Remittance Flows and Impact

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Remittances as a Development Tool: A Regional Conference
Organized by the Multilateral Investment Fund, Inter-American Development Bank
May 17, 2001

During the past decades, remittances have grown significantly in scale and impact. The International Monetary Fund's Balance of Payments report for 1999 shows that countries in the Western Hemisphere received more than $16 billion per year from workers residing abroad. Worldwide, the flow of remittances exceeds $100 billion per year, with more than 60 percent going to developing countries. Having stated these statistics, it is worth noting the weaknesses of existing data on remittances. These numbers likely under-represent the scale of remittances by billions of dollars since many countries have inadequate processes for estimating or reporting on the funds remitted by foreign workers. Correcting for under-reporting, the Inter-American Development Bank (IDB) estimates that total remittances in the Western Hemisphere are now likely to exceed $20 billion per year.

Remittances will likely continue to grow in size as international migration continues to grow. During the past 35 years, the number of international migrants has doubled from 76 million to more than 150 million worldwide.[i] The Western Hemisphere has seen a comparable increase in the number of international migrants living and working abroad, growing to about 40 million across the whole hemisphere. Almost three-quarters reside in the United States. Of these more than half come from other countries in the Americas. Other major receiving countries of international migrants are Canada, Venezuela, and Costa Rica, with such countries as Mexico experiencing emigration, immigration and transit at the same time.

There are a number of reasons that international migration is likely to continue to grow in the future although the sources and destinations may shift. Under classic theory, immigration occurs when there is a combination of push/supply and pull/demand factors, as well as networks to link the supply of migrants with the demand of employers and families in receiving countries. Economic globalization and integration is fueling all parts of this equation. On the demand side, businesses, particularly but not exclusively multinational corporations, press for access to a global labor market for their recruitment of personnel. This pertains to both skilled and unskilled labor. On the supply side, when rising expectations for economic advancement are not met in quickly enough, migration is tempting for workers who can earn far more in wealthier countries. Generally, those most likely to migrate have some resources to invest in the move.

The linkages formed between trade partners also provide an impetus for migration and the networks to make it happen. Trade agreements often facilitate such movements, particularly in the higher-skilled and service sectors. The North American Free Trade Agreement and the General Agreement on Trade in Services include provisions that facilitate migration of executives and managers, certain professionals and workers with specialized knowledge of their company's activities. Although Mexican professionals have not made extensive use of the NAFTA provisions to date, when the remaining restrictions on their admission to the US are removed (no later than 2004), the numbers may increase significantly to match Canadian levels. How such movements will be handled in future trade negotiations within the Hemisphere is unknown, but it is likely that similar provisions will be a feature of these agreements. In the meantime, there are serious negotiations between the United States and Mexico over new legal mechanisms for admission of unskilled, temporary workers. The models worked out bilaterally may then become models for future regional discussions.

A second, related factor stimulating increased migration involves the transportation and communications revolution that makes it easier to move and keep contact with one's home community. Increasingly, transnationalism is becoming a reality for today's migrants. Although circular migration has always been present, with migrants living sequentially in the source and receiving country, migrants can now live at one and the same time in two different countries. With the growth in transnationalism has come a growth in dual nationality as well. Even those who permanently relocate are able to keep in touch with family members at home far longer and more easily than in the past. Not only do such contacts reinforce the networks that produce future migration, but they also mean that many migrants will continue to send remittances to parents, siblings and other community members even after they permanently resettle themselves.

A less benign factor that is also stimulating increased immigration is the growth in human smuggling and trafficking. Migrants without authorization to enter another country are increasingly making use of smuggling operations to circumvent government controls. These smugglers in turn actively recruit would-be migrants, sometimes developing new migrant streams in areas where they offer their services. Estimated to be a $7-10 billion business today, trafficking networks indenture migrants, who often must work under harsh conditions, until they are able to pay off their smuggling fees. This process can have harmful effects on their ability to remit. It may be several years before the migrants earn their way out of such arrangements and have the resources to send money home to their families or otherwise contribute to their home communities.

As I mentioned, although international migration is likely to grow in the foreseeable future, it will not necessarily involve all of the countries that are now major sources of immigration. Mexico is a good case in point. Although it is now the largest source of immigration to the United States, and sends the largest absolute volume of remittances, Mexican migration will likely diminish in the years ahead. A 1997 binational study on Mexican-US migration pointed out that Mexico's falling fertility rates, in combination with conservative economic growth rates, are already allowing for the creation of new jobs for all new entries into the job market.[ii] As this pattern continues, wages are likely to increase. It will not be necessary to reach parity with US wages before many would-be migrants decide to stay home, believing the financial and social transaction costs of migrating outweigh the benefits. Other emigration countries, such as Italy, Greece and Spain, have already undergone this transition. This doesn't mean that migration will diminish, however, because it is likely that new source countries will emerge in Mexico's stead—and Mexico and similar states become countries of immigration themselves.

Increased immigration generally means increased remittances, to return more directly to the topic of this conference. Until relatively recently, researchers, economists and development agencies tended to dismiss the importance of remittances or emphasize only their negative aspects. They often argued that money sent back by foreign workers were largely spent on consumer items, pointing out they seldom were invested in productive activities that would grow the economies of the developing countries. They also feared that those receiving remittances would become dependent upon them, reducing incentives to invest in their own income-generating activities. Moreover, what was considered to be excessive consumerism, they argued, would lead to inequities, with remittance-dependent households exceeding the standard of living available to those without family members working abroad. Often, government attempts to encourage or require investment of remittances were heavy-handed and led to few economic improvements. Overtime, the critics pointed out, remittances would diminish as the foreign workers settled in their new communities and lost contact with their home communities. Sometimes, wives and children would be left behind, with the all-important remittances no longer contributing to their livelihood.

Many of these problems still exist, but recent work on remittances show a far more complex picture. Perhaps because the scale of remittances has grown so substantially in recent years—it almost quadrupled in the Western Hemisphere during the past decade—experts now recognize that remittances have far greater positive impact on communities in developing countries than previously acknowledged. Such experts as Edward Taylor at the University of California at Davis argue that even consumer use of remittances stimulates economic development, particularly when households spend their remittances locally.[iii] The multiplier effects of remittances can be substantial, with each dollar producing additional dollars in economic growth for the businesses that produce and supply the products bought with these resources.

The micro-economic effects of remittances can also be important. Important contributors are the hometown associations (HTAs) of migrants abroad who send communal resources to the villages from which they emigrated. Collected through a variety of means, these resources have helped villages improve roads, water and sanitation systems, health clinics, schools and other community infrastructure. The HTAs often start with small resources but they have the potential to grow to significant size. According to one study: "Consider the Salvadoran 'United Community of Chinameca': their first largesse was $5,000 to build a school, and then they built a septic tank worth $10,000. Later they constructed a Red Cross clinic at a cost of $43,000, and bought an ambulance worth $32,000."[iv] Some state and local governments match the resources from HTAs in order to magnify their impact. There has been a recent trend towards encouraging the HTAs to invest in small businesses and manufacturing activities, in order to produce new jobs for villagers. These are truly grassroots initiatives that involve community-to-community development.

With the new recognition of the importance of remittances as a development tool has also come greater understanding of the challenges to using them in this fashion. HTAs and their home communities may not have the technical expertise to determine the best ways to invest in community development. The strength of a grassroots initiative can become its weakness if HTAs and local villages disagree about the best use of the remittances or if they invest the funds poorly. There are some initiative underway to provide technical assistance and training in this regard. For example, the Inter-American Foundation funds such assistance through the Fundacion para la Productividad del Campo, also known as APOYO, in several Mexican states.

The cost of transferring remittances is another issue that needs to be addressed. These transfer costs can be exceedingly high. One study found that many Mexican migrants lose as much as 25 percent of the value of their remittances through fees and poor exchange rates.[v] In some cases, one or a few wire transfer companies have a lock on distribution points for purchasing or receiving money orders. The market appears to be responding to this situation, with greater competition leading to lower transfer costs, but more needs to be done in this area. The entry of such new players as credit unions could help reduce costs even further. To the extent that credit unions reinvest transfer fees in the remittance receiving communities, the development potential could be increased still further.

Also, remittances are often used to help families address emergency needs that could, perhaps, be better addressed through other means—or prevented altogether. For example, many households use some portion of their remittances to deal with emergency health care needs because they lack access to routine health care and do not have insurance coverage. The Mexican Migration Project asks respondents how their family members use remittances. According to one research study, "the largest single reported use of remitted or saved funds was health care expenses for family members. Among those who remitted (approximately 60 percent of respondents) fully three-quarters reported that some share of the funds were used for health care expenses."[vi] At the same time, many migrants do not take advantage of an initiative by the Mexican government that enables them to purchase health insurance for families in Mexico for a very low rate per month. Such cross-border health coverage, purchased in the United States for relatives at home, could be a more effective use of remittances than the funding of emergency care. Since many migrants return periodically to their home communities, such cross-border programs could also provide the largely uninsured US residents with a source of health care as well.

A sizeable part of remittances flowing to Central America have been used to reconstruct the countries after years of civil war and more recent hurricanes and earthquakes. Remittances have become so important a part of reconstruction that they have been prominently on the foreign policy agenda. The President of El Salvador recently used a visit to meet with President Bush to request work permits for Salvadorans in the United States. The increased earnings that legally authorized workers could remit would far outweigh the likely foreign aid that would be forthcoming.

While remittance aid is clearly needed and beneficial to the families that receive this help, when remittances are used to support development or address reconstruction needs, it means that the poorest residents of the US and other wealthy countries are bearing the brunt of assisting people in developing countries. Latin American migrants tend to have low incomes, often living in poverty, yet they remit billions of dollars to their home countries. While beneficial to the families and societies at home, it is well to ask if the remittances come at a cost to those settling abroad. What trade-offs are they making to save sufficient resources to remit? Are they unable to make investments in education and skills upgrading, for example, in order to send the billions home? Are there ways, perhaps through community-investment programs supported by remittance transfer companies, to invest some of this lost income in development activities in their new places of residence?

As these brief remarks show, the use of remittances as a resource for development requires better answers to some fundamental questions: for example, how can governments best estimate the actual flow of remittances; how precisely are remittances used, and are there alternative mechanisms to gain more "bang-for-the-buck"; to what extent can the multiplier effect of remittances be increased by initiatives to encourage local purchase of locally-produced goods; how best can transfer costs be reduced to maximize the level of remittances reaching local communities; and how best can governments and international organizations help HTAs and home villages make the most effective use of the communal remittances for development without impeding local initiative. Given the scale of remittances today, and their potential as a tool for development, these issues are clearly deserving of attention.

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[i] International Organization for Migration, World Migration Report: 2000, Geneva: UN Publications, 2000.
[ii] Binational Study on Migration between Mexico and the United States, Washington and Mexico City: US Commission on Immigration Reform and Mexican Department of External Relations, 1997.
[iii] Ibid.
[iv] B. Lindsay Lowell and Rodolfo O. de la Garza, The Developmental Role of Remittances in U.S. Latino Communities and in Latin American Countries, Washington: InterAmerican Dialogue, June 2000.
[v] Binational Study.
[vi] Louis DeSipio, Sending Money Home...For Now: Remittances and Immigrant Adaptation in the United States, Washington: InterAmerican Dialogue, January 2000.