.11	31.57	9.54	40.61	31.57	9.04
UWKHE	50.65	35.61	15.04	48.50	35.61	12.89	47.82	35.61	12.21
UBUS	47.22	—	47.22	41.12	—	41.12	38.23	—	38.23
AWKLE	17.16	13.64	3.52	16.35	13.64	2.71	14.56	13.64	0.92
AWKHE	6.12	5.55	0.57	5.95	5.55	0.40	5.55	5.55	—
AGBUS	10.49	—	10.49	6.83	—	6.83	0.05	—	0.05
CAMPE	22.44	13.64	8.80	19.35	13.64	5.71	14.08	13.64	0.44
Total	196.78	100.01	96.77	179.21	100.01	79.20	160.90	100.01	60.89

Note: The table presents the range of possible income multiplier effects due to an inflow of US$100 under the same scenarios outlined in the Production Multiplier Effects in table 7.7. Although the assumptions are the same as described in table 7.7, the household sectors warrant an explanation. Household sectors were divided into urban workers with high (UWKHE) and low education (UWKLE) and rural workers with high (AWKHE) and low education (AWKLE) depending on the characteristics of the head of the household. In addition to these four groups, there were the urban and rural business sectors (UBUS and AGBUS) plus a *campesino* category (CAMPE) representing the landless workers.
Source: Author's calculations based on SAM analysis.

1.3 percent of total imports. Thus most induced output appears to arise from domestic sources, since most remittances are spent on immediate consumption of domestic goods, and most remittance-receiving households have a relatively low propensity to import. The impact of remittances on government revenues is positive, and results from increased tax collection due to rising production and consumption. In this case, there is an increase of between 1.0 and 1.4 percent in the government account due to remittance inflows.

Overall results support the argument, advanced by Sadoulet and de Janvry (1995, p. 291), that while the agricultural sector has low production multipliers, "when one considers the linkage effects created by agricultural incomes, as included in the SAM multipliers, the agricultural sectors do not fare any worse than the industrial sectors and, furthermore, induce a relatively more equitable distribution of growth." As can be seen in table 7.8, the agricultural business sector indirectly benefits through second-round effects without having received the initial inflow of remittances. Under the supply-constrained experiment, this is not the case, and additional demand must be satisfied by imports. In sum, significant income multiplier effects occur, ranging between 2.0 and 1.6 for each dollar in remittances.

The research on the impact of remittances at regional and state levels in Mexico is scant, with few studies of communities and remittances. Adelman and Taylor (1988) used SAM multiplier analysis to explore the impacts of migrant remittances on the level and distribution of household income in a village economy in Michoacán, Mexico. Their simulation modeled a projected decrease in migrant remittances as a consequence of U.S. legislation (the Simpson-Mazzoli bill to legalize undocumented workers and to impose penalties on employers for hiring undocumented workers). A decrease of $100 in remittances led to a $178 decline in village income, and a $187 decline in village production. Other areas beyond migrant communities in Mexico were affected as well, because villagers in Michoacán would purchase fewer goods and services from elsewhere in the country. The study also showed that each $100 decline in remittances from the United States leads to a $25 decline in physical investment and a $13 decrease in schooling investment.

The study also found that a reduction in remittances had a larger negative effect on landless households, which have the lowest per capita income in the village. These findings suggest that remittances from the United States have an income-equalizing effect, at least at the village level. The same methodology applied at the state or regional level could help yield a broader picture of the impact of remittance multipliers and related distributional effects.

There are some similarities between the findings at the village and the national levels. At the national level, *campesinos* (landless peasants) have fared better than the other two types of rural households, as shown in table 7.8. Moreover, the magnitude of the village-income multiplier was similar to the medium estimate at the national level, while the village production multiplier was only slightly above the medium estimate at the national level.

Remittances and Hometown Associations

No discussion of Mexican migration is complete without a look at the so-called "hometown associations" (HTAs). For many years Mexican migrants in the United States have organized clubs and associations to carry out various activities for their advancement in the United States. These efforts have intensified across the United States in the form of "*clubes*" or hometown associations. These groups back various activities to defend and support their members in labor and civil matters, and sponsor a variety of social and religious functions. More recently, they have begun to help their communities of origin with development assistance. HTAs support many community projects, including street work, water provision, the restoration and building of churches, parks, bridges, ambulance services, libraries, and sports facilities. Known as "social remittances" or "collective remittances," these community-minded activities have drawn the attention of researchers and multilateral organizations.

These organizations can be grouped into associations (groups of individuals from the same town in Mexico), federations (groups of associations), and *Congresos* (national organizations). Only Guatemalan migrants have organized a Congress-type association.[15] Associations are quite diverse and complex, and have scarcely been studied. Alarcón (2004) found that migrant associations have three levels of organization. At the first level, members of the same hometowns participate in social events and donate money for relief purposes. At the second level, there is a more formal leadership, and often the establishment of a partner community in the United States. The third level of organization is the federation or coalition of associations that work closely

[15] The National Congress of Guatemalan Organizations was very active in providing relief for the victims of Hurricane Mitch (de la Garza and Lowell 2002).

with the consular offices. In 1998, there were eight federations of migrants operating in Los Angeles, three representing the state of Oaxaca and one for each of the states of Durango, Jalisco, Nayarit, Sinaloa, and Zacatecas. The Zacatecas organization is the oldest and the best organized (Alarcón 2004). In Chicago, there are seven federations from Durango, Guanajuato, Guerrero, Jalisco, Michoacán, San Luis Potosí, and Zacatecas (Alarcón 2004).

In practice, HTAs are not demographically representative of the Mexican migrant population in the United States. While trends indicate that migrants are increasingly coming from urban areas, the majority of members of associations are from rural communities in Mexico with a long tradition of migration (Alarcón 2004). A recent study by researchers at UCLA found that members of these HTAs are on average older and better educated than the overall migrant population.[16] Moreover, members have a longer period of U.S. residency, are primarily homeowners, and have a higher average level of earnings.

HTAs are the product of the private efforts of members, but Mexican state and federal government officials have also played an important role in their expansion and consolidation. The Mexican consulates in the United States have promoted HTAs through their *Programa de Atención a las Comunidades Mexicanas en el Extranjero,* have recognized these groups as legal entities, and have worked with them to channel funds to poor communities in Mexico. In 1998, some 170 migrant associations from 18 different Mexican states were registered with the Mexican consulate in Los Angeles, among them Zacatecas (51), Jalisco (49), Michoacán (11), Sinaloa (11), Nayarit (9), Oaxaca (8), Puebla (5), and Durango (4) (Alarcón 2004).

The total number of associations is still difficult to assess. Alarcón (2004) puts the number of Latino associations in the United States at 3,000, of which 2,000 are Mexican associations. The United Nations Economic Commission for Latin America and the Caribbean puts the number of registered associations in the year 2000 at 700 and estimates the number of unregistered associations at more than 2,000 (Lopez Espinosa 2002). Torres (2001) indicates that among the Mexican consulates, Los Angeles has the largest number of registered associations (188), followed by Chicago with 82, Dallas with 41, New York with 15, Oxnard with 10, and San Jose with 9.

Mexican state governments have also played an important role in fostering the creation of these associations. The *Federación de Clubes*

[16] See Alarcón, Runsten, and Hinojosa-Ojeda (1998); Alarcón and Iñiguez (2000).

Zacatecanos del Sur de California, formed in 1965, signed an agreement with the state of Zacatecas to invest matching amounts of money into public works, known as the 2-for-1 Program (de la Garza and Lowell 2002). The federation also helped create a health program for members' families in partnership with the Mexican Social Security Administration (Goldring 1998). Hometown associations have grown in numbers, but 70 percent of all associations are affiliated with the states of Guerrero, Guanajuato, Jalisco, and Zacatecas. Funds for social investment therefore tend to concentrate in these areas. While data are scarce, it is believed that half of these remittance flows are concentrated around 460 municipalities, mostly rural, which represent only 16 percent of the total country population (World Bank 2001).

In the last five years, there has been a notable increase in these so-called "collective remittances" and also in the number of small businesses in Mexican communities that are financed by migrants in the United States (Torres 2001). The possibility of channeling HTA funds for the creation of small businesses has attracted the attention of multilateral organizations. Yet the total amount of collective remittances has not been documented in a systematic way. Torres (2001) suggests that the total amount of collective remittances is about 1 percent of total family remittances, but their potential size is much larger, given both the growth of HTAs and the Latino population in the United States (World Bank 2001).

Mexican state governments play a key role in the development and consolidation of the hometown associations. Several now have a special migrant affairs office, the *Oficina de Atención a Oriundos en el Exterior* (OFAOE), which form part of each state government and coordinate with the Ministry of Foreign Relations and its consulates in the United States. These offices support migrants with legal advice on human and working rights and carry out policies to increase the productive channeling of remittances (World Bank 2001). The most advanced OFAOEs are in Guanajuato and Zacatecas, where these offices have promoted systematic programs to attract remittances for investment. In Zacatecas, the 3-for-1 Program channels social remittances into community investments in migrants' hometowns, while in Guanajuato the "*Mi Casa*" program has promoted the establishment of 12 *maquiladora* plants employing 500 people, with an additional nine plants currently under construction.

Social remittances continue to grow in importance, despite the general Mexican population's pervasive distrust of institutions. These funds can have significant development impact, particularly where the federal government combines them with federal resources in depressed regions. State governments and municipalities are more greatly constrained, and are often unable to match migrants' funds. Continuing challenges to the efficient application of social remittances include administrative costs associated with such programs, U.S. taxes levied on original income, fees for transmitting remittances, and the ever-present threat of fraud within state and local bureaucracies.

The associations also face leadership issues. Associations are active promoters of programs in Guanajuato and Zacatecas, but the degree of involvement varies based on the type of program (World Bank 2001). Under the matching funds program, migrant participation can be quite good at early stages, but begins to drop off over time. Migrants have expressed the need for further training to continue the expansion of such programs. There are also high transaction costs involved in these public-private partnerships. Even after proper registration, hometown associations operate in a loose and geographically dispersed fashion. HTAs usually have a president, a secretary, and a treasurer, but operate on a volunteer basis out of an officer's home. While HTAs are a successful example of private initiative that has worked well in partnership with the public sector, it should be stressed that these quasi-formal mechanisms are no replacement for robust financial institutions and their key role in matching savings to investment.

Conclusion and Policy Recommendations

The incentives to migrate remain. With a current wage gap between Mexico and the United States on the order of 8 to 1, even a slower-growth U.S. economy has a strong demand for low-skilled workers. The Latin American community in the United States—documented and otherwise—grew by 58 percent in the last decade and it is projected to reach 53 million by 2010, of which 36 million are migrants from Mexico (Lopez Espinosa 2002). This growth will be associated with continued increases in remittances to Mexico. Over the next decade, total remittances to Latin America and the Caribbean are projected to be around $300 billion, of which 80 percent will be concentrated in Mexico, Central America, and the Caribbean (Lopez Espinosa 2002).

Multilateral organizations interested in leveraging remittances for development face a myriad of challenges. Despite increasing competition in the money-transfer industry, the cost of money transfers remains high in many places. Almost 15 percent of the flow of remittances actually went to financial intermediaries and money-transfer businesses, rather than to low-income households in Mexico during the 1990s, but today competition has brought the charges to around 5 percent[17] (Inter-American Dialogue 2004). Migrants cite additional concerns over the tardiness of the Mexican postal service, the persistent lack of transparency by money-transfer firms, and a dearth of financial services in rural communities.

Despite these and other challenges, monies sent by migrants in the United States to their relatives in Mexico increase the welfare of these households. Moreover, under current structural conditions, these monies are more or less rationally allocated to their best uses. Remittances enable poor and middle-income households to buy consumption and investment goods, to invest in education and health, and to accumulate savings. Emerging models based on a broader, community-minded approach to social remittances offer a promising vehicle for improving the developmental impact of remittances in receiving communities, although currently these flows are dwarfed by remittances to households.

For Mexico, remittance flows are an important and growing source of foreign exchange that should aid in Mexico's economic and social development. These flows rival or even outstrip other foreign exchange sources, such as foreign aid, tourism, and oil exports. Yet the lack of a national-level remittance policy offering fiscal incentives similar to those offered to other sources of foreign exchange is puzzling.

While remittance flows tend to be concentrated in certain states, multiplier effects associated with these flows channel money to more dynamic regional economies and sectors within Mexico. This trend is positive from a national perspective. But a real challenge confronts both state and municipal governments, which must discover ways to retain a larger share of these flows in order to create more economic activity and employment in poorer communities.

State governments must continue to promote models based on successful programs such as Guanajuato's *Mi Casa* or Zacatecas' 3-for-1 Program, as well as strengthening their ties with hometown associations. Multilateral organizations can best help these communities by sharing their expertise through projects targeted at microenterprise development and other interventions to help smaller entrepreneurs exploit funds for market opportunities. Innovative pilot projects and additional research are crucial. This effort should include seeking out

[17] Based on a transfer of $200.

partnerships with nongovernmental organizations that can target communities with high migration flows and high levels of poverty and exclusion.

Further research is also needed to quantify the precise amounts flowing to Mexico and to focus attention on the possible state and local multiplier effects. In particular, attention should be paid to those states that are new to the migration scene, such as Oaxaca and Veracruz. Research should address such questions as: Under what circumstances are remittances associated with catalytic economic activity? Where do remittance flows result in little local, regional, or national development, and why? Pilot studies should shed light on the constraints facing poor rural communities in channeling remittances to local development and achieving beneficial multiplier effects.

Finally, remittances flow primarily to small rural municipalities that are linked to more dynamic parts of the national economy through goods and labor markets. Studies indicate that while migrants spend most of their money on immediate household needs, they also spend money on residential and land purchases, as well as on home maintenance and repair. A smaller percentage is spent on purchasing equipment, tools, and wells. This expenditure benefits the national economy, as the multiplier effect works through labor and goods markets across Mexico. In these markets, the net beneficiaries of remittances are urban and rural businesses. Although some economic growth may occur in the states where migration is highest, closer attention should be paid to the insertion of small local towns into the regional economy. In particular, policymakers should pay attention to channeling remittances to the most vulnerable groups, since migration continues to be an important antipoverty policy.

Bibliography

Adelman, Irma, and J. Edward Taylor. 1988. Life in a Mexican Village: A SAM Perspective. *Journal of Development Studies* 25: 5–24.

Alarcón, Rafael. 2004. Las Remesas Colectivas y las Asociaciones de Migrantes Mexicanos en los Estados Unidos. In *Remesas de los Mexicanos y Centroamericanos en Estados Unidos, Problemas y Perspectivas,* ed. Germán A. Zárate-Hoyos. Mexico City: Editorial Miguel Angel Porrua and El Colegio de la Frontera Norte.

Alarcón, Rafael, and Delmira Iñiguez. 2000. El Uso de Mecanismos para la Transferencia de Remesas Monetarias entre Migrantes Zacatecanos en Los Ángeles. In *Impacto de la Migración y las Remesas en el Crecimiento Económico Regional*, eds. Miguel Moctezuma and Héctor Rodríguez. Mexico City: Comisión de Asuntos Fronterizos del Senado de la República, México.

Alarcón, Rafael, David Runsten, and Raul Hinojosa-Ojeda. 1998. Migrant Remittance Transfer Mechanisms between Los Angeles and Jalisco, Mexico. Research Report Series 7. North American Integration and Development Center, University of California, Los Angeles.

Arnold, F. 1992. The Contribution of Remittances to Economic and Social Development. In *International Migration Systems: A Global Approach,* eds. M. Kritz, L. Lean-Lim, and H. Zlotnik. Oxford: Clarendon Press.

Asch, B., and C. Reichmann, eds. 1994. Emigration and Its Effects on the Sending Country. Center for Research on Immigration Policy, RAND Corporation, Santa Monica, California.

Banco de México. 1991. Las Remesas Familiares Provenientes del Exterior. Documento No. 67 (Julio). Mexico City.

———. 1993, 1996, 1997, 1999, 2001, 2002, 2003, 2004. Annual Report. Mexico City.

———. 1995. *Conteo de Poblacion y Vivienda*. Mexico City: Instituto Nacional de Estadística, Geografia e Información (INEGI).

———. 1998. *President's Report*. Mexico City: Instituto Nacional de Estadística, Geografia e Información (INEGI).

Bureau of Labor Statistics (BLS). 2000. *Census 2000: Hispanics in the U.S*. Washington, D.C.

Canales, Alejandro. 2004. Las Remesas de los Migrantes: Fondos para el Ahorro o Ingresos Salariales? In *Remesas de los Mexicanos y Centroamericanos en Estados Unidos, Problemas y Perspectivas,* ed. Germán A. Zárate-Hoyos. Mexico City: Editorial Miguel Angel Porrua and El Colegio de la Frontera Norte.

CONAPO (National Population Council). 1996. *Conteo de Poblacion y Vivienda, 1995*. Mexico City.

———. 1998. Remesas: Monto y distribución regional en México. Bulletin edited by the National Population Council. No. 7. Mexico City.

———. 1999. *La situación Demográfica de México, 1999*. Mexico City.

———. 2001. *XII Censo General de Poblacion y Vivienda, 2000*. Mexico City.

———. 2002. Contribuyen hispanos con el 40% del crecimiento demográfico de EU. Press Release, December 22. Mexico City.

———. 2003. Migración mexicana hacia los Estados Unidos. Press Release, February 20. Mexico City.

———. 2004. *XII Censo General de Poblacion y Vivienda, 2000*. Mexico City.

CONDUSEF (Comisión para la Protección y Defensa de los Usuarios de Servicios Financieros). 2002. Informacion sobre el envio de remesas. http://www.condusef.gob.mx

Corona, Rodolfo. 1994. Remesas enviadas de Estados Unidos por los migrantes mexicanos. El Colegio de la Frontera Norte, Tijuana, Baja California. Mimeo.

Corona, Rodolfo, and Jorge Santibañez. 2004. Los Migrantes Mexicanos y las Remesas que Envian. In *Remesas de los Mexicanos y Centroamericanos en Estados Unidos, Problemas y Perspectivas,* ed. Germán A. Zárate-Hoyos. Mexico City: Editorial Miguel Angel Porrua and El Colegio de la Frontera Norte.

De la Garza, Rodolfo, and Briant Lowell. 2002. *Sending Money Home, Hispanic Remittances and Community Development*. Boulder, Colorado: Rowman & Littlefield Publishers, Inc.

Durand, Jorge. 1994. *Mas alla de la linea, patrones migratorios entre México y Estados Unidos*. Guadalajara: Consejo Nacional para la Cultura y las Artes.

Durand, Jorge, and Douglas S. Massey. 1992. Mexican Migration to the United States: A Critical Review. *Latin American Research Review* 27 (2): 3–42.

ECLAC/CEPAL 2001. Las Remesas y el Desarrollo Rural en las Zonas de Alta Intensidad Migratoria en México. LC/MEX/L.504, December 18. Mexico City.

Glytsos, Nicholas. 1993. Measuring the Income Effects of Migrant Remittances: A Methodological Approach Applied to Greece. *Economic Development and Cultural Change* 42 (1): 131–68.

Goldring, Luin. 1998. The Power of Status in Transnational Social Fields. In *Transnationalism from Below. Comparative Urban and Community Research* (volume 6), eds. Luis Guarnizo and Michael P. Smith. New Brunswick and London: Transaction Publishers.

Griffin, Keith. 1976. On the Emigration of the Peasantry. *World Development* 4 (5): 353–61.

Habib, Ahsanul. 1985. Economic Consequences of International Migration for Sending Countries: Review of Evidence from Bangladesh. Ph.D. diss. University of Newcastle, Australia.

Inter-American Dialogue. 2004. All in the Family, Latin America's Most Important International Financial Flow. Report of the Inter-American Dialogue Task Force on Remittances (January).

Instituto Nacional de Estadística, Geografia e Información (INEGI). 1989, 1992, 1994, 1996, 1998, 2000. National Household Income and Expenditure Survey (ENIGH). Mexico City.

———. 1997. National Survey of Demographic Dynamics (ENADID). Mexico City.

Keely, Charles, and Bao Nga Tran. 1989. Remittances from Labor Migration: Evaluations, Performance and Implications. *International Migration Review* xxiii (3): 500–25.

Lopez Espinosa, Mario. 2002. Remesas de Mexicanos en el Exterior y su Vinculación con el Desarrollo Económico, Social y Cultural de sus Comunidades de Origen. Estudios sobre Migraciones Internacionales, No. 59. International Labour Organisation, Geneva.

Lozano, Fernando. 1993. *Bringing It Back Home, Remittances to Mexico from Migrant Workers in the United States*. Monograph series, 37. San Diego, Calif.: Center for U.S.–Mexican Studies.

Multilateral Investment Fund of the Inter-American Development Bank (MIF-IDB). 2003. Worker Remittances: An International Comparison. Prepared by Manuel Orozco. Washington, D.C.: Multilateral Investment Fund.

Paine, Suzzane. 1974. *Exporting Workers: The Turkish Case*. Cambridge: Cambridge University Press.

Patnaik, P., and C. P. Chandrasekhar. 1998. Notes on International Migration Suggested by the Indian Experience. In *Globalization and Progressive Economic Policy,* eds. D. Baker, G. Epstein, and R. Pollin. Cambridge: Cambridge University Press.

Piore, Michael. 1979. *Birds of Passage: Migrant Labor and Industrial Societies*. New York: Cambridge University Press.

Sadoulet, Elisabeth, and Alain de Janvry. 1995. *Quantitative Development Policy Analysis.* Baltimore: Johns Hopkins University Press.

Santibañez, Jorge, and Rodolfo Corona. 1994. Sintesis Ejecutiva Encuesta de Migración a la Frontera Norte (EMIF). El Colegio de la Frontera Norte, Tijuana, Mexico.

Stahl, Charles, and Ahsanul Habib. 1989. The Impact of Overseas Workers' Remittances on Indigenous Industries: Evidence from Bangladesh. *The Developing Economies* XXVII-3 (September): 269–89.

Stalker, Peter. 1994. *The Work of Strangers: A Survey of International Labour Migration.* Geneva: International Labour Office.

———. 2000. *Workers without Frontiers: The Impact of Globalization on International Migration.* Boulder, Colorado: Lynne Rienner Publishers.

Taylor, J. Edward, and Irma Adelman. 1996. *Village Economies: The Design, Estimation and Use of Village-wide Economic Models*. New York: Cambridge University Press.

Torres, Federico. 2001. Uso Productivo de las remesas en México, Centroamérica y la República Dominicana. Experiencias recientes. Paper presented at the Conference on Migration in the Americas, Economic Commission for Latin America, San José, Costa Rica, September.

United Nations. 2002. *International Migration Report, 2002*. New York: United Nations, Department of Economic and Social Affairs.

U.S. Commission on Immigration Reform. 1997. Mexico-U.S. Binational Migration Study. Washington, D.C. Available online at: http://www.utexas.edu/lbj/uscir/binational.html

Vega Briones, Germán. 2004. Migracion internacional y cambio economico en una zona rural de Jalisco. In *Remesas de los Mexicanos y Centroamericanos en Estados Unidos, Problemas y Perspectivas,* ed. Germán A. Zárate-Hoyos. Mexico City: Editorial Miguel Angel Porrua and El Colegio de la Frontera Norte.

Verduzco, Gustavo, and Kurt Unger. 1998. Impacts of Migration to Mexico. In *Migration between Mexico and the United States—Binational Study on Migration*, vol. 1. Washington, D.C.: U.S. Commission on Immigration Reform.

The World Bank. 2001. Migrants' Capital for Small-scale Infrastructure and Small Enterprise Development in Mexico. Draft document (October 21). Finance, Private Sector and Infrastructure Sector Management Unit, Latin American and the Caribbean Region, Washington, D.C.

Zárate-Hoyos, Germán A. 2000. The Macroeconomic Impact of Remittances on the Sending Country: The Case of Mexico-United States Migration. Ph.D. diss., University of California, Riverside.

———. ed. 2004. *Remesas de los Mexicanos y Centroamericanos en Estados Unidos, Problemas y Perspectivas.* Mexico City: Editorial Miguel Angel Porrua and El Colegio de la Frontera Norte.

This page intentionally left blank

Chapter 8

Migration, Money, and Markets: The New Realities for Central America

Manuel Orozco

The economic and political crises of the 1970s and 1980s have led to a growing diaspora of Central Americans, which is changing many traditional social and economic practices across the region. This chapter analyzes these changes, paying close attention to the impact of family remittances. Remittances are a direct reflection of ongoing developments in migration that signal the transition of the countries of Central America from agro-exporting economies to transnationally integrated societies through migration. The bulk of these "human exports" are bound mostly for the United States, where the economic and business contributions of Central American citizens are immense, and signal a new type of labor mobility, with growing implications for trade, investment, and labor productivity. While this chapter focuses on remittances, it also examines the growing importance of crucial linkages, going beyond families and affecting the broader issues involving communities, and social and political realities.

Central American Migration

A key feature of the U.S. kaleidoscope is its reliance on foreign-born persons who come to the United States because of family connections, work, or political exile. Nearly 1 out of 10 people in the United States—some 28 million people—are immigrants, and more than half of the new arrivals (51 percent) are of Hispanic or Latino origin, according to the 2000 U.S. Census. (Another 25 percent are of Asian origin, and 15 percent are of European origin.) The large majority of Latin American migrants living in the United States are from Mexico. However, a significant number of Central Americans also reside in the United States.

Table 8.1. Foreign-born Central Americans Living in the United States as of 1990

Country of origin	Arrived before 1980		Arrived after 1980		Central Americans in 1999
	Number	%	Number	%	
El Salvador	115,437	24.80	349,996	75.20	465,433
Guatemala	71,513	31.68	154,226	68.32	225,739
Honduras	37,515	34.44	71,408	65.56	108,923
Nicaragua	43,923	26.04	124,736	73.96	168,659
Panama	54,049	63.04	31,688	36.96	85,737

Source: U.S. Census Bureau, 1990 Census.

The large majority of Central American migrants residing in the United States arrived in the early 1980s. War, political instability, recession, and natural disasters in the region led to the exodus of many Guatemalans, Hondurans, Nicaraguans, and Salvadorans (Dunkerley 1994). By 1990, more than 1 million Guatemalans, Nicaraguans, and Salvadorans had left for the United States (Vilas 1995). As shown in table 8.1, fully two-thirds of the Central Americans living in the United States by 1990 had emigrated the previous decade. It is therefore not surprising that a large proportion of them were foreign-born (as shown in table 8.2). For instance, the number of foreign-born persons from El Salvador had increased to over 1 million by 2000.

Migration to the United States differed according to specific conditions in Central American countries. Nicaraguans had an advantage over their Central American neighbors. U.S. policies against the S*andinista* regime led to a relaxation of rules that allowed Nicaraguans easier political asylum and faster legalization of their immigration status. Almost 12,000 Nicaraguans were granted political asylum in the United States between 1983 and 1992, as compared to a total of 1,200

Table 8.2. Persons of Hispanic Origin in the United States by 1990 (percent)

Country	Native-born	Foreign-born
Costa Rica	31.08	68.92
El Salvador	18.83	81.17
Guatemala	19.64	80.36
Honduras	22.95	77.05
Nicaragua	18.93	81.07
Panama	32.95	67.05
Central America	20.98	79.02
All Hispanics	64.19	35.81

Source: U.S. Census Bureau, 1990 Census.

cases granted during the same period to citizens of El Salvador, Guatemala, and Honduras combined.

Many migrants from Central America have sought to reconnect with their home countries, particularly after peace agreements were reached and the process of democratization was underway in the early 1990s. Migrants living in the United States have established various symbolic, sentimental, and material links with their home countries. For many, these connections go well beyond simple contact with relatives. Over time these migrants have become a "fresh diaspora," or an ethnic minority produced by migration patterns that create "sentimental or material links with its land of origin" (Esman 1986, p. 333).

From Refuge, Asylum, and Migration to Family Ties

Economic integration in the global economy proceeds on the basis of labor migration, and the "five Ts" of economic dynamism: tourism, transportation, telecommunication, nostalgic trade, and transfer of remittances. These five Ts have opened a range of business opportunities that will enhance trade and investment in the region.

Economic connections and interdependence between migrants and their native countries have assumed a dynamic process all its own. Tourism in El Salvador, Honduras, and Nicaragua increasingly depends on nationals living abroad. In El Salvador, for example, about a third of tourists who arrive in the country are Salvadorans who live abroad, mostly in the United States. Their average length of stay is more than two weeks, and they spend more than $50 a day (Orozco 2003d). Nicaraguans often travel from Miami (where 40 percent of Nicaraguans residing in the United States live) to Managua, bringing goods for their relatives. In the Dominican Republic, nearly 20 percent of tourists (500,000) who arrive in the country are Dominicans who live abroad, predominantly in the United States. Their average length of stay is more than 15 days, and they spend around $65 a day (Orozco 2004a). Some 140,000 Dominicans fly home each year from John F. Kennedy airport in New York alone (Orozco 2004a). As a result, Central American and Caribbean communities in the United States are now highly influential in creating demand for new services and goods in their home countries. This demand has proven beneficial for the creation of new businesses and international partnerships in the region, from a range of services in tourism, real estate, and other sectors.

The use of air transportation to these communities is also significant. Grupo Taca, an airline carrier that serves Central America, flies

21 times a day from the United States to El Salvador. At least 70 percent of the customers are Central Americans (MIF-IDB 2002). Air traffic has increased significantly, with the demand for more flights to and from the United States. More than six U.S.-based airlines, including American Airlines, Continental, Delta, and United, have established daily operations in these countries.

Migration has forged many interconnections between communities living abroad and their home country. The demand and volume of telecommunications to Central America increases as migrant linkages are strengthened, opening opportunities for business expansion and investment in cellular telephony, the Internet, and cable. Industries such as AT&T, Bell South, and Motorola have put in place an economic infrastructure to facilitate communications between the diaspora and their homeland, bringing benefits to local enterprises as well.

Migrants in the United States are now part of a growing market for exports from their home countries. Ethnic imports to the United States—the so-called nostalgic trade—include items such as local beer, rum, cheese, and other foodstuffs. The nostalgic trade niche has gained the increasing attention of producers in Central America and the Caribbean. In many cases, home country producers have branched out and established businesses based in the United States to target the migrant market better.

The potential of the nostalgic trade segment has induced several migrant investors to launch enterprises to manufacture foodstuffs in their countries of origin. A number of migrants residing in the United States have set up businesses in their home countries to manufacture cheese, fruits, and vegetables, and a range of other products. One example is Roos Foods, Inc., a food manufacturer that produces and sells processed milk products in Central America and to Central Americans and Mexicans residing in the United States. The trend in migrant investment and partnership in home countries will likely strengthen in the coming years.

Value and Dynamics of Family Remittances

Transfers of remittances constitute a major source of economic income for Central America and the Caribbean. El Salvador received nearly $2 billion in remittances in 2002, while other countries have enjoyed steady increases in the flows of such funds. The effect of these money transfers, reaching $45 billion to Latin America and the Caribbean by 2004, had had a healthy multiplier effect in the generation of wealth and economic activity (MIF-IDB 2005). Ethnic stores owned by Latinos are estimated to constitute about 60 percent of the money-transfer businesses in Latin America.

The volume of remittances to Central America began to increase in the 1980s and now appears to have become a steady flow into the region. Current remittances to Central America total over $6 billion (see table 8.3).

When viewed as a share of a nation's GDP, it is clear that remittances are becoming an important component of many economies. In some cases, such as Nicaragua, remittances represent a quarter of the national income (Orozco 2003b). Remittances may be as important to national economies as exports, which traditionally have been the greatest contributor to the gross national product. Remittances to El Salvador have, on occasion, exceeded the total value of exports, and are over half the value of exports in Nicaragua (figure 8.1).

Players in the Remittances Transfer

In order to understand the phenomenon of remittances, it is important to understand the players that make these flows possible (figure 8.2). Most studies have focused on remittance recipients as the principal actors in these transactions. In the case of Central America, senders are also playing a key role, along with new companies, hometown associations, and governments.

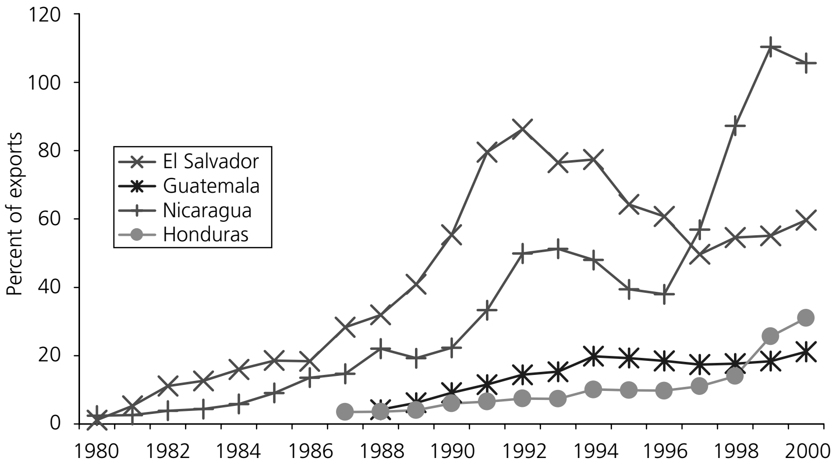
In Central America as elsewhere, it is the migrants who *send* money home that initiate remittance flows. The migrants who send remittances to Central America from the United States have a lower average level of education, and consequently, of average income, than the U.S. national average (table 8.4). According to the U.S. Census

Table 8.3. Worker Remittances to Central America, 2001–03
($millions)

Country	2001	2002	2003
El Salvador	1,920	2,111	2,316.0
Guatemala	584	1,689	2,106.0
Honduras	460	770	862.0
Nicaragua	610	759	787.5
Costa Rica	—	256	306.0
Belize	42	38	73.5
Central America	3,616	5,623	6,451.0

Source: Central banks of each country except Nicaragua (author's estimates).

Figure 8.1. Remittances as a Percent of Exports, Selected Central American Countries, 1980–2000



Source: World Bank, *World Development Indicators*, 2003.

Bureau, 62 percent of Central American and Mexican immigrants are not high school graduates, with 5 percent holding a bachelor's degree or higher, and average income is $21,000.

However, these migrants manage to send at least $2,500 of their earnings to relatives back home, on average. Figures vary across countries, with most senders remitting at least $200 a month (table 8.5). In

Figure 8.2. Players in the Transfer of Worker Remittances

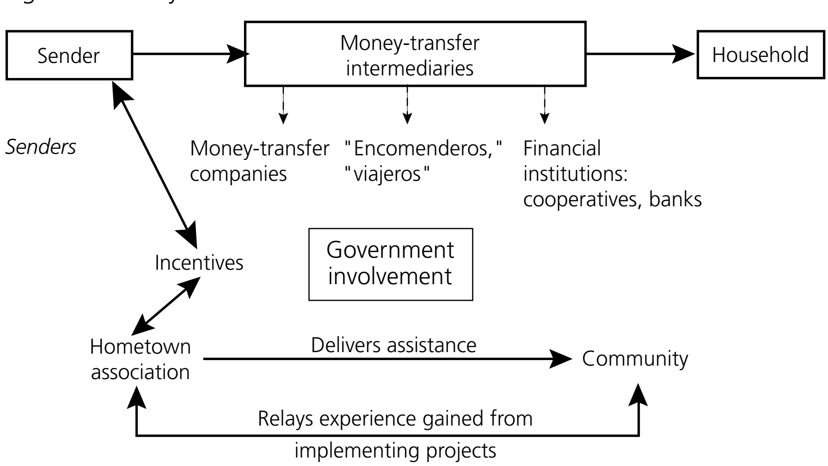


Table 8.4. U.S. Household Income by Race, 2000
(percent of households)

	Household income		
Group	> $20,000	$20,001—$35,000	< $35,000
Hispanic/Latino	32	25	43
Non-Hispanic white	11	17	72

Source: U.S. Census Bureau, Current Population Survey, March 2000.

addition to sending money home, migrants traveling home often carry in-kind remittances, such as electrical appliances, toys, and tools, which could add up to about half the value of the monetary remittances they send yearly. Moreover, migrants' travel home to El Salvador, Honduras, and Nicaragua has increased the income from tourism to unprecedented levels in these countries, which have not been traditional tourist destinations.

Recipients and the Household Economy

Most receiving families are not among the poorest in their countries. This is because these households can afford to send someone to another country with enough basic resources to remain abroad. Most recipients in Latin America belong to lower-middle-income households. Their remittance income supplements their current income, usually augmenting household consumption. Most remittances are not saved, at least until recipient households have reached a socioeconomic level where money can be applied to uses other than consumption. However, not all remittances are spent on consumption, and some percentage is saved.

El Salvador. In El Salvador, the average recipient family spends 84 percent of the money it receives from the United States on

Table 8.5. Average Monthly Remittance Amount Sent by Central American Immigrants, 2002–03 ($)

Country	2002	2003
El Salvador	287	393
Costa Rica	350	340
Guatemala	269	273
Honduras	257	244
Panama	222	208
Nicaragua	146	146

Source: National Money Transmitters Association 2004.

subsistence needs, such as food or clothing. However, some portion of the remittance is saved, invested, or spent on education, as shown in table 8.6. A joint study by the MIF and Pew Hispanic Center found that 4 percent of the remittances to El Salvador were saved, and at least another 4 percent were used in some form of investment (MIF-PHC 2003b). Another study found that remittances also benefit small businesses (both formal and informal enterprises) in El Salvador. Their results reveal that remittance income received by small business owners helped to generate nearly half (50 percent) of the gross income of the business. Moreover, depending on the type of business, remittances from family members accounted for 44 to 48 percent of total business investment in the small business sector (Lopez and Seligson 1990, pp. 15–17).

Guatemala. A 1995 study of Guatemalans found that urban families with family members abroad depended on remittance flows to cushion declines in income that stemmed from the adverse economic changes of the 1990s (Itzigsohn 1995). However, throughout the 1990s, the impact of remittances in Guatemala was relatively small, compared to other countries in the region. Guatemalan migration to the United States occurred relatively later than the rest of Central America, and the economic and social adjustment of Guatemalans in the United States has also been slower. However, the flow of money to Guatemala tripled between 2001 and 2003, increasing from $600 million to $2.1 billion. Receiving households in Guatemala also save a portion of their remittances. According to the MID-IDB survey of Central Americans (MIF-IDB 2003), Guatemalans save 11 percent of the money they receive, and invest an additional 10 percent in businesses.

Table 8.6. End Use of Remittances, El Salvador, Guatemala, Honduras, Nicaragua (percent)

End use	Guatemala	Honduras	El Salvador	Nicaragua
Living expenses[a]	68	77	84	72
Savings	11	4	4	3
Business investment	10	4	4	4
Education	7	10	4	19
Other items	3	3	2	2
Property purchase	1	2	1	—
Unknown/left blank	0	0	2	—
Total	100	100	100	100

— Not available.

[a] Mortgage, rent, food, utilities.

Source: MIF-IDB 2003; Nicaraguan data collected by Manuel Orozco from 217 recipient households.

Nicaragua. Remittance flows to Nicaragua originate predominantly in the United States and Costa Rica. One in three Nicaraguans with relatives abroad receives remittances. Rural households are most likely to send migrants to Costa Rica, while migrants from the urban sector are typically bound for the United States (Orozco 2003b).

Remittances to Nicaragua come primarily from the United States and Costa Rica. However, there are large differences in the average amounts sent. Nicaraguans in Costa Rica send $60, while those in Miami send $150 (Orozco 2003c). The beneficiaries are the same: immediate relatives. The administration of the money is similar to that in other countries; a percentage is saved but it is primarily used for daily expenses.

Honduras and Costa Rica. Until recently, little was known about Honduran immigrants or the money they sent to their relatives. A few studies (CEPAL 1999) have indicated that the flow of remittances is fueling the economy of Honduras. As in other Central American countries, more than three-quarters of remittances go toward household expenses, but a small portion (4 percent) is directed to savings and business investment (4 percent, respectively).

In the case of Costa Rica, remittances do not play a significant role, although the Central Bank estimates remittances at some $300 million in 2003, coming predominantly from the United States, and the World Bank (2002) estimates them at more than $200 million in 2002. Remittances from Costa Rica to Nicaragua, Cuba, and Colombia, in particular, are of relevant importance. The Central Bank of Costa Rica conducted a survey of Nicaraguans and Colombians and found that 60 percent of them send remittances, sending $75 and $190 respectively (Chavez-Ramirez and Rojas 2003).

As shown in table 8.6, most remittances to El Salvador, Guatemala, Honduras, and Nicaragua are spent on consumption. However, some remittances also support education, business investment, and household savings.

Hometown Associations

Migrants from Central America and the rest of Latin America and the Caribbean have established networks comprised of senders who come from the same areas and hometowns in countries of origin. Known as "hometown associations" (HTAs), these migrant groups of Colombians, Dominicans, Guatemalans, Guyanese, Hondurans, Mexicans, Nicaraguans, and Salvadorans fulfill several functions. They provide a sense of community and the opportunity for social exchange, as well as the foundation for political influence. Importantly, HTAs are a growing player in small-scale development projects in home communities.

Hometown associations are quite diverse, with varying agendas and organizational structures. HTAs relate to their hometowns in different ways as well. Some associations have only sporadic contact with their hometowns, while others have forged formal, ongoing linkages to home communities, as well as with governments, in countries of origin. Hometown associations can support activities ranging from charitable aid to investment projects in communities back home. The great majority of these groups operate on a small economic base, typically raising less than $20,000 a year. However, these associations are having an impact on social development in their home countries, and their role is projected to continue to grow.

The Remittance Market

Remittances are sent to Central America through numerous channels. Money is sent home via banks, money-transmitter companies (such as courier agencies like Western Union), or postal services; is hand delivered by the actual sender; or is delivered by a third party (called an *encomendero*, or sometimes, *viajero*) who differs from a courier or postal services. The use of these instruments depends on several factors, including the availability of modern banking and financial infrastructures, of efficient delivery systems, and the educational and income levels of both recipients and senders.

The remittance business is a profitable one for both small and large firms. Firms derive profit from the transaction fee charged to the customer (generally 10 percent of the value remitted), the temporary investment of funds before transferring them, from additional miscellaneous services such as door-to-door delivery service, and often from artificially established exchange rates. This degree of profitability is leading to significant change in the industry. The market is becoming more competitive with the entry of new players, both large and small. They are expanding transnational money-transfer services, while generating new remittance-related products for the migrant, including a range of personal services and commercial delivery products (Orozco 2002a). The banking industry is also stepping up its interest and participation in the process of transferring money from migrants to their families and communities back home. In addition, access to money-transfer services in remote and rural areas is widening, because more outlets are being opened by competitors in the industry, as well as by credit unions.

Clearly, the primary determinant of money-transfer costs is the market structure in which remitters and recipients operate. The size, number, and type of firms are major factors, as well as migrant preferences with respect to price, risk, and time. Informal, low-cost transfer operators, for example, operating without licenses and offering hand delivery of remittances, are common alternatives to higher-cost operators in countries such as Cuba, El Salvador, Haiti, and Nicaragua. The presence in the market of low-cost informal firms clearly constrains the pricing strategies of licensed companies, which may have to employ more advanced technologies to try and offset the low cost structure of informal competitors (Orozco 2004b).

Financial instruments are another market-based alternative to capitalize on the flow of funds. With a larger market in mind, Mexican and Salvadoran banks in recent years have created the remittance-based bond.

Governments

The means of channeling and leveraging remittances have evolved over the past 20 years. In the Western Hemisphere, Mexico has used a variety of incentives to encourage hometown associations to participate in joint development partnerships with federal, state, and municipal governments. The Salvadoran government, following Mexico's example, started a matching grant program in 2003 with the goal of increasing the participation of Salvadoran HTAs in development projects. Unlike Mexico, where many states match each peso of HTA money with two to three pesos, the Salvadoran government is offering a one-to-one match with HTA money. Similar initiatives in Guatemala failed to gain government support and therefore never got off the ground.

From Family Ties to Ethnic Lobbies

The waves of migration from Central America in the 1970s and 1980s, followed by more stable and continuous flows since, have extended the reach of diaspora networks. Two emerging factors will continue to strengthen this process. First, Central American countries have transformed themselves from *agro-exporting economies* to *labor-exporting societies*. Second, the links formed between the diaspora and the homelands have set the stage for the formation of interest groups in the United States.

In most Central American and Caribbean countries, agriculture has received special attention as a source of subsistence, export income, and employment generation. Agricultural strategies continue to be key to economic policies for growth in the region. However, despite all these supports, agricultural growth has significantly declined. Hand-in-hand with the decline of agriculture is the increase of labor migration—particularly over the past 20 years. A monetary outcome of this phenomenon, of course, is the growth in remittances to Central America. Nevertheless, most governments continue to invest significant resources in the agricultural sector, while overlooking the promising strategies for targeting migrant remittances as a means to create capital for economic growth and development (MIF-IDB 2002; Orozco 2002a).

Networks of the Central American and Latino diaspora are at an early stage of development. Currently, foreign-born Latinos living in the United States have little, if any, direct influence on U.S. policy in Latin America or on the decisions of Latin American countries. Moreover, most foreign-born Latino organizations have set their priorities on a domestic U.S. agenda (De la Garza, Pachon, and Orozco 2000).

However, Latinos do have vested interests in Latin America, and these continue to grow in importance. Latinos are now *intermestic* agents:[1] that is, actors whose affairs span international frontiers, with a range of familial, social, economic, and political relationships. Trends seen among Latino organizations based in the United States foreshadow several likely directions. One is to gain a degree of recognition from their home countries. Another is to increase the interconnectedness between the diaspora and their homeland. A third is to achieve the capacity to lobby the U.S. political system for favorable shifts in foreign and economic policy in their respective countries of origin (Orozco 1998).

The Future of Central America in the Global Arena

Central America and the Caribbean are incorporated into the global economy through trade and investment—and increasingly, through migration. Migrant networks and the remittances that they generate offer strong developmental potential and the possibility for greater

[1] According to Dominguez (1998), this term was first used by Baylass Manning (1977).

incorporation into the global economy. Achieving a greater developmental impact of remittances will require improved incentives to encourage senders and receivers of remittances to use financial institutions, thereby increasing savings and investment. In addition, both consumer protection and education will help remittance senders and receivers make better financial choices, and may lower the perceived risks many consumers have of banks and other financial institutions.

Transnational linkages among Central Americans now go beyond family remittances. Migration is driving the creation of a new economic infrastructure in the region. Immigrants are increasingly investing in Central America, transnational ties are stimulating the creation of social groups across the region, and individual migrants are seeking greater political participation in the political process of their home countries. With the passage of laws in El Salvador, Guatemala, Honduras, and Nicaragua allowing citizens to have dual citizenship, the strengthening of transnational ties will continue. As a result, transnational politics are playing a major role in defining political debates in home country dynamics.

However, the economies of the region continue to suffer as a result of world recession, the precipitous decline in coffee prices, and the continuous threats of natural disasters, including severe drought, hurricanes, earthquakes, tidal waves, and volcanic eruptions. Poverty rates remain high, and Central Americans' purchasing power and real income continue to be about the same as in 1980. Nicaragua has lagged behind the rest of the countries in the region, with the lowest economic performance and declining per capita income (tables 8.7 and 8.8). Overall, medium-term prospects for improvement in Central America remain relatively bleak (Robinson 2003; CEPAL 2003).

Central America relies heavily on external funds, with countries in the region deriving from 26 to 95 percent of their total income from exports, tourism, remittances, investment, and aid (table 8.9). The growing role played by remittances as a source, de facto, of aid and investment—as well as the growth of nostalgic exports and tourism—underscore the need of governments in Central America to assign the appropriate importance to labor migration, and its potential for supporting social development. This is happening in some cases. For instance, El Salvador's dollarization program was directly connected to the relatively large inflows of remittances into the country. These inflows helped sustain healthy foreign currency reserves at the central bank, a condition that allowed the government to focus on other public policy.

Table 8.7. Central America, Percent GDP Growth

Country	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Costa Rica	4.6	3.9	0.8	5.4	8.3	8.0	1.8	1.2	2.9	5.6
El Salvador	6.0	6.2	1.8	4.2	3.8	3.4	2.0	1.7	2.1	2.0
Guatemala	4.1	5.0	3.0	4.4	5.1	3.9	3.4	2.6	2.2	2.4
Honduras	–1.9	3.7	3.7	4.9	3.3	–1.5	5.6	2.7	2.4	3.0
Nicaragua	3.4	6.0	6.6	4.0	3.1	6.9	4.4	3.1	0.7	2.3
Panama	3.1	1.9	2.7	4.7	4.6	3.5	2.6	0.4	0.8	3.0

Source: CEPAL 2003.

Table 8.8. Central America, Per Capita GDP, 1960–2000

Country	1960	1975	1980	1985	1990	1995	2000	Difference (2000—1960)
Costa Rica	1,939	2,784	3,097	2,716	2,945	3,416	3,912	+1,973
El Salvador	1,310	1,779	1,596	1,333	1,377	1,676	1,752	+442
Guatemala	928	1,371	1,598	1,330	1,358	1,469	1,558	+630
Honduras	513	614	734	682	683	704	711	+198
Nicaragua	638	971	671	595	447	416	466	–172
Panama	1,463	2,572	2,709	2,887	2,523	3,005	3,279	+1,816

Source: World Bank, *World Development Indicators,* 2003.

Table 8.9. Central America in the Global Economy, 2002 ($millions)

Sector	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica	Dominican Rep.
Remittances	1,775	1,995	735	600	206	2,044
Merchandise exports (not including maquiladora)	2,960	3,287	1,344	582	5,352	719
Maquiladora	373.8[a]	543	546	102.2[a]	1,221.8[a]	1,875
Official Dev. Assistance (ODA)[b]	225	234	677	928	2.15	105
International tourism	606	254	251	157	936	2,609
GDP	22,476	14,598	6,683	2,498	16,652	21,000
R+X+ODA+ Tour/GDP	26%	43%	53%	95%	46%	35%

[a] Maquiladora for 2000.
[b] Data corresponding to 2001.
Source: Inter-American Development Bank, Country Profile; Official Development Assistance (ODA)—World Bank, *World Development Indicators* 2003, CD-ROM; CEPAL 2003.

Policy Options for Central America and the Caribbean

Given the current economic state of Central America, a new way of capitalizing on labor migration should be set in motion. Tourism and nostalgic trade are also tangible and growing benefits resulting from migration and the development of transnational networks. To date, these phenomena have not figured prominently in the policies of Central American or Caribbean countries. The following are areas where appropriate policies could unleash the greatest economic and development associated with the emerging transnational networks of Central American migrants.

Reducing Remittance Costs

The costs associated with remittance transfers continue to be a concern for migrants and their families, development agencies, and other stakeholders. However, newer technology now permits the transmission of money at very low marginal cost. Policies should focus on all practical means of extending such cost advantages to the mass of remittance senders and receivers. There are four possible options to reduce costs. First is the formation of strategic alliances between money-transfer companies and banks. Second are alliances between banks in Latin America and in North America, using debit card technologies that rely on automated teller machines. Third is the use of advanced software platforms designed for money transfers. Finally, there is the use by credit unions of international remittance networks.

Banking the Unbanked

About six out of ten Latin American migrants in the United States use some kind of bank account (MIF-IDB 2004). In Central America and the Caribbean, only two in ten have access to bank accounts (MIF-IDB 2003). The unbanked suffer from several disadvantages. First and foremost, people outside of financial institutions pay higher costs in both money and time to conduct all kinds of financial transactions. In addition, they cannot establish credit records, and hence are often excluded from the benefits of credit and other benefits offered by financial institutions. In general, as remittance senders and receivers increase their participation in banking, it is likely that their transfer fees will decline, their access to credit will increase, and their use of other financial services will grow. There are now promising experiments in private spheres designed to attract migrants into the financial system.

In 1994, the Federation of Salvadoran Savings and Credit Cooperatives (FEDECACES) initiated the IRNet system, which provides international wire transfers among credit unions, in alliance with the World Council of Credit Unions. This initiative originally faced limitations due to lack of resources. In particular, it required developing computer software that would allow for a more efficient money-transfer system that could operate throughout their branches and member institutions. The Inter-American Development Bank provided a line of support to address some of their limitations. As a result, the program has been able to attract clients into its money-transfer system that encompasses 26 points of service in El Salvador, in addition to its central offices and the participation of 18 cooperatives.

FEDECACES' relationship with other financial institutions underscores arguments this study makes about best practices and the advantages of enabling environments that facilitate flows, customer empowerment, and related economic and social benefits. Originally, FEDECACES would transfer remittances only from a U.S.-based credit union such as Los Angeles-based Comunidades. In order to expand its service in the United States, it then arranged to send money through three money-transfer companies: Vigo International, Rapid Money, and Viamericas, all companies that charge lower prices than their business competitors. FEDECACES' remittance service tripled from the moment in expanded its activities to include the money-transfer companies.

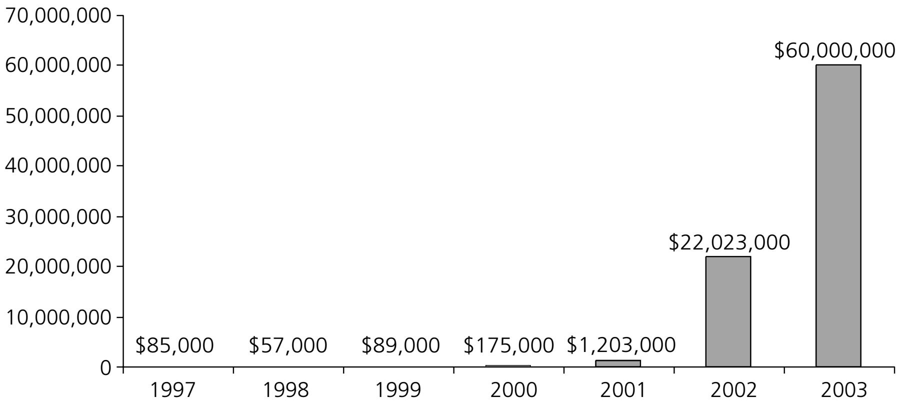
Before this expansion, between January and September 2001, FEDECACES transferred $483,068. Because of its new expanded reach, remittance transactions in the last three years have grown significantly to represent 5 percent of market share (figure 8.3).

In addition to using remittances as an inducement to get migrants and their families into banks, retail stores might honor remittances for the purchase of consumer goods. Currently, VISA International offers a remittance-based debit card that is used by money-transfer companies and banks in the receiving country. This card can be used anywhere Visa is accepted, and offers safety and the ability to smooth expenditures over time.

Investment and Microenterprise Incentives

The stock of savings and investment generated by remittances, as well as the continuous flows of remittances into Central America, remain largely unexploited for more productive uses. A combined average of

Figure 8.3. Remittance Transfers by FEDECACES, 1997–2003 ($)



Source: FEDECACES officials' interview, January 2004.

almost 10 percent of remittances are saved and/or invested by recipients. These resources represent a large potential market for both private or credit public programs, including microfinance operations.

Tourism

A significant and growing percentage of migrants return to their home countries as tourists. To date, however, no government in the region has pursued a tourist policy aimed at its diaspora. This neglect represents a direct loss of tourist revenue, as well as other foregone business opportunities. There is very good potential for joint public-private ventures to lure emigrants home with attractive packages for traditional and nontraditional sites back home. Moreover, there are promising opportunities for investment alliances with migrants interested in partnering on projects relating to tourism and related businesses.

Nostalgic Trade

The growing demand for nostalgic goods by migrants in the United States has been a boon to producers in the region, and has also been an opportunity for new businesses in the United States run by the members of the Central American diaspora. Small ethnic businesses in North America are increasingly attractive outlets for artisans and larger producers in the region, and are also becoming places in which to learn about marketing in North America. Moreover, nostalgic traders are also being discovered by governments, development agencies, and the private sector players, who see the growth potential of this market segment.

For example, during the free trade negotiations, the Salvadoran government explored the extent to which "nostalgic" goods were an important trading segment to be negotiated. A study carried out at the Center for Agricultural and Rural Development identified various Salvadoran foods consumed, including tortilla flour, red beans, loroco, semita, cheese, and horchata. These products were perceived as important exports (Batres-Marquez, Jensen, and Brester 2001). The study, as well as other experiences, encouraged the government to pursue a proactive strategy that would bring these items into the trading agenda during the CAFTA negotiations. In fact, El Salvador was the only government with an explicit agenda including its ethnic market.

Imported nostalgic goods are important to Central American migrants who send remittances. For example, 60 percent of Nicaraguans said they imported Nicaraguan cheese, and 30 percent said they bought bread and tamales. Some 45 percent of Hondurans stated that they buy cheese, 40 percent said they buy tamales, 30 percent said they buy bread, among other products (Orozco 1998).

Hometown Associations as Agents of Development

Hometown associations are now playing a growing role in local development, as evidenced by projects in infrastructure, community development, and other activities. Governments in Central America and the Caribbean can do much more with their respective HTAs, along with international organizations, to target activities better and to generate income in their local communities. Mexico and El Salvador offer important lessons of joint partnership in development.

The Salvadoran government has worked closely in forging partnerships with hometown associations to work on a range of development projects in rural El Salvador. One important example is the initiative managed by the Social Investment and Local Development Fund (FISDL) of the government of El Salvador.

Hometown associations have established partnerships with various organizations. These groups include the national government (often in the form of the national development agency, FISDL), municipalities, churches, other nonprofits, and businesses. Depending on HTA political affiliations (or lack of) local mayors and the FISDL are among the top liaisons for project implementation. Churches also are on top of the list. Additionally, some Salvadoran HTAs are closely connected with other Salvadoran organizations, through groups like El Rescate or Carecen or through umbrella HTA groups like Comunidades Unidas Salvadoreñas, and have been essential to the lobbying power of the HTAs on their home government.

To take advantage of the success that Salvadoran HTAs have had in the design and implementation of projects in El Salvador, the FISDL, in partnership with the DGACE,[2] have developed a program where HTAs abroad compete for matching funds from the national government to complete development projects. The program, known as "Unidos por la Solidaridad," is designed to work with Salvadoran organizations raising funds to support their hometowns. Through this program, HTAs submit applications describing the project and funds required and FISDL reviews it for feasibility and responsiveness to community needs.

In order for a project to participate in the partnership, FISDL has various requirements. Among these:

- The project must conform to the municipal government's plan on civic participation.
- The HTA must match at least 10 percent of the project costs.
- The municipal government must be solvent.
- Only social infrastructure projects are included.
- Projects must cost at least $30,000.[3]

To date, there have been 14 contests for FISDL matching funds involving more than 40 projects, to which HTAs have contributed $2.1 million. FISDL maintains a liaison approach through the program "Conoce tu municipio," which provides information to HTAs about the status of their hometown, as well as the projects FISDL has undertaken in individual towns.

Of the 45 projects that HTAs have partnered with the FISDL, 28 have benefited the provinces of La Unión (11), La Paz (10), and Chalatenango (7). Ahuachapan, La Libertad, Morazan, San Vicente, and Santa Ana have had one project each, and Sonsonante has no HTA-FISDL partnership experiences to date. The average cost of a project undertaken in these partnerships is $278,690, but varies with the

[2] The DGACE, La Dirección General de Atención a la Comunidad en el Exterior, is the Salvadoran entity that monitors the conditions of Salvadorans in foreign countries.

[3] *Programa Unidos por la Solidaridad,* FISDL, San Salvador, January 2004. For more information, see http://www.fisdl.gob.sv/

department ($1,210,350 in Usulutan to $40,000 in Ahuachapan) or partnership with an HTA (table 8.10).

Salvadoran HTAs, on average, provide 16 percent of the support (both in financial and in-kind donations), but the percentage ranges from 1 percent in San Salvador to 57 percent in Usulutan. In the Department of Cabañas, where HTAs have partnered with the FISDL on three projects, HTAs have put up $99,000 (9 percent of total funds) to match the FISDL's contribution of $780,000. The average cost of each project in Cabañas has been $380,000.

Of the 45 projects, 17 deal with infrastructure, 14 with recreation, and 6 with health. The Cuscatlan-origin HTAs (SALA, L.A. and Asociación Adentro Cojutepeque) have sponsored two projects with FISDL. In Cojutepeque, they worked to remodel and furnish a recreation area for the town. In Suchitoto, Cuscatlan, SALA worked with the FISDL to repair and install streetlights on an access road to the Port of San Juan.

Another case where institutional relationships and partnerships have occurred with government involvement concerns the participation of the United Nations International Fund for Agricultural Development (IFAD) in cofinancing development projects with HTAs. IFAD has a widespread rural project network in the Latin American and

Table 8.10. FISDL-HTA Partnership Projects

Department	Projects	HTA funds ($)	FISDL funds ($)	Total project costs ($)	Avg. project cost ($)	HTA donation (%)	FISDL funds (%)
La Unión	11	306,317	2,394,216	3,627,382	329,762	8.4	66.0
La Paz	10	62,500	782,254	1,366,122	136,612	4.6	57.3
Chalatenango	7	109,570	408,652	682,514	97,502	16.1	59.9
Cabañas	3	98,787	778,277	1,133,533	377,844	8.7	68.7
San Miguel	3	66,045	336,622	446,560	148,853	14.8	75.4
Cuscatlan	2	22,000	184,261	254,902	127,451	8.6	72.3
San Salvador	2	6,000	387,798	638,945	319,472	0.9	60.7
Usulutan	2	1,384,221	1,025,048	2,420,699	1,210,349	57.2	42.3
Ahuachapan	1	4,000	21,000	40,000	40,000	10.0	52.5
La Libertad	1	14,517	134,586	149,104	149,104	9.7	90.3
Morazan	1	4,972	342,539	497,155	497,155	1.0	68.9
San Vicente	1	36,779	30,092	66,871	66,871	55.0	45.0
Santa Ana	1	18,298	93,929	121,986	121,986	15.0	77.0
Total/average	45	2,134,010	6,919,281	11,445,780	278,689	16.2	64.3

Source: FISDL 2004.

Caribbean region, and has been working on projects concerning the relationship between rural development and remittances in El Salvador.

IFAD has been working to determine the role of remittances, especially as untapped capital, coming from the United States to Latin America. Along with the World Bank, IFAD has been working with Salvadoran hometown associations in the United States to sensitize them to the conditions of rural Salvadoran communities and identify potential cooperative projects, pooling HTA and IFAD resources.

IFAD worked with a Los Angeles HTA, supported by El Rescate and a Virginia-based HTA, to privately construct a local high school. Besides providing 53 percent of the funding, IFAD's main contributions were technical assistance and help obtaining the support of the Ministry of Education for the project.

IFAD has incorporated HTA initiatives in its Rural Reconstruction and Modernization Program, which in turn encourages migrants and migrant associations to invest in income-generating projects in their home countries. By matching migrant funds, IFAD has provided technical and financial assistance for projects in targeted Salvadoran communities.

Enabling Frameworks for Money Transfers

Given the size and growth of remittance flows, governments must examine their own actions, and improve their legal and regulatory frameworks to facilitate the transfer of money, and expand the mechanisms by which it is sent. First, governments must "do no harm" to impede the flow of migrant remittances. When it comes to remittance senders and their families, it should always be remembered that this is their money. Where possible, they should encourage competition in the remittance market. Educating consumers about the costs and charges is important, particularly because many of them remain unaware of the true nature of transfer costs. A comprehensive set of incentives aimed at both senders and recipients should promote participation in financial institutions, and at the same time facilitate the more productive use of remittances.

The medium-term economic prospects for improvement in Central America remain relatively bleak. Poverty rates remain high, and per capita income continues to be low. Economic recovery and attention to rural areas have been greatly impeded as a result of continuous economic shocks and natural disasters. In the first few years of the 21st century, average growth in Central America has been less than

2 percent, far below what is needed to alleviate poverty across Central America. While remittances are no panacea, they nonetheless offer real potential for raising development impact in the region. Therefore, policies linking remittances and migrant capital resources with economic growth and development are important strategies to take into consideration.

Bibliography

Batres-Marquez, S. Patricia, Helen H. Jensen, and Gary W. Brester. 2001. *Salvadoran Consumption of Ethnic Foods in the United States.* Working Paper 289. Center for Agricultural and Rural Development, Iowa State University (October).

CEPAL. 1999. *Impacto Socioeconómico de las Remesas: Perspectiva Global Para Una Orientación Productiva De Las Remesas En Honduras*. Mexico City: CEPAL (October 4).

———. 2003. *Balance preliminar de las economías de América Latina y el Caribe, 2003.* Santiago, Chile: CEPAL (December).

Chavez-Ramirez, Erika, and Guiselle Rojas. 2003. *Aspectos Socioeconomicos de las Remesas Familiares en Costa Rica.* San Jose: Banco Central de Costa Rica, Investigacion de Campo.

De la Garza, Rodolfo, and Manuel Orozco. 1997. Binational Impact of Latino Remittances. Policy Brief. Tomas Rivera Policy Institute, Claremont, California (January).

De la Garza, Rodolfo, Harry Pachon, and Manuel Orozco. 2000. Family Ties and Ethnic Lobbies. In *Latinos and U.S. Foreign Policy: Representing the "Homeland,"* eds. Rodolfo de la Garza and Harry Pachon. Lanham, MD: Rowman & Littlefield.

Dominguez, Jorge. 1998. *International Security and Democracy: Latin America and the Caribbean in the Post-Cold War Era*. Pittsburgh: University of Pittsburgh Press.

Dunkerley, James. 1994. *The Pacification of Central America*. New York: Verso.

Esman, Milton J. 1986. Diasporas and International Relations. In *Modern Diasporas in International Politics,* ed. Gabriel Sheffer. London: Croom-Helm.

Fondo de Inversión Social para el Desarrollo Local (FISDL, Fund for Social Investment in Local Development). 2004. Projects "Unidos por la Solidaridad" (United for Solidarity) with Expatriate Salvadorans. San Salvador, El Salvador: FISDL (January).

Instituto de Estudios Nicaraguenses (IEN). 2001. Encuesta Nacional Sobre Gobernabilidad y Elecciones: Modulo Sobre Migracion, Uso de Remesas Familiares y Ahorro. Managua (July 5).

Itzigsohn, Jose. 1995. Migrant Remittances, Labor Markets, and Household Strategies: A Comparative Analysis of Low-income Household Strategies in the Caribbean Basin. *Social Forces* 74(2): 633–56.

Lopez, Jose Roberto, and Mitchell Seligson. 1990. Small Business Development in El Salvador: The Impact of Remittances. In *Report of the Commission for the Study of International Migration and Cooperative Economic Development* No. 44. Washington, D.C.: Government Printing Office.

Manning, Bayless. 1977. The Congress, Executive and Intermestic Affairs. *Foreign Affairs* 55 (2): 306–24.

Multilateral Investment Fund of the Inter-American Development Bank (MIF-IDB). 2002. Attracting Remittances: Market, Money and Reduced Costs. Report prepared by Manuel Orozco. Washington, D.C.: Multilateral Investment Fund.

———. 2003. Remittance Recipients in Guatemala, El Salvador, and Honduras. Report by Bendixen & Associates. Washington, D.C.: Multilateral Investment Fund.

———. 2004. Survey of U.S. Remittances Senders: State by State. Report by Bendixen & Associates. Washington, D.C.: Multilateral Investment Fund.

———. 2005. Transforming Labor Markets and Promoting Financial Democracy. Washington, D.C.: Multilateral Investment Fund.

Multilateral Investment Fund of the Inter-American Development Bank and Pew Hispanic Center (MIF-PHC). 2003a. Survey of Remittance Recipients in Ecuador. Report by Bendixen & Associates. Washington, D.C.: Multilateral Investment Fund.

———. 2003b. Survey of Remittance Recipients in Central America. Report by Bendixen & Associates. Washington, D.C.: Multilateral Investment Fund.

National Money Transmitters Association (NMTA). 2004. Industry Statistics. Union City, New Jersey: NMTA.

Orozco, Manuel. 1998. Distant Brothers: Central Americans in the United States. *Hemisphere* 8(3): 30–36.

———. 2000a. *Latino Hometown Associations as Agents of Development in Latin America.* Washington, D.C.: Inter-American Dialogue.

———. 2000b. *Remittances, Markets and Government Interests.* Washington, D.C.: Inter-American Dialogue.

———. 2001. Family Remittances to Latin America: The Marketplace and Its Changing Dynamics. Paper delivered at the Multilateral Investment Fund of the Inter-American Development Bank (MIF-IDB) conference, Remittances as a Development Tool, May 17–18, Washington, D.C.

———. 2002a. Enabling Environments? Facing a Spontaneous or Incubating Stage. Working paper sponsored by the Multilateral Investment Fund upon request from the Inter-American Development Bank, Washington, D.C.

———. 2002b. Globalization and Migration: The Impact of Family Remittances in Latin America. *Latin American Politics and Society* (Summer): 41–66.

———. 2002c. Market, Money and Reduced Cost. Paper presented at the Multilateral Investment Fund of the Inter-American Development Bank conference, Remittances as a Development Tool, May 17–18, Washington, D.C.

———. 2003a. *Changes in the Atmosphere? Increase in Remittances, Price Decline, and New Challenges.* Washington, D.C.: Inter-American Dialogue.

———. 2003b. *Family Remittances to Nicaragua: Opportunities to Increase the Economic Contributions of Nicaraguans Living Abroad.* Washington, D.C.: Inter-American Dialogue. Report commissioned by the U.S. Department of Agriculture.

———. 2003c. *Oportunidades y estrategias para el desarrollo y el crecimiento a través de las remesas familiares a Nicaragua*. Washington, D.C.: Inter-American Dialogue.

———. 2003d. Worker Remittances, Transnationalism and Development. Paper presented at the conference, Migrant Remittances: Development Impact, Opportunities for the Financial Sector and Future Prospects, October 10, United Kingdom.

———. 2004a. *Oportunidades y estrategias para el desarrollo y el crecimiento a través de las remesas familiares a la República Dominicana.* Washington, D.C.: Inter-American Dialogue.

———. 2004b. *The Remittances Marketplace: Prices, Policy, and Financial Institutions*. Washington, D.C.: Pew Hispanic Center.

———. 2004c. *The Salvadoran Diaspora: Remittances, Transnationalism and Government Responses*. Washington, D.C.: Document commissioned by the Tomas Rivera Policy Institute.

Robinson, William. 2003. *Transnational Conflicts: Central America, Social Change, and Globalization*. London: Verso.

U.S. Bureau of the Census. 1980. *1980 Census of Population.* Washington, D.C.: U.S. Government Printing Office.

———. 1990. *1990 Census of Population.* Washington, D.C.: U.S. Government Printing Office.

———. 2000. *2000 Census of Population.* Washington, D.C.: U.S. Government Printing Office.

———. 2000. *Current Population Survey: The Foreign-born Population: 2000.* (P20_486). Washington, D.C.: U.S. Government Printing Office.

Vilas, Carlos. 1995. *Between Earthquakes and Volcanos.* New York: New York University Press.

Weiner, Myron. 1995. *The Global Migration Crisis: Challenge to the State and to Human Rights.* New York: HarperCollins College Publishers.

The World Bank. 1995. *World Data 1995* on CD-ROM. Washington, D.C.: The World Bank.

———. 2000, 2002, 2003. *World Development Indicators* on CD-ROM. Washington, D.C.: The World Bank.

This page intentionally left blank

Chapter 9

Remittances between Neighboring Countries in Latin America

Patricia Weiss Fagen and Micah N. Bump*

This chapter is based on three case studies of remittance patterns in Latin America and the Caribbean. The three representative cases are Nicaraguans remitting from Costa Rica, Haitians remitting from the Dominican Republic, and Bolivians sending money home from Argentina.[1] The three cases represent long-standing flows of migrants, whose remittances are highly important in their countries of origin. Although each case has evolved differently, the cases share a number of common characteristics.

Migrant families in countries of origin depend on remittances for basic survival, for paying school and health costs, for making housing improvements, and occasionally, for generating additional income. Remittance patterns are greatly affected by the presence or absence of family ties in the countries of origin. Younger migrants are likely to form their families in the host countries and therefore to remit less. However, recent trends suggest that family members are now more likely to accompany or follow original migrants.

Migrants from Nicaragua, Haiti, and Bolivia have long lived and worked in Costa Rica, the Dominican Republic, and Argentina, respectively. Border areas between these sets of countries have long hosted mixed populations that have a fluid sense of citizenship.

* We would like to thank the Facultad Latinoamericana de Ciencias Sociales (FLACSO) in Costa Rica and the Dominican Republic and the Instituto de Desarrollo Económico y Social (IDES) in Argentina for their generous hospitality, the collaboration of their staff, and other important contributions to this study. The section on Costa Rica relies largely on an in-depth study undertaken at FLACSO for our use.

[1] Of the three migrant-receiving and remittance source countries studied, two—Costa Rica and Argentina—are classified in the World Bank's *World Development Indicators* as upper-middle-income countries. One—the Dominican Republic—is classified as a lower-middle-income country. Of the three migrant-sending and remittance-receiving countries studied, two—Nicaragua and Haiti—are classified as low-income countries. One—Bolivia—is classified as a lower-middle-income country. However, Bolivia has a 63 percent poverty rate and a high rate of inequality.

Migrant families often have members living and working on both sides of a border. In contrast to the situation a century ago, however, regional migrant flows are now largely unidirectional, from poorer countries to wealthier ones. Today, great disparities in income and opportunities exist in each of the country pairs studied. In addition to the traditional mobility of border populations, migrants seeking employment in wealthier countries now originate from all parts of the poorer countries.

This chapter focuses on remittance-related issues affecting the majority of migrants moving between countries of Latin America. It focuses primarily on those who have little beyond their labor to sell, are not well integrated economically or legally in host countries, face widespread racial and social discrimination, and have low levels of formal education. In contrast to the United States, where many of those arriving have at least some property and income, this is not usually the case with the groups in our case studies. While intraregional migrants may not be the very poorest members of the population, those crossing borders for work are likely to be significantly poorer on the average than those going to the United States or Spain. Members of this demographic group are clearly less sophisticated with respect to financial transactions and are largely unfamiliar with what may be called a "banking culture."

In middle-income countries, agricultural jobs remain open to noncitizens because host country citizens have better options, or are migrating themselves. However, even low-paying forms of traditional employment in seasonal agricultural are declining, while labor demand in construction and tourism is rising in urban areas. Desperate migrants are willing to work for extremely low wages under poor conditions in urban areas. Mini-construction booms over the past decade, along with unfilled labor demand in service sectors, means that migrants can supplement or replace seasonal jobs with year-round employment, much of which is in cities.

Of the three groups studied, the remitting population includes:

- Border populations, characterized by frequent crossing
- Rural "circular migrants," who work seasonally or for short periods of time and do not settle
- Rural long-term populations that acquire formal ties to specific areas of land and often establish organizations
- Migrants working in both formal and informal labor sectors in urban settings, rarely with structured ties to the native-born labor outside of immediate supervisors.

All of these categories include female workers. Women most often work in the domestic sector, and are least likely to work in construction. While we do not have statistics, recent evidence suggests that female labor is becoming more prominent in urban buying and selling activities, especially in informal street commerce, than in domestic service. Further, in all three cases, more women are moving on their own, without male partners.

Migration and Remittances among Neighboring Countries in Latin America

The percentages of the foreign-born population in post-World War II Argentina, Costa Rica, and the Dominican Republic are similar to those in the developed countries.[2] Immigrants in these three countries, as well as in wealthier countries, often lack legal status and consequently accept short-term, poorly paid, and dangerous jobs. However, in contrast to larger and more diverse economies, the three middle-income countries of Argentina, Costa Rica, and the Dominican Republic are more fragile and prone to greater cyclical shifts, and have less diversified sources of wealth. Migrants at the bottom of the national income scale in these three countries earn far less on average than their compatriots at the bottom of the economic scale in the developed countries. Still, migrants' remittances are significant, in terms of both absolute income flows and the support they afford to vulnerable populations. Of the estimated $32 billion in total remittances to the region in 2002, $1.5 billion were interregional (MIF-IDB 2003).

Exchanges and transactions among private individuals in bordering countries often include goods as well as money. These present opportunities to numerous enterprises—formal and informal, national and international—that offer a wide range of transfer services. Goods, cash, and people can be transported by surface without significant capital investment, a fact that encourages small local enterprises, often informally operated, to offer services. Among the three countries in this study, governmental regulation of remittance transfers is largely absent. In more prosperous times the competition among small service providers in Costa Rica and Argentina has been intense. However, local transfer agencies are prone to collapse, and large amounts of money have been lost.

[2] In Costa Rica, some 7.8 percent of the population is foreign-born, according to the 2000 census. In the Dominican Republic, between 5 and 8 percent of the population is foreign-born. In Argentina, only 2 to 3 percent of the population comes from neighboring countries.

The importance of remittance income for people in the poorer countries of Latin America cannot be overestimated. Latin America was the first region to recognize that remittances are the principal means by which millions of poorer people survive and support themselves, as well as an important factor in national development. Remittance income matches or exceeds the value of national exports in Haiti and Nicaragua, and outstrips foreign assistance in these and other major remittance-receiving countries (World Bank 2004). The significance of migrant remittances sent from middle-income countries to poorer neighbors is also bound to grow. The degree to which this will occur will depend on three factors: first, the absorptive capacities of the middle-income countries; second, the policies of governments and economic institutions of the countries in question; and finally, the attitudes and behaviors of the migrants themselves.

The absorptive capacity of countries will continue to be of concern, particularly because economic indicators in both the wealthier countries in the region and the poorer ones are fragile. The Dominican Republic has long been a major remittance-*receiving* country. Migrants from Costa Rica and especially Argentina also have been sending increasing amounts of remittances.[3] Since its economic crisis, Argentina, as described below, has turned from a net exporter of funds to one whose citizens send millions home from the United States and Spain. Figures for 2001, before the economic crisis took its serious toll, show an outflow of some $132 million from Argentina to neighboring countries. That figure plummeted to $36 million in 2002, while money coming into the country from its nationals abroad rocketed to some $180 million.[4]

Additionally, public hostility to migrant absorption has grown in the three migrant-receiving countries. This is due in part to the recent dispersion of migrant families throughout the country and across a variety of economic sectors. Migrants were less visible when the most were single men who worked in seasonal agriculture, and who usually returned home. Current migrants more often enter with families or establish families while in host countries, and tend to remain for extended periods of time, eliciting host country complaints about a loss

[3] According to data from Manuel Orozco, remittances to the Dominican Republic account for over half the value of its exports. There are relatively few Costa Ricans living abroad who send remittances home. However, they rank third in Latin America in terms of the amount that individual immigrants remit. See Orozco (2002, 2003a, 2003b).

[4] Argentina's Internet Helpers. BBC News. February 26, 2003. http://news.bbc.co.uk/2/hi/americas/2802231.stm

of control over migrants and increased costs for schools, health care, and housing.

A more serious obstacle for foreign workers, particularly in middle-income countries, involves unauthorized entries and the lack of documentation. The lack of documentation impedes access to social and financial services and prevents the effective management of remittances. Governments in neither the migrant-sending countries nor in migrant-receiving ones studied in these cases consider regional migrants as important factors in national development. There appears to be little prospect that home country governments will undertake actions similar to the governments of Mexico and El Salvador on behalf of migrants in the United States. Bolivia has explored the possibility of consular identity cards for its nationals—similar to those provided by the government of Mexico—but these proposals refer only to Bolivians in the United States. Migrant defense groups allege that countries of origin welcome the exodus of their poorer citizens because it reduces their own responsibilities and costs. For their part, the governments in migrant-receiving countries, with the partial exception of Costa Rica, have not taken the needs of foreign workers into consideration. This may change as migrants and their families gradually acquire greater status with a measure of prosperity and citizenship.

Regarding the third factor, migrant attitudes and behaviors, two general points can be made. First is the nearly universal determination among migrants to continue remitting despite obstacles and setbacks. Second, there are now stronger initiatives within migrant communities to organize for self-help, empowerment, and rights. These efforts include attempts to find effective and practical ways of transmitting remittances.

Case One: Nicaraguans in Costa Rica

In 2000, approximately 226,000 persons who were born in Nicaragua were living in Costa Rica. Nicaraguans represent 6 percent of Costa Rica's total population, and fully 75 percent of the foreign-born residents in that country (FLACSO 2003). Many Nicaraguan migrants benefited from a government immigrant amnesty in 2000 and have legalized their status as permanent residents. The official number of migrants excludes the children of Nicaraguan families born in Costa Rica, as well as an estimated 400,000 to 500,000 Nicaraguan seasonal workers who lack legal status in the country.

Patterns of Migration

Costa Rica has been and remains an attractive destination for Nicaraguans, offering political stability and relatively honest and effective administration—in sharp contrast to Nicaragua. Past influxes from Nicaragua into Costa Rica have been prompted by natural disasters, war, and political turmoil. Political migrants of middle-class origins have integrated into Costa Rica relatively easily. These were later joined by waves of migrants fleeing natural the disasters that plagued Nicaragua during the 1990s, such as Hurricane Mitch in 1998. Despite the restoration of electoral democracy in 1990, economic conditions in Nicaragua continued to deteriorate throughout the decade. The consequent precipitous rise in unemployment has led to a major flow of economic migrants into Costa Rica.[5]

Nicaraguan migrants to Costa Rica today are considerably poorer than those who preceded them. While they come from all parts of Nicaragua, they are primarily from rural areas where few economic opportunities exist. Government sources in Costa Rica insist that opportunities for unskilled migrant labor in that country are declining. Moreover, since the amnesty law of 2000, it has been very difficult for new entrants from Nicaragua to gain legal status. Despite these difficulties, even where Nicaraguan migrants can only find part-time and poorly paid work in Costa Rica, they will have better living conditions, more services, and a means to support family members at home.

The profile of migrant labor in Costa Rica has changed significantly in the past 10 to 15 years. Until the end of the 1980s, large numbers of seasonal plantation workers worked on planting and harvesting bananas, sugar, and coffee. These workers were overwhelmingly male, and did not remain throughout the year or bring their families. However, traditional plantation production has declined, while other agricultural exports such as tropical fruits, vegetables, and houseplants continue to increase. These require labor on a longer basis, often year-round. In addition, migrants are now employed in non-agricultural labor, especially construction, commerce, hotel and restaurant services, domestic work, manufacturing, and private security (FLACSO 2003).

Nicaraguans who easily found work on banana, coffee, and sugar plantations in the 1980s are at a disadvantage in the current labor

[5] The Nicaraguans who have emigrated to the United States are largely from Managua and other cities, are better educated, and are less poor. See Orozco (2003a); Morales and Castro (2002).

market, as jobs outside of export agriculture require more qualifications. About 45 percent of Nicaraguan migrants have had no formal education, or only a few years of primary school, whereas approximately 80 percent of the Costa Rican population has completed primary school (FLACSO 2003). The 2003 study of Costa Rica by Facultad Latinoamericana de Ciencias Sociales (FLACSO) found 17 percent of the Nicaraguan labor force in Costa Rica to be unemployed or underemployed, as compared to 8 to 9 percent of the Costa Rican population.[6] Slightly more women than men arrive in Costa Rica from Nicaragua, a significant departure from earlier migration patterns. Both women and men work in tourism, service, and the commercial sector, although men still predominate in agriculture, construction, and security jobs.

Costa Rica is seeking greater cooperation from Nicaragua to limit migration. Proposals include a program of contract labor that matches workers to specific jobs with decent living conditions, but with no further services offered upon completion of work. There is little support for this approach in Nicaragua or among Costa Rican employers. Meanwhile, the Costa Rican legislature is considering more restrictive laws to punish both undocumented migrants and their employers.

By all accounts, Nicaraguan migrants live in appalling conditions and suffer numerous forms of discrimination and abusive treatment. Yet the Costa Rican government is more permissive than other countries in the region, by allowing migrants access to schools and health clinics.[7] Workers who are in the country legally have official recourse to the Ministry of Labor if they are ill-treated by employers. These mechanisms may help migrants, but they fuel Costa Rican complaints that Nicaraguans take advantage of their liberal legislation, while taking their jobs, using their services, and then sending money home to Nicaragua, with no contribution to Costa Rican society. This anti-migrant sentiment is exacerbated by the ongoing weaknesses in the Costa Rican economy. It is clear that the Costa Rican population deprecates Nicaraguan immigrants and would like to keep their numbers low, regardless of their economic contributions.

[6] FLACSO (2003); interview with Johnny Ruiz, Ministry of Labor, Costa Rica, June 17, 2003.

[7] According to FLACSO (2003), Nicaraguans in Costa Rica do not or cannot take full advantage of educational opportunities, and send their children to school in smaller numbers than do Costa Rican families.

Patterns of Remittance Activity

Estimates of the amount of remittances entering Nicaragua vary widely. The Nicaraguan Central Bank estimate is $345 million annually, a number that omits transfers that migrants bring and send by non-formal means. FLACSO and the Economic Commission for Latin America (CEPAL) place annual remittances at over $800 million, about three-fourths of which comes from the United States and about a fourth from Costa Rica.[8] This amount represented 29.4 percent of Nicaragua's GDP in 2002, and exceeded the value of its exports that year (MIF-IDB 2003). CEPAL estimated that remittances to Nicaragua would increase to $1.3 billion in 2003 (FLACSO 2003).

These estimates are, at best, informed guesses, because they greatly underestimate money transported informally. Informal mechanisms for transporting money to Nicaragua far surpass formal channels because of the informal legal status and mobility of many senders, the rural locations of recipients, and generally low levels of confidence in formal transmission channels. Bank sources in Costa Rica and Nicaragua estimate that 70 percent of remittances from Costa Rica to Nicaragua are transmitted informally, and hence are untracked and unregistered.[9] An informant from a well-established microfinance network reports that low-paid wage earners nonetheless frequently send $20 to $25 home weekly to support the basic needs of families. Primary wage earners returning to Nicaragua also carry amounts sufficient for home improvements and other productive activities (FLACSO 2003).

Employed Nicaraguan migrants earn an average of $200 to $250 per month, and from these earnings send about $75 home every month. Low-paid and part-time workers continue to send funds home, often in amounts as small as $30 per month.[10] Migrants are left with little money to spend in the Costa Rican economy, and consequently forego many local opportunities. In one example, an NGO that offers housing credits to low-income people excludes Nicaraguans who send remittances home from eligibility, reasoning that these migrants would likely default on their credit payments.[11]

---

[8] FLACSO (2003); CEPAL (1999). Orozco (2003c) estimates approximately $100 million from Costa Rica, between $300 million and $450 million from the United States, and smaller amounts from other countries.

[9] Interviews, September 30 and October 14, 2003, by Abelardo Morales of FLACSO with Juan Carlos Cambronero, Banco Nacional de Costa Rica, and Carlos de Paredes, BANCENTRO.

[10] Various but similar figures are given in FLACSO (2003); Castro Valverde (2002); Orozco (2003c).

[11] Interview with Laura Chavez, FUPROVI, June 18, 2003.

The costs of money transfer are clearly important for Nicaraguan migrants. The Inter-American Development Bank reported that in 2002, the total costs associated with sending remittances approached $4 billion, about 12.5 percent of the total sent (MIF-IDB 2003). Currently, money can be transferred from the Costa Rican National Bank to Nicaragua for between 5 and 10 percent of the value of the transfer, and competition has lowered the average price of transfers from $10 to $8. The National Bank of Costa Rica has an agreement with BANCENTRO in Nicaragua and offers a reliable, inexpensive alternative for remittance transfer. The Costa Rican Post Office offers rates of only 5 percent and has an agreement with its Nicaraguan counterpart to make electronic transfers in less than 72 hours.

However, these recent improvements are available only to those with legal residence in Costa Rica. Nicaraguan workers, of course, often lack legal status as well as personal documentation in Nicaragua. Thus while people using the banks remit, on average, $100 per month—reflecting their somewhat higher incomes—the total amounts are small. As of late 2003, the National Bank transmitted only a reported $1.5 million and the Post Office, only $1 million (FLACSO 2003). Formal private remittance enterprises use the banking network. They are likely to deposit the funds they have collected in their Costa Rican accounts, and transfer them to Nicaraguan accounts.

A serious barrier to expanding the use by migrants and their families of banks and formal institutions is their minimal presence in rural Nicaragua, where migrants' families typically live. Rural recipients derive little benefit from lower bank money-transfer rates, given that they have to spend time and money to reach the large municipalities with bank branches. Private remittance-transfer companies cite distance as a key justification for higher prices because they deliver money to places where families live.

Western Union, MoneyGram, and two large Nicaraguan firms handle from 60 to 70 percent of the total formal remittances market, and charge approximately 10 percent for each transaction. These companies are far better equipped to reach rural Nicaraguan families than are banks, and they do not inquire as to legal status. These companies do require personal documentation, and often senders must complete written forms. Both requirements can pose difficulties. First, Nicaraguans are often unable to obtain birth certificates or other forms of identification due to inefficiency or noncooperation from municipal authorities at home.[12] Second, illiterate Nicaraguans and those with low educational levels find the forms daunting.

There are many small money-transfer services of Nicaraguan origin located in Costa Rica. These charge somewhat less than large international firms, and do not typically require either formal personal documents or legal residence.[13] The number of these firms continues to increase in pace with the demand for remittance services. However, these are far from reliable. Sometimes they fail to deliver funds. A number have closed down and disappeared with migrants' earnings.

Finally, there are a few microenterprise networks working on a regional basis. Red Centroamericana de Microfinancieras (REDCAMIF) and Fondo Latinoamericano de Desarrollo (FOLADE) are the most prominent, and allow agencies working with community projects and cooperatives in Central America to channel remittance funds to these projects. REDCAMIF has eight projects in operation, and FOLADE is designing a "family remittances network" to serve 17 locations in Nicaragua, through the participation of seven organizations in Costa Rica and seven in Nicaragua (FLACSO 2003). These initiatives foresee providing technical assistance and capacity building, in addition to providing remittance services and microenterprise credits. In other words, they anticipate a comprehensive program to assist immigrants through the participation of NGOs, cooperatives, foundations, and social service groups.

Case Two: Haitians in the Dominican Republic

Migration specialists in the Dominican Republic estimate the number of Haitians in that country to be somewhere between 500,000 and 800,000—much lower than the total perceived by most Dominicans.[14] The highly transient nature of Haitian migration, characterized by frequent illegal border crossings, makes estimation of the number of Haitian migrants difficult. The Ministry of Foreign Affairs asked the International Organization for Migration (IOM) to undertake a survey of Haitian migrants in the country in late 2002 and early 2003

[12] A project of CARITAS Nicaragua assists in this process to the extent possible.

[13] FLACSO (2003) found that fees for remittances averaged between 7 and 10 percent, counting small and larger firms.

[14] Interviews with researchers at FLACSO and at the International Organization for Migration (IOM) August 11-17, 2003.

(IOM-FLACSO 2003). The results of this work inform the following discussion.

Patterns of Migration

The presence of large numbers of Haitians in the Dominican Republic originated with the growth of the Dominican sugar industry beginning in the early 20th century (Ornstein 1995). By 1930, more than half of Dominican sugar mills were U.S.-owned, and infrastructure was built to enable the transportation of Haitians to work in the *bateyes*, or sugarcane fields. Over the past century, the low-wage Haitian cane cutters who worked seasonally have slowly become part of a permanent population of Haitians and Dominicans of Haitian origin living in Dominican agricultural and urban areas.

International human rights and labor organizations have catalogued numerous human rights abuses in the sugar industry. For example, the International Labour Organization (ILO) cites slave-like conditions under which Haitian cane cutters work and live (ILO 2001). However, with the transfer by 2000 of the State Sugar Council (Consejo Estatal del Azúcar, or CEA) sugar mills to private ownership, the ILO has noted a sharp decline in the number of Haitians entering the Dominican Republic to work in the sugar industry. As a result, there is less direct coercion of Haitian migrant workers. Instead, there is an increasing flow of unregistered migrants from Haiti entering for work in other occupations (ILO 2001).

Recent Haitian migrants to the Dominican Republic are more diverse in terms of labor market participation, gender, geographic origin, and socioeconomic class than their predecessors in the sugar industry. There is a significant presence of Haitian labor in non-sugar agricultural and low-wage urban employment sectors, including in construction, commerce, tourism, transportation, and domestic service (Silié, Segura, and Cabral 2002). No longer kept under close watch in the *bateyes*, Haitian workers now have greater freedom of movement in terms of jobs and geography. Workers commonly rotate between construction and agricultural work in different provinces. Regardless of their type of employment, it is clear that Haitians want to stay and work in the Dominican Republic.

About 75 percent of Haitian migrants are male, but female migration is on the rise. Women have traditionally found employment in domestic service, typically in the border region. But, according to the IOM-FLACSO survey, more females are migrating independently of their husbands or partners and are seeking work in different sectors of the economy, including informal street commerce and food service. Reportedly, Haitian women remain in the Dominican Republic for longer periods, are more determined to stay permanently, and better utilize social networks to procure employment before migrating.

Both genders migrate while young, although women are often slightly older. Migrant families typically have children both in the Dominican Republic and in Haiti. More than 60 percent of the migrants to the Dominican Republic in the last 15 years have come from urban areas (Silié, Segura, and Cabral 2002). This reflects the increased rate of urbanization in Haiti, and suggests that prospective migrants move from rural areas to cities before leaving Haiti. Most new migrants are better educated than average Haitians, with most having finished primary school and more than half being literate. The IOM-FLACSO study shows that 87 percent of Haitians interviewed had some type of income in Haiti before migrating. Over three-fourths of the Haitian population in the Dominican Republic lacks documentation from either the Dominican Republic or Haiti (Silié, Segura, and Cabral 2002). This situation does not deter the hiring and incorporation of Haitians in the Dominican labor force, but does contribute to poor living and working conditions and a very low use of formal channels to transfer remittances.

Housing for both contract and non-contract labor is of poor quality, with amenities such as indoor plumbing and electricity in short supply. Haitian migrants in both rural and urban areas indicate that they prefer to live in close quarters with their compatriots. Short-term workers often live on actual worksites, particularly in the construction and agricultural industries, in order to save money. The tendency to live and work in groups from the same region increases collective support and facilitates informal remittance transfers.

The insecure status of Haitian migrants in the Dominican Republic will likely persist for the foreseeable future largely because of Haiti's desperate poverty, and the Dominican Republic's continued demand for cheap labor. Haitian migrants have little leverage to bargain for better pay or working conditions, and when demand for their labor declines they are likely to be deported.

Patterns of Remittances

In 1986 the agreement between Haiti and the Dominican Republic to bring Haitian workers for the sugar harvest was terminated. When the

IOM-FLACSO survey began in 2002, researchers forecast that only a minority of Haitian migrants would be able to send money home. The research team was surprised to discover that fully half of Haitians surveyed sent remittances home regularly, most either monthly or at least two to three times a year. Another smaller FLACSO survey later showed that over 71 percent of respondents reported that they sent remittances—and that 35 percent were remitting half or more of their earned incomes.[15] Migrants who were accompanied by their families were less likely to send money home.

Insofar as Haitian migration is often circular, involving frequent returns to home, workers are likely to carry money with them. However, Haitian remittances go beyond monetary flows, as consumer goods, production tools, and food move back and forth all along the border. On designated market days, border restrictions are removed and border towns become free market zones where vendors from both sides buy and sell merchandise of every description.

More than 90 percent of migrants rely on friends, or carry money and goods home on their own, according to the IOM-FLACSO survey. Fewer than 5 percent had sent goods and money home with trusted truck or bus drivers, and only about 4 percent reported using remittance-transfer services. The most common arrangement for sending money back to Haiti is via informal courier, a coworker, or trusted third party usually from the same area in Haiti. Migrants pay for the courier's expenses, which include money for bribes at the border. Upon arrival, funds are distributed by the courier or by a Haitian-based contact known to all. Couriers are rarely corrupt, placing a high ethical value on their mission, and the system functions well. Nevertheless, the system is vulnerable to border authorities who take a substantial portion of money in exorbitant "taxes " and to thieves.

Banks play an inconsequential role in Haitian remittances because of the large number of Haitians who lack legal status. These migrants cannot open bank accounts and have little experience with financial institutions. Banks are inaccessible to the majority of Haitian migrants, with few branches in rural areas or city slums. While formal channels for migrant remittances are limited, there are a few microfinance projects in Haiti, such as the Fonkoze banking project (described below) and other small programs run by NGOs and churches, which have or are planning to use remittance funds. Rural and urban

[15] The latest FLACSO results are from a sample of 50 migrants receiving assistance by Jesuit Refugee Services in Santo Domingo in July and August of 2003. These figures are not yet published, but were shared by IOM-FLACSO with researchers in August 2003.

cooperatives, which prevail in both Haiti and the Dominican Republic, offer potential as remittance channels as well.

The Inter-American Foundation in the United States has worked with cooperatives, credit unions, and microfinance projects to facilitate remittance transfers in the region. The most promising of these projects is Fonkoze, a Haiti-based program that serves as an alternative bank for people with no prospect of establishing savings accounts in a formal institution. Currently limited to remittances from the United States, Fonkoze offers a range of services, including remittance transfers, microcredit loans, technical and financial assistance to small businesses, and capacity building, primarily to market women.[16] While small scale, this combination of services is a promising model for Haitians in the Dominican Republic. There is a strong tradition of cooperatives in Haiti. While suffering from low government funding and the financially dubious practices of some cooperative managers, there remains a tradition of popular organization. This tradition persists, on an informal basis, among Haitians in the Dominican Republic. Therefore, channeling transfers from groups in the Dominican Republic to cooperatives in Haiti is a logical alternative.

In 2003, a group of long-term Haitian workers in the Dominican Republic created a legally recognized cooperative for remittance transfers. By August 2003, this cooperative had 32 individual members, all of whom were working in construction. The Haitians deposit their remittance funds in a Dominican bank where the cooperative has an account, and agents of the cooperative in Haiti distribute the funds to the recipients in Haiti. However, there are no formal transfer mechanisms between banks in the Dominican Republic and Haiti, and as of late 2003 money had to be physically carried to Haiti, at great risk, by individuals in order to maintain solvency on the Haitian side. Since then, two international banks in the Dominican Republic, Sogge Bank and UniBank, have initiated transfer services, which could be used to facilitate initiatives such as the construction cooperative.

Case Three: Bolivians in Argentina

For over a century Argentina has attracted large numbers of migrants from neighboring countries, although these flows have fluctuated ac-

[16] The mechanics of setting up a system that allowed Haitians in the United States to deposit funds that their relatives in Haiti could access, and that could be used for credits, proved far more complicated than had been anticipated. Fonkoze is described in Breslin and Dade (2001).

cording to political and economic conditions. Bolivia has been an important source of immigration to Argentina. At the time of the most recent economic crisis, Bolivians, Paraguayans, and Peruvians comprised the largest bloc of migrant workers. After a century of migration and a general amnesty in 1992–94, most Bolivian workers still lack legal status. Like many Nicaraguans and Haitians, many Bolivians also lack documentation in their own country, as well.[17]

Patterns of Migration

Migration to Argentina has long been a critical survival strategy for many Bolivian families. Cross-border movement over the years has added to the number of permanent residents in Argentina of Bolivian origin. Bolivians, the longest standing of Argentina's migrant groups, were cutting sugar cane in the northern Argentine border provinces of Salta and Jujuy in the 19th century. Gradually, Bolivians began to stay past the sugar harvest, to work at picking fruit. In the 1960s, Bolivian migrants began to work in the vineyards of Mendoza and the vegetable farms of Buenos Aires province. Bolivians have been predominant in vegetable farming throughout the country and a number of Bolivian families have acquired land and earned substantial income from this work.

By the 1970s more Bolivians were adopting permanent residence in Argentina, with the migrant population extending as far south as Patagonia. By 1980, there were more Bolivians in the Capital District of Buenos Aires than in the border provinces of Salta and Jujuy, thus marking a significant change from the traditional rural-rural migrant flow. According to a 1998 study by the National Census and Statistics Institute, 38.8 percent of Bolivians live in the Buenos Aires metropolitan area, while 34.7 percent reside in Salta and Jujuy. The remainder are distributed mostly in the Mendoza region and outlying parts of the Buenos Aires province. In 1991 the census indicated that 143,569 Bolivians were living in Argentina, a 24 percent increase since 1980. The Argentine government's migrant amnesty program of 1992–94 formalized the status of 110,253 Bolivians. Although the 2002 census has not yet been released, qualitative data suggests a rapid growth of the Bolivian population before the 2001 crisis. Migration experts estimate that 642,000 Bolivians were living in Argentina just before the 2001 economic crisis in Argentina (Quinton Daza 2003).

[17] The amnesty benefited 110,253 Bolivians, double that of any other nationality. See Caggiano (2003).

At the end of the 1990s, Argentina's one-dollar to one-peso parity attracted large numbers of foreign workers, including Bolivians, to Argentina. A severe economic crisis in 2001 led to the abandonment of dollar-peso parity, as poverty and unemployment afflicted the Argentine middle class for the first time. The abandonment of the one-to-one peso to dollar exchange rate was one of the first economic changes in Argentina which, coupled with devaluation and reduced purchasing power, sparked an unprecedented large return migration to Bolivia in 2002. As many as half of the Bolivians, and a larger percentage of the Peruvians, left Argentina. However, evidence suggests that the majority of Bolivians who had left Argentina returned by mid-2003, having exhausted their savings.[18] The attractions of Argentina to Bolivians go beyond money, to include the superior quality of Argentine infrastructure, such as schools, water, and electricity.

Bolivian workers in Argentina are viewed as hardworking and low-cost, and can usually find employment in Argentina, even during slumps. In urban areas men gravitate toward work in construction and in both formal and informal commerce. Women also work in commerce and in domestic labor. In rural and semirural areas, Bolivians work in agriculture, as noted, and practically all vegetable production and wholesale commerce is performed by Bolivian labor. The textile and food industries have been traditional employers of Bolivians, and both had a modest recovery in 2003. In the Buenos Aires textile industry, Bolivians are increasingly displacing Korean workers, who, at an earlier period, had replaced Argentines in this sector.

A large portion of the working Bolivian population in Argentina arrived after the migrant amnesty ended in 1994, or did not qualify for amnesty because they lacked Bolivian identity documents. These migrants have no legal status, and are consequently excluded from the social security system and worker compensation programs. However, even Bolivians with legal status often work 12 to 16 hour days, at lower pay and with less security than enjoyed by native workers. In spite of or because of this work ethic, Bolivians are popular targets for Argentine politicians, media, and unions that blame them for increased Argentine unemployment and crime rates.

[18] The savings in some cases were substantial. Indeed, the bank freezing of funds in 2001–02 served to justify Bolivians' distrust of banks in general. They were able to retrieve the money they had kept hidden, and instead of leaving, some used their cash to purchase property from the temporarily worse-off Argentines.

To a far greater extent than Nicaraguans in Costa Rica, or Haitians in the Dominican Republic, Bolivians have organized themselves into organizations to assert their rights, improve living conditions, and preserve their heritage. Two umbrella groups, the Federation of Bolivian Civil Associations (FACBOL, in Spanish) and the Integrated Federation of Bolivian Entities (FIDEBOL, in Spanish), emerged during the 1990s to represent Bolivian interests and to fight against the negative stereotypes of Bolivian migrants.

Patterns of Remittances

Remittances are now a major factor in the Argentine economy. Argentines living in the United States, Spain, Venezuela, Israel, and other countries send remittances to support thousands of families in the country. At the same time, Argentina has served as an economic pole and therefore, as a major source of remittances for neighboring countries in the hemisphere. In contrast to the cases of Costa Rica and the Dominican Republic, where the International Organization for Migration closely follows remittances, this phenomenon has not received much official attention in Argentina. Currently, no official agencies systematically calculate or track funds sent by migrants in Argentina to other countries. The Central Bank has not kept track of remittance flows as a separate item in its unilateral transfers calculations, and neither the commercial section of the Foreign Ministry nor the National Institute of Statistics and Census (INDEC) maintains data on remittances (although INDEC has plans to do so).

According to experts, Bolivians living outside their country sent an estimated $182 million home in 2000, an amount equal to 2.1 percent of Bolivia's GDP and 14.6 percent of the value of Bolivia's exports. Bolivians living in Argentina sent the largest portion of this amount, some $144 million (Quinton Daza 2003). Under the previous regime of peso-dollar parity, Bolivians could easily support families back home, and few migrants were concerned about the cost of sending remittances. International money-transfer services such as Western Union and MoneyGram were in great demand, even among poorly paid Bolivians. Bolivian and Peruvian remittance-transfer companies were operated by entrepreneurs in both countries, and had widespread collection and distribution points. These firms have not been required to register their transactions, and most do not do so. After the crisis precipitated a dramatic reduction in remittances, virtually all enterprises that were specialized in the Bolivian migrant market failed.[19] Only a few companies that served a broader immigrant market managed to survive. Officials in several transfer companies reported having lost up to 60 percent of their clients, while remaining customers only sent a fraction of earlier amounts.[20] All money-transfer firms—from large international companies to small regional and local ones—slashed transfer prices. Western Union, for example, charged 15 percent for all transfers before the crisis, but today charges 6 percent. The Peru Service Courier Company, which once charged about the same price as Western Union, now charges 5 percent per transfer (Caggiano 2003).

During the worst period of the crisis, the government of Argentina greatly restricted the amount of money that banks could transfer out of the country. Argentine banks with remittance services to Bolivia and elsewhere suffered dramatic declines, and a few closed their doors during 2001–02. Bank officials interviewed for this chapter report that their involvement in remittances now occurs primarily through agreements with the major international remittance companies such as MoneyGram and Western Union.

By 2003 migrants were again sending money home, although in smaller amounts than before the crisis. Moreover, interest in the remittance market is returning on the part of some banks that had been scared away during the crisis. Yet significant obstacles to expanding this market remain. For example, bank-to-bank transfers between Argentina and Bolivia are channeled through third-party banks—usually in New York—where both sending and receiving banks have accounts. As a consequence, these must adhere to U.S. banking regulations, which raises costs. Moreover, a number of smaller banks do not have expensive SWIFT services that enable them to transfer funds electronically.[21] Currently, the largest volume of remittances is channeled through larger networks such as Grupo Fortaleza, which primarily serves corporate clients rather than small individual accounts.

However, there are new arrangements evolving between banks in Argentina and Bolivia. A new partnership between Banco Colombia in Argentina and BancoSol in Bolivia will provide remittance services

[19] Among transfer companies with Bolivian capital were Cashbol, Servicios del Valle, Kantuta Express, and Urkupiña, which ceased to operate because of the economic crisis.

[20] Interviews conducted by the Instituto de Desarrollo Económico y Social, Buenos Aires, August 2003, and the Institute for the Study of International Migration, September 2003.

[21] Interview with Nelson Hinojosa Jiménez and Zenón Ponce Ibañez, Banco Fortaleza, La Paz, Bolivia, September 8, 2003.

and a variety of credit options for low-income immigrants. Two additional initiatives are being supported by the Multilateral Investment Fund (MIF) of the Inter-American Development Bank, in cooperation with ACCION International, a U.S.-based NGO. The first also involves BancoSol in Bolivia, which had in place a remittance-transfer network with banks, cooperatives, and transfer agencies in Argentina by 2001.[22] The Argentine crisis of 2001–02 led to the bankruptcy of key Argentine partners and a very sharp decline in profits. With assistance from MIF and collaboration with ACCION International, BancoSol is now linking remittance income with savings accounts to help remittance senders ultimately deposit their funds in BancoSol accounts, which their families in Bolivia can access.[23] The success of such projects probably hinges on increased levels of remittance funds from the United States and Spain, rather than on flows from Argentina, which are likely to remain small for the foreseeable future.

FIE, a combined NGO/FFP (*fondo financiero privado)* partnership, is another Bolivian-based organization that is channeling remittances into credit and microfinance. FIE operates a program for microfinance credits and other services, including remittance transfers. FIE requires a partnership arrangement because a private FFP—unlike a bank—is not permitted to engage in international transactions. Money transfers begin with the FIE—Gran Poder in Buenos Aires, an NGO that offers remittance services. Reports from FIE management suggest that initial recovery in Argentina has caused demand for its services to exceed its capacity to collect and transmit the money.

Currently, FIE serves the Bolivian population in the Buenos Aires *barrio* Liniers, and plans to expand to more locations across Buenos Aires. Most of its clients are self-employed and associated with the textile industry. Fees for money transfers are 5 percent, and clients are not asked to prove legal status in Argentina. When FIE receives a deposit in Argentina, the Buenos Aires office sends an e-mail with payment instructions to the counterpart FIE office in La Paz (which is also an NGO). The La Paz FIE–NGO has an account in FIE-FFP that pays the client, usually within 30 minutes from the time the remittance is sent. However, the two bank accounts, in Banco Nacional in Argentina and CitiBank in Bolivia, do not have a working relationship for direct remittance transfers at this time, presenting difficulties. In fact, funds are

[22] The cooperatives proved to be highly risky because members of the weaker ones could not meet payments for credits and cooperative members who were doing well sought individual accounts elsewhere.
[23] Interviews with Julio Cesar Herbas, BancoSol, September 8, 2003, and María Jaramillo, ACCION International, October 23, 2003.

moved between the two countries only when the Buenos Aires office has collected about $10,000, so there can be a significant time lag between the time the FFP pays the recipient in Bolivia and the corresponding funds are actually deposited in Bolivia.[24]

In Bolivia, FIE-FFP has 26 urban and semi-urban distribution points, with plans to expand to rural locations. Like BancoSol, FIE-FFP provides small savings accounts for those who collect remittances.[25] While these initiatives are promising, remittance flows still depend largely on personal contacts who physically carry or otherwise transport money across borders from migrants to families. However, large international companies, largely due to a long familiarity on the part of senders, still capture an important portion of the formal remittance market.

Comparison of Migration and Remittance Patterns, South-South with North-South

There are several differences in terms of remittance behavior that emerge when migrants in Nicaragua, Haiti, and Bolivia are compared with their counterparts in the United States. First, in these three countries, shorter distances and relatively easier border crossings lead to more "circular migration," or journeying back and forth of migrants. It is easy for contractors from the wealthier neighboring countries to recruit workers for varying periods of time. While there are considerable numbers of circular migrants in the United States, and contract labor arrangements cover much of the agricultural labor from Mexico and the Caribbean, migrants in the United States overall, stay for longer periods of time than their counterparts in Latin American countries.

Second, the large number of Nicaraguans, Haitians, and Bolivians in the United States rarely migrate from the poorest sectors of their countries. The costs associated with making the trip are too high for the very poor, even when families pool their funds. Migrants in this South-South study have to cross only a single border. While they may rely on guides and pay bribes to officials, costs are still far lower. Therefore, the migrant populations in these three cases are poorer and, consequently, are less educated and skilled as compared to mi-

[24] Interviews with Karen Ayala, FIE-Gran Poder, September 3, 2003, and Elizabeth Nava, FIE-FFP, September 9, 2003.

[25] Interviews with Elizabeth Nava, FIE-FFP, and Janett Castillo, FIE-NGO, in La Paz, September 9, 2003.

grants in the United States. Third, the population in this South-South sample is more likely to come from rural areas than are those who migrate to the United States.

Fourth, while discrimination remains a powerful force in the United States, the levels experienced by Nicaraguans, Haitians, and Bolivians in the countries studied here are much worse than in the United States. Further, none of the three governments in the countries of origin offered more than minimal support or protection to their migrants in the countries studied. This contrasts with the support of migrants by Mexican and Salvadoran consulates in the United States, and by national and local officials in Mexico and El Salvador. It is also interesting to contrast the experience of these countries with the interest shown by the Bolivian government in helping Bolivians in the United States with consular identification cards, and the occasional assistance extended by Nicaraguan officials to Nicaraguan nationals in the United States.

Fifth, migrants in these three countries are subject to a higher level of insecurity, which also affects the viability of remittance options, especially when migrants rely on informal means of transmitting. There are a greater number of options for sending remittances from the United States. In the United States, a much wider range of possibilities exists for lowering the transfer costs of remittances as compared to the middle-income countries of Latin America. Overall, costs continue to decline. Although intense competition from local companies has tended to lower transfer costs in the countries in this study, this benefit does not compensate for the much lower income levels of remittance senders. There is a lower level of participation of banks and formal financial institutions in remittance transfers in the South-South cases. Among Latin American countries there are more technical obstacles to bank transfers, as well as a greater reluctance of banks to deal with multiple users who have small accounts.

Sixth, in the countries studied in this chapter, many of the national remittance-transfer companies, and most of the informal carriers transport merchandise, food, and even people along with money to bordering countries. Therefore, the category of remittances is a broader one than in the United States.

Finally, migrants are more likely to have rural backgrounds, and have less trust and experience with formal financial institutions than their counterparts in the North. These factors lead to a widespread preference for informal arrangements, particularly with individuals who are known to the remitter.

Conclusions

This study yields two clear conclusions. First, regional migrants make heroic and sustained efforts, under exceedingly difficult circumstances, to send money to their families. Second, the process required to transfer these funds is precarious and often costly.

Sending money home interferes with these migrants' own integration and development of their human capital. They earn too little to attend to their own needs, and most cannot save enough to create a source of income generation in their original communities. For many of the migrants interviewed in this study, relieving poverty at home means living in poverty across the border. If they return home, another family member will most probably take their place in the host country. The Bolivian experience is illustrative. After returning home because of the collapse in Argentina, Bolivian migrants could not be absorbed by their own country. Within a year many Bolivians had returned to Argentina, despite the much lower economic benefits of post-crisis Argentina.

The major risk for migrants who send money across borders is that their funds will not reach their destination. People who carry their money can be overtaken en route, enterprises may prove unworthy of trust, or companies can simply go bankrupt. Money deposited in banks and financial institutions may oblige rural families to undertake costly, risky, and time-consuming travel to retrieve the funds. Fees and taxes become secondary to concerns over reliability and speed when sending money home.

A growing number of companies appear to be concluding that offering remittance services makes good business sense. However, money transfers in these South-South cases entail high risk, are technically difficult, and are time-consuming. Clients are usually poor and their business is profitable only if large numbers remit on a regular basis. Economic slumps greatly reduce remittance profit margins, and good times attract competition that can drive down both prices and profits.

The slow increase in the number of banks, credit unions, and socially oriented entities in the United States offering transfer mechanisms is less evident in Latin America. Migrants in Latin America are less able to take advantage of such opportunities, where they do exist, because of a widespread lack of legal status, documentation, and experience. A few modestly successful initiatives are being undertaken, however, and may yet establish a trend.

For this to happen, governments must render a minimum level of support to their migrant populations. Migrants interviewed in all three countries were unanimous in their disdain for their own governments, and in their rejection of any government involvement in remittance-transfer activity. Nevertheless, there is an important role for countries of origin in at least two important areas. First, governments can add their weight in favor of human rights protections for their citizens. Secondly, they can help migrants obtain personal documents and establish formal identity in their host countries. Host country governments must also do much more to protect the human beings whose labor they acknowledge to be essential to their economies. It is one thing to enforce rules against illegal entrants, but quite another to allow government officials who steal money from migrants at the border to go unpunished. By all accounts, crimes against migrants are rarely taken seriously, even where migrants have legal status in the host country.

It is often said that migration and remittances are major factors in *national* development. Taking into account the high levels of intraregional migration and remittance activities, these factors are also important elements in strengthening *regional* integration. This is verifiable among the countries of Central America and the Southern Cone. Yet little reliable information is being collected about either migration or remittances among the countries of the region.

The research in support of this chapter was too short-term to seriously assess the varied impacts of remittances in the countries of origin. Yet reports of remittance uses in Nicaragua, Haiti, and Bolivia all belied the perception that they are spent solely on consumer goods. Of course, families depend on remittances for basic consumer needs, but surveys and informants indicate that an important portion of the money pays for children's education and for health needs. As frequently indicated, remittance income from neighboring countries has a greater impact on rural inhabitants, while those from the United States and Europe more often serve urban families. Remittances have strong potential economic stimulus for long-neglected rural communities, but the material levels of some rural localities are so low that it is difficult to stimulate any real market activity. Clearly, additional investment and economic stimulus are also needed.

Bibliography

Alexandre, Guy. 2001. *La Question Migratoire entre la République Dominicaine et Haïti*. 2 vols. Port-au-Prince: International Organization for Migration.

Breslin, Patrick, and Carlo Dade. 2001. The Development Potential of Remittances, Country Overviews. Paper prepared for the Inter-American Foundation and presented at a conference, Approaches to Increasing the Productive Value of Remittances: IAF Case Studies in Financial Innvovations and International Cooperative Community Ventures, March19, the World Bank, Washington, D.C. http://www.iaf.gov/news_events/Special_Events/Country_Overviews.pdf

Caggiano, Sergio. 2003. Informe de las Remesas Bolivianas desde la Argentina. Instituto de Desarrollo Económico y Social (IDES), Buenos Aires. www.georgetown.edu/sfs/programs/isim

Castellón, Ricardo. 2003. Investigación del impacto de las remesas en la economía local de la zona seca de Chinandega, Carazo y Managua. FAO-Ford Foundation, Managua, Nicaragua.

Castro Valverde, Carlos. 2002. Informe Inserción Laboral y Remesas de los Inmigrantes Nicaragüenses en Costa Rica. In *Redes Transfronterizas,* ed. Abelardo Morales. San Jose, Costa Rica: FLACSO.

Facultad Latinoamericana de Ciencias Sociales (FLACSO). 2003. Informe: Migración y Remesas en Costa Rica, Dinámica y Tendencias Generales (September). www.georgetown.edu/sfs/programs/isim and www.flacso.or.cr.

Economic Commission for Latin America and the Caribbean (ECLAC/CEPAL). 1999. Expert Group Report on Productive Use of Remittances in Nicaragua. (ECLAC/CEPAL) 99-8-74.

Grimson, Alejandro, and Edmundo Paz Soldán. 2000. Migrantes bolivianos en la Argentina y Estados Unidos. Cuadernos de Futuro 7. United Nations Development Programme, La Paz, Bolivia.

International Labour Office (ILO). 2001. Stopping Forced Labour-Report of the Director-General: Global Report under the Follow-up to the ILO Declaration on Fundamental Principles and Rights at Work. International Labour Conference 89th Session 2001 Report I (B), Geneva. http://www.ilo.org/public/english/standards/decl/publ/reports/fullreport2/part1_ch4-5.pdf

International Organization for Migration (IOM). 2001. *Binational Study: The State of Migration Flows between Costa Rica and Nicaragua, Analysis of the Economic and Social Implications for Both Countries.* Report published online http://www.rcmvs.org/investigacion/BinationalStudyCR-Nic.pdf

International Organization for Migration and Facultad Latinoamericana de Ciencias Sociales (IOM-FLACSO). 2003. *Encuesta sobre Inmigrantes Haitianos en la República Dominicana*. Santo Domingo, Dominican Republic.

Morales, Abelardo, and Carlos Castro. 2002 *Redes Transfronterizas: Sociedad, Empleo y Migración entre Nicaragua y Costa Rica*. San José, Costa Rica: FLACSO. www.flacso.org

Multilateral Investment Fund of the Inter-American Development Bank (MIF-IDB). 2003. Sending Money Home: An International Comparison of Remittance Markets. Washington, D.C.: Multilateral Investment Fund.

Oficina Internacional del Trabajo. 2002. *Estudio de Hogares de Mujeres Nicaraguenses Emigrantes en Costa Rica*. Managua: Oficina Internacional del Trabajo.

Orenstein, Catherine C. 1995. Illegal Transnational Labor: Mexicans in California and Haitians in the Dominican Republic. *Journal of International Affairs* 48(2): 601–24.

Orozco, Manuel. 2002. Globalization and Migration: The Impact of Family Remittances to Latin America. *Latin American Politics and Society* 44(2): 41–66.

———. 2003a. Remittances, the Rural Sector and Policy Options in Latin America. Paper presented to World Council of Credit Unions. June 2–4, Washington, D.C.

———. 2003b. Costs, Economic Identity and Banking the Unbanked. Testimony to Congressional Hispanic Caucus, U.S. House of Representatives, March 26.

———. 2003c. Family Remittances to Nicaragua: Opportunities to Increase the Economic Contributions of Nicaraguans Living Abroad. Inter-American Dialogue Report for the U.S. Department of Agriculture, under a grant by the USAID Mission in Managua, Washington, D.C.

———. 2003d. The Impact of Migration in the Caribbean and Central American Region. Canadian Foundation for the Americas. www.focal.ca

Quintón Daza, José. 2003. Repercusion de la crisis argentina en el Valle Alto de Cochabamba. Proyecto de Mejoramiento de la Formación en Economía. PROMEC, Cochabamba (April).

Silié, Ruben, and Carlos Segura, eds. 2002. *Hacia una nueva visión de la frontera y de las relaciones fronterizas.* Santo Domingo, Dominican Republic: FLACSO.

———. 2002. *Una isla para dos.* Santo Domingo, Dominican Republic: FLACSO.

Silié, Ruben, Carlos Segura, and Carlos Dore Cabral. 2002. *La nueva inmigración haitiana*. Santo Domingo, Dominican Republic: FLACSO.

The World Bank. 2004. *World Development Report 2004: Making Services Work For Poor People*. Washington, D.C.: The World Bank.

This page intentionally left blank

Chapter 10

Remittances to the Andean Region

Andrés Solimano*

International migration has been on the rise in recent years; consequently remittances play a key role in many developing economies that have a large emigrant population abroad. Remittances generate foreign exchange, complement national savings, and provide a source of finance for capital formation. In addition, migrant-to-family transfers provide an implicit social safety net, helping to maintain the consumption of poor families during times of economic strain and crisis. In spite of these beneficial effects, there are also some side effects to be considered. Foremost among these is the tendency of large inflows of remittances to lead to real exchange rate appreciation that may penalize exports. In addition, an excessive dependence on remittances can also reduce incentives to work and save. While most remittances finance consumption in low-income families, these resources are also used for investment (such as in housing and microenterprises).[1] From the perspective of the donor country, remittances can reduce the demand for official development assistance.

Remittances to the Andean Countries

International remittances to the Andean region (Bolivia, Colombia, Ecuador, Peru, and Venezuela)[2] are primarily channeled through nonbanking financial intermediaries. Due to market segmentation, dominant players in the remittances market in the United States and other

*I am grateful to Manuel Orozco for his support and comments on an earlier version of this study. I also acknowledge the valuable comments of Pedro de Vasconcelos of the Multilateral Investment Fund of the Inter-American Development Bank, in the preparation of this report. Claudio Aravena and Elva González provide effective research assistance.

[1] The distributive effects of remittances in the home country are somewhat ambiguous. The issue is investigated by Barham and Boucher (1998).

[2] These are the countries of the Community of Andean Nations (CAN).

advanced economies can command high fees and use overvalued exchange rates to increase profits, thus reducing the development impact of remittance flows. Moreover, limited competition in the area of financial intermediation, a lack of service standardization, and the small average size of individual remittances have combined to prevent much of the industry from taking advantage of scale economies to drive down the cost of remittances to Andean countries and the rest of Latin America.[3] Exchange risks and regulations, including licensing costs of foreign exchange transactions, also raise costs in the remittances market. Both the low-income profile and non-regularized immigration status of many immigrants have dissuaded many banks from developing financial services or entering the remittances market.[4]

Migrants in the United States are the main source of remittances to the Andean countries. The majority of these migrants earn less than $30,000 per year and send home about $200 to $300 per month on average, or approximately 10 percent of their annual income (MIF-IDB 2002). They send money through national money-transmitter operators (NMTOs), ethnic stores, the postal service, travel agencies, and other mechanisms. Overall, the fees for sending money vary from about 5 to 12 percent of the total value of the remittance, depending on the type of service offered, the country of destination, the currency remitted (whether dollars or local currency), and the exchange rate used to convert dollars into local currency.

Among the Andean countries, remittances are most important, in order, for Ecuador, Colombia, Bolivia, and Peru.[5] Remittances have had a large macroeconomic impact in Ecuador, where they represent a higher share of GDP, exports, and domestic investment than in other Andean countries. Moreover, Ecuador enjoys a foreign exchange advantage vis-à-vis other Andean countries, given that the dollar is the official currency of the country. Overall, remittances from emigrants are increasing at a significant rate in the Andean countries, with ample scope for improvements in their productive impact.

[3] In the aggregate, however, this is a sector that mobilizes a large volume of resources: aggregate remittances for Latin America were on the order of $45 billion in 2004 for the main 12 recipient countries in Latin America (see MIF-IDB 2005).

[4] In the United States, banks require customers to supply a Tax Identification Number as a requirement for opening a bank account. Recently some banks have begun accepting consular identification cards for opening bank accounts (see chapter 5). Moreover, many migrants are fully tax compliant despite nonregular immigration status.

[5] For Central American and Caribbean countries, average remittances are on the order of 10 percent of GDP (see MIF-IDB 2003).

This chapter is based on a study conducted for the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) that provides new data on costs, market structure, and modalities of remittances to the Andean region (see Solimano 2003). The data for the study were obtained from a survey conducted in several U.S. cities of national money-transmitter operators and "ethnic stores" that send money to the five Andean countries (see discussion below).

Conceptual and Measurement Issues of Remittances

As people migrate from one country to another, money flows in the opposite direction. The economic significance of remittances is not fully captured in the official balance of payments statistics in either sending or receiving countries. Monetary transfers increase the supply of foreign exchange in the country of origin of the migrant, while "in-kind" remittances in the form of goods and services save scarce foreign exchange in the recipient country. Only some of these transactions are recorded. Where remittances are sent through formal channels, they are recorded by the receiving country's official statistics as an inflow of foreign exchange in the current account of the balance of payments. Conversely, cash remittances sent informally through couriers are usually unrecorded in official statistics. In-kind remittances, or goods and services sent to households in the home country, may be only partially captured as imports in official data. Other transfers in the form of charitable donations or payments and deposits for relatives and friends (such as insurance premiums, tuition, and travel costs) function as an economic form of remittances, but are rarely recorded as such (see Brown 1997).

Motives to Remit

An overview of the literature on remittances suggests that there are four basic motives for sending money home. These are altruism, self-interest, as part of an implicit contract to repay a loan, or as co-insurance (see Stark 1991; Brown 1997; Poirine 1997). Under the altruistic motive, a migrant sends money home because (s)he derives satisfaction from providing for the welfare of her or his family in the home country. A major prediction of the altruistic model is that remittances per migrant tend to decrease over time as family ties weaken, new bonds are made in the adopted country, or as family members are brought from the home country (Stark 1991).

Economic self-interest is another primary motive for remitting money home. For example, as migrants accumulate savings in the host country, they are faced with portfolio decisions concerning asset choice and allocation. The home country is often an obvious choice for investing in land, residential property, financial assets, and other outlets. In addition, families in the home country can often serve as an agent for the migrant's investments in his or her absence. Remittances may also be calculated to maximize the probability of inheritances. Making positive contributions to family wealth in the present may increase the likelihood of future bequests by the parents of the migrants.

Another model identifies the family—rather than the individual—as the main unit of analysis.[6] In this view, families enter into implicit contracts with members who emigrate. These implicit contracts involve investment and repayment obligations between families and migrants, often spanning several years or decades. In this context, families make a "loan" to finance the emigrant's costs of education, migration, and settlement in the host country. Later on, "repayment" follows when the migrant generates income abroad and sends home remittances. In essence, families invest in an "asset"—the migrant—who usually earns more in the foreign country than other family members at home. Total repayment as measured in the time and amount of remittances is based on several factors, including the length of time required for the migrant to become established in a host country, the length of stay abroad, and the income profile of the migrant.

A variant of the implicit family contract theory is based on risk diversification. For instance, imperfections in insurance and capital markets make it difficult for many migrants to hedge against risk. Severe borrowing constraints for lower-income migrants hamper their ability to smooth consumption or finance investment. In cases where economic risks between the sending and foreign country are not positively related, families can "export" their better-educated members in order to minimize economic risks to the family. Conversely, families in the country of origin serve as an insurance policy for the migrant during bad times in the foreign or host country.

In practice, all these motives may be present in decisions to migrate and send money home. For example, migration is a co-insurance strategy with the family, and remittance flows are an insurance pay-

[6] See Poirine (1997) and Brown (1997) for elaborations on the family model of remittances.

ment. Yet enforcement may be strengthened by implicit family contracts, as well as by family trust and elements of altruism.

Remittances in the Andean Region: Trends from 1990 to 2003

Economic and political crises across the Andean region in recent years have led to major emigration of its citizens to other countries. For example, in response to a severe domestic economic crisis, it is estimated that around 500,000 Ecuadorians emigrated to Spain, the United States, Central America, and elsewhere between 1998 and 2002.[7] Migration is induced by large differentials in income per capita between more developed nations such as the United States and the Andean countries (a difference, on average, of a factor of 6); Spain (a factor of 3); and Argentina and Chile (a factor of around 2).[8]

Years of economic stagnation and a severe internal security crisis in Colombia has led to an emigration of close to 1 million people during the past five years. Venezuelans are now beginning to leave their country in the midst of an ongoing political crisis and severe economic instability. Further south, Peruvian emigration to Chile and other countries has risen in recent years, while Bolivia has been a traditional exporter of people to Argentina.

Increasing flows of remittances to Andean countries have proven helpful in cushioning some of the impact of severe economic crises. Since 1997–98, remittances have increased significantly in Bolivia, Colombia, Ecuador, and Peru (table 10.1). Between 1998 and 2002, using constant 1995 dollars, remittances increased by 150 percent in Bolivia, 510 percent in Colombia, 72 percent in Ecuador, and 73 percent in Peru. Remittances as a proportion of GDP have been largest in Ecuador: 7 to 8 percent in the 2000–02 period (up from 2.2 percent in 1990–99). In 2002, remittances equaled approximately 25 percent of export revenues in Ecuador, 10 percent in Colombia and Bolivia, and 8.5 percent in Peru.

[7] See Beckerman and Solimano (2002) for an analysis of the Ecuadorian crisis of the late 1990s, and the subsequent adoption of dollarization. For an analysis of governance problems in the Andean countries, see Solimano (2002b).

[8] Solimano (2002c) provides an empirical analysis of the determinants of migration flows to and from Argentina that highlights the role of income per capita differentials across countries in driving these flows.

Table 10.1. Remittances to Andean Countries

	Net remittances received ($millions, in 1995 prices)					Net remittances as % of GDP (percentages based on values at 1995 prices)				
Years	Bolivia	Colombia	Ecuador[a]	Peru[b]	Venezuela[c]	Bolivia	Colombia	Ecuador	Peru	Venezuela
1987	–0.7	915.2	84.6	46.4	–124.8	0.0	1.5	0.6	0.1	–0.2
1988	–4.3	582.8	68.5	59.0	–184.7	–0.1	0.9	0.5	0.1	–0.3
1989	–0.6	494.6	68.2	58.0	–224.5	0.0	0.7	0.5	0.1	–0.4
1990	0.8	509.4	60.8	91.6	–359.5	0.0	0.7	0.4	0.2	–0.6
1991	–1.2	908.7	65.0	160.5	–421.8	0.0	1.2	0.4	0.4	–0.6
1992	–1.2	670.2	85.3	271.6	–422.6	0.0	0.8	0.5	0.7	–0.6
1993	–1.5	487.8	119.2	315.8	–404.8	0.0	0.6	0.7	0.7	–0.6
1994	–0.7	876.8	133.3	509.4	–90.7	0.0	1.0	0.8	1.0	–0.1
1995	–0.2	591.0	382.1	600.0	109.0	0.0	0.6	2.1	1.1	0.2
1996	–0.7	498.7	491.3	585.4	141.0	0.0	0.5	2.7	1.1	0.2
1997	64.0	571.0	646.3	634.1	–150.3	0.9	0.6	3.4	1.1	–0.2
1998	59.0	372.4	832.0	639.5	–114.5	0.8	0.4	4.3	1.1	–0.1
1999	51.1	1,152.9	1,148.6	709.8	–102.5	0.7	1.3	6.6	1.2	–0.1
2000	75.6	1,343.5	1,353.3	754.4	–198.6	1.0[d]	1.4	7.8	1.2	–0.3
2001	85.1	1,624.6	1,498.4	780.8	–569.4	1.1[d]	1.7	8.0	1.3	–0.7
2002	150.0	2,272.0	1,432.0	1,100.0	—	1.9[d]	2.3	7.4	1.7	—

— Not available.
[a] Only received remittance is available.
[b] Current transfer, 1987–98.
[c] Preliminary figures.
[d] Rounded.
Source: Balance of Payments Statistics, IMF 2002 and UN–ECLAC.

The Remittances Market and the Andean Countries

The following discussion is drawn from a study of the basic costs and modalities of sending remittances to the Andean countries (Solimano 2003). The empirical foundation of the study was based on a January 2003 survey of 25 money transmitters operating in several cities and other areas of the United States. The survey focused on formal money-sender intermediaries in Miami, New York, Houston, and locations in New Jersey and Virginia.

Nature of the Intermediaries and Market Structure

A variety of money transmitters serve the remitters to the Andean countries. These include national money-transmitter operators (NMTOs), such as Western Union and MoneyGram, and numerous "ethnic stores" (ES), which offer money-sending services to immi-

Net remittances as % of exports (percentages based on values at 1995 prices)					Net remittances as % of gross fixed capital formation (percentages based on values at 1995 prices)				
Bolivia	Colombia	Ecuador	Peru	Venezuela	Bolivia	Colombia	Ecuador	Peru	Venezuela
–0.1	9.7	3.7	1.1	–1.1	–0.1	9.3	3.6	0.5	–1.3
–0.7	6.6	2.4	1.5	–1.4	–0.6	5.3	3.2	0.7	–1.7
–0.1	5.7	2.4	1.2	–1.6	–0.1	4.5	3.2	0.8	–2.8
0.1	4.8	2.0	2.0	–2.3	–0.1	4.8	3.1	1.3	–4.9
–0.1	8.0	1.9	3.1	–2.6	–0.1	9.1	2.9	2.2	–4.2
–0.1	5.7	2.1	5.2	–2.7	–0.1	6.0	3.6	3.6	–3.2
–0.1	3.5	2.9	5.9	–2.3	–0.1	3.2	5.0	3.8	–3.3
–0.1	6.6	2.8	8.1	–0.5	–0.1	4.8	5.3	4.6	–0.9
0.0	4.8	7.5	8.9	0.5	0.0	3.2	14.7	4.5	1.1
–0.1	3.2	9.4	7.9	0.6	–0.1	2.8	17.7	4.6	1.5
4.9	3.3	11.7	7.5	–0.6	4.1	3.2	22.4	4.2	–1.3
4.3	1.9	15.8	7.3	–0.5	2.9	1.8	27.1	4.3	–1.0
3.8	5.6	20.3	7.1	–0.5	3.0	9.7	57.2	5.4	–1.0
5.1	6.3	24.7	6.8	–0.8	4.7	9.6	61.5	6.1	–2.0
5.3	7.2	26.4	6.6	–2.3	7.3	10.6	49.6	7.2	–3.8
9.8	10.4	24.5	8.6	—	12.5	14.2	38.7	9.9	—

grants from specific countries or subregions. Other entities offering money-transmission services often include the postal service, credit unions, travel agencies, and various hand-delivery operators (*encomenderos* or *viajeros*).

Western Union and MoneyGram dominate the remittances market to the Andean region (and many other markets as well). Both have an international scale of operation and offer a variety of travel and financial services, in addition to sending remittances more sophisticated than those offered by the type of smaller intermediaries mentioned above. Their clients are mainly emigrants working in the United States who earn an average annual income of about $25,000. These migrants send home, on average, $200 to $300 per month in remittances. Their immigration status varies widely—from those who are naturalized citizens, to "green card" holders with resident status, to those in various stages of processing resident visas, and finally, those with no regularized immigration status at all. Moreover, most regular clients of both NMTOs and ES do not have checking accounts in commercial banks.[9]

Western Union has the largest intermediation volume—both in terms of amount sent and number of transactions per year—to the Andean region. Western Union's annual transactions to Colombia number about 1 million; with 746,000 to Ecuador; 460,000 to Venezuela; and 470,000 to Peru (the number is unavailable for Bolivia). Western Union transmits about half (almost 50 percent) of Venezuela's total remittances and around 10 percent of total remittances for Bolivia, Colombia, Ecuador, and Peru. As previously stated, commercial banks are relatively minor participants in the remittances market of the Andean countries. Most NMTOs and ethnic stores operate through a partner in each destination country.

Costs of Sending Money

The basic cost of sending a remittance is composed of two main components: an explicit fee and the exchange-rate spread.[10] The (explicit) fee reflects the charge made by the money transmitters to the remitter for the various types of remittance services offered, which may include home delivery. Companies typically charge a fee that is either a percentage of the total amount remitted or a fixed amount, in dollars. The exchange-rate spread is the difference between the exchange rate applied by the money-transmitter company to convert dollars into local currency and the market (inter-bank) exchange rate. Money-transfer companies are usually able to increase their profits by offering a less favorable exchange rate to the sender than the market rate.

Table 10.2 provides the average cost or charge, across companies, for sending \$200, \$250, and \$300 dollars to the Andean region. The numbers provided in table 10.2 are an average of the costs of sending remittances, both in dollars and in local currency. Total charges to remit money range from 7.28 to 7.87 percent of the value of the remittance. The fee ranges between 6.5 percentage points (for remittances in the range of \$200 to \$250) and 5.9 percent for remittances of \$300, while the exchange-rate spread explains 1.36 percentage points. In other words, about 80 percent of the total charges are fees for transmission, while 20 percent reflect foreign exchange spreads.

[9] According to the MIF-IDB survey (2001) on remittances sent from the United States to Latin America, more than 60 percent of those Latin American immigrants who make less than \$20,000 per year do not have a bank account in the United States.
[10] See Orozco 2001 and MIF–IDB 2002.

Table 10.2. Charges to Send $200, $250 and $300
(average for five Andean countries)

Amount sent ($)	Fxcharge[a] Dollars	Fxcharge[a] %	Feecharge[b] Dollars	Feecharge[b] %	Total charge Dollars	Total charge %
200	2.72	1.36	13.0	6.5	15.7	7.87
250	3.40	1.36	16.2	6.5	19.6	7.84
300	4.08	1.36	17.8	5.9	21.8	7.28

[a] Charge due to exchange rate.
[b] Fee charged per transaction.
Source: Solimano 2003.

Significant cost differences exist among the Andean countries, as shown in table 10.3. The lowest charges are for Ecuador (between 5.13 and 5.62) and the highest are for Venezuela (between 11.68 and 12.51). Remittance costs in dollars to Ecuador are lower because of the absence of an exchange-rate spread—a clear benefit of official dollarization. In contrast, Venezuela incurs the highest costs of remittances delivered in local currency (approximately 12 to 13 percent). These relatively high costs are attributable, largely, to the foreign exchange

Table 10.3. Charges to Send $200, $250, and $300
(average per country, five Andean countries)

Amount sent ($)	Country	Fxcharge[a] Dollars	Fxcharge[a] %	Feecharge[b] Dollars	Feecharge[b] %	Total charge Dollars	Total charge %
200	Colombia	5.31	2.66	11.38	5.69	16.69	8.35
	Ecuador	0.00	0.00	11.23	5.62	11.23	5.62
	Bolivia	1.86	0.93	18.00	9.00	19.86	9.93
	Peru	–0.89	–0.44	14.38	7.19	13.49	6.75
	Venezuela	8.02	4.01	17.00	8.50	25.02	12.51
250	Colombia	6.64	2.66	14.17	5.67	20.81	8.32
	Ecuador	0.00	0.00	13.96	5.58	13.96	5.58
	Bolivia	2.32	0.93	22.57	9.03	24.89	9.96
	Peru	–1.11	–0.44	17.81	7.13	16.71	6.68
	Venezuela	10.03	4.01	20.83	8.33	30.86	12.35
300	Colombia	7.97	2.66	15.88	5.29	23.85	7.95
	Ecuador	0.00	0.00	15.38	5.13	15.38	5.13
	Bolivia	2.79	0.93	23.71	7.90	26.50	8.83
	Peru	–1.33	–0.44	19.38	6.46	18.05	6.02
	Venezuela	12.04	4.01	23.00	7.67	35.04	11.68

[a] Charge due to exchange rate.
[b] Fee charged per transaction.
Source: Solimano 2003.

spreads charged by the money-transmitter companies in Venezuela, which are the highest among the five Andean countries.

When remittances are delivered in dollars, costs are almost 40 percent lower than when money is delivered in local currency, as shown in table 10.4. The difference is due to the elimination of the exchange-rate spread.[11] Of course, there are also costs for the recipient in converting dollars into local currency, but recipients could probably get a more favorable exchange rate than the rates used by money transmitters, although this should be verified empirically.[12]

As previously mentioned, most immigrants from the five Andean countries use national money-transmitter operators (NMTOs) and ethnic stores (ES) to send money home. Survey data showed that on average, the NMTOs charge between 65 to 70 percent more than ethnic stores (Solimano 2003). At first glance, the much larger scale of operations of NMTOs as compared with ethnic stores would suggest the existence of greater economies of scale and therefore lower fees than smaller competitors. However, survey data suggest that almost half the migrants using Western Union and MoneyGram prefer these services because they are believed to be faster and more reliable than competitors. They may be paying a price premium for safer delivery vis-à-vis ethnic stores (MIF-IDB 2001).

Macroeconomic Impact of Remittances in the Andean Region

Remittance flows to the Andean region depend on various factors: the per capita income differential between host countries and countries of origin; past levels of remittances; and unemployment rates in the countries of origin of the migrants. We tested the statistical significance of each of these determinants of remittance flows with an empirical econometric model that used time-series data, cross-sectional data, and panel regressions for Bolivia, Colombia, Ecuador, Peru, and Venezuela for the period 1987–2002 (see Solimano 2003). The dependent variable in the regressions is the remittance flows as a share of gross domestic product.

The ratio between the GDP per capita of the migrant's host country and the GDP per capita of the migrant's home economy is the

[11] Note that the total charges of table 10.4 differ from those in table 10.2, since table 10.2 reports the average cost for the five Andean countries of remittances delivered both in local and foreign currency.
[12] The exchange rate used to compute the spread is the inter-bank exchange rate. Recipient may get a different rate in the foreign exchange market.

Table 10.4. Charges to Send $200, $250 and $300 in Local Currency vs. U.S. Dollars
(average for five Andean countries)

Amount		Fxcharge[a]		Feecharge[b]		Total charge	
sent ($)	Currency	Level	%	Level	%	Level	%
200	Local	7.86	3.93	13.17	6.58	21.03	10.52
	Dollar	0.00	0.00	12.94	6.47	12.94	6.47
250	Local	9.83	3.93	16.42	6.57	26.25	10.50
	Dollar	0.00	0.00	16.07	6.43	16.07	6.43
300	Local	11.80	3.93	17.81	5.94	29.60	9.87
	Dollar	0.00	0.00	17.74	5.91	17.74	5.91

[a] Charge due to exchange rate.
[b] Fee charged per transaction.
Source: Solimano 2003.

prime macroeconomic determinant of remittance flows for each Andean country. For Ecuador, the ratios of both the GDP per capita of the United States and the GDP per capita of Spain relative to Ecuador GDP per capita are both statistically significant (Spain and the United States are main destination countries for Ecuadorian emigrants). This positive effect of the ratio of the GDP per capita of the host country relative to the home country on remittance ratios holds true in all Andean countries, except for Venezuela, which has sustained negative net flows of remittances over the period studied.

Our analysis found that both past levels of remittances and the unemployment rate in the countries of origin of the migrants are also statistically significant determinants of remittance flows. Past levels of remittances tend to carry momentum forward in time, and seem to be fairly solid predictors of future flows.[13] The unemployment rate in the home country clearly correlates with a higher demand for migrants' money to support family members who are unemployed in the home country. In addition, domestic unemployment induces more people to emigrate and then send future remittances. This empirical analysis lends preliminary support to the predictions of the theoretical models of remittances that posit that remittances are an implicit insurance payment to help families in bad times in the home country.

[13] This may reach a turning point as over time migrants may bring their family members to their residence country abroad, therefore reducing the demand for remittances at home. At that point, remittances may start falling if no further emigration flows take place.

Remittances and Growth

Remittances constitute an extra source of income (a transfer) to the recipient family. Thus remittances can finance consumption and also allow an increase of household savings. These savings can support higher levels of investment (in housing, in children's education, in microenterprises) among lower-income households. Moreover, at the macro level in an economy constrained by foreign exchange rates, remittance flows can ease the balance of payments situation and enable more rapid growth. Other things held equal, countries with significant remittance inflows might expect a positive impact on the rate of GDP growth in their country because of a positive total saving effect. Our empirical analysis, looking at Colombia and Ecuador during the period 1987–2002, points toward such a relationship, but results are preliminary and more work is needed to elucidate the growth effects of remittance flows more precisely (Solimano 2003).

Conclusions

Remittances to the Andean countries have increased dramatically in recent years. Ecuador is currently the largest recipient in the Andean region, where remittances equaled about 7 percent of the country's GDP in 2002, up from around 2 percent during most of the 1990s. Bolivia, Colombia, and Peru have also experienced a rapid surge in remittance flows. Our econometric analyses for the Andean countries show that differentials in per capita income (or GDP) between sending and receiving countries are the main determinant of remittance flows. Clearly, differences in living standards between the countries of the Andean region and richer migrant recipient countries are the main driving force of remittance flows. This is so because these income differences generate emigration pressures whose counterpart, in monetary terms, is the remittance flows.

Remittances can be a significant tool of development finance in the Andean countries. In some economies of this subregion, remittances are an important source of foreign exchange. Moreover, remittances help to reduce poverty, supporting consumption and providing the finance for some investment projects undertaken by medium- to low-income families. If properly mobilized, remittances can contribute significantly to finance housing, education, and business finance available for microenterprises and smaller firms.

To enhance the development impact of remittances in recipient countries, the costs of money transfers must be reduced. Actions must be taken in both sending and receiving countries. On the sending side, steps toward simplifying the access of migrants to banking services will create incentives for commercial banks to enter the business of providing financial and remittance-related services to the immigrant community, thereby reducing the costs of sending remittances through greater competition. Moreover, the enforcement of new regulations related to money laundering and the financing of terrorism should not hinder the access of migrants to money-transfer channels or increase the costs of sending money abroad by emigrants.

On the receiving side, several promising possibilities exist for improving the impact of these precious flows in receiving countries. For one, Andean governments, in collaboration with domestic financial institutions, might issue bonds to emigrants who send remittances from abroad. Other productive incentives might include offering foreign currency accounts to migrants free of exchange rate taxes and other regulations. In addition, preferential accounts in banks and savings institutions could be opened to channel remittance flows to finance investment in housing and education. Matching public funds with emigrants' money could also enhance the multiplier effect of remittances.

Alliances between Andean banks, credit unions, and NMTOs and their counterparts in the United States and other countries could increase efficiency, expand financial services, and reduce the costs of sending money. Other mechanisms that merit examination include the mobilization of hometown associations (HTAs). These informal associations of emigrants who come from the same town or region in home countries have spread across the United States in recent years and have enjoyed some success in the channeling of remittances. They have also built productive networks with hometowns and expatriate investors, and collaborated on the resolution of practical issues with home governments.

Bibliography

Barham, Bradford, and Stephen Boucher. 1998. Migration, Remittances and Inequality: Estimating the Net Effects of Migration on Income Distribution. *Journal of Development Economics* 55: 307–31.

Beckerman, Paul, and Andrés Solimano, eds. 2002. *Crisis and Dollarization in Ecuador: Stability, Growth, and Social Equity.* Washington, D.C.: The World Bank.

Brown, Richard 1997. Estimating Remittances Functions for Pacific Island Migrants. *World Development* 25(4): 613–26.

El-Sakka, Mohammed, and Robert McNabb. 1999, The Macroeconomic Determinants of Emigrant Remittances. *World Development* 27(8): 1493–1502.

Faini, Riccardo 2002. Migration, Remittances and Growth. Paper presented at WIDER-UNU conference, International Migration, September, Helsinki.

Ilahi, Nadeem, and Saqib Jafarey. 1999. Guest-worker Migration, Remittances and the Extended Family: Evidence for Pakistan. *Journal of Development Economics* 58: 485–512.

Multilateral Investment Fund of the Inter-American Development Bank (MIF-IDB). 2001. Survey of Remittance Senders: U.S. to Latin America. Report prepared by Bendixen & Associates. Washington, D.C.: Multilateral Investment Fund.

———. 2002. Attracting Remittances: Markets, Money and Reduced Costs. Report prepared by Manuel Orozco. Washington, D.C.: Multilateral Investment Fund.

———. 2003. Sending Money Home: An International Comparison of Remittances Markets. Washington, D.C.: Multilateral Investment Fund.

———. 2005. Transforming Labor Markets and Promoting Financial Democracy. Washington, D.C.: Multilateral Investment Fund.

Orozco, Manuel. 2001. Globalization and Migration: The Impact of Family Remittances in Latin America. *Latin American Politics and Society* 44(2): 43–66.

———. 2002. Workers Remittances: The Human Face of Globalization. Multilateral Investment Fund of the Inter-American Development Bank, Washington, D.C.

Poirine, Bernard. 1997. A Theory of Remittances as an Implicit Family Loan Arrangement. *World Development* 25(4): 589–611.

Solimano, Andrés. 2001. *International Migration and the Global Economic Order: An Overview.* Policy Research Working Paper No. 2720. The World Bank, Washington, D.C.

———. 2002a. Globalizing Talent and Human Capital: Implications for Developing Countries. *Macroeconomics of Development* Series, No. 15. UN-ECLAC.

———. 2002b. Development Cycles, Political Regimes and International Migration: Argentina in the 20th Century. Paper presented at WIDER-UNU conference, International Migration, September, Helsinki.

———. 2002c. Globalization, History and International Migration: A View From Latin America. Paper presented at workshop, World Commission on the Social Dimensions of Globalization, December 16–17, Geneva.

———. 2003. Workers Remittances to the Andean Region: Mechanisms, Costs and Development Impact. Report for the Multilateral Investment Fund of the Inter-American Development Bank, Washington, D.C.

Stark, Oded. 1991. *The Migration of Labor*. Oxford: Basil Blackwell.

This page intentionally left blank

Chapter 11

Remittances: The Experience of the English-speaking Caribbean

Claremont D. Kirton*

Remittances to Latin American and Caribbean (LAC) countries represent roughly a third of the total worldwide flows of worker remittances (MIF-IDB 2003b). Moreover, the magnitude of these flows is increasing. Various anomalies contribute to the undercounting of remittance flows across countries. The Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) is attempting to better understand the nature of remittances across the Latin American and Caribbean region. Toward this end, the MIF has presented a report on trends in remittances to the Caribbean and Latin American countries (MIF-IDB 2003a). Only four of the fourteen countries of the Caribbean Community (CARICOM) are covered in this report: Guyana, Haiti, Jamaica, and Trinidad and Tobago.[1] Moreover, only a few studies in the last decade have assessed the role remittances play in the economic and social development of the English-speaking Caribbean.[2]

* The author wishes to thank Dillon Alleyne and Mark Figueroa, colleagues in the Department of Economics, University of the West Indies, Kingston, Jamaica, for very detailed comments on an earlier draft of this chapter. He also expresses gratitude to his graduate research assistant, Georgia McLeod, for assistance with bibliographic work, preparation of tables, and proofreading the final document.

[1] The 15 Caribbean countries of CARICOM are: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago. Seven of CARICOM's members belong to the Organization of Eastern Caribbean States (OECS): Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines. Anguilla is a dependent territory of the United Kingdom, as is Montserrat. Both these territories, however, have observer status in OECS. The process of regional integration is being deepened through the establishment of the Caribbean Single Market and Economy (CSME) within CARICOM, and the establishment of a monetary union of the OECS countries.

[2] See Bascom (1990); Samuel (1996); Dixon (1997); ECLAC (1998); Bullock (2002); and Orozco (2002a).

Mexico, Brazil, and Colombia are the top remittance-receiving countries in Latin America and the Caribbean, with inflows of $10.5 billion, $4.6 billion, and $2.4 billion, respectively in 2002 (table 11.1). Mexico accounts for roughly a third of the total remittances to LAC countries, with Brazil receiving 14 percent, and Colombia about 8 percent of total flows. Among the Caribbean countries mentioned in the MIF-IDB study (2003a), the Dominican Republic, Jamaica, and Cuba are the top three recipients of remittances, accounting for 37 percent, 23 percent, and 20 percent of total remittances to the Caribbean, respectively.

This chapter provides an analysis of the trends in remittances to the English-speaking CARICOM member-countries.[3] In addition, it explores the contribution of remittances to Caribbean regional development and assesses policy options.

Remittances: Definitional Issues

In analyzing remittances in the English-speaking Caribbean, Bascom (1990, p. 3) defines remittances as "transfers made from earnings and/or accumulated stocks of wealth by individuals who are residents in a foreign country on a temporary or permanent basis…to their countries of origin for dependent support, investment or any other purpose." Remittances can be seen as coinsurance payments arising out of predominantly informal contracts between an individual migrant and his or her nuclear or extended family. These flows take the form of financial resources or real goods (also called in-kind contributions), or some combination of both. Financial resource transfers may be used for consumption, saving, or investment purposes. Real goods are typically for consumption, although certain types are used for investment.

Remitters have different motives for sending money home, and therefore the form, frequency, and level of remittances will vary. Different types of remittances have different economic consequences for the recipients, as well as for the home countries. Figueroa, Alleyne, and Kirton (2003) have developed a taxonomy of remitters that includes the following six categories: migrant worker, permanent migrant, family migrant, part life migrant, part-time migrant, and returning

[3] All member-countries of CARICOM are English-speaking, except Haiti (French-speaking) and Suriname (Dutch-speaking). Given both data and time constraints, the author decided to limit the analysis to the English-speaking countries.

Table 11.1. Remittances to Latin America and the Caribbean, 2002

Country	Remittances ($millions)	Percent of remittances to Latin America and the Caribbean	Percent of remittances to the Caribbean
Mexico	10,502	32.8	n.a.
Brazil	4,600	14.4	n.a.
Colombia	2,431	7.6	n.a.
El Salvador	2,206	6.9	n.a.
Dominican Republic	2,111	6.6	37.4
Guatemala	1,689	5.3	n.a.
Ecuador	1,575	4.9	n.a.
Jamaica	1,288	4.0	22.8
Peru	1,265	3.9	n.a.
Cuba	1,138	3.6	20.2
Haiti	931	2.9	16.5
Honduras	770	2.4	n.a.
Nicaragua	759	2.4	n.a.
Venezuela	235	0.7	n.a.
Argentina	184	0.6	n.a.
Costa Rica	134	0.4	n.a.
Guyana	119	0.4	2.1
Bolivia	104	0.3	n.a.
Trinidad & Tobago	59	0.2	1.0
Total	32,044	100	100

n.a. Not applicable.
Source: Author's calculations, based on data in MIF-IDB 2003a.

migrant. The *migrant worker* is defined as a temporary resident in the host country, with ongoing ties to the home country. At minimum, this remitter regularly transfers fixed remittances to meet family requirements at home. The *permanent migrant* remits mainly to satisfy specific obligations in the home country, such as the maintenance of aging parents. The *family migrant* is one who has migrated and plans to move his or her entire nuclear family to the host country. *Part life* migrants work legally in the host country for their working life, with the intention to repatriate after retirement. *Part-time* migrants from the Caribbean are most often farm and tourism workers who have contractual arrangements with farms or hotels in host countries. Finally, the *returning migrant* is a worker who, despite an intention to remain in the host country, is forced for various reasons to return home.

Wahba (1991) distinguishes between four types of remittances: potential, fixed, discretionary, and saved. *Potential remittances* are defined as the total net savings available that a migrant could send home, after all host country expenses have been met. *Fixed remittances* refer to the minimum amounts that are transferred to meet basic family needs in the home country, or any other contractual financial obligations of the migrant. Fixed remittances satisfy a major objective of migration, given the necessity of providing for family and other basic obligations.

Discretionary remittances are funds transferred that are in excess of fixed remittances. The relative wealth of the host country vis-à-vis the home country is a major determining factor for this category of remittance flow, along with macroeconomic variables in both the host and home country. These include macroeconomic stability, interest rate differentials, currency conversion rates in the home country, and the costs involved in money transfers between the two countries. The total or actual amount of remittances transferred is typically the sum of discretionary and fixed remittances. *Saved remittances* represent the difference between potential and actual remittances, and may be used at some time in the future. This stock of migrants' wealth represents a potential source of foreign exchange. When this wealth returns to a home country, it represents a significant input into the development process, in the Caribbean and elsewhere.

Remittances: Measurement Issues

The measurement of both cash and in-kind remittances has proven to be very difficult, imprecise, and incomplete. The International Monetary Fund (IMF) reports remittances in its *Balance of Payments Manual* as part of current transfers in a country's balance of payments (BOP) statistics. Remittances are identified to include workers' remittances and "other current transfers." Workers' remittances are defined as "current transfers by migrants who are employed in new economies and considered residents there. (A migrant is a person who comes to an economy and stays, or is expected to stay, for a year or more.) Workers' remittances also involve related persons" (IMF 1993, p. 75). The IMF category "other current transfers" also records part of the remittances transferred to a home country. Typically, this includes cash and in-kind gifts such as food, clothing, other consumer goods, and medical supplies.

Orozco (2003b, p. 2) suggests that remittances data are at best "only an estimate of the total flow." Remittances data collected by the IMF and World Bank are typically smaller than those provided by regional central banks. Moreover, remittances transferred out of informal or illegally obtained funds in the host country are often unreported. In addition, money transfers by private couriers or private informal arrangements are likely to be unreported. It is also possible that remittance transfers through private accounts in formal financial institutions are not recorded as remittances by the central banks, although the great bulk of these are likely to be utilized by migrants' families. Overall, migrants' remittances are significantly underreported in most Caribbean countries.

Data Issues

Historically, for CARICOM countries, data on foreign trade and financial sector activities are among the most widely collected and disseminated. However, publication of remittances data is a much more recent phenomenon, with various data collection methods used across Caribbean countries.[4]

Data on remittances to the seven members of the Organization of Eastern Caribbean States (OECS) are obtained from a number of sources. Cash remittances data are received from commercial banks, which are required by central banks to periodically report the purchases and sales of foreign currency. Nonbank financial intermediaries and nonfinancial institutions also report data that are used to compile balance of payments statistics on remittances. The Eastern Caribbean Central Bank (ECCB) collects data on in-kind remittances through balance of payments surveys, as well as data on parcels, barrels, and other means through which in-kind remittances are transferred. These data are usually reported by the Customs departments and post offices. In examining remittances data sources in OECS, Samuel (1996, p. 12) points out that the "coverage of the transactions is far from complete since many of the transactions do not go through the official channels and would not be captured…*Thus recorded remittances are likely to be an understatement*" (emphasis added).

[4] See Campbell (2001) for a brief discussion on remittance data-gathering experiences of CARICOM countries.

For Jamaica, remittance data are collected on a daily basis as part of current transfers from commercial banks and merchant banks. Comparable data are obtained monthly from remittance companies, credit unions, building societies, and post offices. There is, however, no systematic collection of data on in-kind remittances. The Jamaican Customs Department collects data on in-kind remittances transferred to the country in barrels and containers, but only if these exceed $1,000 per shipment.

Like the other central banks in the Caribbean, Guyana's central bank collects data on remittances and migrants' transfers. The Bank of Guyana defines workers' remittances, migrant transfers, and other unrequited transfers as follows:[5]

> *Workers remittances would include transfers made by workers who stay in foreign economies for at least one year. These transfers are made by migrants living and working in new economies to residents of the economies in which the migrants formerly lived. Migrant transfers or remittances and receipts to bank accounts abroad would be transfers made by migrants to their bank accounts abroad and not to their families. "Other unrequited transfers" mean any non-financial transfers. These would include barrels and boxes, etc.*

Austin (1993) has argued that estimates of remittance flows by the Central Bank of Guyana understate actual amounts because, among other factors, migrant remittances transferred via mail and courier facilities are not recorded and in-kind remittances are undervalued. In commenting on Guyana's remittance data, Orozco (2002b) points to difficulties in obtaining full estimates and suggests that central bank and private remittance companies' data "often do not coincide" (page 11). He further indicates that the Guyana data appear to be relatively low, given the number of Guyanese migrants living in the United States—about 200,000 Guyanese by his estimates (Orozco 2002b). These migrants remit around $100 per month, on average, compared to roughly $270 monthly by Latin American migrants (Orozco 2000b).

In the case of Barbados, data on remittances are obtained from exchange control records and post office reports (Campbell 2001). For

[5] Information provided by Research Department, Bank of Guyana.

Belize, comparable data are generated mainly from commercial bank returns to the central bank and post offices (Mendoza 1993).

Recent Caribbean Macroeconomic Performance

The 12 English-speaking CARICOM member-countries are characterized by small size in terms of land area, population, and output levels. Seven of the 12 countries have land areas of less than 1,000 km^2. Only four of the countries have more than 300,000 people. Antigua, Bahamas, Barbados, St. Kitts, and Trinidad and Tobago have per capita income levels of over \$5,000, while Guyana's is below \$1,000 (table 11.2). Despite similar economies and historical backgrounds, English-speaking CARICOM countries exhibit widely differing economic performances (table 11.3). The member-countries of the Organization of Eastern Caribbean States recorded consistently positive economic growth for the five years preceding 2001, averaging 2.9 percent growth in GDP. Relative to other English-speaking CARICOM countries, Jamaica's economic growth performance has been weak; growth rates between 1996 and 1999 were negative, but have turned positive since then. Following the global economic downturn, worsened by the effects of the September 11, 2001 terrorist attacks in the United States, economic activities in CARICOM countries slowed significantly. Four member-states (Barbados, Dominica, Grenada, and St. Lucia) experienced negative economic growth in 2001.

Caribbean countries have enjoyed certain locational advantages, including proximity to large markets in North America, where there are also large networks of Caribbean migrants. Moreover, the region's natural endowments make it a major tourist destination for North Americans. Its location also exposes the Caribbean region to the risk of natural disasters—especially hurricanes—and to transnational criminal activity. In terms of human development, the English-speaking CARICOM countries have performed fairly well, according to the UNDP Human Development Indices (HDI) (table 11.4). All CARICOM states fall into the categories of "medium human development" or better. Adult literacy rates average over 80 percent, and life expectancy at birth averages over 70 years for most of these states (table 11.5).

While achieving acceptable levels of human development, Caribbean countries have experienced an increase in various social problems in recent years, including poverty, unemployment, income inequality, crime, and drug use. Rates of HIV/AIDS infection have

Table 11.2. Selected Economic Indicators, CARICOM Countries, 2001

Indicator	Antigua & Barbuda	Bahamas	Barbados	Belize	Dominica
Area (km^2)	442	13,888	431	22,966	750
Population (000)	72.30	306.70	268.46	245.46	78.16
GDP (per capita)($)	9,961	15,797	10,281	3,258	3,661
GDP (market prices)($billions)	0.7	4.8	2.8	0.8	0.3
CPI (% change)	1.1[a]	2.0	2.6	1.2	1.9
XGNFS (% GDP)[c]	69.0	—	48.0	55.0	51.0
IGNFS (% GDP)[d]	79.0	—	52.0	74.0	64.0
Foreign trade (% GDP)	148.0	—	100.0	129.0	115.0
Debt service (% GDP)	—	2.7[a]	2.5	12.1	6.0
Debt service (% XGNFS)	—	—	4.3	24.5	11.9

— Not available.
[a] 2000 statistics.
[b] 1999 statistics.
[c] XGNFS–exports of goods and non-factor services.
[d] IGNFS–imports of goods and non-factor services.
Source: Caribbean Development Bank (CDB) database; CARICOM Secretariat, *Caribbean Trade and Investment Report 2000;* Association of Caribbean States (ACS) statistical data; World Bank, *World Development Indicators* database, April 2001; United Nations Development Programme (UNDP) website, *Human Development Indicators* 2003.

Table 11.3. GDP Growth Rates, CARICOM Countries, 1996–2001
(percent)

Country	1996	1997	1998	1999	2000	2001
Antigua & Barbuda	6.1	5.6	4.9	4.9	2.5	1.5
Bahamas, The	—	—	—	—	—	—
Barbados	2.5	2.9	4.4	2.4	3.7	–2.8
Belize	1.5	4.2	1.7	6.4	8.1	4.6
Dominica	3.1	2.0	2.8	1.6	0.1	–4.3
Grenada	2.9	4.2	7.3	7.5	6.4	–3.4
Guyana	7.0	6.2	–1.7	2.9	–0.6	1.9
Jamaica	–1.3	–1.8	–0.4	–0.4	0.8	1.7
St. Kitts & Nevis	5.9	7.3	1.0	3.7	7.5	2.4
St. Lucia	1.4	0.6	3.1	3.5	1.7	–5.4
St. Vincent & the Grenadines	1.2	3.1	5.2	4.0	2.0	0.2
Trinidad & Tobago	3.9	4.4	5.4	7.3	6.4	3.3

— Not available.
Note: Negative numbers denote economic contraction.
Source: CDB database; UNDP website, *Human Development Indicators* 2003.

Grenada	Guyana	Jamaica	St. Kitts & Nevis	St. Lucia	St. Vincent & the Gren.	Trinidad & Tobago
345	214,970	10,991	269	616	389	5,128
80.71	750.00	2,603.02	41.98	146.86	118.44	1,293.72
3,965	912	3,005	7,609	4,222	3,047	6,752
0.4	0.7	7.8	0.3	0.7	0.4	8.8
2.2[a]	2.6	7.0	2.1[a]	0.1	0.8	3.4[b]
59.0	95.0	41.0	44.0	48.0	46.0	55.0
70.0	111.0	56.0	73.0	61.0	62.0	43.0
129.0	206.0	97.0	117.0	109.0	108.0	98.0
4.1	6.3	8.3	6.0	3.7	3.9	2.6
5.4	8.0	16.8	13.5	6.9	6.9	3.8

increased, and preventable diseases such as tuberculosis and gastroenteritis persist.[6] Data on selected social indicators for the Caribbean are presented in table 11.5.

Historically, existing socioeconomic conditions have been identified as the most important "push" factors that explain Caribbean migration. "Push" factors refer to conditions in the home country that encourage outward migration. "Pull" factors, on the other hand, are those related to the conditions in the host countries that motivate migration from the home countries. Glass (1960) and Davidson (1962) highlight economic "push" factors including unemployment and underemployment, low wage levels, and lack of economic opportunities as contributing significantly to the early trends in Caribbean migration to the United Kingdom in the 1950s and 1960s. In analyzing Caribbean patterns, Jefferson (1972) also lists existing domestic economic and social conditions as important contributory factors. In our view (Kirton 1998), trends in Caribbean migration are explained

[6] Poverty levels in the English-speaking Caribbean ranged between 8 percent and 35 percent of the population during the 1990s. See UNDP website (*Human Development Indicators* 2003) and Caribbean Development Bank (CDB) database.

Table 11.4. Human Development Index Values, CARICOM Countries, 1996–2001

Country	1996	1997	1998	1999	2000	2001
Antigua & Barbuda	0.90	0.83	0.83	—	0.80	0.80
Bahamas, The	0.89	0.85	0.84	0.82	0.83	0.81
Barbados	0.91	0.86	0.86	0.86	0.87	0.89
Belize	0.81	0.73	0.78	0.78	0.78	0.78
Dominica	0.88	0.78	0.79	—	0.78	0.78
Grenada	0.85	0.78	0.79	—	0.75	0.74
Guyana	0.67	0.70	0.71	0.70	—	0.74
Jamaica	0.74	0.73	0.74	0.74	0.74	0.76
St. Kitts & Nevis	0.85	0.78	0.80	—	0.81	0.81
St. Lucia	0.84	0.74	0.73	—	0.77	0.78
St. Vincent & the Grenadines	0.85	0.74	0.74	—	0.73	0.76
Trinidad & Tobago	0.88	0.80	0.79	0.80	0.81	0.80

— Not available.

Note: The Human Development Index (HDI), calculated annually by UNDP, represents a summary measure of human development focusing on life expectancy, knowledge, and living standards. Countries are placed in the category of "high human development" based on an index ranging from 0.800 to 1.000; "medium human development," from 0.500 to 0.799; and "low human development" represented by an index below 0.500. The majority of Caribbean countries typically fall within the category of "medium human development." Barbados, the Bahamas, Trinidad & Tobago, St. Kitts & Nevis, and Antigua & Barbuda are usually in the "high human development" category.

Source: CARICOM Secretariat, *Caribbean Trade and Investment Report 2000*; UNDP website, *Human Development Indicators* 2003.

Table 11.5. Social Indicators, CARICOM Countries, 2001

Indicator	Antigua & Barbuda	Bahamas	Barbados	Belize	Dominica
HDI	0.798	0.812	0.888	0.776	0.776
HPI (%)	—	—	2.5	8.8	—
Life expectancy (years)	73.9	67.2	76.9	71.7	72.9
Infant mortality/000 live births	12	13	12	34	14
Literacy (% adult pop.)	86.6	95.5	99.7	93.4	96.4
Unemployment rate (%)	7.0[b]	7.8[a]	9.9	11.5[b]	—
Gini coefficient	0.525[b]	—	0.460[b]	0.510[b]	0.488[b]
Urban pop. (% of total)	37.1	88.8	50.5	48.1	71.3

— Not available.

[a] 1999 statistics.

[b] 1998 statistics.

For definition of HDI, see notes to table 11.4. HPI represents the Human Poverty Index, which measures "deprivations" in the three aspects of human development computed in the HDI. The Human Poverty Index for developing countries (HPI – 1) measures vulnerability to death at an early age, adult illiteracy, and lack of access to overall economic provisioning.

Source: Caribbean Development Bank; UNDP, *Human Development Report* 2000; World Bank, *World Development Indicators* database, April 2001; UNDP website-*Human Development Indicators* 2003; United Nations Children's Fund (UNICEF), *The State of the World's Children 2003;* Secretariat of the Organization of Eastern Caribbean States (OECS), based on national sources.

by both "push" factors—encompassing socioeconomic conditions in the Caribbean—and various "pull" factors in the host countries.

Caribbean Migration

Any analysis of remittances must begin with the issue of migration. The migration process has been a basic fact of life in the Caribbean region for centuries. In the early years of the 20th century, there was a large movement of people from the British and French Caribbean countries to the Spanish Caribbean and Central America in search of employment. Thousands of migrants from Jamaica and Barbados went to work in Panama on the construction of the Canal, while equally large numbers of Caribbean persons migrated to Costa Rica, Cuba, the Dominican Republic, and Honduras to work on sugar and banana plantations. Beginning in the 1940s, many Caribbean nationals migrated to Western Europe, mainly the United Kingdom, France, and the Netherlands. Between 1955 and 1962, the average annual migration of Jamaicans to the United Kingdom was nearly 25,000. Both push and pull factors contributed to this trend. With the tightening of

Grenada	Guyana	Jamaica	St. Kitts & Nevis	St. Lucia	St. Vincent & the Gren.	Trinidad & Tobago
0.738	0.74	0.757	0.808	0.775	0.755	0.802
—	12.7	9.3	—	—	—	7.7
65.3	63.3	75.5	70.0	72.2	73.8	71.5
20	54	17	20	17	22	17
94.4	98.6	87.3	97.8	90.2	88.9	98.4
11.5[b]		15.7[a]		18.1[a]		10.8
0.504[b]	0.423[b]	0.372[b]	0.445[b]	0.468[b]	0.448[b]	0.420[b]
36.7	38.4	56.6	34.3	38.0	55.8	74.5

British immigration regulations in 1962, Caribbean migration to the United Kingdom was reduced.

Largely as a result of these new British regulations, Caribbean migration patterns began to shift toward the United States. Between 1960 and 1987, about 2.4 million persons from the Caribbean migrated legally to the United States. This represents almost 20 percent of total legal migration to the United States during that period. During this period, three Caribbean countries—the Dominican Republic, Haiti, and Jamaica—were among the top 10 international source countries for undocumented migration into the United States. With severe economic problems emerging throughout the region in the 1980s, many outward or push factors, including increasing levels of poverty, unemployment, and underemployment, as well as rising rates of violent crimes, contributed to increasing levels of migration. Migration to the United States has been and continues to be a significant economic survival strategy for many Caribbean people.

Between 1950 and 1990, net migration from the Caribbean was estimated at 5.6 million, representing about one-third of the 1950 population and one-sixth of the 1990 population (Guengant 1993). Among the English-speaking CARICOM countries, about 1 million migrants are estimated to have left Jamaica, some 308,000 left Guyana, and about 280,000 are estimated to have migrated from Trinidad and Tobago during the same 40-year period. Many of the OECS countries experienced high migration rates, with more than 80 percent of their 1950 populations estimated to have migrated during the period (Samuel 1996). Among those with the highest estimates for OECS countries are Grenada (72,000), Dominica (43,000), St. Vincent and the Grenadines (58,000), St. Lucia (63,000), and St. Kitts and Nevis (38,000).

Levels of Remittances: CARICOM Experience since 1996

Between 1996 and 2001, $5.8 billion was remitted to the English-speaking Caribbean, averaging $973.1 million annually.[7] Remittances increased from $853.7 million in 1996 to $1,139.4 million in 2001, representing a 33.5 percent increase over the period (table 11.6).

[7] The data used in this chapter were obtained from published balance of payments (BOP) statistics for the English-speaking members of CARICOM. Data for OECS countries were obtained from the Eastern Caribbean Central Bank (ECCB). Data were also obtained from the central banks of other countries and the CARICOM Secretariat.

Table 11.6. Remittances to the English-Speaking Caribbean, 1996–2001
($millions)

Country	1996	1997	1998	1999	2000	2001	% change 1996–2001
OECS							
Anguilla	5.1	1.9	2.0	2.1	2.5	2.5	–51.0
Antigua & Barbuda	3.3	6.4	3.4	3.4	3.3	3.3	0.0
Dominica	2.5	2.6	2.4	2.5	2.7	2.8	12.0
Grenada	20.3	18.2	18.5	19.4	20.1	20.4	0.5
Montserrat	6.1	6.3	0.4	4.9	1.2	0.6	–90.2
St. Kitts & Nevis	2.0	2.5	3.0	2.7	2.6	2.9	45.0
St. Lucia	1.5	1.5	1.6	1.9	2.6	2.4	60.0
St. Vincent & the Grenadines	1.1	1.1	1.3	1.3	1.3	1.3	18.2
Total OECS	41.9	40.5	32.6	38.2	36.3	36.2	–13.6
Other CARICOM							
Bahamas, The	1.2	1.2	1.2	1.2	1.2	1.2	0.0
Barbados	64.5	71.2	77.8	92.4	106.0	—	64.3[a]
Belize	24.4	27.8	31.2	32.2	51.6	41.2	69.0
Guyana	41.0	40.0	44.0	39.0	47.0	44.0	7.3
Jamaica	651.1	661.1	677.1	704.4	814.3	967.5	48.6
Trinidad & Tobago	29.6	31.6	47.9	56.2	40.6	49.3	37.2
Total other CARICOM	811.8	832.8	879.2	925.4	1,060.7	1,102.3	35.8
Total	853.7	873.3	911.8	963.6	1,097.0	1,139.4	33.5

— Not available.
[a] Percentage 1996–2000.
Source: Author's calculations based on data obtained from the Eastern Caribbean Central Bank (ECCB), Central Banks of the Bahamas, Barbados, Belize, Guyana, Jamaica, and Trinidad & Tobago, and the CARICOM Secretariat.

Of the English-speaking Caribbean countries, Jamaica has been the largest recipient of remittances. Remittances to Jamaica increased by nearly 50 percent from 1996 to 2001, from US$651.1 million to US$967.5 million. Among the non-OECS member-states of the English-speaking Caribbean, Barbados and Belize had major increases of over 60 percent in remittances between 1996 and 2001. Remittances in two OECS countries—St. Kitts and Nevis and St. Lucia—increased more than 40 percent for the same period, with St. Lucia averaging 60 percent and St. Kitts and Nevis 45 percent. Montserrat, which experienced massive net outward migration due to the disaster caused by an active volcano during the last five years, has had a marked decline in remittances.

Annual remittances to Jamaica averaged over three-quarters of total remittance transfers to CARICOM countries between 1996 and 2001 (table 11.7). Barbados, Belize, and Guyana account for annual averages of 8.7 percent, 3.5 percent, and 4.4 percent respectively, of total remittances to the region during the period.

Remittances per capita in four countries—Anguilla, Barbados, Jamaica, and Montserrat—averaged over $200 annually between 1996 and 2001 (table 11.8). Jamaica ranked second highest in terms of remittances per capita for the entire Latin American and Caribbean region (MIF-IDB 2001). For Grenada, the average amount was $195. Apart from these five countries, the amounts for Caribbean countries are quite small by Latin American and Caribbean standards, averaging under $100 in remittances per capita, compared with $270 for Latin America and the Caribbean as a whole.

Table 11.9 presents data on the ratio of remittances to Gross Domestic Product (GDP) at market prices. For Jamaica and Montserrat, these ratios average over 10 percent for the review period, while for Belize, Grenada, and Guyana, they average between 5 and 10 percent. Both Jamaica and Montserrat fall in the top seven countries in terms of remittances/GDP ratios, based on available data for LAC (MIF-IDB 2001). Two other Caribbean countries (non-English-speaking)—Haiti and the Dominican Republic—fall in this grouping.

Table 11.10 examines the ratio of net remittances to official development assistance (ODA) for the Caribbean. This ratio shows annual averages of over 200 percent for Barbados, Belize, Grenada, and Jamaica; for these countries, data indicate where ODA declined and remittances increased during the 1996–2001 period.

Ratios for remittances to foreign direct investment (FDI) are presented in table 11.11. For the majority of the countries, the ratios

Table 11.7. Remittances Per CARICOM Country as a Percent of All English-Speaking CARICOM Countries

Country	1996	1997	1998	1999	2000	2001	Annual avg.
OECS							
Anguilla	0.60	0.22	0.22	0.22	0.23	0.22	0.28
Antigua & Barbuda	0.39	0.73	0.37	0.35	0.30	0.29	0.40
Dominica	0.29	0.30	0.26	0.26	0.25	0.25	0.27
Grenada	2.38	2.08	2.03	2.01	1.83	1.79	2.02
Montserrat	0.71	0.72	0.04	0.51	0.11	0.05	0.36
St. Kitts & Nevis	0.23	0.29	0.33	0.28	0.24	0.25	0.27
St. Lucia	0.18	0.17	0.18	0.20	0.24	0.21	0.20
St. Vincent & the Grenadines	0.19	0.13	0.14	0.13	0.12	0.11	0.14
Total OECS	4.91	4.64	3.58	3.96	3.31	3.18	3.93
Other CARICOM							
Bahamas, The	0.14	0.14	0.13	0.12	0.11	0.11	0.10
Barbados	7.56	8.15	8.53	9.58	9.66	—	8.70[a]
Belize	2.86	3.17	3.42	3.35	4.70	3.62	3.50
Guyana	4.80	4.58	4.83	4.05	4.28	3.86	4.40
Jamaica	76.27	75.70	74.26	73.10	74.23	84.91	76.40
Trinidad & Tobago	3.47	3.62	5.25	5.83	3.70	4.33	4.40
Total other CARICOM	95.09	95.36	96.42	96.04	96.69	96.82	96.07
Total	100	100	100	100	100	100	100

— Not available.

[a] Average for 1996–2000.

Source: Author's calculations, based on data from the Eastern Caribbean Central Bank (ECCB), the Central Banks of the Bahamas, Barbados, Belize, Guyana, Jamaica, and Trinidad & Tobago, and the CARICOM Secretariat.

Table 11.8. Remittances Per Capita, English-Speaking Caribbean ($)

Country	1996	1997	1998	1999	2000	2001	% change
OECS							
Anguilla	510	190	200	191	227	227	–55.5
Antigua and Barbuda	50	96	51	51	49	49	–2.0
Dominica	35	36	33	35	38	39	11.4
Grenada	207	184	185	194	199	200	–3.4
Montserrat	871	1,050	133	1,633	400	150	–82.8
St. Kitts & Nevis	48	63	75	64	65	64	33.3
St. Lucia	10	10	11	12	17	15	50.0
St. Vincent & the Grenadines	10	10	12	12	12	12	20.0
Other CARICOM							
Bahamas, The	4	4	4	4	4	4	0.0
Barbados	230	251	271	317	359	—	56.1[a]
Belize	110	121	131	132	214	159	44.5
Guyana	49	47	51	45	53	63	28.6
Jamaica	260	254	260	271	313	372	43.1
Trinidad and Tobago	23	24	37	43	31	42	82.6

— Not available.

[a] Percentage 1996–2000.

Source: Author's calculations based on data from the Eastern Caribbean Central Bank (ECCB), the Central Banks of the Bahamas, Barbados, Belize, Guyana, Jamaica, and Trinidad & Tobago, and the CARICOM Secretariat.

Table 11.9. Remittances as a Percent of GDP, English-Speaking Caribbean

Country	1996	1997	1998	1999	2000	2001
OECS						
Anguilla	6.44	2.14	2.12	2.00	2.32	2.27
Antigua and Barbuda	0.61	1.10	0.55	0.52	0.48	0.48
Dominica	1.10	1.06	1.00	1.01	1.04	1.06
Grenada	6.89	6.29	5.79	5.64	5.44	5.62
Montserrat	14.78	19.37	1.38	18.59	4.68	2.54
St. Kitts & Nevis	0.90	0.98	1.08	0.95	0.85	0.87
St. Lucia	0.38	0.47	0.37	0.39	0.38	0.55
St. Vincent & the Grenadines	0.94	0.91	0.98	0.87	0.97	0.99
Other CARICOM						
Bahamas, The	0.03	0.03	0.03	0.03	0.02	0.02
Barbados	3.23	3.25	3.32	3.69	4.08	—
Belize	4.03	4.28	4.67	4.34	6.28	4.76
Guyana	5.82	5.34	6.07	5.74	6.60	6.24
Jamaica	11.12	9.84	9.85	9.78	11.00	12.78
Trinidad & Tobago	0.53	0.54	0.76	0.82	0.50	0.53

— Not available.
Source: Author's calculations based on data from the Eastern Caribbean Central Bank (ECCB), Central Banks of the Bahamas, Barbados, Belize, Guyana, Jamaica, and Trinidad & Tobago, and the CARICOM Secretariat.

Table 11.10. Remittances as a Percent of Official Development Assistance, English-Speaking Caribbean

Country	1996	1997	1998	1999	2000	2001
OECS						
Anguilla						
Antigua & Barbuda	28.70	148.84	34.34	3.17	33.67	38.37
Dominica	6.03	17.81	13.33	27.27	18.06	14.07
Grenada	170.59	222.47	327.42	206.80	133.94	177.39
Montserrat	—	—	—	—	—	—
St. Kitts & Nevis	32.35	37.50	46.97	61.70	71.79	27.36
St. Lucia	5.68	10.59	37.70	10.16	23.64	14.81
St. Vincent & the Grenadines	8.37	37.29	12.20	14.11	41.94	15.12
Other CARICOM						
Bahamas, The	80	34.29	5.31	10.34	21.82	14.12
Barbados	1,433.33	1,654.65	495.22	**	***	**
Belize	11.77	196.81	205.26	69.65	350.71	192.74
Guyana	28.89	15.12	47.31	48.99	43.40	43.22
Jamaica	1,120.65	919.60	3,526.56	–3,231.19	8,143.00	1,791.67
Trinidad & Tobago	175.15	95.47	347.10	214.50	**	**

— Not available.
** ODA figures were negative.
*** ODA figures were miniscule.
Source: Author's calculations based on data from the Eastern Caribbean Central Bank (ECCB), Central Banks of the Bahamas, Barbados, Belize, Guyana, Jamaica, and Trinidad & Tobago, and the CARICOM Secretariat.

Table 11.11. Remittances as a Percent of Foreign Direct Investment, English-Speaking Caribbean

Country	1996	1997	1998	1999	2000	2001
OECS						
Anguilla	14.91	8.84	7.04	5.51	6.33	7.62
Antigua & Barbuda	14.60	26.34	13.77	7.93	6.40	5.82
Dominica	13.90	11.40	28.89	14.14	20.59	18.18
Grenada	107.98	55.00	40.68	49.53	56.09	44.01
Montserrat	107.98	50.56	37.07	45.12	51.02	48.08
St. Kitts & Nevis	5.84	10.47	9.28	4.87	2.83	3.33
St. Lucia	10.48	5.25	2.67	3.01	4.47	12.68
St. Vincent & the Grenadines	5.15	2.37	2.81	4.10	8.90	12.86
Other CARICOM						
Bahamas, The	1.36	0.57	0.82	0.83	0.48	1.19
Barbados	0.07	0.05	0.05	0.06	0.06	—
Belize	223.85	342.59	164.21	57.58	184.12	242.62
Guyana	—	—	93.62	81.25	70.15	68.75
Jamaica	721.46	450.72	235.84	164.23	213.64	220.89
Trinidad & Tobago	—	—	6.54	8.74	5.97	7.73

— Not available.
Source: Author's calculations based on data from the Eastern Caribbean Central Bank (ECCB), Central Banks of the Bahamas, Barbados, Belize, Guyana, Jamaica, and Trinidad & Tobago, and the CARICOM Secretariat.

average less than 20 percent. However, for Belize and Jamaica, these ratios exceed 100 percent. In those countries where the ratios of net remittances/ODA and net remittances/FDI are sizable, it may be argued that migrants' transfers provide critical foreign exchange inflows that help reduce the negative effects of declines in ODA and FDI.

The ratios of remittances to merchandise exports and imports for the region are shown in tables 11.12 and 11.13, respectively. In examining remittances/merchandise exports ratios, excluding the special case of Montserrat, the top four OECS countries are Anguilla, Antigua/Barbuda, Grenada, and Dominica. The ratios for both Anguilla and Montserrat averaged over 100 percent, while those of Grenada and Antigua/Barbuda averaged 46 percent and 20 percent, respectively. Among the other English-speaking Caribbean countries, Jamaica averaged over 50 percent for the period, with Barbados 30 percent. The remittances/imports ratios were highest for Anguilla and Grenada for OECS countries, while Jamaica and Belize are the top two non-OECS CARICOM countries.

Table 11.12. Remittances as a Percent of Merchandise Exports, English-Speaking Caribbean

Country	1996	1997	1998	1999	2000	2001	Annual avg. (1996–2001)
OECS							
Anguilla	290.00	119.30	63.38	72.41	56.53	70.68	112.05
Antigua & Barbuda	8.46	16.41	22.67	22.67	25.38	25.38	20.16
Dominica	4.93	4.84	4.12	4.82	5.04	6.17	4.99
Grenada	81.43	60.37	44.18	28.67	26.14	37.63	46.40
Montserrat	14.75	76.86	33.23	389.12	107.28	82.23	117.25
St. Kitts & Nevis	5.63	5.94	6.98	6.45	5.20	5.64	5.97
St. Lucia	2.55	3.84	3.27	4.27	4.75	6.44	4.19
St. Vincent & the Grenadines	4.19	4.65	4.98	4.64	5.06	6.36	4.98
Other CARICOM							
Bahamas, The	0.48	0.49	0.33	0.31	0.22	0.16	0.33
Barbados	22.95	25.14	30.25	35.25	37.46	—	30.21[a]
Belize	14.27	14.38	18.25	16.45	22.51	15.33	16.87
Guyana	7.13	6.75	8.14	7.43	9.31	8.98	7.96
Jamaica	37.90	38.89	41.97	46.99	52.37	83.41	50.26
Trinidad & Tobago	1.26	1.29	2.12	2.00	0.96	1.16	1.47

— Not available.

[a] Percentage 1996–2000.

Source: Author's calculations based on data from the Eastern Caribbean Central Bank (ECCB), Central Banks of the Bahamas, Barbados, Belize, Guyana, Jamaica, and Trinidad & Tobago, and the CARICOM Secretariat.

Table 11.13. Remittances as a Percent of Merchandise Imports, English-Speaking Caribbean

Country	1996	1997	1998	1999	2000	2001	Annual avg. (1996–2001)
OECS							
Anguilla	7.95	2.91	2.49	2.17	2.51	3.11	3.52
Antigua & Barbuda	5.92	0.92	0.75	0.83	1.91	1.62	1.99
Dominica	2.15	2.03	2.03	1.84	1.81	2.04	1.98
Grenada	11.53	10.65	9.25	9.37	8.84	9.66	9.88
Montserrat	14.05	19.19	1.75	21.03	5.19	2.86	10.68
St. Kitts & Nevis	1.39	1.69	1.93	1.74	1.35	1.50	1.60
St. Lucia	0.70	0.79	0.67	0.71	0.72	1.15	0.79
St. Vincent & the Grenadines	1.46	1.23	1.24	1.10	1.47	1.38	1.31
Other CARICOM							
Bahamas, The	0.09	0.08	0.07	0.07	0.06	0.07	0.07
Barbados	8.68	8.09	8.63	9.68	9.08	—	8.83[a]
Belize	10.61	9.81	11.95	9.77	13.32	7.62	10.51
Guyana	6.89	6.23	7.32	7.09	8.03	7.53	7.18
Jamaica	24.02	23.34	26.62	23.80	25.51	29.56	25.48
Trinidad & Tobago	1.50	1.06	1.60	2.04	1.14	1.40	1.46

— Not available.
[a] Percentage 1996–2000.
Source: Author's calculations based on data from the Eastern Caribbean Central Bank (ECCB), Central Banks of the Bahamas, Barbados, Belize, Guyana, Jamaica, and Trinidad & Tobago, and the CARICOM Secretariat.

The Case of Jamaica

Because remittances to Jamaica are so significant in the Caribbean context, that country's experience warrants a closer look. As noted, remittance inflows to Jamaica rose by almost 50 percent between 1996 and 2001. The United States is the major source country from which migrants remit funds. The percentage of total remittances from the United States by Jamaicans rose from 35 percent to 46 percent from 1996 to 2001 (Bullock 2002). The share from the United Kingdom has also increased, from 14 percent in 1997 to 23 percent in 2001. One explanation has to do with the aging of the migrant population. A sizable percentage of the population of early Jamaican migrants to the United Kingdom has recently retired or is approaching retirement age. Thus transfers from migrants returning or planning to return to Jamaica in the near future are increasing. The two other source countries are Canada and Cayman Islands. Each of these contributed an average of less than 5 percent, respectively.

Remittances to Jamaica appear to be seasonal. Noting that remittances were highest in December during the study period 1993–96, Dixon (1997, pp. 13–15) points out that "migrant Jamaicans abroad as a matter of tradition (in keeping with Christmas and New Year's celebrations) send money as gifts to relatives and friends in December. It is also known that these monies are generally used to help in the financing of the high level of consumption taking place around this time in Jamaica. There would no doubt be spill-over effects into the months of November and January as some funds may arrive before the festive season and some after."

December has remained the leading month for remittances in Jamaica in recent years, according to a preliminary analysis based on monthly central bank data available since 1996. However, the level of remittances during the month of August has been increasing since 1996. This increase suggests that such funds are being used for educational expenses, since the local school year usually begins in early September. It is likely that this seasonal pattern also characterizes the other English-speaking Caribbean countries.

Historically, migrants have transmitted remittances to Jamaica mainly through commercial banks, merchant banks, and building societies. The operations of these financial intermediaries are currently regulated by the central bank. In addition, a small and declining amount of these funds has been transmitted through local post offices. In recent years, however, specialized money-transfer companies have emerged, which are now the leading institutions involved in remittances transfers; these companies will be regulated by the central bank by end-2004. Given the size of Jamaica's informal economy,[8] it is reasonable to assume those migrants' transfers through informal arrangements (mainly through individual couriers)—although unrecorded—are likely to be substantial.

For many years, commercial banks were the main institutions through which remittances were transferred to Jamaica. Up to 1997 (table 11.14), commercial banks were the leading institutions, accounting for almost 40 percent of the total. By 2001, the percentage of remittance inflows transferred by banks has fallen by almost half, to under 20 percent. Remittance companies—firms that derive their main source of income from migrants' transfers—have replaced banks as the leading institutions through which these funds are transferred; in 2001, they accounted for almost 60 percent of the total (Research Department, Bank of Jamaica).[9] Possible explanations for this trend include convenience and access, as well as speed of financial transfers. The other important institutions through which funds are transferred are building societies. These have now replaced commercial banks as the second largest institutional source. Likely explanations of this trend include historical links between migrants and building societies, especially since some portion of the funds is transferred to finance housing. Building societies are also typically less bureaucratic than commercial banks in financial transactions.

Over the last six years, money-transfer companies operating in Jamaica have greatly increased their advertising and promotional campaigns (Bullock 2002). The number of remittance outlets (excluding commercial banks/branches and merchant banks/branches) has also grown significantly, from 230 in 1997 to 349 in 2001—just over 50 percent. Money-transfer companies may be getting more creative. Bullock (2002) cites the example of one that has set up branches near farms in Canada where Jamaican farm workers are employed, thus providing a convenient means through which funds can be transmitted. In addition, many remittance companies have expanded operations in those cities in Canada, the United Kingdom, and the United States where Jamaican migrants are concentrated. Technological im-

[8] See Witter and Kirton (1990) and IDB (2002) for detailed estimates.

[9] The main institutions through which remittances have been transferred from the United States to Jamaica since 1999 are remittance companies. These accounted for 58.6 percent of recorded remittances into Jamaica in 2001. The market is dominated by Western Union, which, through its local agent Grace Kennedy Remittances Services Ltd., controls over two-thirds of the local money-transfer market.

Table 11.14. Jamaica: Private Remittances Inflows
(percent of total inflows)

Institution	1996	1997	1998	1999	2000	2001
Commercial banks	43.19	39.66	36.89	29.29	22.96	18.29
Remittance companies	35.03	38.38	42.19	50.68	55.72	58.52
Post office	0.20	0.18	0.18	0.17	0.15	0.12
Building societies	19.17	18.92	17.43	16.54	18.00	20.21
Other	2.41	2.86	3.31	3.32	3.05	2.85

Source: Research Department, Bank of Jamaica.

provements have also been implemented, geared toward improving the quality and speed of these cross-border transfers.

The Contribution of Remittances to Caribbean Development

To date, very few studies have examined the macroeconomic effects of remittances on Caribbean economies. Remittances to the Caribbean are clearly used for consumption, savings, or investment—or likely some combination of these purposes. As such, it may be argued that remittances have both a direct and indirect impact on the development process in the Caribbean. LeFranc and Downes (2001, p. 184) contend that "remittances could be expected to contribute to improved levels of economic and social well-being through two routes: either as direct support for higher consumption levels; and/or because of the improved incomes and earnings that have been generated from the investment of these funds in productive activities."

Consumption of commodities and services can have a positive effect on economic activity through the Keynesian multiplier effect. A major constraint, however, is the leakage that occurs because of the relatively high portion of imports consumed in the Caribbean. If the majority of those households receiving remittances are located in the poorer percentiles of income earners who consume fewer imports, increased consumption levels are likely to improve their living standards.

An analysis of the 2001 data of the Jamaica Survey of Living Conditions yields some interesting results on the importance of remittances (table 11.15). Some 26 percent of total annual expenditure of

Table 11.15. Jamaica: Importance of Remittances, by Decile

Decile	Remittances as % of total annual expenditure	Total support[a] as % of total annual expenditure	Remittances as % of total support
1	26	30	87
2	17	31	55
3	11	21	52
4	12	21	57
5	14	16	88
6	15	19	79
7	11	13	85
8	14	20	70
9	16	20	80
10	7	14	50

[a] Total support includes support from children, relatives, remittances, rental income, NIS, pension, food stamps, interest income, dividend income, and windfall.
Source: Author's calculations based on data in PIOJ and STATIN (2002).

the poorest decile is funded by remittances, representing 87 percent of total support received by this group. This group is by far the most heavily reliant on remittances for economic support, followed by the second poorest decile. Interestingly, the second richest decile relies on remittances to fund 16 percent of its total expenditure, which represents 80 percent of total support received.

Low-income households have fairly high marginal propensities to consume, and these propensities have an impact on overall macroeconomic activity. Examining Jamaican data using regression analysis, Le Franc and Downes (2001, p. 184) point to "a significant relationship between remittance flows and changing consumption-poverty levels." Although no comparable analysis of data for Guyana exists, a cursory examination of per capita remittances as a percentage of per capita income suggests a similar relationship to that of Jamaica.

Where a sizable percentage of remitted funds is spent on basic consumer goods, such as housing, health, and education—rather than on luxury goods—improvements in the quality of life are to be expected. Increased expenditure on education can improve employment possibilities and the potential earnings for family members, while also increasing their employment options outside of the country. Where remittance flows are higher in percentage terms for poor households, it is likely that levels of inequality in income distribution may be reduced. In-kind remittances also improve recipients' quality of life. However, where these in-kind remittances are luxury-type goods, associated demonstration effects may increase the demand for such imports over time.

Where a percentage of remittances is saved locally, this increase in the pool of domestic savings can support domestic investment. Where these funds are placed in the financial sector, domestic borrowers may use them for productive activities that can lead to increases in income generation and employment creation. Samuel (1996, p. 22) observes that, "it is quite possible that remittances can replace domestic saving by permitting a higher level of consumption." However, there have been few studies in Caribbean countries that examine the direct effects of remittances on variables such as employment and savings.

An important application of remittances is in investment in new or expanding existing enterprises. Increased investment will usually facilitate some growth through the multiplier effects on income generation and employment creation. In a study on Jamaica, Chevannes and Ricketts (1997) found that remittances play an important role as a source of funds for small business operations. For example, 40 percent or more of the start-up capital of Jamaican small businesses that were sampled were funded by remittances, mainly from the United States. This productive role of remittances led Chevannes and Ricketts (1997, p. 190) to observe: "That return migrants were willing to commit their own personal savings and remittances to economic activities *challenges ideas widely held among scholars that the main impact of external migration is on the level of consumption*" (emphasis added).

Any discussion of the use of remittances for investment involves a number of issues. First, both cash and in-kind remittances contribute to investment. In-kind remittances include consumer goods such as computers, stereo systems, refrigerators, stoves, and various household appliances, which are also used as investment goods—especially in informal microenterprises operated by the poorer strata of Caribbean countries. For example, a stove may be used not only to cook food for household use but also to sell food in the community. The uses to which in-kind remittances are put require more detailed study, in order to determine their specific effects.

Second, for many households with severely limited access to formal financial sector credit, remittances are their only source of finance for investment (Chevannes and Ricketts 1997). Third, remittances can be used to finance the construction of new houses in Jamaica, especially by returning migrants (Dixon 1997). In many Caribbean islands that have experienced severe destruction from hurricanes, remittances have been used to finance disaster reconstruction of private households (Samuel 1996).

At the level of the macroeconomy, remittances contribute to GDP through increases in consumption, savings, and investment. As noted, for five of the English-speaking Caribbean countries, the remittances/GDP ratios averaged over 5 percent from 1996 to 2001. In terms of the contribution of remittances to the balance of payments, the ratios of remittances to merchandise exports averaged over 20 percent for six countries in the English-speaking Caribbean. The foreign exchange provided by both cash inflows and in-kind remittances facilitate imports that cannot be funded from domestic sources. Remittances contribute, on average, over 10 percent of import funding in three countries. Against a backdrop of declines in official development assistance and foreign direct investment, remittances provide an alternative source of foreign exchange, which may compensate for diminishing inflows.

Policy Issues for the Caribbean

Caribbean economies are vulnerable to serious threats in the international sphere, and these require appropriate policy responses. Insofar as remittances have become an important source of foreign exchange inflows, Caribbean policymakers must examine the opportunities offered by these transfers, as well as explore mechanisms to improve the sustainability of these inflows. Changes in U.S. immigration laws may reduce levels of legal migration from the Caribbean. Regional policymakers, therefore, will need to carefully examine the effects of these changes in migration patterns on expected levels of remittances. In addition, low levels of economic growth in the United States may increase unemployment and reduce incomes among migrants, resulting in lower remittance levels.

Any policy measures must focus on the distinction between fixed and discretionary remittances. *Fixed remittances* are primarily influenced by policies that impact the cost, speed, and reliability of transfer mechanisms. *Discretionary remittances*, on the other hand, are likely to be affected by factors related to portfolio choices of migrants. Consequently, an integrated approach—involving government, private sector, and nongovernmental organizations—that takes into account these two broad categories of remittances is warranted.

Moreover, policies aimed at improving remittance flows must address the efficiency of transfer mechanisms and their subsequent influence on the cost, speed, and reliability of transfers. The cost of remitting money is comprised of fees charged for transfers plus the charges levied to convert the funds into domestic currencies. Remittance fees to Latin America and the Caribbean are "the highest in the world by a significant margin"—or about 50 percent higher than comparable costs of transfers to other major recipient countries (MIF-IDB 2003a). For example, in 2002, the average cost of sending $200 from the United States to Jamaica was $19.89—or almost 10 percent (Orozco 2002a). This is the third highest in the LAC region, after Cuba and Haiti.

Further data on remittance-transfer fees from the United States to Jamaica are supplied by Bullock (2002). For transfers of up to $100, costs were between 10 and 15 percent ($10 to $15), depending on the institutional arrangement used. For $101 to $300, transaction costs ranged from $15 to $27, while between $301 and $500, these costs varied from $20 to $40. Costs are pushed higher by exchange rate charges imposed by remittance-transfer companies. Most of these firms establish their own foreign-exchange rates, which almost always reflect a revaluation of existing market rates. This approach creates significant opportunities for increased profits by the money-transfer firms.

To control remittance-transfer costs, various policy measures may be considered by Caribbean policymakers, private financial institutions, and nongovernmental organizations. First, remittance markets in many Caribbean economies tend to be dominated by a few institutions, although less so in the larger territories like Jamaica and Trinidad and Tobago, where the dominant institution is typically a branch of one of the large U.S. money-transfer companies. Policies that increase competition, therefore, should be considered. This recommendation coincides with that of a former U.S. Assistant Secretary for Financial Institutions, Sheila Bair, that there is the need for "a level playing field" to attract more firms into the remittance business, thus increasing market competition as well as reducing costs of remittance services (Bair 2002, p. 3; see also chapter 5, this volume).

One approach to creating a level playing field is to increase the number of firms, particularly financial institutions, in the remittance-transfer market. Specifically, the establishment of branches of Caribbean national and regional financial institutions in host countries is likely to increase the flows of migrants' resources to the region. Such institutions, as part of a competitive remittance market, may be able to offer more attractive transfer prices to migrants. Two other issues are important here. The familiarity of these financial institutions with migrants' culture and financial sophistication may facilitate the design of mechanisms that can improve these flows. The familiarity of migrants with these home country institutions can also engender confidence in the use of such mechanisms for money transfers.

The provision of information on the costs, speed, reliability, and security of firms in the remittance-transfer business might enhance market competition and improve migrants' financial inflows into the region. Embassies and High Commissions located in the host countries, national consumer education institutions such as the Consumer Affairs Commission in Jamaica, and regional and national nongovernmental organizations can assist by providing information on vital issues related to the efficiency of remittance firms. Mexico's migrant education program, "Who Is Who in Money Transfers from the United States to Mexico," warrants study for possible adaptation in the Caribbean.[10]

Policymakers have some control over variables that influence migrants' decision to make discretionary remittances, and thus the level of inflows. These include:

- Migrants' perceptions of macroeconomic policy and related conditions, particularly as these relate to economic stability in the home country
- Interest rate differentials between the host and home country, and
- Currency and inflation risk.

Economic policies that promote economic stability provide a more attractive environment for migrants to make discretionary transfers. Positive real interest rates that are relatively more attractive than those in the host country will increase the incentives for discretionary transfers. Tax incentives for migrants' transfers are also likely to increase these amounts. The perception of financial system risk is a powerful factor influencing migrants' decisions to send discretionary transfers. Caribbean countries that have made progress in restructuring their financial sectors must make this information known to migrants. Currency risks resulting from adverse exchange-rate move-

[10] The program was implemented by the Mexican government. Information is published by the Federal Consumer Attorney Office (PROFECO), based on information provided by remittance companies on a voluntary basis. These data cover a cross-section of companies located in Chicago, Los Angeles, Houston, New York, Sacramento, and San Jose. The objective is to provide information to migrants to assist them in selecting the most convenient company, based on their needs.

ments between the host country's currency and that of the home country can be mitigated in part by encouraging migrants to hold discretionary transfers in foreign currency accounts in the home country.

Both national and regional financial institutions can develop creative mechanisms, including new savings and investment products, to attract discretionary remittances. In Jamaica, Grace Kennedy Remittance Services Ltd., the local representative of Western Union, operates most of its remittance-transfer branches in supermarkets located throughout Jamaica. It is likely that a sizable share of the remittances received at these locations is spent on consumption.

In Jamaica, building societies operate remittance arrangements, marketed under the MoneyGram facility. Two building societies—Victoria Mutual Building Society and Jamaica National Building Society—offer these facilities for remittance transfers from both North America and Europe. Given the experiences of financial sector problems in Jamaica during the mid-1990s, building societies have marketed themselves as secure institutions that are widely accessible, given their large number of branches island-wide. In addition, recipients of remittances through local building societies are able to access their funds in either foreign or local currency. Remittance-transfer fees charged by Jamaican building societies are competitive, relative to those of other institutions, including remittance-transfer companies.

In early 2003, 12 Jamaican credit unions, under the umbrella of the Jamaica Cooperative Credit Union League (JCCUL), and in conjunction with a local remittance company—Capital and Credit Remittance Limited (CCRL)—launched "People2People Money Transfers." This pilot project facilitates money transfers through local credit unions and provides services to both credit union members and nonmembers. This program has the potential to promote domestic savings among existing credit union members who receive remittances, as well as encouraging nonmembers to open savings accounts in the participating credit unions. Other Caribbean countries are likely to evaluate the operations of this facility with a view toward implementing similar arrangements.

Conclusions

Remittances to the English-speaking Caribbean have been increasing steadily since the mid-1990s. Between 1996 and 2001, remittances grew from $853.7 million to $1,139.4 million. Belize, St. Lucia, and Jamaica experienced the highest rates of growth. Jamaica accounted for about three-quarters of total remittances into the English-speaking CARICOM region between 1996 and 2001: an average of 76.4 percent.

A preliminary assessment shows that remittances have contributed to improvements in the economic and social well-being of the recipient social groups in the region. However, much more detailed research on the economic impact of remittances is required in order to make more definitive statements.

The prospects for Caribbean regional economies over the next few years are somewhat uncertain, given global developments. With erosion of preferential trading arrangements, loss of market share, declining agricultural export prices, and high costs of production, the contribution of the regional agricultural sector to economic growth is expected to decline. Foreign direct investment and foreign economic assistance (or official development assistance) are also projected to fall. The majority of CARICOM countries are oil importers. Facing the possibility of oil price escalation, they are likely to experience negative external positions, with reduced prospects for economic growth. However, the prospects for tourism appear positive, with projections for increases in both stopover and cruise passenger arrivals. Remittance transfers, therefore, represent a potential source of foreign exchange inflows that may offset some of the projected balance of payments difficulties.

Several possibilities exist with respect to mobilizing additional amounts of migrant remittance transfers into the Caribbean region. Given the numbers of Caribbean migrants, the amounts currently transferred are fairly low. If remitters and recipients can be convinced as to the positive impact of these transfers, the levels of remittances to the region can be increased. Caribbean policymakers should design various policies to encourage these transfers. In addition, policies must be devised to maximize the contribution of these remittances to regional economic and social development. In this context, there exist collaborative roles for Caribbean national governments as well as national and regional private sector groups and nongovernmental organizations to articulate and implement comprehensive programs.

Numerous benefits arise from devising regional policies to maximize the benefits of remittance transfers to the Caribbean. A CARICOM regional task force on remittances could be formed to develop and coordinate a regional approach that focuses on a range of key areas. These could include the following:

- Improved data collection on all aspects of remittance flows.

- Design of national/regional policies to enhance the sustainability of these flows.
- Provision of information to educate both remitters and recipients about best practices.

Improved data collection is essential for successful policy preparation, but will also be critical in providing adequate, timely information to both migrant remitters and recipients. National and regional policies can facilitate involvement of Caribbean financial institutions more directly in remittance transfers in both host and home countries. Although existing data suggest that remittances are used primarily for consumption, public policies can also be devised to attract some portion of these funds into financial and real investments.

Bibliography

Agarwal, Reena, and Andrew W. Horowitz. 2002. Are International Remittances Altruism or Insurance? Evidence from Guyana Using Multiple-Migrant Households. *World Development* 30(11): 2033–44.

Austin, Paul. 1993. *Report on the Preparation of Balance of Payments Statistics in Guyana.* International Monetary Fund Course on Balance of Payments Methodology, Washington, D.C.

Bair, Sheila C. 2002. Remarks before the Multilateral Investment Fund of the Inter-American Development Bank Second Regional Conference on Impact of Remittances as a Development Tool, February 26, Washington, D.C.

Bascom, Wilbert. 1990. *Remittances Inflows and Economic Development in Selected Anglophone Caribbean Countries.* Working Paper No. 58. Commission for the Study of International Migration and Cooperative Economic Development, Washington, D.C.

Bullock, Colin. 2002. Remittances—The Jamaican Experience. IDB-MIF Meeting on Remittances to the Caribbean, September 17, Kingston, Jamaica.

Campbell, Trevor. 2001. A Brief Look at Net Foreign Receipts from Current Transfers in Barbados. 52nd International Atlantic Economic Conference, October 11–14, Philadelphia.

Caribbean Community (CARICOM) Secretariat. 2000. *Caribbean Trade and Investment Report 2000*. Kingston, Jamaica: Guyana and Ian Randle Publishers.

Chevannes, Barry, and Heather Ricketts. 1997. Return Migration and Small Business Development in Jamaica. In *Caribbean Circuits: New Directions in the Study of Caribbean Migration,* ed. Particia R. Pessar. New York: Center for Migration.

Davidson, R. B. 1962. *West Indian Migrants*. London: Institute of Race Relations, Oxford University Press.

Dixon, Jeneive. 1997. *Importance of Remittances for the Development of the Jamaican Economy: Issues of Sustainability.* Research Services Division, Bank of Jamaica, Kingston, Jamaica.

Economic Commission for Latin America and the Caribbean (ECLAC). 1998. *The Contribution of Remittances to Social and Economic Development in the Caribbean*. Port-of-Spain, Trinidad and Tobago.

Figueroa, Mark, Dillon Alleyne, and Claremont Kirton. 2003. Defining and Measuring Flows of Remittances to the Caribbean: The Jamaican Case. Paper presented at the Association of Caribbean Economists (ACE) Conference, November 13–15, Haiti.

Glass, Ruth. 1960. *Newcomers*. London: George Allen and Unwin.

Guengant, Jean Pierre. 1993. Whither the Caribbean Exodus? Prospects for the 1990s. *International Journal* XLVIII: 336–53.

Inter-American Development Bank (IDB). 2002. *Informal Sector Study for Jamaica.* Washington, D.C.: Inter-American Development Bank.

International Monetary Fund (IMF). 1993. *Balance of Payments Manual*. Washington, D.C.

Jefferson, Owen. 1972. *The Post War Economic Development of Jamaica*. Institute of Social and Economic Research, University of the West Indies, Jamaica.

Kirton, Claremont. 1998. Caribbean Development Then and Now: A Cursory Examination of Caribbean Development in the 1950s and the 1990s. Paper presented at the Cross-cultural Seminar, Windrush and the Light Shining in the West, October, University of London, University of the West Indies, and University of the West Indies Alumni-UK, London.

Le Franc, Elsie, and Andrew Downes. 2001. Measuring Human Development in Countries with Invisible Economies: Challenges Posed by the Informal and Remittance Sectors in Jamaica. *Social and Economic Studies* 50(1): 169–98.

Mendoza, Patricia. 1993 *The Compilation of Belize's Balance of Payments*. International Monetary Fund Course on Balance of Payments Methodology, Washington, D.C.

Multilateral Investment Fund of the Inter-American Development Bank (MIF-IDB). 2001. Remittances to Latin America and the Caribbean: Comparative Statistics. Washington, D.C.: Multilateral Investment Fund.

———. 2002. Remittances to Latin America and the Caribbean: Comparative Statistics. Washington, D.C.: Multilateral Investment Fund.

———. 2003a. Sending Money Home: An International Comparison of Remittance Markets. Washington, D.C.: Multilateral Investment Fund.

———. 2003b. Worker Remittances: An International Comparison. Prepared by Manuel Orozco. Washington, D.C.: Multilateral Investment Fund.

Orozco, Manuel. 2002a. *Remittances to Latin America and Its Effect on Development*. Washington, D.C.: Inter-American Dialogue.

———. 2002b. *Remitting Back Home and Supporting the Homeland: The Guyanese Community in the U.S.* Washington, D.C.: Inter-American Dialogue.

Planning Institute of Jamaica (PIOJ) and Statistical Institute of Jamaica (STATIN). 2002. *Jamaica Survey of Living Conditions 2001*. Kingston, Jamaica.

Samuel, Wendell. 1996. *The Contribution of Remittances to Social and Economic Development in the Caribbean*. Eastern Caribbean Central Bank (ECCB). Basseterre, St. Kitts.

United Nations Children's Fund (UNICEF). 2003. *The State of the World's Children 2003*. New York: Oxford University Press.

United Nations Development Programme (UNDP). 2000. *Human Development Report*. Oxford University Press.

Wahba, Sadek. 1991. What Determines Workers' Remittances? *Finance and Development* 28(4): 41–44.

Witter, Michael, and Claremont Kirton. 1990. *The Informal Economy in Jamaica: Some Empirical Exercises*. Institute of Social and Economic Research, University of the West Indies, Kingston, Jamaica.

PART 4

FOCUS ON EUROPE, THE MIDDLE EAST, AND ASIA

This page intentionally left blank

Chapter 12

Remittances in Europe

Theodore P. Lianos and Nicholas P. Glytsos

While most empirical work examining the impact of remittances has been conducted in non-European countries, there is a growing body of research examining countries with strong immigration flows to and within Europe. This chapter offers an overview of developments in migrants' remittances in Europe.[1] Of total global remittances, 32 percent originate in the United States, 16 percent in the European Union, and 35 percent in the Middle East (25 percent from Saudi Arabia, alone).[2] The global share of remittances in four southern European countries—Greece, Italy, Portugal, and Spain (members of the European Union)—was 14 percent, and represented 87 percent of remittances in the European Union as a whole. Three central and eastern European countries—Albania, Croatia, and Poland—received 18 percent of the outflows from the European Union (IMF 2002).

The global flow of remittances in 2000 exceeded $62 billion, an amount equal to approximately 1 percent of world exports (IMF 2002). Remittances can play a significant role in the lives of low-income people and in the health of national economies. These flows can be an important source of foreign exchange and impact a nation's balance of payments, particularly in recipient countries. Migrants' remittances can have a dramatic impact on the standard of living of individuals and families and generate beneficial economic multipliers affecting the overall population. Remittances can also influence inflation rates and affect the distribution of income in recipient countries.

The European continent is no stranger to large outbound and inbound migration flows. Western Europe was a net exporter of

[1] This study examines workers' remittances from Europe to the following countries: (North Africa and the Middle East) Algeria, Egypt, Libya, Morocco, Syria, Tunisia; (Europe) Albania, Belarus, Croatia, Hungary, the Former Yugoslavia Republic of Macedonia (FYROM), Poland, Slovenia, and Turkey. For countries such as Bulgaria and Serbia, the volume of remittances is negligible.

[2] Calculated from IMF, *Balance of Payments Statistics Yearbook,* Part 2, 1997–2001, table B-19.

people throughout the 19th century. Between 1820 and 1970, Germany alone sent over 7 million emigrants to the United States (Martin 2001). As Europe shifted from a net exporter of people to a magnet for incoming migrants, the United Kingdom and France became the primary destination for many seeking a better life. A new wave of migration from southern Europe emerged in the 1950s comprised of people heading north to Germany, and to a lesser extent to Belgium, the Netherlands, and Sweden. By the early 1990s, yet another flood of immigrants and refugees was on the move, as people left failed regimes in central and southeastern Europe and went to western and southern Europe. This movement resulted in the countries of southern Europe—traditional sources of outward migration—becoming areas of net immigration.

The timing and patterns of migration have a large impact on the degree of receptivity of host countries to incoming flows of migrants. For instance, some earlier waves of immigration encountered relatively modest controls, but by the 1950s the northward migration from southern Europe and the Balkans encountered high levels of control and planning. In contrast, the spontaneous and unpredicted nature of the exodus from central and eastern Europe to southern Europe in the 1990s met with little initial planning as people were "pushed" from political turmoil in home countries, rather than "pulled" to economic prosperity in host countries.

The Decision to Remit

Regardless of the numerous macroeconomic or geopolitical causes of migration, the literature on European remittances suggests that individual migrants and their families adhere to similar patterns regarding remittance decisions. Conventional dual labor-market theory suggests that most migrants start as "target workers," aiming to improve their well-being and then return home after attaining a certain level of material accomplishment (Massey and others 1993). In this view, remittances constitute "an integral part of the emigration-repatriation decision-making process" (Glytsos 1988, p. 524). However, a new economic migration model is emerging that "allows for movements in the absence of international differences in wages or employment rates…in which migrants respond to conditions beyond the labor market, to include failures in capital and insurance markets," among other considerations (Massey and others 1993, p. 457). Under this emerging view, migrants are seen to rationally weigh probabilities of return against familial obligations and investment returns in the home country.

Research on remittances in Europe suggests that decisions by migrants to send money for family support or for investments back home are greatly influenced by expectations of eventual repatriation, the financial capacity of the senders, the needs of receivers, the tacit agreements between the two, and macroeconomic factors, particularly the foreign exchange rate, interest rates in home and host countries, and the inflation rate in the home country (Katseli and Glytsos 1989; Glytsos 1988, 2001). Perhaps the three most important determinants of a migrant's decisions to send money home are the length of time a migrant spends in the host country, his or her expectations of returning home, and the existence of some kind of agreement with the family.

Literature from the European experience and elsewhere reveals that many new migrants have an "implicit contract," or a tacit agreement between the migrant and his or her family (Glytsos 2001, p. 256). Implicit contracts ensure that the migrant supports the family and provides insurance against farm failures and other financial problems. In turn, the family finances the migrant's initial travel and living costs, aids the migrant during gaps in employment in the host country, and includes him or her in future inheritances. However, over time the probability of repatriation decreases, especially after family reunification. With the eventual return of the migrant growing less likely, remittance behavior shifts from the implicit contract model to less obligatory payments motivated by altruistic motives and investment decisions.

There are specific national differences in remittance behavior, such as how much migrants from different countries remit per person. For instance, the Turks remit the most. Nonetheless, across all migrants in Europe, there is a strong general tendency for remittances to evolve over time from obligatory to more discretionary payments. The guest-worker phase of migration in Europe from the 1960s to the mid-1970s was characterized by an obligatory pattern of family support (Glytsos 1997). After the attainment of permanent status and family reunification, Greek immigrants in Germany began to reduce their remittances home from 1980–85.

Data on Greek-German migration from 1960–82 reveal that both current and lagged per capita income in Greece were positively related to remittance flows, lending support to the implicit contract model (Glytsos 1988; 2001). Other findings based on Greek data, covering the period 1960–93 (Glytsos 1997) and 1961–91 (Lianos 1997) also point to a strong shift in remittance behavior from the implicit contract model to payments motivated by altruism or investment (Glytsos 1997). Indeed, the evidence that remittance behavior is subject to implicit contracts that diminish over time is the strongest and most conclusive finding to emerge from the European experience. Studies on the amount of education—whether in the host or home country—could find no evidence of any impact on remittances. The migrant's marital status was not significant either, although the age of the family head had some positive impact.

Pooling country and time-series data for immigrants in Germany from Greece, Italy, Portugal, Spain, Turkey, and former Yugoslavia, Faini (1994) also found a negative association between remittances and the length of stay in Germany. Merkle and Zimmermann (1992) found that temporary migration had a much stronger positive impact on remittances than permanent migration, thus providing additional support for the existence of implicit contracts between migrants and their families back home. Evidence from European experience strongly suggests that, regardless of the national origin of the migrant, the proportion of income sent home is based largely on the length of stay in the host country and the expected probability of returning home. Moreover, after saving for years in anticipation of returning home, permanent migrants often find themselves with greater savings than native workers (Galor and Stark 1990).

While the pattern of individual remittances changes over time, the overall total flow of remittances within and flowing out of Europe has remained stable as compared to other regions in the world. Even after the guest-worker policy in Germany ended in 1973, total remittances to southern European countries and the Middle East actually increased for some countries, such as Turkey. This could be a combination of increased investment opportunities in countries of origin and the "illusion of return," in which long-term migrants nurture the hope of eventual return to the home country (Glytsos 1988). Southern European countries remain net recipients of remittances, but are a growing source of remittances for migrants sending money to their home countries in central and eastern European countries (and a few Asian and African countries, as well).

Policies and Remittance Channels

While individual decisions to send money home are strongly influenced by expectations of eventual return, governments in home countries have used a variety of incentives to channel remittances into investments and savings. To mention a few examples, Morocco and Tunisia have allowed duty-free imports of capital equipment and have granted tax exemptions for the purchase of local investment goods. Various Tunisian local agencies such as the Fund for Promotion and Decentralization and the Fund for Small Enterprises have facilitated the use of remittances for entrepreneurial activities. Prior to 1986, such attempts were largely ineffective, but since 1990, migrant investment has been rising, suggesting that newer incentives are in fact beginning to take effect (OECD 1996).

Italy has implemented a policy to encourage the return of migrants to local regions with high levels of emigration. The objective is to encourage them to invest their savings back home, using incentives such as subsidized investment goods and equipment from abroad, and preferential allowances to the social security contributions of Italian enterprises that hire returning migrants. The project has been relatively successful in creating small enterprises in several regions of the country (OECD 1996).

The type of channels through which migrants send money home influence the effectiveness of government policies and incentives programs. Most remittances sent to European countries go through officially recorded transfer and banking systems. By contrast, remittances sent to many destinations outside of Europe often go through unofficial channels. In the case of the Middle East, remittances flow mostly through informal networks of currency dealers, who deliver remittances in local currency. These dealers typically delay delivery to gain some profit on the depreciation of local currency. Informal channels can also affect the exchange rate, particularly when hard currency sent through these networks enters the home country economy in local currency, rather than foreign exchange (Chourci 1986).

Many migrants believe that unofficial channels in home countries—often individuals and small agencies—are more dependable than official channels. For example, immigrants from Congo living in Belgium use shipping agencies to transfer both money and goods to relatives back home. Missionary orders such as the Jesuits also function as agents to transfer remittances. Reimbursing the migrant's relatives in Congo in local currency, the missionaries acquire foreign exchange for their needs in Belgium. In another example, expatriate Tunisians in France help their compatriots from home travel to France by providing them with euros to complement the limited foreign exchange allowed to be carried from home. On their return to Tunisia, these travelers deliver to the relatives of the immigrants in France the equivalent amount of the euros in local currency (OECD 1996).

One possible reason for the prevalence of unofficial channels is that the official banking system in Europe has only recently begun to recognize the profit potential in the remittances market. This opportunity has already been seized by money-transfer companies and a growing number of banks in the United States, where the annual amount of remittances sent out of the country exceeds $30 billion, yielding an estimated annual profit of about $2.4 billion to banks and other transmitters.[3] Some large U.S. banks have already developed banking services for transferring more than $10 billion in remittances from at least 20 million Mexican immigrants in the country.

Countries in Europe are attempting to catch up in this arena. Spain has 1.1 million immigrants, mostly from Latin America and Morocco, and has a $300 million annual remittances market. The Spanish government has launched a program to convince immigrants that sending money home is cheaper, faster, and safer through the official banking system. Spanish banks, in turn, are now beginning to compete for a piece of the remittances market. The Banco Bilbao Vizcaya Argentaria has aggressively pursued a remittances strategy, including opening offices in cities with large immigrant populations, and launching an offer for the 41 percent that it does not already own of Mexico's largest bank, Grupo Financiero BBVA-Bancomer. This move, designed to improve its position in the U.S. remittances market, is one of several foreign-led deals aimed at taking advantage of Mexico's sizable cross-border banking and remittances business with the United States. The development of more formal banking services should improve the security of remittance transfers and help control money laundering as well.[4]

Several Greek and Portuguese banks have established branches in the cities and towns of host countries where a concentration of their compatriot emigrants reside. By 1990, Greece had opened 26 branches in Germany and 15 in the United States, and Portugal had 52 offices in France and 10 in the United States (Karafolas 2001). The establishment of these banking services has probably contributed to an increase in remittances to both Greece and Portugal, particularly from the United States. Further, these banks have expanded their services to

[3] *New York Times,* Nov. 12, 2002, Late Edition-Final, Section B, page 1, column 2 (Susan Sachs, "Immigrants Facing Strict New Controls in Cash Sent Home"); see also chapter 5, this volume.
[4] *The Wall Street Journal*, February 3, 2004, Section A, page 8, column 2 (Carlta Vitzhum and David Luhnow, "Spanish Bank Makes Bid In Move to Improve Its Position in U.S.").

the migrant market to include accepting deposits, providing enterprises financing for immigrants, and developing new products aimed at the migrant market (OECD 1994).

As a relatively new host country, Greece has improved its economic relations with Balkan countries from which the majority of Greek migrants now originate. Several Greek banks have opened branches in Albania, Bulgaria, Romania, and the former Yugoslavia, a decision that has facilitated the channeling of remittances into productive investment in those countries (Glytsos and Katseli 2004). Data from Turkey and other countries in Europe underscore the importance of migrants' perceptions regarding the security of financial transfers and accounts in recipient countries. Along with economic and political stability in the home country, the presence of home country banks in host countries can greatly enhance a sense of security among migrants remitting money home (Strausshaar 1986; Glytsos 2002a).

Remittance Trends in the European Union

Tables 12.1 and 12.2 show recent trends in remittances from and to the European Union. Table 12.1 shows the volume of remittances flowing out of European Union countries to all destinations from 1990 to 2000. Germany and France remain the largest remittance-sending countries, contributing more than 70 percent to the total for the European Union. In 1999 and 2000, this percentage fell to 66 percent and 62 percent, respectively, as other countries (including Greece, Italy, Portugal, and Spain) grew to be substantial sources of remittances. In addition, remittances from the Netherlands are slowly increasing, while flows from Belgium and Luxembourg appear to have suddenly declined after 1994. Austria shows relatively stable remittance flows over the decade.

Overall, table 12.1 shows that the four neighboring countries of western Europe—Belgium, France, Germany, and the Netherlands—comprise the economic area from which most worker remittances originate. While countries in southern Europe—such as Greece, Italy, Portugal, and Spain—are gaining in importance as sending countries, they are far below the others. However, because of unofficial channels the figures for southern Europe, in particular, are likely to underestimate the true value of remittances from those countries.

Table 12.2 presents the volume of migrants' remittances flowing to the countries of the European Union from unidentified sources

Table 12.1. Remittances from European Union Countries, 1990—2000 ($millions)

Year	Austria	Belgium-Lux.	France	Germany	Netherlands	Spain	EU (all countries)
1990	265	1,155	2,787	4,379	301	148	9,076
1991	298	1,158	2,754	3,859	321	195	8,696
1992	303	1,387	3,108	4,384	363	372	10,101
1993	333	1,498	2,761	4,134	357	383	10,043
1994	364	1,948	2,704	4,633	403	389	10,985
1995	443	456	3,146	5,305	423	482	10,961
1996	447	443	3,067	4,919	434	553	10,369
1997	394	394	2,875	4,341	429	590	9,490
1998	370	389	3,072	3,946	438	710	9,532
1999	355	393	2,875	3,656	534	968	9,889
2000	280	431	2,693	3,191	522	1,325	9,475

Source: IMF, *Balance of Payments Statistics Yearbook*, Part 2, 1997–2001, table B-19.

Table 12.2. Remittances to European Union Countries, 1990—2000 ($millions)

Year	Austria	Belgium-Lux.	France	Greece	Italy	Portugal	Spain	EU-15
1990	572	762	807	1,775	1,263	4,263	1,886	11,360
1991	538	845	968	2,115	903	4,517	1,792	11,719
1992	223	934	1,300	2,366	693	4,650	2,173	12,419
1993	226	1,139	1,231	2,360	588	4,179	1,931	11,755
1994	225	1,089	1,413	2,576	461	3,669	2,176	11,714
1995	260	82	1,782	2,982	346	3,793	2,605	11,977
1996	287	95	1,730	2,894	337	3,575	2,749	11,803
1997	261	96	695	2,816	364	3,436	2,661	10,473
1998	329	120	704	2,697	309	3,361	2,944	10,607
1999	327	101	853	1,667	340	3,320	3,305	10,059
2000	305	101	679	1,613	359	3,131	3,414	9,818

Source: IMF, *Balance of Payments Statistics Yearbook*, Part 2, 1997–2001, table B-19.

from 1990 to 2000. The three most important recipient countries are Greece, Portugal, and Spain. These three countries together receive more than 72 percent of the total remittances in each year and more than 82 percent during the last two. With the exception of Austria and Spain, all countries show a mild decline in remittances during the last five years. Austria has shown stability in flows and Spain continues to show an increasing trend.

Table 12.3 combines the previous two tables and summarizes the net position of each country. A negative sign indicates that the amount

Table 12.3. Net Remittances to European Union Countries, 1990—2000
($millions; + denotes credit, − denotes debit)

Year	Austria	Belgium-Lux.	France	Germany	Greece	Italy	Netherlands	Portugal	Spain	Sweden	EU
1990	307	–393	–1,980	–4,379	1,775	1,236	–301	4,263	1,738	18	2,284
1991	240	–313	–1,786	–3,858	2,115	814	–321	4,517	1,597	19	3,024
1992	–80	–453	–1,808	–4,384	2,366	531	–363	4,650	1,801	58	2,318
1993	–107	–359	–1,530	–4,134	2,360	433	–357	3,771	1,548	90	1,715
1994	–139	–859	–1,291	–4,633	2,576	252	–403	3,348	1,787	91	729
1995	–183	–374	–1,364	–5,305	2,982	98	–423	3,350	2,123	112	1,016
1996	–160	–348	–1,337	–4,919	2,894	28	–434	3,397	2,196	117	1,434
1997	–133	–298	–2,180	–4,341	2,816	32	–429	3,330	2,071	115	983
1998	–41	–269	–2,368	–3,946	2,697	–132	–438	3,248	2,234	90	1,075
1999	–28	–292	–2,022	–3,656	1,282	–204	–534	3,178	2,337	110	170
2000	25	–330	–2,014	–3,191	1,318	–182	–522	2,972	2,089	127	343

Note: This table was calculated by combining the data in tables 12.1 and 12.2.
Source: IMF, *Balance of Payments Statistics Yearbook*, Part 2, 1997–2001, table B-19.

of money leaving the country exceeds the amount coming into the country. Five countries of western Europe—Belgium, France, Germany, Luxembourg, and the Netherlands—are net senders of remittances. Three countries of South Europe—Greece, Portugal, and Spain—are net recipients. In 1998, Italy shifted from a net recipient to a net sender of remittances. While other European Union countries with very small flows are not shown in the tables, their remittance amounts are included in the totals.

The difference between inflows and outflows of remittance totals shown in the last column of table 12.3 is shrinking rapidly. This reflects the position of countries such as Greece, which continues to receive remittances from Australia, Germany, and the United States, while also sending remittances to Albania, Bulgaria, and the Philippines. In 1999 and 2000, EU remittance inflows and outflows came close to balancing, with the net outward flows continuing from France and Germany and net inward flows continuing to southern Europe.

Remittances to Mediterranean and Eastern European Countries

The significant numbers of immigrants in the European Union originating from eastern Europe, North Africa, and Turkey suggest that the European Union is by far the major provider of remittances to these countries (except for Poland, which receives substantial remittances from Canada). Available data do not provide comprehensive information on the sources of remittances flowing to a given country, or the target countries of outward remittance flows. However, Germany has been a major destination for many migrants from Greece, Turkey, and Yugoslavia, and France has been the destination for many from Algeria, Morocco, and Tunisia. Further, the European Union remains a major destination for migrants from Mediterranean and eastern European countries. It is therefore useful to look at workers' remittance in these countries.

Table 12.4 presents remittances to selected non-EU countries. Turkey, Egypt, and Morocco are by far the most important, receiving approximately 80 percent of the annual total. During the last few years, Turkey alone has received more than 36 percent of the total. Remittances flowing out of these countries are almost negligible. Libya does not present data for inflows of migrants' remittances, but remittance outflows from Libya are recorded at $247 million and $198 million in 1998 and 1999, respectively (IMF 2002).

Table 12.4. Workers' Remittances to Selected Non-EU Countries, 1990–2000
($millions, current values)

Year	Albania	Croatia	Egypt	Morocco	Poland	Syria	Tunisia	Turkey	Total
1990	—	—	4,284	2,006	—	385	551	3,246	10,824
1991	—	—	4,054	1,990	—	350	525	2,819	9,971
1992	150	—	6,104	2,170	—	550	531	3,008	12,551
1993	275	213	5,664	1,959	—	426	446	2,919	11,946
1994	265	340	3,672	1,827	558	370	629	2,627	10,344
1995	385	506	3,226	1,970	696	400	680	3,327	11,279
1996	500	603	3,107	2,165	723	—	736	3,542	11,497
1997	267	524	3,697	1,893	797	—	685	4,197	12,195
1998	452	520	3,370	2,011	938	—	718	5,356	13,505
1999	357	454	3,235	1,938	698	—	761	4,529	12,139
2000	531	531	2,852	2,161	639	—	700	4,560	12,222

— Not available.
Note: Figures from Algeria, Belarus, Former Yugoslavian Republic of Macedonia, Hungary, and Slovenia are included in the final sum.
Source: IMF, *Balance of Payments Statistics Yearbook*, Part 2, 1997–2001, table B-19.

Significance of Workers' Remittances

Table 12.5 presents the outflows of remittances per thousand dollars of GDP for the main European Union countries over time. For Austria, Belgium-Luxembourg, and France, the size of remittances as a proportion of GDP has been largely stable (except for a 1990 spike in Belgium remittances). Both France and Germany have the highest remittances as a percentage of GDP, although they are declining for Germany. The Netherlands displays an increasing trend. The relative closeness of the proportions in table 12.5 is interesting given the numerous factors that affect this percentage, such as the level of GDP, rate of growth, number of migrants in the country, their income, and their saving and remitting behavior.

In none of the member-states of the European Union is the outflow of remittances a significant burden on the balance of payments. For most countries, the outflow represents less than 1 percent of their total merchandise exports (except in Greece and Spain, where the proportions are somewhat higher: 3.1 percent and 1.2 percent, respectively). Nor is the inflow of remittances to the European Union significant. National exceptions are Greece and Portugal, where remittances equal about 17 percent and 13 percent, respectively, of each country's merchandise exports.

Table 12.6 shows the degree to which remittances help non-European Union countries cover deficits in their goods and services accounts. For Croatia and Poland, the percentages are rather small, but for Albania, the percentages range from 32 to 48 percent, with other countries falling in between. The high percentages for Albania are attributable to the emigration of at least 1 million people to Greece and Italy, out of a total Albanian population of 3.2 million.

Table 12.5. Workers' Remittances (Outflows) Per $Thousand of GDP, Main EU Remittance Senders

Year	Austria	Belgium-Lux.	France	Germany	Netherlands
1990	1.6	5.9	2.3	2.6	1.0
1995	1.2	1.7	2.0	2.2	1.1
1998	1.7	1.6	2.2	1.8	1.1
1999	1.7	1.6	2.0	1.7	1.4
2000	1.5	1.9	2.1	1.7	1.4

Source: Authors' calculations.

Table 12.6. Workers' Remittances (Inflows) as a Percent of Goods and Services Deficit

Year	Albania	Croatia	Egypt	Morocco	Poland	Syria	Tunisia	Turkey
1990	—	—	30.4	25.8	—	13.0	9.9	12.7
1995	46.0	5.4	18.8	17.5	2.1	—	7.7	8.3
1998	48.0	4.9	16.0	17.8	1.8	—	7.9	9.7
1999	32.4	4.6	15.0	16.2	1.3	—	8.2	9.3
2000	35.4	5.5	12.5	17.2	1.1	—	7.5	7.3

— Not available.
Source: Authors' calculations.

Remittances Per Migrant and the Propensity to Remit

Using available data, two useful ratios can be estimated: remittances per migrant, and the average propensity to remit. Table 12.7 shows remittances per capita for selected countries of the European Union for various years. The figures represent the ratio of remittances from each country divided by the country's stock of foreign and foreign-born workers. The table reveals relative stability over time within each country, but substantial differences among countries, such as $728 for Italy and $1,804 for France in 1999. Figures for Spain are very high and growing, to a degree that calls into question the accuracy of available data. Based on the experience of other countries (such as Greece) the behavior of per capita remittances in Spain might well reflect the increasing number of unregistered migrants who send money back home. Excluding Spain, the average per migrant remittance for the countries is $1,389, with a range of $1,547, which is the difference between the highest and lowest values of the table (that is, $2,162 minus $615).

Table 12.7. Workers' Remittances Per Migrant
($, current values)

Year	Austria	Belgium-Lux.	France	Germany	Netherlands	Italy	Spain
1990	1,155	—	1,797	2,162	1,528	—	1,733
1995	1,442	971	2,000	2,065	1,914	747	3,468
1997	—	790	1,831	1,214	2,063	615	3,302
1998	1,131	763	1,936	—	1,864	718	3,602
1999	1,064	—	1,804	1,031	—	728	5,602

— Not available.
Note: The 1997, 1998, and 1999 data for Germany include the self-employed foreign labor force.
Source: Authors' calculations.

This study further estimated the "propensity to remit" by dividing the remittances per migrant into the average gross yearly earnings of full-time employees in industry and services. Table 12.8 presents the estimates of these propensities for the main remittance-sending European Union countries. Of course, net earnings or disposable income is less than gross earnings, and thus the percentage of incomes that migrants actually send home is higher that the percentages shown in table 12.8. We calculate that disposable income is approximately 80 percent of earnings, so the numbers in table 12.8 should be multiplied by 1.25. The average for all figures in table 12.8 is 4.75; multiplied by 1.25, this becomes 5.94. Thus the average propensity for migrants to remit in Europe is close to 6 percent: that is, they are remitting about 6 percent of their net income.

Using these tools, we can estimate a propensity to remit for immigrants in Greece for the year 2000. The official figures for total workers' remittances from Greece was $295 million, and the number of registered immigrants was 362,000 (unrecorded immigrants and remittances mean these numbers are lower than real values). Using these figures, the per migrant yearly total of remittances is $815. Further, based on the assumption that migrants earn on average two-thirds of the per capita earnings of Greek nationals, disposable income per migrant for 2000 is about $6,667, with a propensity to remit of 12.2 percent.

This estimate is three times higher than those in table 12.8. Several factors may explain this difference. First, the vast majority of immigrants in Greece are from neighboring countries—Albania, Bulgaria, and Romania—and they arrived only after 1993. Many came without their families. In addition to sending money home for the care of families, the home countries of these immigrants are in a phase of transition and there is strong demand for property in fixed assets,

Table 12.8. Propensities to Remit (remittances per migrant as a percent of average gross yearly earnings)

Year	Austria	Belgium-Lux.	France	Germany	Netherlands	Italy
1990	5.44	—	—	—	—	—
1995	5.25	6.25	—	5.42	5.83	4.09
1997	—	3.97	6.44	3.55	7.17	3.11
1998	4.58	3.39	6.77	—	6.32	3.42
1999	4.37	—	6.52	3.00	—	3.34

— Not available.
Source: Authors' calculations.

mainly land and houses. These factors could contribute to a high propensity to remit.

Assessing the Macroeconomic Relationships of Remittances

The literature varies widely regarding the impact of remittances in home countries. A recent econometric study examining several countries, including Greece, Morocco, and Portugal, found that the particular impact of remittances depends on the specific country and time period under examination. Depending on when the "snapshot" is taken, remittance flows have been associated with economic growth, as well as moderate to severe recessions (Glytsos 2002b). For instance, from the mid-1970s through the mid-1980s, remittances appear to have contributed to growth in Morocco and Portugal, and to a lesser extent in Greece. However, during the 1990s, remittance flows appear to have had a negative impact on growth in Greece and Portugal, yet a moderating effect on the recession in Morocco (Glytsos 2002b). These differences likely reflect each country's relative volume of remittances, government policies, specific economic conditions, recipients' preferences, and expenditure behavior and the specific time period under investigation.

With respect to the relationship between remittance flows and macroeconomic variables, the evidence is also unclear. When examining data derived from southern European migration to Germany, neither Swamy (1981) nor Strausshaar (1986) could find a significant relationship between any macroeconomic variables and remittance flows. Other empirical work has also produced mixed results. For instance, the relationship between remittance flows and inflation in home countries is inconclusive in the European context. In Turkey, for example, the increased demand generated by remittances induced a domestic supply-side response that prevented inflationary pressure in that country (Martin 1991). In other countries, such as Greece, some evidence suggests that remittances fueled inflation as a result of increased housing demand (Papademetriou and Martin 1991).

Some empirical work has found that economic uncertainty—as proxied by inflation—has had a negative impact on remittance flows. However, while inflation may have a negative impact on remittance flows, it may not always figure in migration decisions. For example, at the peak of Greek emigration to Europe in the 1960s, inflation in Greece was negligible (Glytsos 1997; 2001). Rising interest rates on

Greek remittance deposits did not show any significant impact on the level of remittances (Glytsos 1997). Other empirical work suggests that per capita incomes in both host and home countries have an impact on remittance flows. For example, econometric analysis has found that a 1 percent increase in German per capital income raised per migrant remittances by 12,000 drachmas (35.2 euros) and a 1 percent increase in Greek per capita income held back about 2,000 drachmas (5.9 euros) of remittances per migrant (Glytsos 1997).

Evidence on the impact of exchange rates is also somewhat mixed. Faini (1994) found a positive effect of the host country foreign exchange rate on remittance flows. In cases where black market foreign exchange premiums are attractive in the home country, a rise in the official exchange rate diverts remittances from the black market to the official market, and vice versa. Estimates obtained from pooling together data on Morocco, Portugal, Tunisia, Turkey, and the former Yugoslavia show that a premium in the unofficial exchange rate is powerful enough to attract remittances from the official market (Elbadawi, Rocha, and de Rezende 1992). However, other empirical work on Greece, Turkey, and Yugoslavia could show no such effect (Swamy 1981).

The literature on European remittances and income distribution and poverty (in both labor-receiving and labor-sending countries) is limited, but more conclusive than most done on macroeconomic variables. In general, empirical work suggests that remittances have improved consumption and lowered poverty, while in all likelihood increasing income inequality in many recipient countries. Studies of Morocco and Pakistan (Wahba 1996; Burki 1984) found that remittances led to decreased poverty, while other work done on Pakistan (Gilani, Khan, and Iqbal 1981) and the Philippines (Rodriguez 1998) point to increased income inequality resulting from remittance inflows.

Greek data from the period of high emigration to western Europe indicate that remittance recipients doubled their level of consumption and increased consumption on education and recreation by a factor of 3.3. In rural regions of Greece with high emigration, the level of recipient consumption significantly exceeded the national average expenditure in rural areas. In the rural region of Florina, where 41.4 percent of the population emigrated from 1961 to 1970, recipients' consumption was raised by 60 percent over the average of all rural areas of the country, with consumption patterns shifting toward those found in urban areas (Glytsos 1993).

At the macroeconomic level, the same study by Glytsos also found that remittances have an associated multiplier effect with respect to output. In the case of Greece, a remittances multiplier of 1.7 was found to have raised Greek GDP by 4.1 percent. The size of the multiplier varies considerably among industrial sectors. Remittances also generated almost 5 percent of total employment. An interesting finding of this study was that just over one-fifth of the original spending of remittances leaked to imports, which made up 12.8 percent of the remittance-induced gross production. However, the overall pressure on the balance of payments was rather weak, raising total imports by only 4.9 percent.

While finding stable relationships between macroeconomic variables and remittance flows has been difficult in Europe, one finding that has emerged across countries is that fluctuations in remittances have an asymmetrical influence on output growth. In other words, increased remittances lead to higher growth, but by a lower amount than the reductions in output caused by falling remittance inflows. This finding has serious policy implications, as it reveals that some nations are currently limited in their ability to shelter their economies against the disruptive effects of falling remittances (Glytsos 2002b).

Conclusion

Throughout history, people have moved in one direction and money has flowed in the other—as if to compensate families and regions for the loss of human capital. Europe has now shifted from a net exporter of persons to a net receiver of migrants. Recently, even southern Europe—a traditional source of migrants to the rest of Europe and the world—has become a net receiver of migrants. Add to this the considerable movement of people within the European Union itself, and it is clear that large flows of migrants' remittances are transferring foreign exchange that can enable many recipient countries to purchase capital equipment and consumption goods from abroad, and stimulate domestic demand and growth. The EU receives a net inflow of remittances, although in recent years it has become very small. The gains have accrued mostly in the southern European countries—Greece, Portugal, and Spain—because of southern Europe's preponderant role in emigration and the high number of its people outside its borders.

Inbound remittances from these migrants continue to be larger than outbound remittances sent from migrants in southern Europe to home countries in central and eastern Europe and the developing world. Net losses in remittances are incurred by France and Germany, and to a much lesser extent by Belgium-Luxembourg and the Netherlands. Sustained total flows of remittances from and within Europe contrast sharply with the experience of labor-exporting Middle Eastern countries, where crises triggered by changes in oil prices or political turmoil have had rapid and dramatic negative impacts on remittance flows (Glytsos 2002a).

Remittances are transferred through the regular banking system in host countries, as well as a variety of intermediaries. In addition to regular banking services, Europe has developed transfer facilities operated by local banks in host countries with high immigration, such as has been done by Spanish banks. Another mechanism has been the establishment by home country banks of branches in host countries in order to offer services to transfer migrant money back home, as has been the case of Greece and Portugal, among others. Both these intermediaries have been efficient mechanisms for transferring remittances.

The "migration economy" disguises a high proportion of unrecorded remittance transactions that go through unofficial or clandestine channels. The use of these networks is legitimate for the most part because many migrants believe them to be safer in the receiving country and more effective at getting the recipient the best deal in terms of local currency. Cost-effectiveness is achieved as a result of lower overheads and exchange rates. While these money flows have a significant economic impact on home economies, a lack of data on unofficial flows makes accurate analysis based on official statistics difficult, if not impossible. More and better data will be required for informed policy decisions.

The volume of remittance flows in and out of European Union countries is determined by the temporary or permanent nature of migration and its evolution over time. Remittances are also affected by relevant policies in the home countries and the change in certain macroeconomic variables, which affect the purchasing power of remittances in home currencies. Finally, flows are influenced by the return on the investment of remittances.

The potential effects of remittances on the economy are numerous, depending on a variety of cooperating or coincidental factors, based on local conditions and local policies in recipient countries. The bottom line is that remittances undoubtedly considerably raise the standard of living of recipient families and their returning members and have, on balance, beneficial macroeconomic effects for the migrant home country. However, governments are not always capable of designing policies for channeling remittances to productive uses and are particularly ill-prepared to deal with abrupt drops of remittances to avoid their harmful economic implications.

Bibliography

Burki, S.J. 1984. International Migration: Implications for Labour Exporting Countries. *The Middle East Journal* 38(4): 668–84.

Choucri, N. 1986. The Hidden Economy: A New View of Remittances in the Arab World. *World Development* 14(6): 697–712.

Elbadawi, Ibrahim, A. Rocha, and Robert de Rezende. 1992. *Determinants of Expatriate Workers' Remittances in North Africa and Europe*. Policy Research Working Paper 1038, The World Bank (November).

Faini, R. 1994. Workers Remittances and the Real Exchange Rate. *Journal of Population Economics* 7(2): 235–45.

Galor, Oded, and Oded Stark. 1990. Migrants' Savings, The Probability of Return Migration and Migrants' Performance. *International Economic Review* 31(2): 463–67.

Gilani, I., M.F. Khan, and M. Iqbal. 1981. Labor Migration from Pakistan to the Middle East and Its Impact on the Domestic Economy. The World Bank, Washington, D.C.

Glytsos, Nicholas P. 1988. Remittances in Temporary Migration: A Theoretical Model and Its Testing with the Greek-German Experience. *Weltwirtschaftliches Archiv* 124(3): 524–49.

———. 1993. Measuring the Income Effects of Migrant Remittances: A Methodological Approach Applied to Greece. *Economic Development and Cultural Change* 42(1): 131–68.

———. 1997. Remitting Behaviour of Temporary and Permanent Migrants: The Case of Greeks in Germany and Australia. *Labour* 11(3): 409–35.

———. 2001. Determinants and Effects of Migrant Remittances: A Survey. In *International Migration: Trends, Policy and Economic Impact,* ed. Slobodan Djajic. London and New York: Routledge.

———. 2002a. A Macroeconometric Model of the Effects of Migrant Remittances in Mediterranean Countries. In *Human Capital: Population Economics in the Middle East,* ed. I. Sirageldin. London: I.B. Tauris.

———. 2000b. *Dynamic Effects of Migrant Remittances on Growth: An Econometric Model with an Application to Mediterranean Countries*. Discussion Paper No. 74, Centre of Planning and Economic Research, Athens (April).

Glytsos, Nicholas P., and Louka T. Katseli. 2004. Greek Migration: The Two Faces of Janus. In *European Migration: What Do We Know?* ed. K. Zimmermann. New York: Oxford University Press.

International Monetary Fund (IMF). 2002. *Balance of Payments Statistics Yearbook*, Part 2, 1997–2001. Washington, D.C.: International Monetary Fund.

Karafolas, Simeon. 2001. The Role of the Banking Presence in Facilitating Remittance Flows: The Case of Greece and Portugal. Paper presented at workshop, The Return of Highly Qualified Emigrants to Bulgaria, June 29–30, Sofia, Bulgaria.

Katseli, Louka T., and Nicholas P. Glytsos. 1989. Theoretical and Empirical Determinants of International Labour Mobility: A Greek-German Perspective. In *European Factor Mobility: Trends and Consequences,* eds. Ian Gordon and A.P. Thirlwall. London: The MacMillan Press.

Lianos, Theodore P. 1975. Flows of Greek Out-Migration and Return Migration. *International Migration* XIII(3): 119–33.

———. 1997. Factors Determining Migrant Remittances: The Case of Greece. *International Migration Review* XXXI(1): 72–87.

Martin, P. L. 1991. *The Unfinished Story: Turkish Labour Migration to Western Europe.* Geneva: International Labour Organisation.

———. 2001. There Is Nothing More Permanent than Temporary Foreign Workers. Backgrounder, Center of Immigration Studies, New York (April).

Massey, D. S., J. Arango, G.G. Hugo, A. Kouaouci, A. Pelegrino, and J.E. Taylor. 1993. Theories of International Migration: A Review and Appraisal. *Population and Development Review* 19(3): 431–65.

Merkle, Lucie, and K.F. Zimmermann. 1992. Savings, Remittances, and Return Migration. *Economics Letters* 38(1): 77–81.

Organisation for Economic Co-operation and Development (OECD). 1994. *Migration and Development: New Partnerships for Cooperation.* Paris: OECD.

———. 1996. *Migrants: Partners in Development Cooperation.* Paris: OECD.

Papademetriou, D.G., and P.L. Martin, eds. 1991. *The Unsettled Relationship: Labor Migration and Economic Development*. New York: Greenwood Press.

Rodriguez, E.R. 1998. International Migration and Income Distribution in the Philippines. *Economic Development and Cultural Change* 46 (2): 329–50.

Strausshaar, T. 1986. The Determinants of Workers' Remittances: The Case of Turkey. *Weltwirtschaftliches Archiv* 122(4): 728–39.

Swamy, G. 1981. *International Migrant Workers' Remittances: Issues and Prospects.* World Bank Staff Working Paper No. 481, Washington, D.C.

Wahba, J. 1996. Remittances in the Middle East: A Review. Paper presented at the Conference on Labor Markets and Human Resource Development, September 16–18, Kuwait.

This page intentionally left blank

Chapter 13

An Overview of Remittances in the Middle East and North Africa

Mohammed El-Sakka

The economies of labor-exporting countries in the Middle East and North Africa, including Algeria, Egypt, Jordan, Morocco, Sudan, Syria, Tunisia, and the Republic of Yemen,[1] have become increasingly dependent on the inflow of remittances since the mid-1970s. Substantial intra-regional migration flows, notably to the oil-rich Arabian Gulf countries and Libya, have spurred the growth of remittances and led to a model of beneficial interdependence between rich and poor countries in the Middle East. In labor-surplus exporting countries, emigration reduces pressure on domestic labor markets, boosts scarce foreign exchange earnings, alleviates balance of payments problems, provides a source of savings and capital formation, and slows the growing demand for domestic public services. For labor-deficient importing countries, emigration ameliorates labor shortages and increases the pace of development programs and the modernization of traditional societies.

Migration flows in the Middle East in the past few decades have been among the most significant in the world. The scale of emigration to the Gulf area has been massive, with several national populations becoming a minority in their own countries. These migration flows are generally temporary in nature because of extremely strict laws regarding nationality, visas, and residency in the newer migrant destinations in the Middle East. The virtual impossibility of citizenship or permanent residency means that the majority of emigrants to these countries are "target emigrants," or workers who remain a limited number of years to achieve a target level of savings and then return

[1] Yemen P.D.R. unified with Yemen A.R. to form the Republic of Yemen in 1990. In this text, "Yemen" refers to this new state, the Republic of Yemen.

home. This pattern of emigration has had a substantial impact on the flow and size of remittances to the labor-exporting countries in the area. Consequently, several countries of the Middle East have become among the world's most dependent on emigrant remittances.

This chapter presents an overview of the role of remittances in the economies of the labor-exporting countries in the Middle East and North Africa. These countries can be divided into two groups: the "old" labor exporters (including Algeria, Morocco, and Tunisia), which represent the traditional labor exporters, mainly to Europe; and the "new" labor exporters (Egypt, Jordan, Sudan, Syria, and the Republic of Yemen), which export their labor primarily to the oil-producing countries in the region. Two major labor exporters—Lebanon and the Palestinian territories—are not included in this study due to lack of data.

After analyzing the magnitude and importance of remittances in the labor-exporting countries in the area, this study reviews different patterns of use for remittances and their economic impact on the labor-exporting countries, as well as policies these countries follow to attract remittances. The chapter concludes with an examination of future prospects for remittances and policy recommendations.

Magnitude and Importance of Remittances

Officially recorded remittances to the labor-exporting countries of the region are displayed in table 13.1. Total recorded annual remittances increased from $415 million in 1970 to a high of about $11.3 billion in 1992.[2] By 2002, total recorded annual remittances were about $11 billion. Over the last three decades, labor-exporting countries in the region received more than $234 billion from the inflow of remittances. Among these countries, Egypt received the largest share, about 37.5 percent of total remittances, followed by Morocco (18.7 percent), Jordan (13.0 percent), the Republic of Yemen (12.1 percent), and Tunisia (6.1 percent).

Discontinuity in data for Syria and Algeria does not allow the proper ranking of these two major labor exporters among the group.

[2] After the Liberation of Kuwait, the Gulf countries restructured their expatriate labor force to exclude emigrants from Jordan, Sudan, and the Republic of Yemen, which supported the Iraqi invasion of Kuwait. On the other hand, hundreds of thousands of Egyptians and other Arab emigrants had to leave Iraq because of deteriorating economic conditions. Remittances soared as a result of repatriated emigrants.

Remittances to Algeria most likely fell during the 1990s as a result of the country's political unrest and related concerns over the safety of Algerian banks. Alternatively, actual levels of remittances to Syria may have been far higher than recorded levels due to a black market in foreign exchange that offers higher-than-official rates. Further, a mandatory remittance scheme in Syria in which civil service employees must give the central bank 25 percent of their income earned abroad—at official exchange rates—may cause emigrants to underreport their income to evade official transfer channels.

Table 13.1 also indicates that remittances depend on trends in world oil prices and political unrest in labor-importing countries. As oil revenues in the host countries increase, investment plans are boosted, along with the demand for foreign labor. Political unrest, on the other hand, hinders the flow of remittances to the labor-exporting countries in the area. Migrants' remittances to Jordan, the Palestinian territories, Sudan, and the Republic of Yemen all decreased substantially after the Gulf War in the early 1990s. Economic stability in host countries plays an important role as well. Remittances to the traditional labor exporters in North Africa—Algeria, Morocco, and Tunisia—are more stable than those of the newer labor exporters in the region, probably reflecting the relative economic stability of host countries, mainly in Europe.

Tables 13.2 through 13.6 present several indicators of emigrant remittances that underscore the role of remittances as a vital source of foreign exchange in the labor-exporting countries of the region. Remittances have for some time exceeded total proceeds of exports of goods in Egypt, Jordan, and Yemen. For example, in 1979, remittances to Yemen A.R. reached more than 23 times the country's exports of goods. In 1977, remittances represented almost four times the exports of goods in Jordan, and about three and a half times the exports in Egypt in 1993. In both Yemen and Jordan, remittances are the main source of foreign exchange.

Likewise, remittances are the single most important source of foreign exchange in Egypt, exceeding traditional sources from oil exports, the Suez Canal, and tourism. In a study on migrants' remittances, El-Sakka (1997) found that the new labor-exporting countries in the Middle East are the most remittance-dependent nations in the world. None of the labor-exporting countries in the rest of the world has such high ratios of remittances to exports. It appears that the real comparative advantage of many countries has been in the export of

Table 13.1. Emigrant Remittances to Labor-exporting Countries in the Middle East and North Africa, 1970–2002 ($millions)

Year	Algeria	Egypt	Jordan	Morocco	Sudan	Syria	Tunisia	Yemen A.R.	Yemen P.D.R.[a]	Total
1970	211	29	16	63	—	7	29	—	60	415
1971	238	27	14	95	—	8	44	—	43	469
1972	273	104	21	140	—	39	62	—	31	670
1973	331	117	45	250	—	37	99	—	34	913
1974	351	268	75	360	—	45	118	157	44	1,418
1975	412	366	167	533	6	52	145	310	62	2,053
1976	433	755	411	547	40	53	142	795	121	3,297
1977	439	928	970	588	40	92	168	1,193	185	4,603
1978	393	1,773	520	763	68	636	222	1,222	258	5,855
1979	416	2,213	601	948	118	902	283	1,177	317	6,975
1980	406	2,696	792	1,054	256	773	303	1,250	352	7,882
1981	379	2,181	1,047	1,013	366	581	358	927	325	7,177
1982	447	2,439	1,082	849	133	411	372	1,116	475	7,324
1983	507	3,666	1,110	916	275	387	359	1,162	491	8,873
1984	392	3,963	1,237	872	285	321	317	1,016	506	8,909
1985	329	3,212	1,022	967	261	350	271	785	429	7,626
1986	313	2,506	1,184	1,398	113	323	361	570	294	7,062
1987	358	3,604	938	1,587	138	334	486	714	305	8,464
1988	487	3,770	895	1,303	217	360	544	326	255	8,157

1989	379	4,254	627	1,336	417	355	488	264	174	8,294.0
1990	345	4,290	612	2,006	62	395	599	1,498.2	—	9,807.2
1991	352	4,059	1,164.0	1,990	45	375	570	998.3	—	9,553.3
1992	—	6,104	843.3	2,170	123.7	550	531	1,018.5	—	11,340.5
1993	—	5,664	1,040.1	1,959	75.2	600	446	1,038.6	—	10,822.9
1994	—	3,672	1,093.9	1,827	107.2	915	629	1,059.3	—	9,303.4
1995	—	3,226	1,244.0	1,970	346.2	—	680	1,080.5	—	8,546.7
1996	—	3,107	1,544.1	2,165	220.2	—	736	1,134.5	—	8,906.8
1997	—	3,697	1,655.1	1,893	416.4	—	685	1,168.6	—	9,515.1
1998	—	3,370	1,542.7	2,011	686.5	—	718	1,202.4	—	9,530.6
1999	—	3,235	1,497.6	1,938	664.1	—	761	1,223.2	—	9,318.9
2000	—	2,852	1,660.6	2,161	638.2	—	796	1,288.0	—	9,395.8
2001	—	2,911	1,810.2	3,261	730.4	—	927	1,294.6	—	10,934.2
2002	—	2,893	1,921.4	2,877	970.2	—	1,071	1,294.0	—	11,026.6
Total	8,191	87,951	30,403.0	43,810	7,818.3	8,901	14,320	28,282.7	4,761.0	23,443.8
% of total	3.5	37.5	13.0	18.7	3.3	3.8	6.1	12.1	2.0	100.0

— Not available.

[a] Unified with Yemen A.R. in 1990.

Source: International Monetary Fund, *Balance of Payments Yearbook*, various issues.

Table 13.2. Ratio of Remittances to Exports (percent)

Year	Algeria	Egypt	Jordan	Morocco	Sudan	Syria	Tunisia	Yemen A.R.	Yemen P.D.R.[a]
1970	19.2	3.8	47.0	12.9	—	3.4	16.0	117.6	—
1971–75	14.6	16.7	61.3	24.8	—	7.9	18.6	196.1	1,780.1
1976–80	5.4	105.5	209.9	46.2	19.1	33.1	17.1	196.1	1,781.0[b]
1981–85	3.0	100.5	154.1	42.8	48.3	21.4	17.1	546.0[b]	13,837.7
1986–90	4.3	118.8	92.6	42.8	36.5	16.2	19.9	1,159.7	13,158.7
1991–95	—	216.1	80.5	45.4	31.0	19.5	13.2	133.5	—
1996–2000	—	132.4	87.9	28.2	73.6	—	12.8	59.8	—
2001–2002	—	41.2	74.1	41.2	46.4	—	14.8	735	—

— Not available.
[a] Unified with Yemen A.R. in 1990.
[b] Rounded.
Source: International Monetary Fund, *Balance of Payments Yearbook* and *International Financial Statistics*, various issues.

labor, rather than goods, to earn foreign exchange. In this situation, liberal policies vis-à-vis remittances are often more effective than export promotion policies for generating foreign exchange. Table 13.3 shows that significant portions of imports can be funded by the inflow of remittances, particularly in Yemen, Jordan, Egypt, Sudan, and Morocco. Table 13.4 shows that the ratio of remittances to GDP is high in Jordan, Yemen, Egypt, and Morocco. This ratio is found to be relatively stable in Tunisia and Morocco, and declining in Algeria. For Syria and Sudan, remittances are relatively small compared to GDP.

The remittance per capita indicator in table 13.5 shows how many U.S. dollars are remitted for each individual in the home country. Remittances per capita are highest in Jordan, followed by Tunisia,

Table 13.3. Ratio of Remittances to Imports (percent)

Year	Algeria	Egypt	Jordan	Morocco	Sudan	Syria	Tunisia	Yemen A.R.	Yemen P.D.R.[a]
1970	16.4	3.6	8.7	9.2	—	1.9	9.6	—	52.7
1971–75	13.3	11.5	13.2	18.6	—	4.4	12.3	37.0	103.7
1976–80	5.5	45.4	41.9	23.1	8.1	15.5	9.5	33.8[b]	103.7
1981–85	3.9	32.7	36.9	23.1	22.6	9.3	10.3	62.3	120.9
1986–90	5.1	33.3	33.7	23.1	20.3	13.2	13.1	65.8[b]	64.5
1991–95	—	73.3	33.5	25.9	13.0	15.1	8.9	52.0	—
1996–2000	—	32.3	40.4	20.3	25.5	—	9.0	63.4	—
2001–02	—	21.6	42.6	29.2	47.3	—	11.1	37.1	—

— Not available.
[a] Unified with Yemen A.R. in 1990.
[b] Rounded.
Source: International Monetary Fund, *Balance of Payments Yearbook* and *International Financial Statistics*, various issues.

Table 13.4. Ratio of Remittances to GDP (percent)

Year	Algeria	Egypt	Jordan	Morocco	Sudan	Syria	Tunisia	Yemen A.R.
1970	4.5	0.4	2.7	1.6	—	0.4	2.0	—
1971–75	3.8	2.0	6.6	4.0	—	1.1	3.1	—
1976–80	1.6	10.4	27.7	5.7	1.1	5.0	3.5	—
1981–85	0.8	8.8	22.5	6.6	3.4	2.2	4.0	—
1986–90	0.7	7.7	15.7	6.6	1.4	1.6	4.8	14.7
1991–95	—	14.5	19.5	6.8	2.1	1.7	3.7	7.2
1996–2000	—	6.0	21.1	5.7	3.4	—	3.7	19.6
2001–02	—	3.5	25.0[a]	8.6	—	—	4.8	13.4

— Not available.
[a] Data are for the year 2001.
Source: International Monetary Fund, *Balance of Payments Yearbook* and *International Financial Statistics*, various issues.

Morocco, and Yemen, while the lowest per capita amount of recorded remittances is in Sudan. Clearly, growth in real terms requires that remittances increase faster than both the rate of growth of population and inflation.

Another interesting indicator is the ratio of remittances to private consumption, a measure of the extent to which remittances can finance private consumption. Table 13.6 shows that ratios of remittances to private consumption are very high in Jordan, Yemen, and Morocco. In 1977, remittances represented approximately 51 percent of private consumption in Jordan, 31 percent in Yemen in 1996, and 28 percent in Egypt in 1992. The data analyzed are derived from

Table 13.5. Remittances Per Capita (in $U.S.)

Year	Algeria	Egypt	Jordan	Morocco	Sudan	Syria	Tunisia	Yemen A.R.
1970	14.7	0.9	7.0	4.1	—	1.1	5.7	—
1971–75	20.2	4.9	24.5	16.5	—	5.1	17.2	—
1976–80	23.3	41.3	235.3	40.9	5.8	58.5	36.5	—
1981–85	20.1	69.9	335.7	44.0	12.8	43.1	49.0	—
1986–90	15.9	73.4	205.5	44.0	7.8	31.1	63.2	—
1991–95	—	82.7	204.8	77.8	5.1	45.8	66.0	79.4
1996–2000	—	52.2	257.9	72.7	17.6	—	78.2	70.4
2001–02	—	41.6	354.9	102.9	26.1	—	103.2	68.2

— Not available.
Source: International Monetary Fund, *Balance of Payments Yearbook* and *International Financial Statistics*, various issues.

Table 13.6. Ratio of Remittances to Private Consumption (percent)

Year	Algeria	Egypt	Jordan	Morocco	Sudan	Syria	Tunisia	Yemen A.R.
1970	8.6	0.6	3.7	2.2	—	0.5	3.0	—
1971–75	7.3	3.0	9.6	5.6	—	1.6	4.9	—
1976–80	3.4	15.5	40.4	8.6	—	7.4	5.7	—
1981–85	1.8	13.6	27.0	9.4	—	3.3	6.5	—
1986–90	1.4	11.0	21.2	9.4	—	2.2	7.5	20.2
1991–95	—	19.9	27.6	9.7	—	2.3	6.0	8.5
1996–2000	—	8.0	30.2	8.3	—	—	6.1	28.5
2001–02	—	4.8	31.4[a]	12.8	—	—	7.7	19.4

— Not available.
[a] Data are for the year 2001.
Source: International Monetary Fund, *Balance of Payments Yearbook* and *International Financial Statistics*, various issues.

officially recorded remittances and do not include two important items: remittances in kind and unrecorded remittances. Estimating the first is relatively straightforward; estimating the latter is more difficult.

Unrecorded Remittances

Choosing between official or unofficial transfer channels is an important decision when sending remittances and depends on several factors. These include the availability and adequacy of banking services, transaction costs, knowledge of banking customs, remittance income taxes, mandatory remittance schemes, and the potential for additional earnings through unofficial channels. When official means of remittance transfer are unattractive, the private sector or groups of emigrants themselves often set up parallel systems. Puri and Ritzema (1999) found that dealers in informal transfer systems provide competitive exchange rates, as well as their assistance and service of a personal nature.

Overall, competition in the remittance business in the Middle East has reduced the costs of sending money home. Several governments have tried to facilitate the transfer of remittances through official banking systems. However, for most labor-exporting countries in the region, migrants assess the difference between the official and black market rates, and all else being equal, end up choosing the route that offers the best return. Significant differences between official and black market exchange rates play an important role in emigrants' decisions, particularly in Algeria, Egypt, Morocco, Sudan, Syria, Tunisia, and Yemen. Emigrants can often make extra earnings by transferring remittances through black markets. Some countries have offered emigrants preferential rates of exchange, but in many cases, these have lagged behind actual developments in the black market, which adds up to significant flows of unrecorded remittances.

Official remittance statistics reported in the balance of payments typically underestimate actual levels of remittances, and in several countries unrecorded remittances are significant. Adams (1991) estimates that unrecorded remittances equal about one-third of total migrant remittances to Egypt. Choucri (1986) claims that only 15 percent of Sudanese emigrants used the official banking system to transfer their savings. Brown (1992) shows that by including unrecorded remittances in the Sudanese national accounts for 1983–84, the proportion of net current transfers increases from 6 percent to 45 percent of the adjusted GNP. Net factor incomes also increase from 7 percent to 17 percent of adjusted GNP.[3]

Studies of the Jordanian economy estimate actual remittance inflows to be 60 to 100 percent higher than the official receipts due to the use of unofficial channels (Seccombe 1984). In Yemen, an undeveloped banking network has prompted senders to set up their own remittances network. Russell (1986) identifies private agents in Yemen as the main mechanism of remittance inflows. The scale of unrecorded remittances is likely to be high in Syria, where there is also an active black market for foreign exchange and mandatory remittance transfers, as mentioned above. A significant problem with unrecorded remittances is, of course, that they are beyond the control or access of authorities, and can fund illegal activities, including drug trafficking, trade smuggling, money laundering, capital flight, and other illegal transactions.

Remittances in Kind

Remittances in kind include a wide range of goods that migrants bring with them on their return home or that they send back by other means. Little data exist on the size of remittances in kind in the Middle East and North Africa. While these remittances are usually not

[3] Net factor incomes show factor incomes (earnings accruing to labor and capital) net of taxes and other payments that are generated as part of the production process. The largest source of factor income is wages, salaries, and supplementary labor income. Other income components include corporation profits before taxes, interest and miscellaneous investment income, and the accrued net income of farm operators from farm production.

recorded in the balance of payments, they can be considered as a part of unrecorded remittances. In many cases, they represent an additional source of income for emigrants or their dependents.

In 1981, the Central Bank of Egypt estimated in-kind remittances to be 20 percent of recorded remittances (Central Bank of Egypt 1981). Messiha (1983) estimates that about 13 percent of remittances from Egyptian teachers in Kuwait and Saudi Arabia were sent in kind. For Sudan, Brown (1992) estimates remittances in kind to be about 20 percent of unrecorded remittances—or about 16 percent of total remittances, while Russell (1992) estimates remittances in kind to range between 8 and 10 percent of total remittances in Yemen. These figures are primarily based on non-periodic surveys in which emigrants give responses based on their total cash remittances, not necessarily on in-kind—or unrecorded—remittances. More regular and detailed surveys will be needed before any hard conclusions can be made about remittance estimates.

Patterns of Use and Economic Impact

The allocation between consumption and investment is a central issue in the debate over the development impact of remittances. Much of the literature criticizes the expenditure of remittances on short-term consumption rather than on savings or investment. Moreover, remittances are seen as promoting the consumption of imported and luxury goods, and creating harmful demonstration effects that exacerbate trade balances and reduce savings. Evidence suggests that in certain cases these effects have in fact been significant.

Imports of consumer goods tend to increase substantially after a wave of emigration. This has caused inventory buildups in Egyptian factories as tastes shift from domestic to foreign goods. Mohie-El-Din and Omar (1978) surveyed Egyptian university professors in Kuwait and found that they sent home clothes, videos, carpets, and electronic equipment. Nada (1991) found that returning migrants used their savings to buy electric appliances, pay off debts, finance religious pilgrimages, weddings, and children's education, and to buy gold. Samha (1990) notes that in Jordan, the majority of consumption is on food, education, consumer durables, and housing.

Remittances can have an inflationary impact as more money chases a limited supply of domestic goods, particularly in Egypt, Jordan, Sudan, and Yemen. This in turn, generates demand for higher imports and worsens the trade balance deficit. In Yemen, inflation has fed into wage increases, which rendered labor-intensive agricultural techniques economically unviable. Meanwhile, a heavy reliance on remittance flows in agricultural areas fueled imports of cheap imported grain, with a negative impact on domestic agricultural output. Such effects in Yemen were seen to outweigh the GDP gains due to remittances (Chandvarkar 1980). In Jordan, ex-Crown Prince Hasan called for the creation of an international fund to compensate Jordan and other labor-exporting nations for the negative effects of emigration (Bohning 1978).

Among the most common use of remittances in the Middle East is for the purchase of land and housing. This pattern has been observed in Egypt, Jordan, Morocco, Sudan, Syria, Tunisia, and Yemen. Mohie-El-Din and Omar (1978) found that about 55 percent of their sample used remittances for housing. In rural Egypt, both Nada (1991) and Adams (1991) found that about three-quarters of remittances were spent on housing. In Sudan, Findlay (1994) noted that most remittances were used for housing and land purchases. In a survey of Jordanian emigrants, Samha (1990) found that the majority of remittances were used to buy new buildings or repair old ones. Predictably, the demand for land and housing and a lack of investment alternatives have caused a general increase in the price of both rural and urban real estate (Russell 1986).

Policymakers in labor-exporting countries have often incorporated projected remittance inflows into their plans, seeing these as an easy source of hard currency that enables them to skirt a major development bottleneck. Moreover, remittances have allowed for the delay of unpopular structural adjustment policies—mainly price corrections and exchange rate devaluations—that would otherwise have to be undertaken. In many cases the inflow of remittances has supported domestic currencies against speculative attacks. For example, the Central Bank of Egypt was able to successfully defend the pound against demand pressures for 12 years because of the inflow of remittances (El-Sakka, Dashti, and Hajji 2004).

Remittances are clearly important for recipient countries, but a heavy dependence on these flows can be risky, given their volatility. Jordan, Sudan, and Yemen suffered heavy GDP losses when remittance inflows declined after emigrants returned from the Gulf War in the early 1990s. However, the paucity of data makes any conclusions difficult. Remittance surveys are typically based on samples of emigrants at a certain point of time, yet remittance patterns change over time. In early stages of emigration, migrants typically spend most of their savings on financing their urgent needs, such as housing, durable consumer goods, and debt payments. In later stages, migrants tend to save and invest more. Therefore, data collected on migrant samples over time will be needed to better inform the policies needed to counter the negative effects of remittance dependency.

Survey evidence does show, however, that emigrants do often save and direct their savings to productive uses. In a survey of Egyptian teachers in Kuwait and Saudi Arabia, Messiha (1983) found that over time the propensity to consume significantly decreased among members of the sample, while the propensity to save increased. The study also found that members of the sample allocated their repatriated earnings among deposits in banks, consumer durables, and on investments. Mohie-el-Din and Omar (1978) found that migrants spent about 56 percent of their earnings in the host country on household expenses and consumer goods, and saved the rest. Approximately half of those in the sample used their savings on housing, and about a third invested in economic projects. Adams (1991) argues, contrary to the prevailing perception, that migrants have a higher propensity to invest than nonmigrants. According to his survey, those with incomes in the top fifth of the sample invested 80 percent of their savings.

The focus on the immediate use of remittances obscures the stimulus they provide to domestic production as well as their contribution to the supply of investment funds. In theory, the expenditure of remittances can result in a substantial expansion of domestic output when consumption is directed at goods with local multiplier effects, such as increased demand and decreased unemployment. Moreover, migrant deposits in the banking system can enhance the ability of the banking system to channel these funds into productive investment.

Investing in housing and land back home is a natural choice for migrants who wish to improve their standards of living. High spending on housing has occurred in rural Egypt, where large numbers of migrants have moved from traditional mud houses into relatively modern dwellings. While housing and consumption are obvious areas in which remittances have made an impact on living standards, these flows also support improvements in health and education. Remittances have driven the demand for improved water supply, electricity, and sewage services, and with changing attitudes on education, have also led to increased investment in human capital through education.

Emigration and remittances can improve income distribution and reduce poverty in many areas. Poor workers can have their emigration expenses financed by family members in host countries, or other sponsors. For some emigrants, such as teachers, the costs of emigration may be entirely picked up by sponsors. For highly skilled professionals, benefits can include housing, tickets, free education and, in some cases, cash upon arrival. In many cases, at least partial costs are covered for even unskilled laborers, leading to improved poverty levels in labor-exporting countries. Adams (1991) concluded that income distribution is improved in rural Egypt as a result of emigration. Finally, as a source of foreign exchange, remittances are extremely important for many labor-exporting countries, and in many countries inflows of remittances have turned the current account deficit into a surplus and helped to close the "foreign exchange gap."

Policies to Attract Remittances

Government policy toward remittances is usually aimed at attracting inflows into the formal banking system and channeling the receipts of emigrant households into development priorities. Toward this end, labor-exporting countries in the region have tried to attract remittances into official channels with a mix of inducements and mandatory schemes.

Among these various incentives have been programs that allow emigrants to hold tax-exempt foreign-currency accounts with interest paid at world interest rates. This policy has been promoted in Egypt, Jordan, Sudan, Syria, and Tunisia. Import preferences have also been used to encourage migrants to use remittances in foreign currency to purchase imports. Egypt has one of the most successful special import schemes, known as the "Own Exchange Import System" (OEIS). Under this system, importers are granted an import permit if they can provide foreign currency on their own—outside of official foreign exchange pools. The savings of remittances becomes the main source of foreign exchange to importers under this scheme. OEIS has proven successful in encouraging emigrants to spend savings for the country's needed imports from abroad and in relieving pressures on the existing limited foreign exchange.

The Sudanese government tried a different program, called the "Nil Value Custom Policy" for imported consumer goods, spare parts, fuel, and the like. Under this scheme, holders of hard currency who deposited it in special accounts for at least six months could use these funds for imports and receive customs relief of up to $14,000 (Serageldin and others 1981). In Jordan, the government established a development bond as a vehicle for transferring cash balances into savings and productive investment. Interest on the bond is paid in convertible currency on a tax-free basis. Eleven issues of the development bonds have been floated. Egypt pursued the same policy, with foreign bonds denominated in foreign currency issued to Egyptian emigrants on advantageous terms (Serageldin and others 1981).

Several countries in the Middle East have used preferential exchange rates to attract hard currency into official channels. Egypt established a two-tier exchange rate system that offered emigrants a preferential rate for remittances, although still far less than black market rates. Realignment of the exchange rate in 1991 abolished the two-tier system and adopted a flexible system pegged to the U.S. dollar. Recently, Egypt adopted a floating exchange rate system to attract remittances away from the black market for foreign exchange. The two-tier exchange rate policy is still effective in Syria, where emigrants can remit through the official parallel market at incentive rates.

Overall, schemes aimed at using exchange rates as incentives have failed to compete with black market rates. In practice, realignments of incentive exchange rates have led to progressive devaluations of domestic currency. These devaluations, originally intended to attract remittances, have had a negative impact on these economies. Moreover, mandatory schemes to force remittances through official channels have been largely unsuccessful, simply leading to increased transfers through unofficial channels (El-Sakka and McNabb 1999). Decrees cannot overcome the incentives embedded in exchange rate misalignment, where the spread between official and black market rates can easily exceed 25 percent. The reality of incentives, however, has not stopped governments from trying to control how their expatriates channel remittances. A good example remains the current Syrian program requiring emigrants working in the public sector to exchange 25 percent of their incomes at official exchange rates.

Attempts to tax emigrants' income have also spawned predictable and widespread tax evasion. Egyptian authorities have tried two different initiatives to tax emigrant remittances, but the tax schemes were unsuccessful. In the 1960s, Egypt attempted to obligate expatriate workers to remit between 10 and 25 percent of their incomes through official channels; after little success, the scheme was abolished in the early 1970s.

Other policies to attract remittances in the region include Sudan's "Land for Emigrants Program," which enabled a quick exchange of hard currency for building plots in the Khartoum area at preferential prices. During 1970s and 1980s, Egyptian emigrants who could pay in foreign exchange were qualified for immediate delivery of locally produced durable goods such as cars and domestic appliances. Buyers paying in local currency had to wait much longer.

As shown, various attempts by labor-exporting countries to encourage emigrants to remit through official channels have been largely unsuccessful. In many cases, policies were contradictory and lacked an integrated approach. In general, economic conditions in the labor-exporting countries should be conducive to the inflow of remittances. Clearly, free exchange rate systems are superior to so-called "incentive exchange rates." Also, exchange rate misalignment fuels expectations about future domestic currency depreciation and leads to an increased inflow of remittances through unofficial channels and holding deposits in other currencies.

Where incentive exchange rates are not accompanied by realistic interest rates, differences between domestic interest rates and foreign interest rates will encourage emigrants to direct their savings toward nonproductive uses, or to keep their savings abroad even where incentive exchange rates are attractive. Moreover, if realistic incentive exchange and interest rates are adopted but fiscal or monetary policy is lax, inflation and inflationary expectations will increase currency substitution, and in some cases render the real interest rate on domestic currency negative. Finally, economic conditions alone are not sufficient to attract remittances. Political stability and institutional reforms are essential prerequisites for the enhanced inflow of remittances. Russell (1992) argues that programs to attract remittances through official channels have been limited because of the negative impact of macroeconomic, political, and institutional factors in host countries.

Determinants of Emigrant Remittances

The magnitude of remittance inflow is determined by several micro and macro factors (see Russell 1986). The bulk of the literature about remittances in the Middle East focuses on balance of payments issues. In spite of the crucial importance of remittances to the region, econometric evidence on the determinants of remittances is scarce. In a study using data from Algeria, Morocco, Portugal, Tunisia, Turkey, and Yugoslavia, Elbadawi and Rocha (1992) found the main determinants of the inflow of remittances to be the level of income in the host country, the black market exchange rate premium, the domestic inflation rate, and the length of stay abroad. The authors did not find any evidence to support claims that levels of income in the country of origin or interest rate differentials affect remittance inflows.

In a panel study of remittances from Arab emigrants, El-Sakka (1998) found that remittances were positively related to economic growth in the host countries and inflation in the home country. The latter result may reflect the fact that a significant proportion of officially recorded remittances are intended to support families. The higher the inflation rate, the greater the need to remit through official channels. It was also found that exchange rate differentials between official and black markets have a negative impact on the inflow of remittances through official channels. In countries with black markets for foreign exchange, a substantial portion of remittances flow through these markets due to significant differentials between official and black market rates.

El-Sakka and McNabb (1999) estimated a macro model for total inflow of remittances through official channels in Egypt. They found that levels of income in both host and home countries have a positive impact on the inflow of remittances to the home country. They also found that remittance flows are highly responsive to black market premiums, with emigrants diverting remittances into unofficial channels in response to better rates. Results also support the idea that interest differentials at home and abroad have a negative impact on the inflow of remittances through official channels. In the case of low domestic interest rates in Egypt, emigrants will keep their savings abroad or invest in foreign exchange-denominated assets. To investigate the imports financed by emigrant remittances (the OEIS system), a demand for import function was estimated and compared with estimates of an import function for other imports. Results show that imports financed by remittances have a higher income elasticity and a relatively lower price elasticity than other imports. This finding suggests that imports financed by remittances are likely to be consumer durables and luxury goods. Thus the OEIS diverts remittances away from investment toward conspicuous consumption, which has long-term demonstration effects on non-emigrants who seek to emulate consumption patterns of emigrant families.

El-Sakka (2004) examined the impact of variables such as income, expected depreciation, interest rate differentials, and levels of income at home, fiscal policy (proxied by the budget deficit), and monetary policy (proxied by growth of money supply) on total remittances. The study found remittances to be highly responsive to macroeconomic failures, as reflected in poor monetary or fiscal policy. A negative relationship was found to exist between the inflow of remittances and the rate of growth of money supply and in the growth of budget deficits. Other factors found to have a significant impact on remittances include interest rate differentials and expected depreciation. The study concludes that consistent and sound macroeconomic policies at home are essential to boost the inflow of remittances to the country of origin. While the literature on the determinants of remittances in the region is limited, it does underscore the significance of appropriate policies for mobilizing remittances and maximizing their development impact. Emigrants are highly responsive to positive incentives to attract remittances and equally influenced by macroeconomic failures at home.

Future Prospects of Emigrant Remittances

Migrants' remittances to labor-exporting countries in the Middle East are expected to decline over time. All labor-importing countries in the area have plans to minimize their dependence on imported labor and to increase participation rates of indigenous labor. These plans are in direct response to the end of the construction boom, higher participation rates of indigenous women in the labor force, and increasing numbers of national graduates and new entrants into the labor market. For these reasons, future emigration to the labor-importing countries will become more selective, with only highly skilled workers being allowed to emigrate. Salt (1992) concluded that developed countries will continue to attract only highly skilled labor in the future and have little need for mass immigration at low-skill levels. Of critical importance, highly skilled emigrants are less likely to remit their savings home.

The degree to which countries incorporate future migrants will increasingly depend on their private sectors and the regulatory environment. For most labor-importing countries in the region, the public sector is already saturated with native employees. Cost and productivity considerations may lead the private sector to prefer imported labor, where it is not prevented from doing so because of restrictive immigration regulations. In recent years, a shift has occurred in favor of Asian labor in the private sectors of labor-importing countries of the region. Competition with Asian labor may be problematic for Arab workers because some employers view Asians as less costly, better disciplined, and more efficient than Arab workers (Girgis 2002). Of course, Arab migrants may have certain advantages over their Asian counterparts, including similarities in language, traditions, and religion. Nonetheless, the future of Arab emigrants will depend on immigration strategies adopted by host countries and the optimal mix of nationalities they identify for both political and security reasons.

Prospects for emigration across the globe remain uncertain in the wake of the September 11 terrorist attacks, as new measures adopted by many traditional immigration countries in the West restrict immigration from the Middle East. It may take a long time before these restrictions are eased. It is thus inevitable that remittances to the labor-exporting countries in the Middle East will continue to shrink, although the decline should be gradual. These countries must be aware of this trend and begin to lower their dependency on remittances. The search for alternative sources of foreign exchange and ways of providing returning emigrants with necessary jobs is already underway.

Policy Recommendations

The positive aspects of remittances must be balanced against the growing dependence of labor-exporting countries on external and unpredictable flows of foreign exchange. Basing development plans on remittances is risky given the numerous variables affecting these inflows. Serious efforts to diversify foreign exchange sources and reduce dependency on remittance flows must be undertaken in order to avoid serious consequences in case of a large repatriation of emigrants. Moreover, economic policy should provide stable and comprehensive incentives with respect to the use of interest and exchange rates to encourage all forms of capital flows, including remittances, and thus direct these resources into more productive investments and into closing the domestic resource gap.

Establishing special high-interest accounts for foreign exchange deposits is one successful policy for attracting remittances and other foreign exchange holdings.[4] Such accounts increase central bank reserves of foreign exchange in the form of required reserves and enable central banks to borrow these funds from the domestic banking sector. Central banks can also accumulate foreign exchange reserves by buying these savings whenever holders wish to exchange them for domestic currency. Moreover, any effective strategy for attracting remittances into the formal banking system should include attempts to ex-

[4] This policy was successful in Egypt, Jordan, and Sudan (Serageldin and others 1981).

pand branch networks, in order to effectively link overseas workers with the remittance-receiving countries.

In order to minimize the unproductive uses of remittances, investments in financial assets must be made attractive to emigrants. Real rates of return on these assets should be competitive with returns on real assets, as well as with similar assets abroad. High inflation and instability in the foreign exchange rate can greatly reduce the attractiveness of assets offered by the financial sector, pushing savings from financial into real assets, and may encourage emigrants to keep savings abroad or transfer them into the black market for foreign exchange.

Mandatory schemes to force the use of official channels or taxing remittance income simply result in remitters shifting to informal channels. Labor-exporting countries have little option but to focus on appropriate incentives to facilitate the inflow of remittances to their economies. In those countries where active black markets for foreign exchange exist, exchange rates applied to remittances must be competitive with black market rates and supported by incentive interest rates. Finally, policies designed to attract remittances must be integrated in a comprehensive way with other economic policies. Isolated schemes can attract only a small proportion of emigrant remittances.

Bibliography

Adams, R. 1991. The Economic Uses and Impact of International Remittances in Rural Egypt. *Economic Development and Cultural Change* 39(4): 695–722.

Bohning, W. 1978. Elements of a Theory of International Migration and Compensation. Mono: M0011356. International Labour Office, Geneva.

Brown, P.C. 1992. Migrant Remittances, Capital Flight, and Macroeconomic Imbalance in Sudan's Hidden Economy. *Journal of African Economics* 1(1): 86–108.

Central Bank of Egypt. 1981. *Economic Bulletin* 22(2).

Chandvarkar, A. G. 1980. Use of Migrants' Remittances in Labour Exporting Countries. *Finance and Development* 17(June): 36–39.

Choucri, Nazli. 1986. The Hidden Economy: A New View of Remittances in the Arab World. *World Development* 14(6): 497–712.

Elbadawi, I., and R. Rocha. 1992. *Determinants of Expatriate Workers' Remittances in North Africa and Europe.* Working Paper No. 1038. Country Economics Department, The World Bank, Washington, D.C.

El-Sakka, M.I.T. 1997. Migration Remittances: Policy Options for Host and Origin Countries. Research Project No. CC023. Kuwait University, Final Report.

———. 1998. Determinants of Arab Migrant Remittances. *Journal of Social Sciences* 26(3): 67–96.

———. 2004. Migrant Remittances: A Macroeconometric Policy Analysis for Jordan. *The Arab Journal of Administrative Sciences*. Forthcoming.

El-Sakka, M.I.T., and R. McNabb. 1999. The Macroeconomic Determinants of Migrant Remittances. *World Development* 27(8): 1493–1502.

El-Sakka M.I.T., I. Dashti, and J. Hajji. 2004. Estimating the Degree of Misalignment of the Egyptian Pound Using Econometric Neural Network Techniques. *L'Egypt Contemporaine,* forthcoming.

Findlay, A. 1994. *The Arab World.* London: Routledge.

Girgis, M. 2002. Would Nationals and Asians Replace Arab Workers in the GCC? Paper presented to the Fourth Mediterranean Development Forum, Amman, Jordan.

Keely, C. B., and B. Saket. 1984. Jordanian Migrant Workers in the Arab Region: A Case Study of Consequences for Labor Supplying Countries. *The Middle East Journal* 38(4): 658–98.

Messiha, S. 1983. Export of Egyptian School Teachers. *Cairo Papers in Social Sciences* (The American University in Cairo) Vol. 3, No. 4.

Mohie-El-Din, A., and A. Omar. 1978. The Emigration of University Academic Staff. Cairo University/MIT Report, Technology Adoption Program, Cairo.

Nada, A.H. 1991. Impact of Temporary International Migration on Rural Egypt. *Cairo Papers in Social Sciences* (The American University in Cairo), Vol. 14, No. 3.

Puri, S., and T. Ritzema. 1999. *Migrant Worker Remittances, Micro-finance and the Informal Economy: Prospects and Issues.* Working Paper No. 21. International Labour Office, Geneva.

Russell, S. 1986. Remittances from International Migration: A Review in Perspective. *World Development* 14(6): 677–96.

———. 1992. Migrant Remittances and Development. *International Migration* 30(3/4): 267–87

Salt, J. 1992. "The Future of International Labor Migration." *International Migration Review* 26(4): 1077–1111.

Samha, M. 1990. The Impact of Migratory Flows on Population Changes in Jordan: A Middle Eastern Case Study. *International Migration* 28(2): 215–28.

Seccombe, I.J. 1984. *Jordan*. In *World Bibliographical Series*. Oxford, England: Clio Press.

Serageldin, I., J. Socknat, J.S. Birks, and C.A. Sinclair. 1981. Manpower and International Labor Migration in the Middle East and North Africa. Technical Assistance and Special Studies Division, The World Bank, Washington, D.C.

This page intentionally left blank

Chapter 14

Asian Experiences with Remittances

Graeme Hugo

Global movements of permanent and temporary migration have been increasing exponentially in scale and complexity. More than half the world's 175 million international migrants originate in Asia (United Nations 2002). A defining characteristic of this migration is that it relies on strong social networks that link origins with destinations and that facilitate important flows of money, goods, and information. This chapter summarizes the scale and pattern of remittance flows into Asia, taking into account the serious deficiencies in available data and current research. It also seeks to assess the overall impacts of remittances on the receiving countries, with a final section of the chapter that considers some policy issues. While a range of data and studies from across Asia are examined here, particular lessons are drawn from case studies in Eastern Indonesia, which has had a long history of labor migration to Malaysia and a substantial influx of remittances (Hugo 1998).

Measuring Remittances in Asia

Two decades ago the conventional wisdom was that migrants' remittances were trivial in scale and impact. Improvements in the measurement of remittances have helped to dispel these misperceptions, and by the early 1990s this phenomenon had galvanized the attention of several major Asian migrant-sending countries (Russell and Teitelbaum 1992). However, crafting good policy is difficult because of the lack of reliable data, the illegality of much migration, the isolation of the home areas, and the long history of remitting money in Asia through non-formal channels. For example, one of the major institutions channeling remittances to Asia is the *hundi/hawala* system, an informal mechanism in which remittance volumes escape detection in official remittance statistics.[1] Authorities and banks have made efforts to replace such informal systems in several countries, including a sustained program toward this end in Pakistan.[2]

Accurate estimates of remittances are further complicated by the nature of definitions employed in different countries. In Indonesia, for instance, the Bank of Indonesia uses a very narrow definition of official remittances: these are transfers reported by foreign agent banks, especially in the Middle East and Malaysia. Hence, official remittances for Indonesia do not include the several types of significant transfers:

- Money carried by returning migrants upon their return home. In Indonesia, there is a free foreign currency exchange system and no distinction is made between money that is changed in Indonesia by returning workers and money changed by tourists and other foreign visitors.
- The batching of remittances, in which relatives and friends bring back money from workers in destination areas[3].
- In-kind remittances in the form of goods, gold, and other non-cash tangibles[4].
- Large inflows using postal transfers.
- Schemes set up by companies to remit funds for overseas workers, in association with particular recruitment agencies.

Unofficial channels are not the only reason for the underestimation of remittances in Asia and elsewhere. The data reported in the *Balance of Payments Statistics Yearbook* of the International Monetary Fund are also problematic. Data reported for relevant categories are not reported for all countries and different countries categorize flows in different ways.

[1] The *hundi/hawala* system, common in the Middle East and Indian subcontinent, is a transfer or remittance from an expatriate worker in one country to a nominated person in his/her origin country without a formal transfer of money or use of formal financial institutions. It usually involves intermediaries (hawaladars) (Wilson 2002).

[2] See *Dawn*, October 5, 2001. This study cites material from numerous newspapers: *Bahrain Tribune, Business Recorder, Business World, Dawn, Gulf News, Independent Bangladesh, Indonesia Observer, Manila Chronicle, Pakistan Economist, Republika, South China Morning Post, Straits Times*, and *Far Eastern Economic Review*. These are available from either Asian Migration News (http://www. smc.org.ph/amnews/amnews.htm) or Migration News (http://migration.ucdavis.edu/mn/index.php).

[3] "Batching" refers to cases where one migrant who is returning home arranges to carry money and goods to the families of other migrant workers.

[4] Eki (2002) and Kapioru (1995) found that migrant workers from East Flores bring back chartered boats from their destination areas in Sabah loaded with goods, including materials to build or refurbish houses.

Moreover, reporting requirements vary between countries. It is not surprising that great uncertainty exists at the national level about the extent of remittances from overseas workers. Examples of sketchy data abound. For instance, the official remittance data published by the Bank of Indonesia indicate that the total inflow in 1994–95 was $595 million, an increase of 69 percent over the previous year. This rapid increase reflected in part an increase in the number of workers overseas, but the jump was also caused by steps by Indonesian banks in the mid-1990s to establish facilities for national workers overseas to send remittances to their families. These new official channels captured remittance flows that had previously been unrecorded.

Another example of the weakness of official remittance statistics is the statement by the Pakistan finance minister in 2001 in which he estimated the total value of remittances at $6 billion—of which only $1.2 billion goes through official or recorded channels (*Business Recorder*, May 25, 2001). In the Philippines, the National Census and Statistics Office routinely increases by 50 percent the total remittances from Overseas Contract Workers (OCWs) when it calculates these flows. Government surveys of OCWs found that only 40 percent of remittances flow through official channels.

Patterns of Asian Migration

Two main types of migrants send money to Asia. The first is a diaspora of permanent settlers of Asian origin, most of them living in OECD nations. The second are contract labor migrants, of whom Asia is the preeminent source in the world. It is difficult to estimate the numbers involved in both types because of limited migration data collection systems in Asia, as well as the large scale of undocumented mobility out of Asian nations (Quibria 1996). Table 14.1 presents official figures from a number of sources on the contemporary stocks of Asia-born persons in OECD nations. Although it indicates there are 13,025,544 Asian-born people in these countries, this figure severely underestimates the numbers involved since data are not available for all countries and do not include the children of migrants or undocumented migrants. However, birthplace data are especially relevant because it is the first generation of settlers that maintain the strongest links with their home regions.

The figures in the total column in table 14.1 underestimate the size of the Asian diasporas. For example, it is estimated that "about 18

Table 14.1. Asian-born Populations Living in OECD Countries

Country of origin	Europe/ Japan 1999	Australia 2001	United States 2001	Canada 1996	New Zealand 2001	Total
	Destination country/Year					
Afghanistan	—	11,296	39,000	11,815	735	56,571
Bangladesh	84,800	9,078	104,000	12,405	1,185	211,468
Brunei	—	2,068	—	4,310	—	6,493
Burma	—	10,973	22,000	3,125	513[a]	35,921
Cambodia	47,400[c]	22,979	92,000	19,505	4,770	185,114
China	471,700	142,780	947,000	238,485	38,949	1,838,914
Hong Kong	—	67,124	223,000	249,175	11,301	542,520
India	248,800	95,452	1,024,000	240,560	20,889	1,629,701
Indonesia	185,300[c]	47,158	72,000	9,340	3,792	315,860
Japan	608[c]	25,469	334,000	24,300	8,622	380,974
Korea, South	668,700	38,902	826,000	52,170	17,934	1,603,706
Laos	31,800	9,565	117,000	14,905	1,017	173,827
Macao	—	1,948	—	7,110	—	6,058
Malaysia	35,300	78,858	39,000	20,930	11,460	185,548
Mongolia	—	126	—	20	—	146
Nepal	—	2,628	—	540	—	2,753
Pakistan	932,568[b]	11,917	241,000	41,085	1,317	1,211,902
Philippines	250,200	103,942	1,273,000	190,395	10,137	1,827,674
Singapore	—	33,485	23,000	8,580	3,912	66,682
Sri Lanka	167,000	53,460	—	72,355	6,168	298,983
Taiwan	—	22,418	246,000	52,480	12,486	298,674
Thailand	82,100	23,602	142,000	8,085	5,154	260,941
Vietnam	180,100	154,833	758,000	141,080	3,948	1,237,961
Other Asia	—	12,458	491,000	55,120	1,485	502,097
Total Asia	3,386,376	982,519	7,013,000	1,477,875	165,774	13,025,544

— Not available.
[a] 1996.
[b] 1997.
[c] 1998.
Source: Australian Bureau of Statistics, *2001 Census*; U.S. Census Bureau, *Current Population Survey* 2001; New Zealand, *2001 Census*; Statistics Canada, *1996 Census*; OECD 1999, 2000, 2001.

million Indians live in more than 100 countries" (*Migration News*, December 2000); the *Viet Kieu* or overseas Vietnamese number 2.7 million (*Far Eastern Economic Review*, January 16, 2003, p. 48); and the Pakistan diaspora is estimated to be around 3.5 million (*Dawn*, October 5, 2001). In the 1970s Asian communities in OECD nations were relatively small, but they have since grown substantially because of a number of factors. First, in the traditional immigration nations—the United States, Canada, Australia, and New Zealand—exclusionist immigration regulations were withdrawn during the 1960s and 1970s, making Asians eligible for entry under skill- and family-based migration programs. Moreover, refugee-humanitarian flows led to the establishment of communities that served as anchors for subsequent family reunion migration. While it is difficult to accurately estimate the size of Asian communities permanently settled in other countries, it is clear that these continue to grow rapidly and to maintain strong linkages with their home countries. These linkages are conduits for further migration—and return migration—as well as for flows of money, business, goods, and information.

Accurate estimates of non-permanent migrations are difficult to make because of the lack of data collection systems and the large volume of undocumented movement. Table 14.2 provides estimates of the numbers of contract workers from Asian countries working in other countries. As will be noted, the bulk of these emigrants work in the Middle East or in other Asian nations. Women are an important component in this movement. Most of this migration is temporary, and its main drivers are the need to provide for families in the home country, and to accumulate capital for investment. Hence the great majority of contract workers send remittances to their home countries in Asia.

Trends in Asian Remittances

The earnings of Asians overseas are generally many times greater than average earnings in the home country. A 1991 study in the Philippines found average earnings overseas to be $5,800, compared with per capita income in the Philippines of $705.

With caveats concerning the limited nature of available data in mind, figure 14.1 draws from a wide range of sources to show estimated trends in remittances in the main labor-sending nations of Asia. A major migrant-sending nation is the Philippines, where the central bank's measurements of formal flows of remittances have increased from $1 billion in 1989, to $5 billion in 1995, to $8 billion in 2002 (*Migration News,* December 2002). It is estimated that over half of these remittances came from permanent settlements of Filipinos in the United States and Canada. In addition, the 200,000 Filipino seafarers employed worldwide remit more than $1 billion alone (*Asian Migration News*, September 30, 2000). Official data show that 65,000

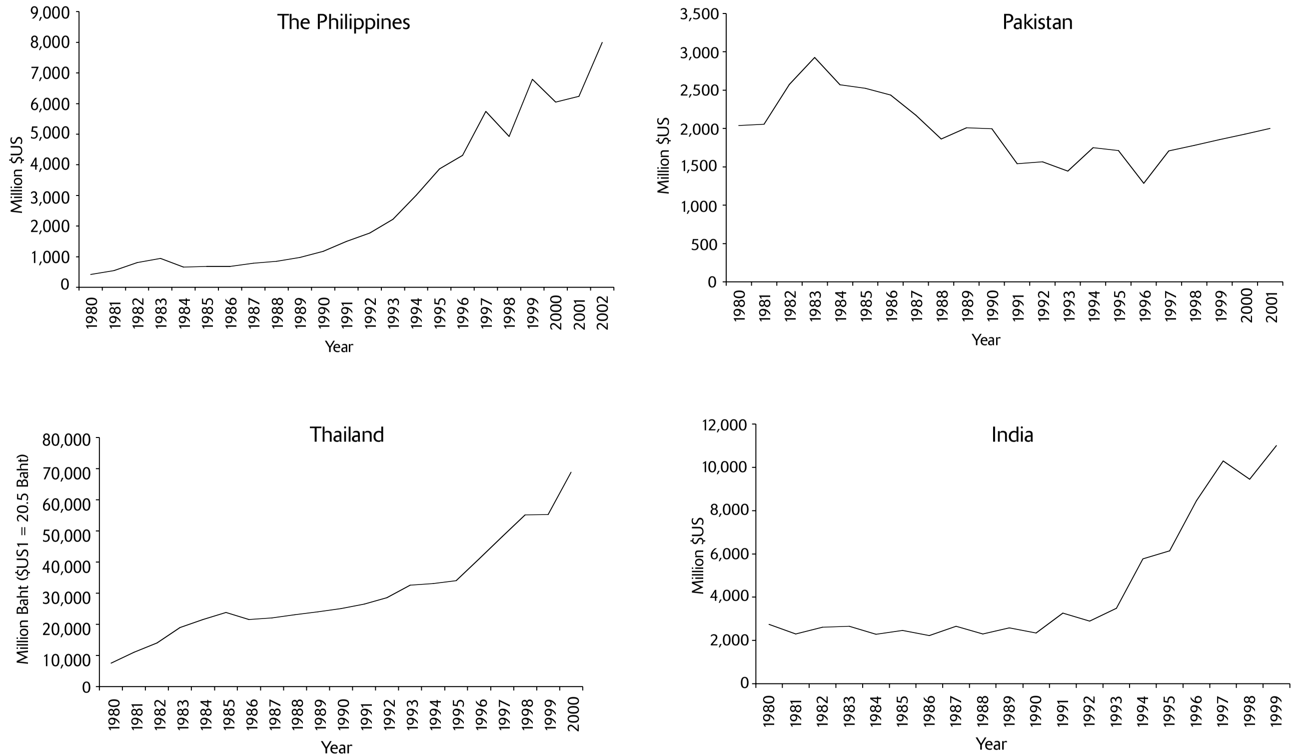
Table 14.2. Estimates of Stocks of Asian Migrant Workers in Other Countries

Region/Countries of origin	Number of migrant workers	Main destinations	Source of information	Year
Southeast Asia				
Burma/Myanmar	1,100,000	Thailand	*Migration News*, December 2001	2001
Cambodia	200,000	Malaysia, Thailand	Scalabrini Migration Center 2000	1999
Indonesia	2,000,000[a]	Malaysia, Saudi Arabia, Taiwan, Singapore, South Korea, United Arab Emirates	*Migration News,* November 2001	2001
Lao PDR	100,000[b]	Thailand	Asian Migrant Center 1999; Scalabrini Migration Center 1999	1998
Malaysia	250,000	Japan, Taiwan	Asian Migrant Center 1999	1995
Philippines	7,300,000	Middle East, Malaysia, Thailand, South Korea, Hong Kong, Taiwan	*Asian Migration News,* June 2002	2002
Singapore	5,000[a]	—	Asian Migrant Center 1999	1998
Thailand	340,000	Saudi Arabia, Taiwan, Myanmar, Singapore, Brunei, Malaysia	*Migration News*, March 2002; Scalabrini Migration Center 1999	2002
Vietnam	370,000	South Korea, Japan	Nguyen 2002; *Far Eastern Economic Review*, January 16, 2003	2002
Subtotal	11,595,000			

South Asia				
Bangladesh	3,000,000	Saudi Arabia, Malaysia	*Migration News*, July 2002	2002
India	1,100,000	Middle East	*Migration News*, March 2000, April 2002	2002
Nepal	1,400,000	Middle East, India	Asian Migrant Center 1999	1999
Pakistan	3,180,973	Middle East, Malaysia	Scalabrini Migration Center 2000	1999
Sri Lanka	1,500,000	Middle East, Malaysia	*Migration News*, January 2001	2000
Subtotal	10,180,973			
Northeast Asia				
China	334,164	Middle East, Asia and the Pacific, Africa	Xiao 2002	1999
Japan	18,000	Hong Kong	Stahl and PECC-HRD 1996	1995
North Korea	300,000	China	*Migration News*, June 2002	2002
South Korea	632,000	Japan	*Migration News*, August 2002	2002
Subtotal	1,284,164			

— Not available.
[a] Documented.
[b] Undocumented.

Figure 14.1. Growth of Remittances to the Philippines, Thailand, Indonesia, Bangladesh, Pakistan, India, Sri Lanka, and South Korea, 1980–2001



Source: IMF *Balance of Payments Statistics Yearbooks*; *Migration News*, March 2002, July 2002, December 2002; *Asian Migration News,* March 15, 2001, December 15, 2001, May 15, 2002; Bank of Thailand; Chalamwong 2002, p. 16 (Thailand); Soeprobo 2002, p. 5 (Indonesia); Scalabrini Migration Center 1999; Go 2002, p. 12 (Philippines).

female domestic workers in Singapore sent back $106 million in 1995, an average of $1,630 each (*Straits Times*, March 17, 1996). It was estimated in 1995 that remittances were equivalent to one-quarter of total national government expenditure in the Philippines (*Manila Chronicle*, December 4, 1995).

The second graph in figure 14.1 shows trends in official remittance flows in Thailand, another major source of labor migrants in Asia. Official data show that Thai workers remitted 45.8 billion Thai baht ($2.2 billion) in 1996 and 66.8 billion Thai baht ($3.3 billion) in 2000 (*Asian Migration News*, December 2002). However, significant undocumented flows out of Thailand exist. For example, it is estimated that in 2001 in Japan there were 40,000 registered and 30,000 illegal Thai workers sending back 13.1 billion baht ($640 million) to Thailand (*Asian Migration News*, February 2000). Like Malaysia, Thailand has both substantial inflows and outflows of workers. It was estimated that around 100,000 illegal Burmese workers in a single Thai province (Raying) remit 20 billion baht ($491 million) annually (*Asian Migration News*, August 2000).

Indonesia is one of the world's major sources of migrant workers, but the official remittance data depicted in figure 14.1 is only the tip of the iceberg of actual flows. The undocumented migration of workers from Indonesia to Malaysia is probably second in size only to the flow of undocumented workers from Mexico to the United States. Studies of remittances in Indonesia indicate that only a fraction of these flows go through official channels. As indicated in table 14.3, one study of migrant workers from East Flores living in East Malaysia (Hugo forthcoming) found that most workers sent back money with friends. The same study also showed that migrants carry back with them a great deal more money than they send home. In this case, the total amount brought back generally exceeds the total amount sent home with friends or via other channels.

Table 14.4 shows that about 42 percent of returning male migrants brought with them more than Rp2 million (about US$472), and one-fourth brought back more.[5] More than one-third of females brought back more than Rp2 million. The modal value of money brought back by returning migrants was Rp1,674,000 ($198) for males and Rp1,417,000 ($167) for females in the survey villages. Eki (2002) reports that migrants from East Flores make decisions to send remit-

[5] All conversions to U.S. dollars are at 2003 values. However, the Indonesian rupiah value plunged after 1997 from around Rp 1,500 per dollar to around 10,000 rupiah.

Table 14.3. Indonesia: East Flores, Main Method of Sending Money Back to the Home Village, 1997

	Returned migrants				Migrants still away			
	Males	Females	Total		Males	Females	Total	
Method	%	%	No.	%	%	%	No.	%
Bank	35.8	32.0	37	34.9	21.0	5.3	18	18.0
Employer	7.4	4.0	7	6.6	1.2	5.3	2	2.0
Friends/family	54.5	64.0	60	56.6	77.8	89.5	80	80.0
Took back when visiting	2.5	—	2	1.9	—	—	—	—

— Not available.
Source: Hugo forthcoming.

tances home based on a comparison of interest rates in the home and host countries, and by assessing relative exchange rates. For example, when the Indonesian currency depreciated, many sent money to gain perceived advantages in exchange rates.

Another Southeast Asian nation with a significant and growing diaspora is Myanmar (Burma). In 2000 the military government, seeking to alleviate the country's chronic foreign exchange disadvantage, required its overseas workers to remit half their earnings through local Burmese embassies—in addition to paying a 10 percent tax on all foreign earnings. Migrants could then collect these remittances in the form of foreign exchange certificates from the Myanmar Foreign Trade Bank (*South China Morning Post*, March 11, 2000).

Table 14.4. Indonesia: East Flores, Amount of Money Sent Back and Carried Home, 1997

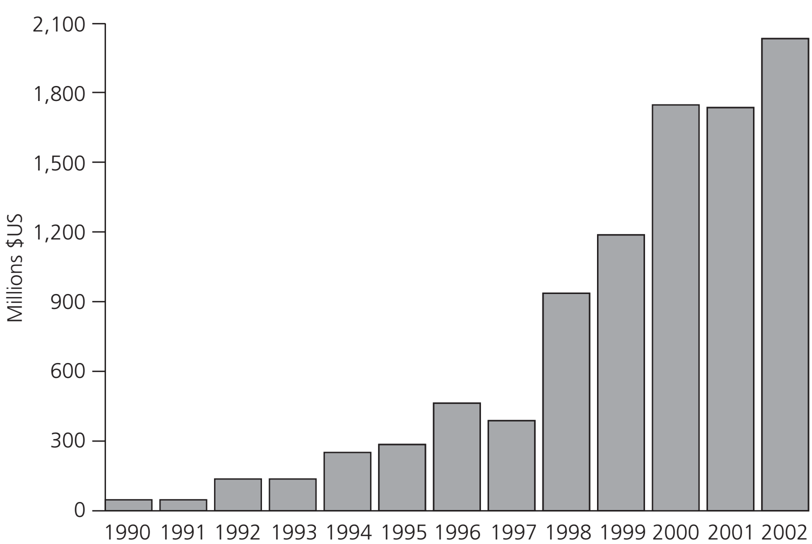
Amount of money	Sent while away		Brought home	
('000 Rupiah)	Male	Female	Male	Female
0–99	18	7	3	1
100–149	18	1	1	—
150–199	13	7	—	1
200–499	19	6	4	1
500–999	13	4	22	7
1,000–1,999	3	1	23	12
2,000+	1	—	38	12
Total (number)	85	26	91	34

— Not available.
Source: Hugo forthcoming.

While little data exist, the diaspora of Indochinese, formed largely by refugee movements in the 1970s and 1980s, has generated large remittance flows to Lao PDR, Cambodia, and Vietnam. In 1975 about one-tenth of the population of Lao PDR left, headed for the United States and other OECD nations. A significant Lao labor migration into neighboring Thailand has made remittances the most important source of income in the Vientiane Valley, comprising 28 percent of all household earnings in this part of Lao PDR—as compared with 25 percent from agriculture, 22 percent from wages, and 18 percent from business (*Far Eastern Economic Review*, July 27, 2000, p. 48).

The Vietnamese diaspora plays an increasing role in the economy of the homeland. Figure 14.2 shows that in 2002 official remittances reached over $2 billion (*Far Eastern Economic Review*, October 26, 2002; January 2, 2003), double the $1.2 billion recorded in 1998 (*Asian Migration News*, October 31, 1999). This amount includes remittances sent from approximately 100,000 overseas contract workers—in South Korea, Japan, Malaysia, Taiwan, and Russia—as well as the diaspora of 2.5 million *Viet Kieu* or Vietnamese who have settled permanently overseas. However, official remittances account for only part of a total remittance flow of around $4 billion. More than half the remittances to Viet-

Figure 14.2. Remittances Sent by Overseas Vietnamese to Vietnam



Source: State Bank of Vietnam; *Far Eastern Economic Review*, January 16, 2003, p. 48.

nam are sent from the United States, followed by Canada, Australia, France, Germany, and Japan. Some 70 percent of these flows are directed to the former South Vietnam (*Far Eastern Economic Review*, January 16, 2003, p. 48). Vietnam does not tax remittances and there has been a proliferation of local money-sending companies and agents. Western Union alone has subagents in 52 provinces and cities in Vietnam (*Far Eastern Economic Review*, January 16, 2003, p. 48).

Remittances have become a major part of the economies of South Asian countries. In the case of Bangladesh, official central bank statistics capture only part of the flow. One study showed that 40 percent of remittances to Bangladesh are sent through illegal *hundi/hawala* systems, 4.6 percent through friends and relatives, 8 percent are carried by hand by migrants when they return, and 46 percent go through official sources (*Independent Bangladesh*, January 7, 2002). The Middle East accounts for 83 percent of total official remittances to Bangladesh (*Gulf News*, July 11, 2002).

Official figures in Pakistan are also substantial underestimates. Senior bank officials estimate the real flow at between $8 billion and $10 billion, of which only $1 billion goes through official channels (*Dawn*, February 23, 2002). Instability and widespread corruption in Pakistan are believed by many to have encouraged overseas Pakistanis to deposit their savings in foreign banks—or even invest in India—rather than send money home (*Dawn*, October 2,1999). On average, it is estimated that Pakistanis in the Gulf region in 2002 sent home $19 per month, as compared with $230 by non-resident Indians, $270 by Sri Lankans, and $130 by Bangladeshis (*Business News*, January 14, 2003).

India has one of the world's greatest diasporas, second only in size to that of China. In the mid-1990s the Indian government began to distinguish between ethnic Indians who have non-Indian citizenship ("People of Indian Origin," or PIOs) and Non-Resident Indians (NRIs). The approximately 20 million ethnic Indians and Indians abroad—about half of whom were born in India—have an estimated annual income of about $400 billion (*Migration News*, October 2002; Abraham 2001). It was estimated in 2000 that the 1 million Indians living in the United States—or 0.1 percent of the total population in India—earned the equivalent of 10 percent of total Indian national income (*Migration News*, November 2002). India receives around $14 billion each year in official remittances, mostly from semi-skilled and low-skilled workers in the Gulf countries—which comprises an important part of the nation's $70 billion reserves (*Far Eastern Economic Review*, January 23, 2003, pp. 28–29). The workers in the

Table 14.5. India: Non-Resident Indians as a Source of Foreign Investment, 1983–2002

Year	India's total foreign investment approvals ($millions)	Total foreign direct investment from PIOs (Rp millions)	Share by NRIs (percent)
1983	61.3	—	10.5
1984	99.5	—	13.0
1985	101.9	—	15.1
1986	84.8	—	7.4
1987	83.1	—	19.3
1988	172.2	—	7.4
1989	195.1	—	6.7
1990	73.3	—	4.1
1991	234.9	1,602.5	3.7
1992	1,267.2	1,496.6	11.6
1993 (Jan.–May)	1,046.9	5,604.5	5.6
1994	205,357.6	11,185.4	—
1995	533,067.3	19,705.6	—
1996	528,185.0	20,620.4	—
1997	746,721.5	10,396.2	—
2002	4,000.0	—	9.2[a]

— Not available.

[a] Rounded.

Note: PIOs are People of Indian Origin, ethnic Indians who have non-Indian citizenship. NRIs are Non-Resident Indians.

Source: Far Eastern Economic Review, January 26, 1995, p. 51, and January 23, 2003, p. 29 *www.indiaonestop.com/economy-fid.htm*; PIO website *www.indiandiaspora.nic.in*

Non-Resident Indian community are a major source of remittances, make substantial investments in India (as can be seen in table 14.5), and have been instrumental in involving overseas companies in significant economic activity in India.

While persons of Indian origin provided 9.2 percent of foreign direct investment in India in 2002, the Indian government is attempting to increase PIO investment in India through a series of initiatives aimed at increasing the inflow of foreign exchange from expatriates, as well as using their expertise to help Indian companies create new products and access international markets (*Far Eastern Economic Review*, January 23, 2003, pp. 28–29). A key challenge for the government, however, will be in overcoming the resentment of many overseas Indians who believe that they are largely neglected by the Indian government—except when it wants their money (*Far Eastern Economic Review*, January 23, 2003, pp. 28–29; Abraham 2001).

Sri Lankan government officials recognize that remittances "have now become the backbone of the country's economy" (*Asian Migration News*, August 31, 2001). Approximately 1 million overseas contract workers, 60 percent of them women working as domestics, remitted Rs100 billion in 2001 and Rs115 billion in 2002 ($1.2 billion) (*Asian Migration News*, January 16–31, 2003). The small country of Nepal received 35 billion rupees ($443 million) in remittances in 1997 (Seddon 1999).

Remittances data are not available for several of the countries that are major sources of migrants in Asia. China, the world's largest nation, with one of the largest diasporas, has a massive inflow of remittances. Figures on China in table 14.6 include only the remittances from the relatively small number of contract workers deployed by the Chinese government. Importantly, they do not capture the massive flows of funds from Chinese settled in foreign nations. It is estimated that China's expatriates are responsible for about half their country's foreign direct investment (*Far Eastern Economic Review*, January 23, 2003, pp. 28–29). In recent years a substantial number of Chinese businesspeople have been involved in Taiwan, Hong Kong, and elsewhere in channeling money into the China mainland.

During the last three decades, South Korea has undergone a transition from one of the world's major exporters of workers to a country that has imported more than 250,000 immigrant contract workers. Figure 14.1 shows how remittances peaked in the 1980s and have since dwindled to minimal proportions.

Remittances to South Korea played a large role in funding the industrialization of the 1970s and 1980s. North Korea continues to receive a substantial inflow of remittances from the 100,000 pro-Pyongyong Koreans living in Japan. Indeed, the inflow of $600–$700 million in 1993 was equivalent to the entire North Korea government budget (*Far Eastern Economic Review*, September 9, 1993, p. 23). Much of the flow was directed toward the 95,000 returnees who went to North Korea from Japan in the 1960s.

While the data underestimate remittances into Asia in a major way, there is little doubt that these resources have a large impact on countries in the region. Table 14.6 compares official estimates of remittances to the value of total merchandise exports and imports over the last two decades in several major countries of migrant origin in Asia. In the largest countries of the region, especially China and Indonesia, remittances are generally small in relation to export earnings. India is an exception, where remittances are an important share of foreign

Table 14.6. Main Asian Labor-exporting Countries: Workers' Remittances Relative to Exports and Imports, 1980–2001
($millions)

Country	Year	Workers' remittances (R)	Total merchandise Exports (X)	Total merchandise Imports (M)	R/X	R/M
Bangladesh	1980	339	885	2,545	38.3	13.3
	1992	912	1,903	2,527	47.9	36.1
	2001	2,000	5,700	8,480	35.1	23.6
China	1982	541	21,875	19,009	2.5	2.8
	1992	228	84,940	80,585	0.3	0.3
	1999	384	207,584	165,894	0.2	0.2
India	1980	2,756	11,265	17,378	24.4	15.9
	1992	2,891	19,795	22,530	14.6	12.8
	1999	11,002	47,419	59,138	23.2	18.6
Indonesia	1980	33	21,908	10,834	0.1	0.3
	1992	264	33,815	27,280	0.8	1.0
	1997	1,261	63,238	62,830	2.0	2.0
	1998	1,252	48,848	27,337	2.6	4.6
	1999	1,295	55,741	42,071	2.3	3.1
	2000	1,295	62,016	33,547	2.1	3.9
Korea, South	1980	101	19,815	25,152	0.5	0.4
	1992	487	76,394	81,413	0.6	0.6
	1999	54	156,701	114,446	0.0	0.0
Pakistan	1980	2,038	2,958	5,709	68.9	35.7
	1992	1,566	7,264	9,360	21.6	16.7
	2001	2,000	9,132	11,060	21.9	18.1
Philippines	1980	421	5,744	8,295	7.3	5.0
	1992	2,222	9,790	15,465	22.7	14.4
	1997	5,742	40,365	50,477	14.2	11.4
	1999	6,795	39,012	36,767	17.4	18.5
	2000	6,050	40,000	34,600	15.1	17.5
Sri Lanka	1980	152	1,293	2,197	11.8	6.9
	1992	548	2,487	3,470	22.0	15.8
	1999	1,056	5,648	6,661	18.7	15.9
Thailand	1979	191	5,240	7,158	3.6	2.7
	1992	1,500	32,473	40,466	4.6	3.7
	1997	1,306	72,415	72,437	1.8	1.8
	1999	1,346	65,903	48,704	2.0	2.8
	2000	1,603	68,920	62,040	2.3	2.6

Source: Hugo 1995a; Battistella and Asis 1999; *Asian Migration News*, June 30, 1999; *World Bank Development Report*, various volumes; Soeprobo 2002, p. 5; Go 2002, p. 12; Chalamwong 2002; IMF, *Balance of Payments Statistics Yearbooks; Migration News*, March 2002 and July 2002.

exchange earnings. In all the countries of South Asia, remittances are significant, especially in Sri Lanka and Bangladesh. In the Philippines, remittances have comprised a major share of foreign exchange earnings for many years. Remittances in Thailand are small but nevertheless significant, while remittances in South Korea are miniscule.

There are also significant flows of remittances *out* of some Asian countries. In Malaysia, for example, there has been concern over the capital flight accompanying permanent emigration of Malaysians and the outflow of remittances. In 1987 during the heyday of Malaysian emigration to countries like Australia, the Bank Negara estimated that capital flight was M$1.2 billion, or $316 million (*Far Eastern Economic Review*, January 21, 1988, pp. 49–50). More recently, the focus has been on the M$5 billion ($1.3 billion) of remittances sent out of Malaysia by foreign workers. This has prompted the government to encourage nationals to take the jobs currently held by foreign workers (*Asian Migration News*, December 2001). Such efforts are unlikely to have a significant impact, given that locals avoid the low-income jobs performed by foreign workers, even in times of high unemployment (Hugo 1995a). Malaysia's outflow of remittances began to show up in the nation's current accounts in 1996, when remittance outflows were estimated at $789 million (*Far Eastern Economic Review*, April 10, 1997, p. 60). In 1997, remittance outflows were estimated to be equivalent to 2 percent of Malaysia's GDP (*Migration News,* July 1998).

In Saudi Arabia, the government estimates that its 7 million foreign workers send home $18.6 billion yearly. It has launched a campaign to reduce the number of foreign workers and to support the nationalization of jobs in the kingdom (*Bahrain Tribune*, April 23, 2001). Similarly, in Bahrain, the government has a program to stem the annual outflow of 160 million Dinars ($429 million) each year by instituting a program to increase the employment of nationals by 5 percent per year (*Gulf News*, April 23, 1999). Japan, as part of a strong anti-migration stance, has introduced a program to crack down on organizations that help the 250,000 undocumented migrants remit their earnings home (*Asian Migration News*, March 15, 2001).

Impact on National Economies

Despite the incompleteness of the data presented in table 14.6, it can be seen that remittances in several Asian nations make up a major part of their foreign exchange earnings. In Bangladesh, remittances are equivalent to 35 percent of export earnings; in India, 23 percent; in

Pakistan, 22 percent; in Sri Lanka, 19 percent; and in the Philippines, 15 percent. Remittances have also played a pivotal role in the economic recovery of some Asian nations. In the Philippines, for example, the transformation of the economy after the 1986 revolution has been partly attributed to the impact of remittances (*Far Eastern Economic Review*, June 19, 1997, p. 40). F.V. Lucero credits increased remittances with helping to narrow the Philippine current account deficit (*Manila Chronicle,* March 5, 1993). By 1994, $2.2 billion in remittances sent through official channels were estimated to have an overall economic impact of over $8 billion—or one-sixth of the Philippines' GDP. Between 1990 and 1999, remittances contributed an average of 20 percent of the Philippines export earnings and 5 percent of GNP (Go 2003).

In Pakistan, remittances have been recognized as a significant factor in the reduction of external debt, a doubling of foreign reserves, and posting a current account surplus in 2002 (*Far Eastern Economic Review*, July 18, 2002, p. 46). In 1995, official remittances in Pakistan were more than five times greater than foreign direct investment and only slightly less than the national trade deficit (*Far Eastern Economic Review*, March 23, 1995, p. 55). In Vietnam it is estimated that remittances are equivalent to 11 percent of GDP, which has been crucial in helping Vietnam cope with a $2.8 billion trade deficit, reduce pressure on the local currency, and stimulate private investment. Moreover, it is greater than foreign direct investment ($2.3 billion); the export of crude oil, the largest commodity export ($3.2 billion); and official development assistance for 2003 ($2.5 billion) (*Far Eastern Economic Review*, January 16, 2003, p. 48).

In the nations that receive large inflows of remittances, the macroeconomic impacts can be considerable. Remittances make up a significant share not only of foreign exchange earnings, but also of GDP. In the Philippines in late 2000, the Socio Economic Planning Secretary appealed to overseas Filipino workers to remit more dollars to help stem the depreciation of the peso (*Asian Migration News*, November 15, 2000). Such strategies may not be particularly effective, however, as it is known that Asian migrant workers will often reduce or withhold remittances when there is instability in home currencies, as was the case during political unrest in the Philippines in November 2000 (*Asian Migration News*, November 30, 2000).

Detailed studies of the impact of remittances on national economies in Asia have been limited. A study of Bangladesh (Mahmud and Osmani 1980) concluded that the absolute impact on the income and savings of remittances received is substantial, although it may have contributed to increased income inequality. In an interesting twist on the "brain drain," an econometric analysis based on Philippines data suggested that the country would receive a net benefit by training and "exporting" physicians, who would then remit significant amounts of the money home (Goldfarb, Havrylyshyn, and Mangum 1984).

Some nations and regions that depend on remittances are vulnerable when these flows suddenly decrease or stop. The Iraqi invasion of Kuwait and the subsequent Gulf War in 1990 caused massive disruption in many migrant-origin areas in Asia. An 18 percent decline in remittances from Filipinos overseas in late 2001 was attributed to the economic downturn following the events of September 11 and the following military strikes on Afghanistan (*Asian Migration News*, October 31, 2001). This was partly due to loss of employment, but also because workers "worldwide had been uncertain of their future in the wake of attacks and the majority opted to keep their money while waiting for the global recession to subside" (*Business World*, January 7, 2002). Another obvious threat arises when destination countries ban migrant workers from particular nations. For example, in 2001 a ban on Filipino workers in manufacturing and construction in Taiwan led to the loss of 20,000 jobs and an estimated $300 million in remittances to the Philippines (*Asian Migration News*, September 15, 2002).

There is evidence that an overreliance on remittances can have negative economic consequences in national economies. R. Tiglao argues that remittances to the Philippines have cushioned a backward agricultural sector and diverted attention from the need to attract foreign investment in manufacturing (*Far Eastern Economic Review*, June 19, 1997, p. 40). There is further concern in Asia that remittances can cause the "Dutch disease," or an appreciation of the real exchange rate (Athukorala 1993a). This can increase vulnerability to external shocks by stimulating imports, reducing incentives to export, and result in the inappropriate use of capital-intensive methods in production. The Dutch disease calls for a variety of treatments, including the depreciation of currency and structural reforms in the productive sector (Quibria 1996).

The degree to which remittances help home countries in Asia alleviate economic problems is a matter of debate. For example, in the Philippines, the ratio of the foreign debt to GDP widened to 70 percent in late 2002 and the country's budget deficit was double its target. For some observers of the Philippines, the role played by remittances in helping the country to overcome its problems is ambiguous.

As expressed by J. Hookway (*Far East Economic Review*, December 12, 2002, p. 57):

> *This is private money being remitted, so it benefits the Philippines in the larger sense by helping families and adding to the economy … [but] it doesn't add to government revenues. These workers are outside the Philippines' tax net. However, it is uncertain how many of them would have found work back home, let alone paid any tax, so there is a debate as to whether their earnings abroad represent "lost" taxable income.*

Regional and Community Impact

The examination of remittances at a national level does not always reflect their true impact. Migrants are not drawn randomly from across a nation's territory, but tend to come from particular regions and localities—often among the poorest areas in a country. In Indonesia, for example, overseas contract workers are overwhelmingly unskilled, poorly educated, and from rural areas that are neglected by both governments and private investors (Hugo 1995a). These areas, particularly in Java and eastern Indonesia, contain "migration villages" where groups often go together overseas to work, thus magnifying the economic impact of remittances in specific localities. In other countries, such as in the Philippines, the majority of migrants come from wealthier families in urban areas (Go 2003). In the case of the Philippines, one might ask to what extent wealth has been a *result* of remittances rather than a pre-migration characteristic.

In Indonesia, West and East Nusa Tenggara are the poorest provinces in the nation and remittances are one of the few mechanisms for generating substantial inflows of money (Raharto and others 1999). In West Nusa Tenggara province, for example, large numbers of workers migrated to Malaysia in the mid-1990s, many bound for palm-oil plantations as the only way to escape the cycle of debt they confronted back home (*Far Eastern Economic Review*, January 11, 1990, pp. 21–22; *Indonesian Observer,* March 18, 1995). From Malaysia these migrants sent home an amount larger than the entire provincial budget in 1995/1996. Bank data from one district in East Nusa Tenggara found approximately $1.5 million of remittances inflows per year. This figure is only the tip of the iceberg, given the multiplicity of ways that money is sent from Malaysia. However, even this understated figure dwarfed the annual budget of the district government in the year of the study: $31,550 (Hugo 1998).

In several cases, remittance inflows are far larger than local budgets. For instance, in the East Flores district of Indonesia the estimated remittance income in 1997 was four times greater than the budget of the entire provincial government and was 37 percent higher than the value of exports from East Flores (Eki 2002).[6] Remittances received in 1995 in East Java in Indonesia were many times larger than the entire government budget of the district (*Republika*, February 19, 1995). In the Philippines province of Zambales, an estimated one-third of the 729,387 families in the province derive most of their income from remittances (*Asian Migration News*, June 30, 1999).

The impact of remittances is felt most intimately by the poor in Asia. Studies on the uses of remittances in Indonesia (see Goma, Mantra, and Bintarto 1993; Kapioru 1995) point out that remittances are overwhelmingly used for consumption. Some of these studies imply that remittances have little impact on regional development. Other evidence, such as that from East Nusa Tenggara, suggests otherwise. First, recipients spend much of their remittances on housing. Adelman and Taylor (1990) have shown in data from Mexico that the second- and third-round multiplier effects of expenditures on housing are high, where local people and material are used in labor-intensive building techniques. For every dollar remitted from abroad, total GNP increased by between $2.70 and $3.20, with the largest income multipliers in rural communities. Similar findings from Bangladesh indicate that remittances sent by each migrant overseas led to three jobs created back home (Stahl and Habib 1989).

Another development contribution in Indonesia comes from the substantial proportion of remittances invested in the schooling of children and others related to migrants. This benefit can lead to an internal migration of schooled children, who move to areas in the country with greater opportunities for the skilled and educated. Evidence also suggests that some remittances are being invested in productive activity, such as transport (a boon to local development) and small shops. The exodus of workers also eases local underemployment problems and pressures on land resources.

With data from the state of Kerala in India, Nair and Pillai (1994) looked at the impact of remittances on macroeconomic variables such as consumption, saving, investment, and economic growth, as well as the impact on different sectors: on factor and product markets; on local inequalities; and at the household level. They estimate that

[6] East Flores had only 5.2 percent of the population of the province of East Nusa Tenggara in 2000.

remittance inflows account for 13 percent of Kerala's total income; have led to a higher level of consumption; expanded trading sectors; increased the demand for social services, health, and education; and raised expectations. However, secondary and tertiary impacts have leaked out into the larger economies, as government and household spending have been primarily on goods and services imported from outside the region. Therefore there have been few multiplier and linkage effects in the regions themselves (Nair and Pillai 1994).

In the case of the East Flores district in Indonesia, there has also been some leakage of remittances out of the area, especially to Java. Bank officials in Larantuka estimate that for every $1.30 remitted, approximately $1.00 is remitted out of the area to pay for childrens' schooling, large household items, and the like. Further, a low demand for bank loans in East Flores suggests that funds from remittances are transferred elsewhere in Indonesia. Overall, the experiences of Kerala in India and East Nusa Tenggara in Indonesia indicate that for many areas, the developmental potential of remittances has not been realized. In many such places, there are few attractive local opportunities for investment, and no strategy to channel remittances into productive areas.

Some argue that remittances increase income inequality. At the household level, families that receive money from abroad are relatively better off than similar households without a migrant. At the macroeconomic level, remittance inflows may contribute to income inequality through inflationary and price increase effects (Mahmud and Osmani 1980). The literature, however, is not conclusive, with other studies finding a neutral effect on income distribution of remittances (Adams 1969). A large part of the problem in determining the impact of remittances upon inequality is in sorting out the interplay of family profiles, employment categories, income levels, and other important variables.

Impact on Families

The overwhelming evidence from Asia is that families receive a net benefit from remittances in the form of higher consumption and savings, improved housing and living conditions, and better access to health care and education (Abella 1992). Taylor and others (1996) note that one of the key features of the impact of remittances is that their first-round impact is concentrated in individual households receiving them. Moreover, almost all studies fail to take into account the second- and third-round impacts of consumption spending on employment creation and growth. Certainly, if consumption is predominantly of locally produced goods, these effects will be substantial. Recent studies are finding that the degree of investment in productive activity has also become substantial (see Eki 2002).

In the Philippines, the national Family Income and Expenditure Survey found that 17 percent of all households had an overseas contract worker who sent money home, and that these households accounted for 25 percent of total household expenditures in the country.

These figures do not include remittances sent home by Filipinos who have permanently emigrated to other countries, so the impact of remittances on Filipino households is quite high (*Asian Migration News*, February 16–28, 2003). In Vietnam, the increase in remittances is partly associated with the vibrancy of the Vietnamese economy, which is predicted to grow by almost 7 percent, despite a global downturn in 2003. Remittances are increasingly being used by families to start and expand new companies and household ventures, and to purchase real estate (*Far Eastern Economic Review*, January 16, 2003, p. 48).

A case study of village life in the East Flores area of Indonesia (Hugo 1998) illustrates several issues that are common to remittance-receiving areas in Asia. In East Flores more than half the households have a member working in Malaysia, or one who has returned. In such rural communities with large numbers of overseas workers there is a sense of prosperity, despite the relatively poor agricultural potential of the area. For instance, houses tend to be made of brick or stone rather than wood or *atap* (palm fronds), with glass windows, televisions, and other modern appliances.

Many overseas workers return with valuable goods. For instance, 68 percent of a sample of returned migrants in Yogyakarta and Central Java had brought back goods such as radios, televisions, motorcycles, and furniture (Mantra, Kasnawi, and Sukamandi 1986). In East Flores the *parabola*, or satellite dish, is a contemporary sign of success. Television shows from Hong Kong, Malaysia, Australia, and elsewhere open up a whole new world. The cost of installing a *parabola* is almost three times the local average annual income, but these are common in and around villages with substantial numbers of migrants.

The impact of remittances on housing is evident in table 14.7, which shows that while only 18 percent of households in East Nusa Tenggara had houses with brick walls, in East Flores the share rose to 40 percent. The expenditure of remittances on electricity-generating facilities for villages is also evident, with 13 percent of East Flores

Table 14.7. Indonesia: Housing Indicators, East Nusa Tenggara and East Flores, 1994

Housing indicator	East Nusa Tenggara	East Flores
Percent of houses with stone/brick walls	18.2	40.0
Percent with cement/tile floors	24.4	27.7
Percent with non-grid electricity	1.6	13.2
Percent watched television in last week	19.8	23.0
Percent read newspaper in last week	9.6	15.5
Percent listened to radio in last week	20.5	23.2

Source: Kantor Statistik Nusa Tenggara Timur 1995.

houses having such electricity, compared with 2 percent province-wide. Indeed, groups of migrants often band together to pay for village electricity-generating facilities, extension wiring, and the like.

The high level of ownership of televisions also reflects the impact of remittances in rural areas. Table 14.7 indicates that a higher proportion of householders in East Flores had cement floors than East Nusa Tenggara as a whole. Moreover, a substantially higher proportion of the East Flores population read newspapers and listened to the radio than was the case for the province as a whole. In the few available studies on the uses of remittances in Flores, it is clear that a significant amount of remittance income is spent on building or substantially renovating houses, as in other parts of Indonesia (Hugo 1995b).

In addition to consumption expenses, remittances sent home to East Flores are often used to repay the debts incurred by migrant workers, particularly those migrating for the first time, who cannot finance the move on their own. This sum is usually financed by loans from family members, moneylenders, or by the *calo* (recruiter)—who exploits the migrant's circumstances by taking a percentage of the migrant's earnings for a specified period of time.

One-third of remittances sent home are used for day-to-day expenses of families left behind, reflecting the strong economic push caused by the lack of moneymaking opportunities in the home area. A substantial amount of remittances also funds schooling for children and siblings, with an increasing amount spent to send teenage children to school elsewhere in Indonesia (especially Java), where there are better secondary and higher education institutions. The second largest expenditure of remittances is on housing improvements. A small but significant portion of remittances is used to pay for customary obligations, such as the payment of bride price and hosting a wedding ceremony.

Scant data exist on the large amounts of money carried home by migrants, but it is generally known that these resources finance larger ticket items, such as home renovations, large household purchases, and land (Graham 1997). Some remittances are being used to invest in transport, with individual or group purchases of minibuses that ply regional and village roads. While the villages have few shops, increasing commercialization presents a growing avenue for the investment of the migrants' earnings.

Cash-making opportunities in many receiving localities are very scarce, and it is clear that migration is a key element in providing cash to the home communities. Households receiving remittances in East Flores have adopted more modern patterns of behavior than those in other areas. For example, about two-thirds of the children in East Flores are immunized, as compared with 47 percent across the entire province. Over one-third of the women marry for the first time at age 25 or over, while only 21 percent of the women in the overall province wait that long. Acceptance of family planning is somewhat lower than the provincial average, but this may be a function of the long absences of husbands and the late average age at marriage (Graham 1997).

Policy Issues

Remittance policies in the labor-sending countries of Asia have generally been of two types. The first set of policy prescriptions aims to maximize the inflows of remittances from overseas workers and other expatriates, while a second set focuses on mobilizing remittances within the formal banking system. Both types are attempts to maximize the inflow of foreign exchange earnings necessary for development and the balance of payments (Athukorala 1993b). In some cases, these policies have been poorly conceived. For example, in Indonesia's Sixth Five-Year Plan (1994–99), the government decided to maximize remittance inflows by replacing its largely unskilled outflow of migrants with semi-skilled and skilled workers. However, there is discordance between such plans and reality (Hugo 1995a). The migrant worker outflow from Indonesia is overwhelmingly unskilled and has been so for at least a decade. Indeed, one clear comparative advantage enjoyed by Indonesia is in supplying large numbers of unskilled workers to countries that demand such labor.

After the economic crisis of the late 1990s, several Asian countries such as the Philippines, Thailand, and Indonesia came to recognize the significant role played by remittances in their national, regional, and local economies. With a precipitous drop in foreign investment and a spike in unemployment, countries across Asia placed new emphasis on remittances as a source of foreign exchange, particularly after severe local currency devaluations. Overseas labor migration became a strategy to cope with the effects of the crisis. Some nations have built remittance targets into their national Development Plans. In Indonesia, for example, the Fifth Five-Year Plan (1989–94) estimated that $1.8 billion was transferred through official channels into the country. A new target of $8.4 billion was set for the Sixth Plan (Hugo 1995a).

Other nations attempted to maximize the inflow of foreign exchange from nationals abroad. South Korea pioneered this approach, issuing exit permits to contract workers only on the condition that at least 80 percent of their earnings be remitted through the Korean banking system (Athukorala 1993b). However, similar attempts by Bangladesh, Pakistan, the Philippines, and Thailand have failed, largely because of the degree to which labor migration transcends government influence in these countries (Abella 1992).

Migrant-sending countries have used two systems to encourage workers to send remittances through official channels: "repatriable foreign currency accounts," and foreign currency-dominated bonds.

Most Asian countries with substantial numbers of workers overseas have systems in domestic banks for channeling remittances into repatriable foreign currency accounts. These funds are not subject to foreign exchange regulations and may offer attractive interest rates, as in the case of India and Pakistan (Athukorala 1993b). India has long encouraged Indians abroad to send money to their home country. A number of programs have involved the sale of national bonds to Indians abroad. Some of the proceeds have funded infrastructure projects in India. In 1998, for example, the Indian government offered "Resurgent Indian Bonds" denominated in foreign currency and available only to Indian investors (*Far Eastern Economic Review*, August 13, 1998, p. 53). These bonds are free from exchange risk, exempt from wealth and income taxes, and offer very attractive interest rates. This bond issue aimed to raise $5–6 billion, about one-quarter of India's total foreign exchange reserves.

Pakistan has also implemented measures to funnel remittances through official channels, rather than the traditional *hundi* system.

These government programs have had to address the widespread concerns of overseas Pakistanis regarding corruption and inefficiency in the country, a perception exacerbated by the short-lived decision in 1999 to freeze foreign currency accounts (*Pakistan Economist*, March 13–26, 2000). Nevertheless, the Ministry of Finance has introduced a Foreign Exchange Remittance Card for migrants who remit at least $2,500 through official channels. Holders receive benefits such as free issuance and renewal of passports and duty-free allowances, with additional benefits accruing to those who remit larger sums (*Asian Migration News*, August 31, 2001).

The Philippines has promoted the establishment of Filipino banks in main destinations to facilitate the capture of remittances (*Manila Chronicle*, May 28, 1995) and offers a number of inducements to workers who spend their foreign earnings at home. The Balikbayan Program grants benefits to overseas foreign workers of up to $2,000 in tax-free stores within two weeks of returning to the Philippines (*Asian Migration News*, October 31, 2000). Other perquisites include the issuance of small-denomination Treasury bonds to migrants for the mobilization of dollar remittances from overseas workers (*Asian Migration News*, March 31, 1999).

Governments in Asia have made very limited attempts to channel remittances into productive investment. For the most part, these have involved business training and counseling for local business and returning migrants. Thailand, Pakistan, the Philippines, Sri Lanka, and India have provided a mix of training in management and business skills, while programs such as the one in Kerala, India have assisted returning Indians in starting up businesses. Some Asian nations have taxed remittances: efforts that succeeded in driving these flows more deeply into nonofficial channels. In 2002, Sri Lanka announced that it would impose a 15 percent tax on the $1.2 billion in remittances received each year—but quickly withdrew the measure after a massive outcry (*Migration News*, January 2003).

Many countries in Asia have undertaken decentralization and placed more attention on regional development. Yet the role of remittances in regional development remains largely overlooked. In the case of East Flores in Indonesia, households and villages with migrant workers have benefited, yet the surrounding region remains poor and largely overlooked by the central government (Hugo 1998). There is little evidence of remittances being applied to investment in local production for export or stimulating local employment. For a poor province in which labor migration is one of the few sources of funds, it is curious that remittances are not considered in regional development planning—particularly given the incorporation of migration issues into the national planning of the Sixth Five-Year Plan in Indonesia (Hugo 1995a). Similar shortcomings are witnessed across Asia, as the illegality of many remittance flows, their concentration in poor areas, and a lack of integrated regional planning continue to impede policies that might maximize the economic impact of these flows.

The increased surveillance of remittances in the wake of the events of September 11 has had a mixed impact. In Pakistan, for example, stricter international anti-money laundering laws prompted a Presidential ordinance indicating that Pakistan was not interested in the source of monies deposited in the country. Foreign exchange remittances into Pakistan doubled in 2001–02. This among other factors caused the gap between the inter-bank and open market exchange rates to fall near equality, thus encouraging overseas Pakistanis to send home foreign exchange earnings through banking channels rather than through *hundi* (*Dawn*, May 18, 2002).

In the Philippines, on the other hand, the struggling economy is at risk from disruptions in remittance inflows as a result of new regulations (Go 2003). These remittances, through multiplier effects, are estimated to account for 30 percent of all consumer spending in the Philippines. The Paris-based Financial Action Task Force (FATF), the international watchdog leading a campaign to choke off funding to terrorist groups, is likely to impose sanctions that would slow the inflow of remittances and hurt the credibility of Philippine banks. FATF wants the Philippines to lower the mandatory threshold for reporting suspicious transfers from $80,000 to its international norm of $10,000, and to make significant changes in its bank secrecy laws.

Conclusion

Remittance flows from migrants to their home countries have been largely neglected in the analysis of economic development in Asia. The reasons for this are that most remittances flow through informal channels, are vastly underestimated, and have the greatest visible impacts in poor localities and regions—rather than at national levels. However, the recent large increase in remittance flows into Asian countries has brought a growing recognition of their importance for the economic and social development of the region. These flows are almost certainly greater than the flow of foreign direct investment or official development assistance, and are probably more stable and predictable than either investment or aid.

While we know that remittances are a significant component in the development of many countries in Asia, an accurate assessment of their impact is difficult, given data constraints and a dearth of detailed studies. Moreover, we do not yet have a solid understanding of how Asian diasporas operate and generate remittances. While most labor-exporting nations in Asia recognize the importance of remittances, policy and program development remains broad and limited in effect. While there is considerable variation between nations in this respect, there is huge scope for the development of integrated policies and programs, which can maximize the benefits to nations, regions, communities, and families that can result from remittances. At present, however, such developments are impeded by the fact that many migration flows are undocumented and the fact that labor migrants are often drawn from poor areas in which the lack of integrated regional planning and the dearth of investment opportunities reduces the impact which remittances have on regional and local economies.

Bibliography

Abella, M.I. 1992. Contemporary Labour Migration from Asia: Policies and Perspectives of Sending Countries. In *International Migration Systems: A Global Approach,* eds. L.L. Lim and H. Zlotnik. Oxford: Oxford University Press.

Abraham, J. 2001. Global NRI/PIO Community—A Perspective. Talk delivered at the Overseas Indian Conference organized by Indian Merchant Chamber, January 7, Mumbai. http://www.gopio.net/NRI_PIO_Talk_Mumbai.html.

Adams, W. 1969. *The Brain Drain*. New York: Macmillan.

Adelman, I., and J.E. Taylor. 1990. Is Structural Adjustment with a Human Face Possible? The Case of Mexico. *Journal of Development Studies* 26(3): 387–407.

Asian Migrant Center. 1999. *Asian Migrant Yearbook 1999.* Hong Kong: Asian Migrant Center Ltd.

Athukorala, P. 1993a. International Labor Migration in the Asia-Pacific Region: Patterns, Policies and Economic Implications. *Asian-Pacific Economic Literature* 7(1): 28–57.

———. 1993b. Improving the Contribution of Migrant Remittances to Development: The Experience of Asian Labour Exporting Countries. *International Migration* 31(1): 103–24.

Battistella, G., and M.B. Asis. 1999. *The Crisis and Migration in Asia.* Quezon City, the Philippines: Scalabrini Migration Center.

Chalamwong, Y. 2002. Economic Stagnation, Labour Market and International Migration in Thailand. Paper presented at annual conference, Economic Labour Market and International Migration, organized by the Japan Institute of Labour, February 4–5, Tokyo.

Eki, A. 2002. International Labour Emigration from Eastern Flores Indonesia to Sabah Malaysia: A Study of Patterns, Causes and Consequences. Unpublished Ph.D. thesis, Population and Human Resources, Department of Geographical and Environmental Studies, University of Adelaide.

Go, S. 2002. Recent Trends in Migration Movements and Policies: The Movement of Filipino Professionals and Managers. Paper presented at workshop, International Migration and Labour Markets in Asia, Japan Institute of Labour, February 4–5, Tokyo.

———. 2003. Recent Trends in International Movements and Policies: The Philippines. Paper prepared for the workshop, International Migration and Labour Markets in Asia, Japan Institute of Labour, February 5–6, Tokyo.

Goldfarb, R., O. Havrylyshyn, and S. Mangum. 1984. Can Remittances Compensate for Manpower Outflows? *Journal of Development Economics* 15 (May–June–August): 1–17.

Goma, J.N., I.B. Mantra, and R. Bintarto. 1993. Labour Force Mobility from East Flores to Sabah Malaysia and the Extent of the Influence in the Village Origin: A Case Study at Nelereren Village. *BPPS-UGM* 6(4A): 401–12.

Graham, P. 1997. 'Widows' at Home, Workers Abroad: Florenese Women and Labour Migration. Monash University, Melbourne, unpublished paper.

Hugo, G.J. 1995a. Labour Export from Indonesia: An Overview. *ASEAN Economic Bulletin* 12(2): 275–98.

———. 1995b. Manpower and Human Resource Development in Nusa Tenggara Timur. Draft report prepared for the Regional Manpower Planning and Training Project (RMPT), Bureau of Manpower, Jakarta, National Development Planning Agency (BAPPENAS).

———. 1998. International Migration in Eastern Indonesia. Paper prepared for East Indonesia Project, Australian National University, Canberra.

———. Forthcoming. Recent Labour Related Migration in Indonesia: Trends and Implications. In *Creating Socio-Economic Security as a Poverty Eradication Project.* Jakarta: International Labour Organisation.

Kantor Statistik Nusa Tenggara Timur. 1995. *Nusa Tenggara Timur Dalan Angka 1994* (Nusa Tenggara Timur in Figures 1994). Nusa Tenggara, Timur: Kantor Statistik Kupang.

Kapioru, C. 1995. *Mobilitas Pekerja Yang Berstatus Suami, Dan Dampaknya Terhadap Perubahan Status Wanita Dan Kondisi Sosial Ekonomi Rumah Tangga.* Kupang, Indonesia: UNFPA.

Mahmud, W., and S.R. Osmani. 1980. Impact of Emigrant Workers' Remittances on the Bangladesh Economy. *Bangladesh Development Studies* 8(3): 1–28.

Mantra, I.B., T.M. Kasnawi, and Sukamardi. 1986. *Mobilitas Angkatan Kerja Indonesia Ke Timor Tengah* (Movement of Indonesian Workers to the Middle East). Final Report Book 1. Yogyakarta: Population Studies Centre, Gadjah Mada University.

Nair, P.R.G., and P.M. Pillai. 1994. *Impact of External Transfers on the Regional Economy of Kerala.* Trivandrum, India: Centre for Development Studies.

Nguyen, N.X. 2002. International Migration of Highly Skilled Workers in Vietnam. Paper presented at the workshop on International Migration and Labour Markets in Asia, Japan Institute of Labour, February 4–5, Tokyo.

Organisation for Economic Co-operation and Development (OECD), 1999. *Trends in International Migration: Continuous Reporting System on Migration: Annual Report.* Paris: OECD.

———. 2000. *Trends in International Migration: Continuous Reporting System on Migration: Annual Report.* Paris: OECD.

———. 2001. *Trends in International Migration: Continuous Reporting System on Migration: Annual Report.* Paris: OECD.

Quibria, M.G. 1996. Migration, Remittances and Trade: With Special Reference to Asian Developing Economies. In *International Trade and Migration in the APEC Region*, eds. P.J. Lloyd and S. Williams. Melbourne: Oxford University Press.

Raharto, A., G.J. Hugo, H. Romdiati, and S. Bandiyono. 1999. *Migrasi dan Pembangunan Di Kawasan Timur Indonesia*: *Isu Ketenagakerjaan* (Migration and

Development in Eastern Indonesia: Manpower/Human Resource Issues). Jakarta: Center for Population and Manpower Studies of the Indonesian Academy of Sciences (PPT-LIPI).

Russell, S.S. 1991. Population and Development in the Philippines: An Update. The World Bank, Asia Country Department II, Population and Human Resources Division, Washington, D.C.

Russell, S.S., and M.S. Teitelbaum. 1992. *International Migration and International Trade.* World Bank Discussion Paper 160. The World Bank, Washington, D.C.

Scalabrini Migration Center. 1999. *Asian Migration Atlas 1999.* http://www.scalabrini.asn.au/atlas/amatlas.htm

———. 2000. *Asian Migration Atlas 2000.* http://www.scalabrini.asn.au/atlas/amatlas.htm

Seddon, D. 1999. Foreign Labour Migration and the Remittance Economy of Nepal. Unpublished report of the Department for International Development, United Kingdom.

Soeprobo, T.B. 2002. Recent Trends of International Migration in Indonesia. Paper presented at the Workshop on International Migration and Labour Markets in Asia, Japan Institute of Labour, February 4–5, Tokyo.

Stahl, C.W., and A. Habib, 1989. The Impact of Overseas Workers' Remittances on Indigenous Industries: Evidence from Bangladesh. *The Developing Economies* 27(3): 269–85.

Stahl, C.W., and PECC-HRD Task Force. 1996. International Labour Migration and the East Asian APEC/PECC Economies: Trends, Issues and Policies. Paper presented at PECC Human Resource Development Task Force Meeting, June 7–8, Brunei.

Taylor, J.E., G.J. Hugo, J. Arango, A. Kouaouci, D. Massey, and A. Pellegrino. 1996. International Migration and National Development. *Population Index* 62(2): 181–212.

United Nations. 2002. *International Migration 2002.* New York: United Nations.

Wilson, J.F. 2002. *Hawala* and Other Informal Payments Systems: An Economic Perspective. Talk prepared for the Seminar on Current Developments in Monetary and Financial Law, May 7–17, Washington, D.C.

World Bank. *World Development Report,* various years. New York: Oxford University Press.

Xiao, Chu D. 2002. Report from China. Paper presented at Workshop on International Migration and Labour Markets in Asia, Japan Institute of Labour, February 4–5, Tokyo.

PART 5

CONCLUSION

This page intentionally left blank

Chapter 15

Making Migrant Remittances Count

Manuel Orozco and Steven R. Wilson

The Hard Realities of Remittances

In an ideal world, people would be free to move where they wished and there would be little unwelcome migration. The current reality is that far more people would like to move from poor to richer nations than is officially permitted. Meanwhile, developed countries everywhere continue to increase barriers to migration because of concerns over jobs, the perceived costs of immigration, and security, as well as cultural issues, including prejudice and xenophobia.

Most economists agree that allowing even a small increase in migration from low-wage to high-wage countries would improve global efficiency and welfare and deliver greater returns than trade liberalization.[1] While developed countries have largely benefited from migration, the impact on the economies of labor-exporting countries has been more difficult to determine. This should come as little surprise; as compared to trade, investment, and aid, migration is one of the least studied aspects of global flows (World Bank 2002). Migrant remittances have merited even less attention.[2]

Over the past quarter century, migration pressures have increased in tandem with the economic divergence of rich and poor nations. Between 1975 and 2000 the world's population increased by 50 percent, while the number of migrants almost doubled. Some 15 percent of the world's population live in developed countries—yet 60

[1] Martin (2004), which informs this section, provides an excellent discussion of contemporary issues in global migration. Massey and others (1998) is also a useful source.

[2] While still small relative to the literature on trade and investment, there is a significant literature on remittances. This section has benefited from literature reviews in Chami, Fullenkamp, and Jahjah (2003); Waller Meyers (2002); DeSipio (2002); and Taylor (1999). Elbadawi and de Rezende Rocha (1992) also provide a useful overview of the empirical and theoretical literature of remittances.

percent of the world's migrant workers reside there (whether temporarily or permanently). The other 40 percent of migrants have moved from poor to less-poor developing countries, such as from Myanmar (formerly Burma) to Thailand, Haiti to the Dominican Republic, or Nicaragua to Costa Rica.

Developing countries continue to suffer from high unemployment and underemployment, while adding upward of 40 million new workers a year to the global labor force. Meanwhile, labor costs remain relatively high in developed economies, and given current trends, labor markets in several of these countries will shrink over the next few decades. It follows that many types of migrants will remain attractive to employers in wealthier countries.

The fastest-growing demand for international migrants is in two segments of the labor market: those workers with the highest levels of education and skill, and those with the least. The well-known "brain drain" continues to draw highly educated workers to developed countries, while the movement of poorly educated agricultural workers off the land in developing countries is adding to the number of workers ready to accept "3-D" jobs (dirty, dangerous, and difficult) in and outside of their own countries (Martin 2004).[3]

Short of a dramatic shift in the policies of richer countries, migration will continue to be a vent for many "excess workers" in poorer countries, a means of generating remittances, and a way to provide diasporas with skills and ideas that can be used back home. Factor in the falling cost of telecommunications, air travel, and information technology and it appears likely that the cross-border movement of workers and their money will grow over the medium term.

While debate on the costs and benefits of immigration continues in host countries, several concerns have been raised about the merits of migration for poorer countries. Some studies suggest that migration can drain human and financial resources from migrant-sending areas, reduce labor effort, and contribute to a decline in per capita incomes. From this perspective, remittances—as an incentive for migration—are part of a vicious circle of migration and falling incomes (for overviews of the literature, see Martin 2004; Chami, Fullenkamp, and Jahjah 2003; Elbadawi and de Rezende Rocha 1992).

[3] Most brain drains—such as the loss of doctors and nurses from African countries—are viewed as a net loss to developing countries. Some brain drains can be virtuous, however, such as emigration that leads to growth back home, as has been the case with the migration of Indian IT workers (Martin 2004).

Others have equated remittances with so-called "Dutch Disease"—named for the economic impact on the Netherlands resulting from the discovery of natural gas in the North Sea. This term has been loosely used to diagnose the exchange rate volatility, inflation, loss of competitiveness on international markets, and other effects, such as real estate appreciation, caused by an influx of foreign exchange (including remittances) into a country.[4] Other research suggests that remittances may worsen income inequality and lead to dependency in recipient localities. In many countries, remittances do not flow to the poorest households: a fact that leads to concerns over income distribution.

Negative "demonstration effects" are sometimes cited to capture the reality that some recipient households spend money in conspicuous ways, such as buying satellite dishes or imported equipment, or upgrading existing houses or building new ones. Some argue that remittances enable governments to avoid reforms, to overspend on the bet of growing future inflows.[5]

Still others suspect that geographic distance and asymmetric information between remittance senders and receivers lead to problems of moral hazard, whereby recipients may engage in activities contrary to the wishes or interests of senders. Some suggest that this problem could be mitigated by channeling more remittances through microfinance institutions, with international institutions acting as monitors (Chami, Fullenkamp, and Jahjah 2003).[6]

While many studies have questioned the benefits of remittances, these often downplay two basic realities. *First, while remittances are no*

[4] Dutch Disease arose from a natural resource windfall in a developed country, while remittances are caused by something more serious: the inability of poorer countries to provide employment for their citizens. Unlike Dutch Disease, remittances reflect the separation of families, the disruption of labor markets, and the exodus of human effort and creativity from poorer to wealthier countries. This diagnosis is of little value for understanding the macroeconomic effects of remittances in poor countries.

[5] Researchers have used household surveys and analyzed aggregate data to examine both the causes and effects of remittance flows. However, hard evidence of all of these propositions remains elusive. Furthermore, while most research is based on some type of theoretical underpinning, there has been little consensus, and no dominant model for analyzing these flows has arisen. Elbadawi and de Rezende Rocha (1992) note that most literature can be divided into analyses that examine the economics of family ties, and studies that focus more on individual decisions to migrate, save, and send money. In recent years, the literature that incorporates family ties seems to be gaining in influence, continuing to draw on the pioneering work of Stark and Bloom's "New Economics of Labor Migration" (1985). Yet most work continues to generate stylized facts such as "most remittances are used for consumption," or "some percentage of remittances is invested." One recent attempt to develop a unified theoretical framework for analyzing remittances is Chami, Fullenkamp, and Jahjah (2003).

[6] In chapter 4 in this volume, however, Susan Pozo presents compelling empirical evidence that many senders, out of self-interest, keep close tabs on the disposition of their remittances. If this is the case, moral hazard may not be a widespread problem.

cause for celebration, they are not the cause of underdevelopment. The hard reality is that remittances exist because many countries cannot provide adequate employment and income for their citizens. While the situation may not be economically optimal, remittance flows have become a major source of income for millions of families. It is impossible to envision social conditions in the absence of these resources.

Second, remittances may not yield optimal economic results in recipient countries—but neither do any other economic activities in environments where poor economic incentives and weak institutions discourage households, businesses, and investors from saving, investing, and undertaking risks. Even sophisticated international investors, endowed with the best market intelligence available and deep resources, often avoid projects in developing countries. Indeed, given the economic environment in many countries of origin, it is remarkable that remittances support as much productive activity as they do.

Going forward, remittances must be seen as an essential component for leveraging the development potential of the 175 million people who have moved from poorer to richer countries across the globe. Taken together, this massive movement of people is equal in population to the world's sixth largest country. The "3 Rs" of migration and development—remittances, the recruitment of workers by host countries, and the return home of migrants—will be pivotal in tapping the power of this remarkable diaspora (Martin 2004).

The second "R," *recruitment,* is about who is allowed to migrate to host countries. It encompasses policies such as quotas and guest worker programs. In the absence of broad international consensus, host countries will continue to exert a large influence on the size of the brain drain and the volume of unskilled workers allowed (or unofficially tolerated) in their countries. Yet globalization puts increasing pressure on all countries—rich and poor—to take into account the economic and social implications of their policies on global welfare. Remittances will be an increasingly important factor in these calculations.

The third "R," the *return home of migrants,* refers to the process of applying the skills and capital of the diaspora back home. Migrants are usually risk takers, and returning migrants provide energy, learning, creativity, and entrepreneurial acumen for many communities of origin. Returning migrants (whether permanent or periodic) are most likely to have maintained contact with families back home, and consequently to have been remittance senders.

Improving the development impact of remittances—by cutting the costs of sending money and increasing the range of financial options for families, for instance—also benefits returning migrants in their roles as investors, entrepreneurs, and organizers of development efforts. Thus two of the "Rs," remittances and return migrants, are a mutually reinforcing combination for delivering both human and financial capital for the development of migrants' homelands.

Changing the role of remittances in development must be based on the recognition that migrants and their families respond to incentives, by making calculated decisions in response to the risks and costs (in money, time, and effort) associated with sending, receiving, earning, saving, investing, or otherwise leveraging their money. As with other decision-makers, they will use their money rationally based on the options and information available to them.

Where local economic incentives are poor, migration can become a viable "investment strategy" for many families in developing countries. For instance, if local employment opportunities are nil, families may undertake the sacrifices necessary to assist a member in finding work abroad—such as by saving money for travel and for subsistence until their relative can get work abroad and begin remitting money home. Money sent home from the migrant to his or her family becomes the main financial "return" to the family's successful investment. Given low household incomes and few alternative productive uses for money, many families will spend most of their remittances on consumption. Hence migration becomes a rational strategy—under given incentives—for increasing the financial security of many families in poor countries.

Clearly, the perennial quest to improve employment and labor skills in developing countries is a long-term project. In the meantime, migration will persist in the face of global asymmetries in wages and opportunities. But in the shorter run, increasing the financial options open to migrants and their families can lead to beneficial changes in the economic behavior of many families. Currently, relatively expensive "cash-to-cash" remittance transactions can make economic sense where migrants and their families have few secure or liquid alternatives in which to place their money.

This will begin to change when banks and other financial institutions, money-transfer companies, and other businesses recognize what Prahalad (2004) calls "the fortune at the bottom of the pyramid": the largely untapped market in lower-income households in developing countries. As the power of this market is better understood, a range of new competitive products and services aimed at migrants and their families will emerge in host countries and countries of origin.

The profit motive will ensure that the financial sector and other businesses will change the way they view migrants and their families. For these families, in turn, increased financial literacy will help them change the way they view and interact with financial institutions. A challenge for governments and civil society will be to improve financial literacy among transnational families, as well as to create the regulatory and institutional framework for lowering the risks and costs (in time and money) facing these families when they choose to spend, save, or invest their remittances.

Increasing the range of financial options and products, expanding financial literacy, and improving the regulatory environment will greatly help people better leverage their remittances.[7] But none of these steps will magically convert poor households into sophisticated investors. Yet creating new incentives—and the capacities needed for people to respond to these incentives—can make important changes in the way people think about and handle their money. Importantly, these provide the opportunity for remittance senders and their families to both participate in and contribute to the financial economy. *Without such changes, remittances will remain private flows in search of financial products and public opportunities—with greatly diminished benefits to the development of migrants' homelands.*

While the growth in remittances appears assured over the medium term, the longer-term outlook will hinge on economic growth in countries of origin, the rate of migrant family unification in host countries, the average age of migrants, and migrants' decisions to remain in host countries, among other variables. Significant changes in these can lead to declines in remittance volumes, such as occurred after many Turkish families were reunited in Germany in the late 1990s.

Remittances are not a substitute for pro-growth policies, investment in education, or skills formation in labor-exporting countries. However, by changing incentives, governments can improve the economic impact of remittances. This is best done while these flows remain robust. However, some recipient countries may view remittances as an attractive source of revenue—a temptation often disguised in the

[7] Regulatory impediments facing migrants and their families abound. Under "Know Your Customer" requirements that have arisen in the wake of September 11, 2001, many banks have shied away from business with migrants, sometimes unilaterally closing their accounts—in both host countries and countries of origin. Numerous other regulatory issues, such as those that prevent credit unions from granting savings accounts, or prohibit alliances between banks or credit unions, serve to prevent migrants from entering the financial mainstream. A host of other issues require regulatory changes, including permitting electronic signatures for electronic funds transfers.

name of development. Such efforts should be avoided. This chapter returns to this point later.

As economies evolve and the demographics of migrants and their families change over time, so too will the motives underlying remittance flows. Regardless of the future of inter-family remittance flows, *it is the inter-generational trajectory of migration flows that is creating entirely new transnational networks.* These are comprised of families and individuals, including returning migrants, businesses, and investors, who will continue to forge connections across borders. These networks will benefit from liberalization and new forms of technology, and their growth will create new markets for goods and services. This process is well underway in the Americas. This discussion now turns to the prospects in this largest of remittances markets.

Transnational Networks and the Growth of Remittances in the Americas

Latin America and the Caribbean (LAC) remain the largest remittance-receiving region in the world. Remittances amounted to about 2 percent of the region's total GDP in 2004; more than $45 billion flowed into the region from the rest of the world, the Inter-American Development Bank estimates. Remittance flows are surpassing the value of leading national exports, including oil, in many recipient countries across the Americas. Moreover, these flows demonstrate considerable staying power. No major recipient country in Latin America and the Caribbean has registered a significant decline in remittances—despite economic weakness in host countries and tightened immigration laws in the United States in the wake of the September 11, 2001 terrorist attacks (Orozco 2003a).

More countries in the region are receiving remittances, including countries that have not been traditional labor exporters and remittance recipients, such as Argentina, Colombia, Guatemala, Peru, and Venezuela. As a result, Mexico's share of all remittances to the region fell from about half to about a third from 1999 to 2003. Argentina's crisis has stimulated remittance inflows from Italy, Spain, and the United States. It is likely that at least $200 million in remittances enter Argentina each year from the United States alone.[8] Venezuela has moved from a net sender to a net remittance receiver, and remittances

[8] These and other selected data to follow, most of which are unpublished, are based on data collected and analyzed by Manuel Orozco.

to Guatemala nearly quadrupled from $600 million to over $2.2 billion from 2001 to 2003. In Peru, remittances grew from $700 million to $1.1 billion during the same period (Orozco 2003b; Ratha 2003) (see chapter 8).

Across the globe, remittances reflect disparate opportunities and the emergence of transnational networks, comprised of individuals, families, businesses, and other groups that maintain social, economic, and cultural relations across international boundaries. The sweep and scope of these networks is only beginning to be understood in the Americas and elsewhere. Yet it is evident that these reflect "a spatial reorganization of production among world regions, large-scale flows of migration among and within them, complex webs of networks that connect production processes and buyers and sellers, and the emergence of transnational cultural structures that mediate among these processes" (Mittelman 2000, p. 4).

Moreover, complex cross-flows of migrants are evolving, as competition for workers heightens within and among regions. These are mediated by what Mittelman calls "micropatterns" of ethnic and family networks (Mittelman 2000, p. 65). In turn, this cross-flow of migration produces a wide range of economic effects in both labor-exporting and labor-importing countries across the planet. All these interconnections are driving the demand and supply of the "5 Ts" of migration: remittance transfers, tourism, transportation, telecommunication, and nostalgic trade.

Consider tourism. With the advent of cheaper airfares and more frequent flights to more destinations in developing countries, trips by migrant workers to the home country are far more frequent. Tourism has jumped in many countries that have not been traditional tourist destinations, such as El Salvador, Honduras, and Nicaragua. The tourist trade is increasingly dependent on nationals living abroad (chapter 8).

Transportation and telecommunication links are burgeoning. These links are among the factors that make the new wave of labor mobility so distinctive. In the not-too-distant past, leaving the home country meant severing virtually all ties. Not so today. Air travel, telephony, wire transfers of funds, and computers, among other means, are allowing families to convey money, information, and affection across borders. As a result, these families "are [rebelling] against geography and [redrawing] the map . . . through new networks of economic interconnection," Roberto Suro notes in chapter 2.

Then there is the so-called nostalgia trade. Businesses are cropping up to provide food, drink, videos, and other familiar items from the home country, increasing trade in both developed and developing countries.

The fifth T—transfer of remittances—is just starting to have a significant impact in the world of finance. While the growth in flows has attracted considerable attention—from millions to many billions—the full impact of these transfers is yet to come. These five Ts are assuming a dynamic all their own, with important implications for the development of developing countries, and their integration into the global economy.

Transnational networks facilitate the flow of remittances and grow stronger as a result of channeling migrant savings, investments, and business revenue between host and countries of origin. The case of Central America provides one example of how integration drives both remittances and related transnational networks. As Central America diversifies away from an "after-dinner economy" based on coffee, sugar, and rum, countries have pursued integration with the hemispheric and global economy through new means: nontraditional exports; the *maquiladora* model of low-wage assembly plants; migration; and tourism (Orozco 2002). Almost half the national incomes of the majority of countries of Central America are derived from these four activities.

These activities are interrelated, with migration generating remittances and driving the demand for a significant portion of the telecommunications and air travel between the region and the United States. Further, Central American migrants are a primary source of tourism for El Salvador, Honduras, and Nicaragua (Orozco 2003c). Integration is also benefiting the growth of migrant-run businesses in the nostalgic and ethnic trade sectors in the United States and elsewhere.[9] Increasingly, successful owners of these businesses engage in a wide range of social development projects in their home countries, either on their own or in concert with hometown associations or other migrant groups.[10]

[9] Nostalgic products are those consumed by people in their home countries, and which are demanded abroad by that country's migrants. Ethnic products are demanded by both migrants and others interested in the culture of a particular country.

[10] Hometown associations vary by structure, but all involve practices and relationships between migrants and their communities of origin. These may involve a wide range of activities to promote economic and social development back home, and sometimes among migrant communities in host countries as well (see chapters 7 and 8).

Consequently, migration and remittances in the Americas reinforce inter-hemispheric ties and increase the economic and political power of the Latino diaspora.[11] This has not been overlooked by major players in the remittances market across the Americas, as new forms of competition—consolidation and acquisition, inter-industry and intra-industry alliances—and the aggressive implementation of advanced technologies are leading to the introduction of new products and services for this diaspora.[12]

Unlike other regions, banks in the Americas have been generally slow in responding to the surge in remittances. In Mexico, for instance, bank participation in the money-transfer market has hovered around 1 percent of the total market. In the United States, banks have had few branches in ethnic neighborhoods and have been slow to tailor to customer service to this generally low-income market. This is changing as banks are forming alliances and partnerships with other financial institutions and with remittance-transfer companies; these new arrangements, in turn, are leading to the increasing use of electronic transfers, ATMs, prepaid and debit cards, and other products that will expand the banks' presence in the money-transfer market.

New marketing strategies to attract migrant business are reinforcing this trend. For example, in early 2005 the Bank of America eliminated remittance and foreign exchange fees on transfers to Mexico from its branches in Chicago—suggesting that remittances services might well become a "loss leader" for larger banks in their quest to capture the financial business of migrants (see www.bankofamerica.com/newsroom/press/archives).

Such moves will succeed if they can attract the large number of Latino migrants who do not have bank accounts—over 40 percent of all Latino migrants in the United States (as compared to about 13 percent for the overall population) (MIF-IDB 2001).[13] These potential customers have avoided financial institutions because of language difficulties, low education and financial literacy, concerns over documentation requirements, and other factors (Dunham 2001). The number of unbanked Latinos has remained high, in spite of the advantages gained by sending money through banks. Notably, remittance senders

[11] This section is based in part on interviews with government officials and business leaders, and data collected on current transfers by Manuel Orozco.

[12] See also Orozco (2003b, 2003c) and Ratha (2003).

[13] The U.S. percentage is based on the Federal Reserve's Survey of Consumer Finances. See U.S. Office of the Comptroller of the Currency (1997) and Caskey (1997).

with accounts in financial institutions boost the amount they transfer by an average of 8 percent (Blanton, Rhine, and Williams 2001).

As competition heats up in the money-transfer market, migrants and their families will likely benefit from further declines in the cost of sending money and new financial products and financial services. But serious challenges remain. Many financial institutions and other businesses do not view low incomes in many recipient households as a "fortune at the bottom of the pyramid"; they prefer to deal with higher-end customers. For their part, many migrants and their families lack financial literacy and thus are impeded in their ability to take advantage of new products and services. These and other problems underscore the need for policies at the national and international levels to improve the economic impact of remittances.

Toward a Policy Response for Improving the Development Impact of Remittances

Globalization highlights the links between diasporas and their home economies at the level of households, businesses, and local communities. Migration—long a variable in the economic and social development of developing countries—is now the dominant source of foreign exchange for many labor-exporting countries in Latin America and elsewhere.

While the awareness and knowledge of remittances are growing rapidly, much remains to be learned. Data collection is improving but is not yet comprehensive, uniform, or systematic. Hence estimates of remittance flows by various organizations can vary significantly. Deficiencies in data collection continue to impede informed policymaking. In addition, empirical studies tend to focus on particular countries or migrant groups, making broad generalizations difficult. And a widely accepted model in which to analyze remittances has yet to be developed.

In 2000, the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) launched a program entitled "Remittances as a Development Tool" to generate new data about and raise awareness of important remittance-related issues, including remittances volumes, the costs of sending and receiving money, the characteristics and choices of senders and receivers, the role of financial institutions, and regulatory matters.

In addition to supporting studies, surveys, and conferences, this program supports 19 national and regional technical assistance projects to promote the development impact of remittances across Latin America and the Caribbean. These initiatives include efforts to facilitate the flows of remittances through microfinance institutions, credit unions, banks, and other financial institutions; projects that promote the incentives and capacities needed to encourage the flow of some portion of remittances into investment projects; and efforts to promote the creation of new financial products and services for migrants and their families. The program also supports linkages between remittances and entrepreneurship (including returning entrepreneurs), local economic development, the securitization of remittances,[14] the links between remittance flows between housing finance, rural development, worker training and other promising new areas (see www. iadb.org/mif/V2/remittances.html).

However, while the costs of sending remittances have fallen—especially to Latin America and the Caribbean—costs remain too high, particularly in an era of electronic transfer of funds. Competition and new forms of technology are playing a major role in bringing down these costs, but international efforts to create better awareness and foster new partnerships should continue to help cut these costs.

Moreover, remittances remain financial flows in search of financial products. Too few financial institutions offer transnational families affordable financial products or options. Public authorities have lagged in creating enabling environments to leverage these flows.

Efforts from all major stakeholders—transnational families, money-transfer companies and financial institutions, public authorities, civil society, and international organizations—will be needed to unleash the full development potential of remittances. This will require intense concentration on at least three issues: improving regulatory and institutional frameworks; increasing competition to lower transaction costs; and promoting financial democracy.

Financial democracy—giving migrants and their families more options for using their money—will present both great challenges and historic opportunities. As with other developing regions, financial systems in Latin America and the Caribbean do not serve the majority of their populations. The resulting "intermediation gap" is reflected in shallow financial markets that help perpetuate inequality across the region, particularly in rural areas.

[14] The securitization of remittances is a way for banks in emerging markets to borrow hard currencies by issuing bonds that are collateralized against the future flows of remittances and other electronic payment flows coming from another country.

However, the scale and scope of remittances can be a powerful lever to open up financial systems, mobilize savings, generate small business loans, and multiply development impact for local communities in many other ways.

Drawing from an extensive network of stakeholders in the area of remittances, the MIF formed a Remittance Advisory Committee for Latin America and the Caribbean, comprised of leading representatives of international and regional financial institutions and money-transfer companies.[15] The Committee recognized that improving the development impact of remittances will require ambitious action in three areas: the practices of remittance institutions,[16] public authorities,[17] and civil society.[18]

After a broad process of consultation with the Task Force, the MIF devised the following recommendations, called Core Principles, to help organize and focus priorities on the collective effort to improve the potential of these flows (MIF-IDB 2004). Each principle is a worthy subject for further research, and all have been discussed to some extent in various chapters of this book. These Principles address deficiencies, barriers, and bottlenecks in the three major areas that are critical to leveraging the huge scale of remittances: remittances institutions, public authorities, and civil society (see list, p. 388).

Progress on any of these Principles will improve the lives of many migrants and their families, but transforming the economic and

[15] Members include ACCION International, Banco Bolivariano (*Ecuador*), Banco Caja Social (*Colombia*), Banco de Crédito del Perú, Banco Solidario (*Ecuador*), Banco del Ahorro Nacional y Servicios Financieros, BANSEFI, (*Mexico*), Banco Itaú (*Brazil*), Banco Hipotecario Dominicano–BHD (*Dominican Republic*), BPA Bank (*Portugal*), Confederación Española de Cajas de Ahorro-CECA (*Spain*), Inter-American Dialogue (*U.S.A.*), Internationale Micro Investitionen (*microfinance investment company, Germany*), Microfinance International Corporation (*U.S.A.*), Remesas Quisqueyana Inc. (*money-transfer organization*), Viamericas (*money-transfer organization*), Vigo Remittance Corporation (*U.S.A.*), Visa Internacional (*payment card*), Western Union (*money-transfer organization*), Woman's World Banking, World Council of Credit Unions (*WOCCU, U.S.A.*), and World Savings Banks Institute (*WSBI, Brussels*). La Caixa (*Spain*) serves as the Chair.

[16] Remittance institutions include financial institutions and non-depository institutions that are regulated and/or authorized to execute cross-border payment transactions and are engaged in the remittances industry, on the sending and/or the receiving side. Financial institutions include banks, savings banks, credit cooperatives, microfinance institutions, and other institutions that are authorized to collect funds from the public and place them in financial assets. Non-depository institutions include money-transfer companies and other institutions that have a license to transfer money from senders to receivers.

[17] Public authorities refers to governments, local authorities, and national and international regulators that have an impact on stabilizing the financial sector, sustaining public confidence, or implementing monetary and other policies that have an impact on the functioning of the financial sector.

[18] Civil society includes trade unions, hometown associations, and other nongovernmental organizations (NGOs).

Core Principles for the Remittance Market in Latin America and the Caribbean

REMITTANCE INSTITUTIONS:

Improve Transparency
Remittance institutions should disclose in a fully transparent manner, complete information on total costs and transfer conditions, including all commissions and fees, foreign exchange rates applied, and execution time.

Promote Fair Competition and Pricing
Remittance institutions should compete on the basis of fair and non-discriminatory contractual arrangements. They should refrain from unfair pricing and the use of high exchange rate margins.

Apply Appropriate Technology
Remittance institutions should apply cost-effective technology and deploy innovative platforms to cut costs, improve speed and security, and create new products. Such systems can also help to reduce money laundering and other illicit activities.

Seek Partnerships and Alliances
Remittance institutions should seek partnerships and alliances, including linkages between money-transfer companies and financial institutions, in order to leverage capabilities and promote "cash to accounts" services, and other forms of financial intermediation.

Expand Financial Services
Financial institutions should deepen financial markets through inclusive and integrated services for remittance customers, such as current account services, savings, credit, and mortgage products, among others.

PUBLIC AUTHORITIES:

Do No Harm
Public authorities should facilitate remittance markets, and avoid attempts to tax, overregulate, or otherwise take actions that impede the flow of remittances.

Improve Data
Public authorities should improve systems for collecting and reporting remittance market data, and help to develop international standards for measuring such data.

Encourage Financial Intermediation
Public authorities should facilitate the mainstreaming of remittances into financial institutions by improving regulatory and financial sector frameworks.

Promote Financial Literacy
Public authorities should raise awareness of the benefits of savings and other financial products, and inform consumers of their rights involving remittance transactions.

CIVIL SOCIETY:

Leverage Development Impact
Civil society and private sector organizations should systematically identify obstacles to leveraging the development impact of remittances, and engage with all relevant stakeholders to address and remove such obstacles.

Support Social and Financial Inclusion
Civil society and private sector organizations should support the social and financial inclusion of transnational families into their communities, and develop innovative

social potential of remittances in developing countries will require a concerted effort on all. While these Principles are directed at the remittance market in Latin America and the Caribbean, they are sufficiently general to be relevant to remittance markets in other regions.[19]

Reaching Beyond Small Change

Success in implementing these Principles will mean that transnational families will have more money available for their own purposes, and further, will be empowered with more options in using those resources. In the coming years, the Multilateral Investment Fund of the Inter-American Development Bank will work with a network of participating stakeholders to help reach two goals by 2010:

- To reduce by 50 percent the average cost of LAC remittance market transactions by promoting increased competition and innovative payment platforms
- To increase to 50 percent the number of families receiving remittances through the formal financial system.

While these Principles remain unfulfilled goals at present, the good news is that as awareness has grown, so too has the international development response to remittances. In 2003 the MIF-IDB became a member of the Inter-Agency Remittances Task Force, sponsored by the U.K. Department for International Development (DFID) and the World Bank, in order to coordinate future remittances research and operational activities among a range of development agencies.

The Task Force includes several international bodies as members, including the Asian Development Bank (ADB), the Consultative Group to Assist the Poor (CGAP), the International Organization for Migration (IOM), the International Labour Organization (ILO), the Netherlands Organization for International Development Cooperation (NOVIB), the U.K. Office of National Statistics (UK ONS), and the World Savings Bank Institute (WSBI), among others.

Numerous efforts are underway around the world to generate better data on remittances, with the World Bank taking the lead on improving data collection through work with central banks and the

[19] These MIF-IDB Core Principles on Remittances in Latin America and the Caribbean are intended to complement other work toward global principles and standards of remittances, including the joint efforts of the Inter-Agency Remittances Task Force (the World Bank, the Committee on Payment and Settlement Systems-CPSS, the IMF, the Basle Committee on Banking Supervision, and IDB and other development banks, among other stakeholders).

development of new surveys.[20] The United States Agency for International Development (USAID) is supporting initiatives in the Americas to lower the costs of money transmission via smart cards and advanced technology, and through partnering with credit unions and building societies. The German development agency, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), supports initiatives in Central America to create a microcredit fund based on remittances.

The United Nations International Fund for Agricultural Development (IFAD) has a large rural network in Latin America and the Caribbean, and has been supporting efforts to channel remittances through hometown associations into rural development in El Salvador. The MIF also collaborates with IFAD in a regional partnership to develop rural financial services and productive investment among remittance recipients in rural areas. The Ford Foundation also funds a number of programs that focus on microfinance and financial services for the poor, with a particular focus on the technical and legal issues involving remittances and unregulated microfinance institutions.

The Rockefeller Foundation supports an interdisciplinary initiative called "North American Transnational Communities," which funds a model of transnational investment links to improve the livelihood of transnational families. The Inter-American Foundation (IAF), a Washington, D.C.-based center for policy analysis in the Western Hemisphere, has also focused on the issue of transnational communities and remittances, sponsoring case studies and research across the Americas, and co-funding community development projects with diaspora organizations in the United States and Mexico.

Progress on the goals of the Principles described above will bring more people into the financial system. It will also move more remittances from a cash-to-cash to an account-into-account form of sending money and greatly expand the financial options open to migrants and their families. The technology that is helping to bring down the costs of sending money can also facilitate the movement of remittances through formal financial systems.

But the issue is not primarily technological, as chapter 1 points out. Instead, the challenges involve the need for creative business plans and improved regulatory frameworks to support the growth of financial options and leverage remittances through links with micro-

[20] This brief overview of the growing international effort to improve remittance impact is based in part on Orozco (2004).

finance, home mortgages, and securitizing bonds for lending to small businesses.

Remittances can be a point of entry for many senders and their families to the formal banking system, but most are "unbanked," with limited experience with financial institutions. This represents an important business opportunity in both developed and developing markets for banks, credit unions, microfinance bodies, and other formal financial institutions. As C.K. Prahalad has observed, when the poor are viewed as both entrepreneurial and rational consumers, great new fields of opportunity open up (2004). The market potential for remittance-related financial products is very high in many developing countries.

However, seizing the opportunities at the "bottom of the pyramid" also requires changes in the regulatory frameworks of countries of origin. As Hernando de Soto notes, the poor cannot use their assets the same way that wealthier citizens do (2001). Remittances are no exception. Yet for the most part, remittances remain private flows in search of public opportunities. A lack of financial democracy perpetuates inequality, constrains the economic potential of remittances, keeps banking costs high, and denies many access to interest-paying savings accounts, credit, and enjoyment of the tax benefits that accrue to home ownership and retirement savings accounts. By adhering to the Principles above, governments can open up financial participation for all of their citizens in their own economies, and take advantage of the full economic potential of large inflows of remittances.

In particular, governments must avoid the temptation to tax or divert these flows for any reason. These amounts are usually sent in relatively small amounts—far smaller than concerns border or monetary authorities in virtually all countries. Moreover, any taxes or levies would prove highly regressive because of the low incomes of most senders. In addition, this could serve to drive some portion of these flows back into informal channels.

More importantly, countries stand to gain far greater economic and social gains from remittances by making the regulatory and institutional changes needed to allow more viable options for people when spending, saving, investing, or otherwise leveraging their money. Improving economic frameworks to permit the greatest number of recipients more economic outlets for their remittances will deliver broader economic multipliers—thereby expanding the tax base. It is simply better tax policy to provide incentives to promote greater economic activity than to tax (and thus impede) the financial flows that could generate that activity.

Quite simply and profoundly, when it comes to remittance senders and receivers, it is their money. Remittances represent far more than simple financial transactions; they are the outcome of the separation of families, the disruption of national economies, and the exodus of creative and hardworking adults from poor to richer countries. These flows deliver high financial benefits—but at very high human cost.

Yet remittances remain private flows in search of public opportunity. Action on the part of public authorities, remittance institutions, and civil society can do much to provide the incentives and capacities needed to enable people to put their money to use for their families and their futures. Remittances, for so long the sign of a broad problem, now have potential to be part of a far-reaching solution. In sum, it is time to turn cash into change.

Bibliography

Blanton, J.L., S.L. Rhine, and A. Williams, eds. 2001. *Changing Financial Markets and Community Development: A Federal Reserve System Research Conference.* Federal Reserve Bank of Richmond.

Caskey, John. 1997. Defining the Market. Paper prepared for proceedings, Financial Access in the 21st Century, February. Washington, D.C.: U.S. Comptroller of the Currency, Administrator of National Banks.

Chami, Ralph, Connel Fullenkamp, and Samir Jahjah. 2003. *Are Immigrant Remittances Flows a Source of Capital for Development?* IMF Working Paper Wp/03/189. Washington, D.C.

DeSipio, Louis. 2002. Sending Money Home…For Now: Remittances and Immigrant Adaptation in the United States. In *Sending Money Home: Hispanic Remittances and Community Development*, eds. Rodolfo O. de la Garza and Briant Lindsay Lowell. Lanham, Maryland: Rowman & Littlefield Publishing Group.

De Soto, Hernando. 2001. *The Hidden Architecture of Capitalism.* Lima: Institute of Liberty and Democracy (also available at www.ild.org.pe/eng/articles_en1.htm).

Dunham, Constance. 2001. The Role of Banks and Nonbanks in Serving Low- and Moderate-Income Communities. In *Changing Financial Markets and Community Development: A Federal Reserve System Research Conference,* eds. J.L. Blanton, S.L. Rhine, and A. Williams. Federal Reserve Bank of Richmond.

Elbadawi, Ibrahim A., and Robert de Rezende Rocha. 1992. *Determinants of Expatriate Workers' Remittances in North Africa and Europe.* Policy Research Working Paper 1038, World Bank, Washington, D.C.

Martin, Philip. 2004. Migration. In *Global Crises, Global Solutions,* ed. Bjorn Lomborg. Cambridge: Cambridge University Press.

Massey, Douglas S., Joaquin Arango, Graeme Hugo, Ali Kouaouci, Adela Pellegrino, and J. Edward Taylor. 1998. *Worlds in Motion: International Migration at the End of the Millennium*. Oxford: Oxford University Press.

Mittelman, James H. 2000. *The Globalization Syndrome: Transformation and Resistance.* Princeton, N.J.: Princeton University Press.

Multilateral Investment Fund of the Inter-American Development Bank. (MIF-IDB). 2001. Survey of Latino Immigrants. Report by Bendixen & Associates (November). Washington, D.C.: Multilateral Investment Fund.

———. 2004. Remittances to Latin America and the Caribbean: Goals and Recommendations. Washington, D.C.: Multilateral Investment Fund.

———. 2005. Transforming Labor Markets and Promoting Financial Democracy. Washington, D.C.: Multilateral Investment Fund.

Orozco, Manuel. 2003a. Changes in the Atmosphere? Increase in Remittances, Price Decline and New Challenges. Inter-American Dialogue, Washington, D.C. (March).

———. 2003b. *Worker Remittances in an International Scope.* Inter-American Dialogue, Washington, D.C. (March).

———. 2003c. Migration and Development: Integration to the Global Economy and Policy Opportunities for Donors. Presented at the conference on International Migrant Remittances: Development Impact, Opportunities for the Financial Sector and Future Prospects, October 9–10, London (also available at: www.livelihoods.org/hot_topics/migration/remittances.html).

———. 2004. International Financial Flows and Worker Remittances: A Best Practices Report Commissioned by the Population and Mortality Division of the United Nations. New York: United Nations.

Pew Hispanic Center and Multilateral Investment Fund (PHC-MIF). 2002. Billions in Motion, Latino Immigrants, Remittances, and Banking. Washington, D.C.: Pew Hispanic Center and Multilateral Investment Fund.

Prahalad, C.K. 2004. *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits.* Upper Saddle River, N.J.: Wharton School Publishing/Pearson Education Inc.

Ratha, Dilip. 2003. Workers' Remittances: An Important and Stable Source of External Development Finance. In *Global Development Finance 2003: Striving for Stability in Development Finance.* Washington, D.C.: The World Bank.

Stark, Oded, and David Bloom. 1985. The New Economics of Labor Migration. *American Economic Review* 75 (2): 173–78.

Taylor, J. Edward. 1999. The New Economics of Labor Migration and the Role of Remittances in the Migration Process. *International Migration* 37 (1): 63–88.

U.S. Office of the Comptroller of the Currency. 1997. Financial Access in the 21st Century. www.occ.treas.gov/pubs.htm

Waller Meyers, Deborah. 2002. Migrant Remittances to Latin America: Reviewing the Literature. In *Sending Money Home: Hispanic Remittances and Community Development,* eds. Rodolfo O. de la Garza and Briant Lindsay Lowell. Lanham, Maryland: Rowman & Littlefield Publishing Group.

World Bank. 2002. *Globalization, Growth, and Poverty*. Washington, D.C.: The World Bank.

About the Contributors

Sheila C. Bair is the Dean's Professor of Financial Regulatory Policy at the Isenberg School of Management at the University of Massachusetts. She previously held positions as the Assistant Secretary for Financial Institutions in the U.S. Department of the Treasury, Senior Vice President of Government Relations for the New York Stock Exchange, Commissioner and Acting Chair of the Commodity Futures Trading Commission, and Research Director and Deputy Counsel to Senate Majority Leader Robert Dole. She has a J.D. and B.A. from the University of Kansas. She serves on the FDIC's Banking Policy Advisory Committee and the Board of the Center for Responsible Lending. She has published several articles in the field of financial regulation and has testified before Congress on numerous occasions.

Sergio Bendixen is the President of Bendixen & Associates, a public opinion and market research firm in Coral Gables, Florida. He is recognized as the preeminent expert in Hispanic public opinion research in the United States and Latin America. He spent 14 years working as a political analyst for the following Spanish-language television networks: *SIN* (1985–86), *Univisión* (1987–92), *CNN en Español* (1993), and *Telemundo* (1994–98). Mr. Bendixen's polls and writings have been featured in *Newsweek,* the *New York Times,* the *Wall Street Journal,* the *Los Angeles Times,* the *Washington Post,* and the *Miami Herald.* He earned his B.A. in Chemical Engineering from the University of Notre Dame. A native of Peru, he has lived in the United States for over 40 years.

Micah Bump is a Research Associate at the Institute for the Study of International Migration (ISIM) at Georgetown University. He has studied best practices for facilitating social, economic, and civic integration of immigrant newcomers in new settlement communities in the United States. He will continue to explore newcomer issues in rural America under funding from the United States Department of Agriculture. His other areas of current research include human trafficking and remittance flows. He holds a M.A. in Latin American Studies with a certificate in Refugees and Humanitarian Emergencies from the Graduate School of Foreign Service at Georgetown University and a B.S. cum laude in Spanish from the same institution.

Mohammed El-Sakka is an Egyptian national with a Ph.D in Economics from the University of Wales, UK. He taught at Helwan University in Cairo and later joined the Department of Economics and Finance at Kuwait University. His fields of specialization are the underground economy, monetary economics, international migrant remittances, international economics, and privatization. He is currently participating in several research projects financed by Kuwait University. Dr. El-Sakka has authored several publications, including a book titled *The Underground Economy of Egypt* (Dar al-Nahda Al-Masriah 1996).

Patricia Weiss Fagen is a Senior Research Associate at the Institute for the Study of International Migration (ISIM) at Georgetown University, where she conducts research and teaches courses on post-conflict reintegration and reconstruction. She has worked with the United Nations High Commissioner for Refugees, the UN Research Institute for Social Development, and the Economic Development Institute of the World Bank. Dr. Fagen has a Ph.D. from Stanford University and has published a number of works related to Latin American history, human rights law and policy, political asylum and refugee issues, and post-conflict reconstruction.

Nicholas P. Glytsos is Principal Researcher of the Center of Planning and Economic Research in Athens, Greece. For many years he was Head of the Labour Economics Division of the Center. His research interests include labor market issues, international migration and remittances, and the economics of education and human capital. He has published numerous articles on these topics, in particular on migration and remittances, in scholarly journals and collected volumes.

Graeme Hugo is Professor in the Department of Geographical and Environmental Studies and Director of the National Centre for Social Applications of Geographical Information Systems at the University of Adelaide, Australia. He is the author of over 200 books, articles, and chapters in books, as well as a large number of conference papers and reports. In 2002, he secured a $1.125 million ARC Federation Fellowship over five years for his research project, "The new paradigm of international migration to and from Australia: dimensions, causes and implications."

María F. Jaramillo is Director of Remittances and Savings Products in the Marketing and Product Development Unit of ACCION International. She has worked at Viamericas Corporation, a money-transfer company transferring remittances to Latin America, as a project analyst for international investments at Leucadia International Corporation, and as a consultant for the Microenterprise Unit at the Inter-American Development Bank. Ms. Jaramillo earned her B.A. in International Politics with a concentration in Economics from Oberlin College. She also holds a M.A. in International Relations, with a concentration in International Economics and Latin America, from Johns Hopkins University's Paul H. Nitze School of Advanced International Studies. Ms. Jaramillo was born in Ecuador and has lived in the United States for more than 12 years.

Claremont Kirton is Senior Lecturer in the Department of Economics at the University of the West Indies, Jamaica. He teaches undergraduate and graduate courses in economic development, banking, and finance. He has published widely on various areas including regional economic integration, development planning and policy, financial sector crisis, informal economic activities, and remittances. His most recent work is *Jamaica's External Debt: Estimation Analysis and Policy Implications* (2004). He has served as a consultant on various economic issues for the European Union, the World Bank, UNDP, FAO, and the ACP-EC Technical Centre for Agriculture and Rural Co-operation, as well as various Caribbean governments. He is part of a Remittances Research Group at the University of the West Indies, Jamaica, and is researching issues related to food security in Jamaica and regional agricultural development policies.

Theodore Lianos is Professor at the Athens University of Economics and Business, Athens, Greece, and is Editor of the *South-Eastern Europe Journal Of Economics*. Professor Lianos has served as President of Olympic Airways, President of the Technical University of Crete, and President of the Center for Planning and Economic Research (KEPE) in Greece. He received his doctorate from North Carolina State

University and has published in the *European Economic Review*, the *Journal of Macroeconomics*, the *International Review of Applied Economics,* and the *Journal of the American Statistical Association*, among other journals. Professor Lianos has also conducted extensive research on migration and remittances, publishing findings in the *International Journal of Economic Development, International Migration*, the *International Migration Review,* and in several books and monographs.

Manuel Orozco is Senior Associate at the Inter-American Dialogue and teaches at the United States Foreign Service Institute. He has worked as a policy consultant for various organizations in Central America, the United States, and South Africa, developing programs on democracy and governance issues, as well as on migration and remittances. He was visiting Assistant Professor of Political Science at the University of Akron, Ohio, and has been a researcher for the Tomas Rivera Policy Institute, working on issues related to migration, ethnicity, international relations, and their implications for the United States. His areas of interest include Central America, globalization, democracy, migration, conflict in war-torn societies, and minority politics. Dr. Orozco holds a Ph.D. in Political Science from the University of Texas at Austin, a M.A. in Public Administration and Latin American Studies, and a B.A. in International Relations from the National University of Costa Rica. He has published extensively on the topics of remittances, democracy, migration, and international relations.

Susan Pozo is Professor of Economics at Western Michigan University in Kalamazoo, Michigan, and has taught at Pennsylvania State University. Professor Pozo has published extensively on economic issues related to remittances, migration, and exchange rate regimes in the *Journal of Macroeconomics*, *Review of International Economics*, *Southern Economic Journal, Review of Economics and Statistics, Eastern Economic Review, International Migration Review*, and *World Development,* among several other scholarly publications. She has also served as an officer and board member in various capacities with the Midwest Economics Association and the American Economic Association.

Andrés Solimano, a Chilean-Italian national, holds a Ph.D. in Economics from the Massachusetts Institute of Technology. He is Regional Advisor at the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), Santiago, Chile. Before taking that position, he spent 10 years working in a variety of capacities at the

World Bank, served as the Executive Director for Chile and Ecuador on the Boards of the Inter-American Development Bank and Inter-American Investment Corporation, and was the Chairman of the Programming Committee of the Board of Executive Directors of the IDB. He is the General Editor of the series *Distributive Justice and Economic Development*, published by the University of Michigan Press, and has edited and authored several books and articles on economic reform, growth, development, and income distribution.

Erin St. Onge is the Research Director at Bendixen & Associates, a public opinion and market research firm in Coral Gables, Florida. She previously held positions at the University of Connecticut as a Project Manager at the Center for Survey Research and Analysis and as an Instructor and the Assistant Director of the Urban and Community Studies program. Her research interests have focused on race and gender. She earned her B.A. in Urban Studies and her M.A. in Political Science with a concentration in Public Opinion Research at the University of Connecticut.

Roberto Suro is director of the Pew Hispanic Center, a Washington, D.C.-based research and policy analysis organization. A former journalist, Suro has nearly 30 years experience writing on Hispanic issues and immigration. He is author of *Strangers Among Us: Latino Lives in a Changing America* (Vintage), as well as reports, articles, and other publications regarding the growth of the Latino population. During his career in journalism, Suro worked for *TIME Magazine*, the *New York Times*, the *Washington Post,* and other publications. He worked extensively in Washington, did tours as a domestic correspondent in Chicago and Houston, and was posted as a foreign correspondent in Latin America, Europe, and the Middle East. He is a graduate of Yale University (B.A., 1973) and Columbia University (M.S., 1974).

Donald F. Terry has been the Manager of the Multilateral Investment Fund (MIF) at the Inter-American Development Bank since its inception in 1993. The $1.3 billion Fund has approved more than 640 projects in Latin America and the Caribbean aimed at improving the region's business environment, supporting private sector involvement in the development process, and focusing attention on the smallest members of the business community. Before joining the MIF, Mr. Terry served as Deputy Assistant Secretary of the U.S. Treasury and as Staff Director of the Joint Economic Committee, the House

Committee on Small Business, the House Committee on Banking and Financial Institutions, and the House Committee on Ethics, and on the House Judiciary Committee Staff. He holds a B.A. in Political Science from Yale University (1968) and a J.D. from the University of California Law School at Berkeley (1972). Mr. Terry graduated from the Senior Managers in Government Program at the Harvard Business School in 1978.

Steven R. Wilson has been with the Multilateral Investment Fund (MIF) of the Inter-American Development Bank since 2000, where he assists in the development of new priorities, including in the areas of migrants' remittances, trade and integration, and international standards. He received a Ph.D. in Economics from the University of Tennessee in 1992 and was with the United Nations in Vienna, Austria from 1992 to 2000. He wrote *Beyond Quality: An Agenda for Improving Manufacturing in Developing Countries* (Edward Elgar 1996) and has published articles on Latin American economic reforms, industrial development, statistical process control, and productivity. He taught economics at Webster University in Vienna and was a research assistant with the Management Development Center of the University of Tennessee.

Germán A. Zárate-Hoyos has a Ph.D. in Economics from the University of California, Riverside and teaches economics at the State University of New York at Cortland. He is also a research associate with El Colegio de la Frontera Norte, Tijuana. He is a development economist with research interests and publications in international migration, remittances, poverty, and export processing zones. His doctoral dissertation was on the macroeconomic impact of remittances on the Mexican economy and he is the editor of a book on remittances in Mexico entitled *Remesas de los Mexicanos y Centroamericanos en Estados Unidos* (El Colegio de la Frontera Norte 2004).

Index

ECONOMICS

"With this much-needed book, the Multilateral Investment Fund of the Inter-American Development Bank provides an important overview of the global phenomenon of remittances. Remittances improve the living conditions of poor families, help to reduce the risks facing families spread across countries, and can also reduce poverty when used to finance investments in education, housing and health care. Millions of migrant workers and their families around the world require access to better and less expensive financial services. Meeting these needs will further facilitate the contribution of remittances to the economic development of their home countries. This book will certainly help to promote necessary changes."

Jeffrey D. Sachs
Director, The Earth Institute at Columbia University
Author of *The End of Poverty* and *Macroeconomics in the Global Economy*

"An interesting and important work that examines the surge in migrant remittances, a phenomenon that provides more proof of the economic power and vitality of the poor, even outside of their own countries."

Hernando de Soto
President of the Institute of Liberty and Democracy
and author of *The Other Path* and *The Mystery of Capital*

Inter-American Development Bank
1300 New York Ave., N.W.
Washington, D.C. 20577

www.iadb.org/pub

ISBN 1-931003-86-6
9 781931 003865