Migrant Remittances to Latin America: Reviewing the Literature

By Deborah Waller Meyers

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FOREWORD

In the Fall of 1997, the Inter-American Dialogue and the Tomás Rivera Policy Institute (TRPI) initiated a project examining the potential contribution of remittances to economic and social development in Latin America and the Caribbean—as well as to the economic and social well being of Latino communities in the United States.

This paper is the project's first product. Deborah Waller Meyers reviews the research on the demographics of Latin American immigrants (including residential patterns, household characteristics, income and education); the relevant literature on the sources, uses, and impact of remittances on receiving countries; and numerous ideas and proposals for increasing the developmental significance of remittances both for Latino immigrants and their communities of origin. She concludes by noting that "there is little doubt that this topic interests many, that it has potential for further study, and that remittances can (and do) make important contributions to the development of certain countries." Yet, despite the interest, remittances "have not received the sustained attention required, either by governments, international financial institutions, local communities, or by the private sector."

Given the importance of this topic, we believe that Ms. Meyer's paper merits wide dissemination and consideration. Thus, we are pleased to share it with you.

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This paper represents the personal opinions of its author, and does not necessarily reflect the views of the TRPI and Dialogue members or staff.

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MIGRANT REMITTANCES TO LATIN AMERICA:

REVIEWING THE LITERATURE

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Introduction

Remittances, the money that migrants earn working abroad and then send back to their countries of origin, are one of the most visible impacts of the migration phenomenon for migrant-sending countries.[2] The flows of remittances to migrants' families and communities are not unique to Latin American migrants working in the United States but rather occur throughout the world, with over $71 billion estimated in remittances worldwide in 1990 and over $5.7 billion in the Latin America/Caribbean region (Russell 1995). This paper attempts to summarize the literature on remittances by examining five of these countries: Mexico, El Salvador, Guatemala, the Dominican Republic, and Colombia.[3] While focusing on the impact of remittances on these countries as well as on proposals to enhance the benefits and reduce the costs of remittances, this paper also reviews previous estimates of remittances, describes how they are sent, explains how they are typically used by the recipients, and suggests areas for additional research.

How Are Remittance Sent?

Remittances are sent by the entire spectrum of migrants: legal/illegal; permanent/temporary; upper-class/lower-class; middle-age/young; married/single; and male/female. Certain categories of migrants tend to remit more funds than others, but migrants generally send between 6 and 16 percent of their household income back to their countries of origin (De la Garza, et al. 1997). [4] Remittances, however, have tended to decrease after the first or second generation, relying on new migrants for a continued flow (Lozano-Ascencio 1993; Gonzalez 1997).

The decision of whether or not to remit is not made in a vacuum. Studies have found that the amounts of money remitted vary based on factors such as age, education, U.S. labor market experience, monthly earnings, settlement in the United States, homeownership, access to capital, duration of trip, and costs of migration (Durand, et al. 1996b).[5] Once migrants have sufficient disposable income and make the decision to remit, they must decide how to send the money and how much they will send. Often they also are determining their families' needs, which could affect how much is sent and the means used to send it. Some of the most common practices over time have been checks, money orders, and transfers via telegraph. Other methods include electronic transfers, couriers, the postal service, self-carry, hand-carry by friends or family members, and in-kind remittances of clothes and other consumer goods. The preferred method varies by country; a description of some of these services follows. Most migrants remit more than once a year and usually on a regular schedule (ECLAC 1991). Additionally, migrants who have worked long enough in the United States to earn social security can have those funds sent abroad.

A recent study on Non-Bank Financial Institutions (NBFI) for the Treasury Department included an examination of two of the prominent sectors used for remittances: money transmissions and money orders.[6] Of course, migrants also remit their money through ethnic stores, embassies, and religious organizations. California, New York, and Texas, the three states with the largest concentration of immigrants, account for 25 percent of all NBFI locations in the United States. One

question which remains unclear is what percentage of the transferred funds, overall and for each sector, enter the official banking systems of the relevant countries.

The study found that money transmitters generally charge a fee equivalent to 10 percent of the funds sent and that they earn 30 percent of the NBFI industry revenue, despite having only 5 percent ($10.8 billion) of the industry's transactions. The sector has approximately 43,000 outlets, made 36 million transfers in 1996, and is dominated (97 percent of the market and 81 percent of the outlets) by two companies, Western Union and MoneyGram.[7] MoneyGram's share of the business increased from 8 percent in 1993 to 16 percent in 1996 due to MoneyGram's focus on ethnic advertising (particularly to Mexicans and Mexican-Americans) and price promotions. Additionally, MoneyGram holds 22 percent of the international business,[8] and 46 percent of its transfers in 1995 were from the United States to Mexico. The money transmission outlets primarily are found in the big six immigration states—California, New York, Texas, New Jersey, Florida, and Illinois. In 1996, the average transfer amount remitted from the United States to a foreign location was $320, and the fee ranged from 6 to 15 percent of the amount sent. Though the money transmission sector has been growing at 15 percent annually, the international component has been growing at 20 percent annually for the last five years. The report states that "recent immigrants using international transfer services to send money home has been a major driver of this growth" (Coopers & Lybrand 1997:17).

Despite 146,000 outlets and 50 percent ($98.9 billion) of the transactions in this industry, money orders generate little income and account for only 19 percent of the industry's revenue. In 1996, there were 970 million money orders processed, with an average of $102 and fees ranging from $0 to $7.50. Three businesses—American Express (owned by First Data Corporation), Travelers Express (owned by the Viad Corporation), and the U.S. Postal Service—control 88 percent of the market share. The smaller outlets generally are grocery, liquor, convenience, and drug stores, and they sell over one-third of the money orders, with post offices selling another 20 percent. The money order growth rate is predicted to continue at 5 percent annually, although the international component has been growing at 6 to 7 percent annually (Coopers & Lybrand 1997).

As mentioned earlier, migrants from different countries have varying preferences about how to transmit remittances. Salvadorans, for instance, seem to prefer using small courier companies, with 66 percent going that route, 20 percent using money remitters, and 10 percent using *encomenderos* who personally carry money in frequent trips. One company, Gigante Express, reportedly has 50 percent of the courier business to El Salvador. The courier companies are established in the United States as corporations and some have licenses from the Federal Communications Commission. The courier companies generally have the most extensive network of agents in El Salvador to deliver the remittances. Of course, there are also migrants who bring the money back home with them or send it with friends going to their community, and a few do use Western Union, MoneyGram, or banks with branches in El Salvador (Siri and Delgado 1995; De la Garza, et al. 1997). The average Salvadoran abroad sends somewhere between $100 to $150 three to four times each year, and approximately one-third of Salvadoran households receive remittances. Since most recipients do not have a bank account, the funds frequently are stored at home and consumed; rarely do they directly enter the banking system. The transaction costs for Salvadoran remittances range between 5 to 25 percent of the money being remitted, with 10 percent being common (Gonzalez 1997).

Dominicans sending remittances rarely use the international services described above and instead send more than two-thirds of their remittances through their own industry of *remesadores* (Dominican-based money transmitters) who offer better prices and better service. These remesadores are licensed to operate in the United States under the Money Transfer Code and have created their

own association—Asociacion Dominicana de Empresas Remesadores de Divisas (Boly 1996; Despradel 1997). Some have hundreds of offices and employees (including small grocery stores, travel agents, notaries, and beauty parlors) and others may have only one office in the Dominican Republic and one in the United States, contracting out for delivery. Many U.S. agents are affiliated with multiple *remesadores* who compete for their business. The business is so large in the Dominican Republic that it is computerized and very efficient, with the remitted funds (generally around $220 monthly) frequently brought directly to recipients' homes on the same day the money is sent from the United States, rather than requiring a pickup. U.S. government officials have expressed concern, however, that some of the *remesadores* are fronts for money laundering (Boly 1996).

Mexicans are most likely to send their money using wire transfers or money orders. Many migrants also bring the money home themselves or send it by check or cash. Banco de Mexico estimated that in 1995, almost forty percent of the remittances were money orders, twenty-seven percent were electronic transfers, almost one-quarter were via telegraph, eight percent were pocket and in-kind remittances, and less than one percent were personal checks (Lozano-Ascencio 1996).[9] Wire transfer services receive a lot of business to Mexico despite the fees described below because, in addition to the security of the transfer, Mexican banks charge high fees for cashing checks and money orders of those without bank accounts, and many of the recipients of remittances fall into this category.

Western Union, for instance, typically charges $29 for the average electronic transfer of $300 that is completed within fifteen minutes. Moreover, its agent in Mexico, Elektra, generally exchanges the money at 10 percent less than the interbank rate, meaning that up to 20 percent of the remittances are lost in transfer costs.[10] Elektra also encourages consumption by providing a discount on goods bought with the remitted money. Elektra alone transferred $100 million in 1994, $400 million in 1995, and expects $700 million in 1996 (Lozano-Ascencio 1996). Other partnerships in Mexico include the U.S. Postal Service and Bancomer, which teamed up in May 1997 for "Dinero Seguro" that charges $15 for up to $250 remitted from a U.S. Post Office to any of Bancomer's branches, though it takes a few days. Wells Fargo and Banamex offer similar services, as do U.S. Bank and Banca Serfin, which charge $25 for any money transfer to Mexico and promise the interbank exchange rate and no extra pickup charges (*Migration News* 1997). There are also numerous other small money transfer businesses that tend to focus on specific immigrant groups and generally charge more per transaction.

How Much Is Remitted?

Most estimates of remittances are based on the balance of payments statistics reported to the International Monetary Fund (IMF) by the central banks of the recipient countries. The numbers generally are considered an underestimate of actual remittances as they include only the officially recorded flows in balance-of-payment data reported by the remittance-receiving countries. This is problematic because, as described earlier, only a certain percentage of remittances flow through a country's official banking system.[11] Moreover, data are not available for all countries, countries have different internal reporting requirements, countries report remittances to the IMF differently (some might include them with private transfers, some include cash only or include in-kind transfers, etc.), and only one of the three relevant categories considered by the IMF is called remittances (Russell 1986).[12] Recently, the Tomas Rivera Policy Institute estimated that remittances to Mexico, El Salvador, the Dominican Republic, Guatemala, and Columbia totaled more than $5.46 billion in 1994 (De la Garza, et al. 1997). For all the countries, the estimates vary, providing one with a range rather than an exact number. Table 1 compares the estimated remittances received by the various countries with the population in the country of origin and the estimated migrant population in the United States.

The most sophisticated tracking of incoming remittances among these five countries has occurred in Mexico. Mexico's Central Bank expanded its tracking of remittances in 1989 from an examination of postal orders and telegraphic transfers to include money orders and personal checks; those funds entered the system through banking institutions and *casas de cambio* (money changing houses). This revised estimate ($1.9 billion in 1992) also included information from a monthly survey of family remittances and a census on remittances. Other estimates around this time also ranged around $2 billion, with Keely and Tran estimating $2.3 billion (1989), Russell and Teitelbaum (1992) $2.28 billion, Lozano-Ascencio (1993) $3.15 billion, and Massey and Parrado (1994) $2.01 billion (Durand, et al. 1996a).[13]

Table 1
Remittances in Comparison to Population Figures

	Mexico	**Dominican Republic**	**El Salvador**	**Guatemala**	**Colombia**
Estimated Remittances 1995	$3.7 billion	$795 million	$1.1 billion	$350 million	$172 million
Estimated Migrant Population in U.S., 1990##	4.4 million	370,000	460,000	215,000	280,000
Population in Country of Origin, 1995**	91.8 million	7.8 million	5.6 million	10.6 million	36.8 million

**Source for this row: World Bank 1997.

Estimates were calculated using 1990 Census Data found in Del Pinal and Singer (1997:10). For example, using the 1990 population estimate of Mexicans in the United States (13,393 in thousands) and the percentage (33 percent) that was foreign-born, we can estimate that there are approximately 4.4 million Mexican migrants in the United States. While this data is out-of-date and thus likely underestimates the current resident population, there is no source with updated comparable information for all five countries. For instance, the Binational Study (1997) recently estimated 5 million Mexicans in the United States, and it is commonly said that 1/10 of the Dominican population is in the United States, doubling the number found above. Moreover, these numbers do not distinguish between those here legally, illegally, or under some quasi-legal status.

In 1993, however, the Central Bank realized that there was a lot of money flowing into Mexico that still was not being counted because it was entering the country through electronic transfers, an expanded array of banking and other financial institutions, pocket transfers, and in-kind transfers. Thus, it incorporated into its balance of payments electronic transfers of remittances (with the assistance of the relevant companies) as well as an estimate of pocket and in-kind transfers. This had a significant impact on the bank's estimate of remittances, leading to a reported $3.69 billion in 1994, $3.67 billion in 1995, and $4.2 billion in 1996 (*Migration News* 1997). These are consistent with other estimates, including Lozano-Ascencio 1996 ($3.87 billion), World Bank 1997 ($3.7 billion), and the Binational Study 1997 ($2.5-$3.9 billion).

The U.S. Embassy in Santo Domingo estimated Dominican remittances at $1.14 billion, of which approximately $892 million are transferred and another $246 million are hand-carried (Boly 1996). This is consistent with the $1 billion estimate cited in *Migration News* (1996c) and a bit higher than the World Development Report's estimate of $795 million for 1995 (World Bank 1997). The estimates of Salvadoran remittances also range around $1 billion annually, with 1995 IMF, Central Bank, and World Bank statistics showing $1.1 billion (World Bank 1997; De la Garza, et al. 1997; Diaz Briquets and Lopez 1997). The Salvadoran Embassy uses the figure of $1.2 billion in annual remittances. Estimates of Colombia remittances range from $172 million to $467 million (Taylor, et al. 1996a; World Bank 1997; De la Garza, et al. 1997). Reports of Guatemalan remittances ranged from $205 million in 1994 to $350 million in 1995, with potential to surpass $400 million in 1997 (De la Garza, et al. 1997; World Bank 1997; Hernandez 1997).[14]

Table 2
Social Security Administration Data for September 1997*

	Mexico	**Dominican Republic**	**El Salvador**	**Guatemal a**	**Colombia**
Recipients (individuals)	51,120	4,485	678	918	2,295
Payments	$16.5 million	$2 million	$271,000	$ 409,000	$1 million

*The data reported is only for the month specified and does not include total beneficiaries or amounts received in that country.

As mentioned earlier, another significant source of dollars in these countries is social security payments. Mexico receives the second highest social security payments worldwide, and the Dominican Republic is fourteenth on the list. Table 2 (above) shows a sample of monthly Social Security Administration data (Deller 1997).

How Are Remittances Used?

Much of the literature focuses on how remittances are spent by the recipients (generally spouses, children, parents, and siblings) and their implications (often in terms of costs and benefits) for the economies of those communities. An important question, however, is how the increase in income from remittances affects the family's expenditures. Many of the recipients may be receiving funds from more than one relative abroad. Further, many of the households receiving remittances are headed by females, and it is generally the head of household who decides how to use the remittances (rather than the sending relative). For instance, in El Salvador, 47.5 percent of families receiving remittances are female headed compared to 32.2 percent for non-recipients. In Guatemala, 38.2 percent of receiving families are female-headed compared to 24.8 percent of non-recipients (ECLAC 1991).

Despite the receipt of remittances, female participation in the labor market outside the home has not changed. Few women have experience in seeking credit (regardless of whether or not they receive remittances), and those that have managed to get credit generally have done so through relatives, friends, and neighbors rather than through formal banking channels or moneylenders. Maintenance of the traditional role of women as providers and as administrators of the home, then, may help explain the tendency for remittances to be used for basic goods and other consumption purposes, as

described below (ECLAC 1991).

The literature shows a fairly strong consensus on the use of remittances, regardless of country (Russell 1986; Keely and Tran 1989; Massey and Basem 1992; Taylor, et al. 1996; Russell 1997). For the most part, remittances are used for daily expenses such as food, clothing, and health care—basic subsistence needs—and they make up a significant portion of the income of those households. Funds also are spent on building or improving housing, buying land or cattle, and buying consumer goods such as washing machines and televisions. Generally, only a small percentage of remittances are spent on savings and what is termed "productive investment" (e.g., income and employment-generating activities such as buying land or tools, starting a business, and other activities with multiplier effects). In the Dominican Republic and El Salvador, for instance, researchers have found that remittances were spent on basic household expenses, with the remainder used for improving the standard of living through better housing, education, additional consumption, and loan repayment (Georges 1990; Pessar and Grasmuck 1991; Siri and Delgado 1995; Boly 1996). Remittances also cover consumption in Mexico, as 76 percent of Mexican migrants surveyed spent remittances (*migradollars*) on consumption, 14 percent spent some on housing, and 10 percent said they spent some "productively" (Durand, et al. 1996b).

Researchers disagree, however, as to whether recipients of remittances are using these resources wastefully, or productively and rationally. Further, even if the remittances are being used rationally by the migrants and do have local multiplier effects, there is a question as to whether the community and country as a whole are better off from the receipt of remittances. Some criticize migrants' use of remittances for focusing only on short-term consumption needs (which increases import demand) and not enough on savings or "productive investments." They believe that remittances should be channeled toward development, small businesses, and other projects that increase local production and income and reduce unemployment (Pastor and Rogers 1985; Martin 1990; Cornelius 1990; North 1990; Diaz Briquets and Weintraub 1990; Siri and Delgado 1995; Delgado 1996).

Others, however, believe that migrants use remittances very rationally. Remittances and local development depend a great deal on the local context; criticism of consumption patterns ignores the personal circumstances as well as structural conditions (economic, social, and political) in which the decisions are made. These researchers also feel that these criticisms ignore the private nature of the transfers and the limited opportunities for small-scale investment in the community (regardless of the presence of remittances) and the social and financial capital needed for a new business. Given the circumstances in the various countries (e.g., lack of access to credit, poor infrastructure, etc.), the migrants are making rational decisions about the use of their remittances when making stable investments like the purchase of cattle or home improvements or when buying consumer goods that have local multiplier effects, such as increased demand and decreased unemployment.

In fact, studies suggest that remittances are spent in the same ways as other income. For instance, in El Salvador, families with or without remittances used just over 68 percent of their income for consumption. In Guatemala, those receiving remittances used 80.2 percent of their income on consumption and those not receiving remittances used 83.8 percent. This study also reported that Salvadoran families tend to use about 6 percent of their remittances for savings while Guatemalan families use about 4 percent (ECLAC 1991). Thus, the migrants should be expected to change their allocation of resources only if conditions are created that makes productive investment viable and if there are policies to channel their monies into investments (Keely and Tran, 1989; Tamayo and Lozano 1990; Georges 1990; Massey and Basem 1992; Itzigsohn 1995; Durand, et al. 1996a and 1996b; Taylor, et al. 1996a and 1996b; Massey and Parrado 1997).

Table 3
Remittances in Comparison to Key Economic Indicators

	Mexico	**Dominican Republic**	**El Salvador**	**Guatemala**	**Colombia**
Estimated Remittances 1995	$3.7 billion	$795 million	$1.1 billion	$350 million	$172 million
Gross Domestic Product 1995	$250 billion	$11.3 billion	$9.5 billion	$14.5 billion	$76 billion
Exports of Merchandise 1995	$79.5 billion	$765 million	$998 million	$2.2 billion	$9.8 billion
Exports of goods, services, and income	$93.5 billion	$5.1 billion	$2.1 billion	$2.9 billion	$14.8 billion

*All data in this table is from the World Bank's World Development Report 1997.

What is The Impact in the Remittance-Receiving Communities?

The National Economy

To understand the impact of remittances on each country, it is helpful to first compare the estimated remittances with key economic indicators. Table 3 compares estimates of remittances with the countries' GDP and exports. Remittances have accounted for as much as 8 to 15 percent of the Gross Domestic Product (GDP) of various countries (Russell and Teitelbaum 1992). In Colombia, for example, remittances are 1.2 percent of GDP, and 7.7 percent of exports (Taylor, et al. 1996a). In Guatemala, the $350 million in remittances are ten times the 1996 U.S. foreign assistance of $35.8 million and are equivalent to approximately 16 percent of exports and 2.5 percent of the economy (U.S. Department of Commerce 1997 and World Bank 1997).[15]

Remittances have a larger impact in the Dominican Republic. According to the U.S. Embassy in Santo Domingo, remittances are the most consistent and largest source of dollars, without which the peso would probably be less stable, imports would have to be reduced, and there would likely be a large balance of trade deficit. As the Dominican GDP in 1996 was $11.3 billion and exports were $765 million, remittances are 7 to 8 percent of the Dominican economy and far exceed the $13.3 million in annual U.S. foreign assistance (Central Bank of the Dominican Republic 1997 and World Bank 1997).

The greatest relative impact of remittances in economic terms in Latin America and the Caribbean appears in El Salvador, where remittances are estimated at $1.1 billion but the economy is only $9.5 billion. As in the Dominican Republic, remittances are the largest source of hard currency, and they

kept many Salvadorans out of poverty during the difficult 1980's and early 1990's. Remittances account for approximately 12 percent of the economy and exceed the major exports and foreign assistance (Siri and Delgado 1995; Itzigsohn 1995*; Migration News* 1996a; De la Garza, et al. 1997; World Bank 1997; Gonzalez 1997).[16]

The greatest inflow of remittances in absolute terms in this region is to Mexico, though its large economy makes remittances a smaller percentage of the total economy and the remittances are generally concentrated in the labor-sending areas, particularly Western Mexico. Nonetheless, a GDP of $250 billion in 1995 means the $4 billion or so in remittances are between 1 to 2 percent of the Mexican economy. Labor is considered Mexico's third largest export after oil and tourism (Lozano-Ascencio 1993; Taylor 1996a; World Bank 1997; De la Garza, et al. 1997).

Costs and Benefits

The literature describes two opposing perspectives on this issue, with studies supporting both. The first is positive and describes remittances as improving recipients' standard of living, providing money for basic needs such as food, clothing, housing improvements, and education, and providing hard currency for consumer goods such as small household appliances. The transfer of funds is a direct benefit to those who may need it the most. Further, proponents of remittances contend that research has undervalued the role of U.S. remittances in promoting economic development, and that remittances are indeed an important factor for economic development as they have high income and employment multipliers (Taylor 1996b). Statistical analysis finds that each $1 remitted to Mexico produces an increase of $2.90 in the GDP and an increase of $3.20 in economic output, which leads to an increase in national income and production of billions of dollars each year (Durand, et al. 1996a). At a macroeconomic level, remittances often provide a significant source of foreign currency, increase national income, finance imports, and contribute to the balance of payments. Remittances also have transnationalized economic, social, and political life and contributed to the expansion of wire transfer and courier companies as well as money exchangers (Russell 1986; Keely and Tran 1989; Durand and Massey 1992; Massey and Basem 1992; Smith 1997; Taylor, et al. 1996a and 1996b; Durand, et al. 1996a and 1996b).

Economist Philip Martin cautions, however, that "...[remittances] are rarely the spark that creates enough economic activity to make migration unnecessary" (1990: 657). He and others believe that remittances not only fail to help the economy but also may decrease the likelihood of an improved economy. The inflow of funds can be deceptive if it creates dependence among the recipients, encourages the continued migration of the working age population, and decreases the likelihood of investment by the government or foreign investors because of an unreliable workforce or one that is accustomed to not working (Pastor and Rogers 1985; Pastor 1989/90; Itzigsohn 1995).

Moreover, these researchers view remittances as unpredictable and as a cause of increasing income inequality. Also, the remittances frequently are spent on imported consumer goods, rather than locally produced ones, decreasing the potential multiplier effect of the money and increasing import demand and inflation (Russell 1986; Martin 1990). Sharon Russell, a political scientist, summarized the costs and benefits in Table 4 (1986: 678.)

As mentioned earlier, case studies of particular countries find evidence of both points of view. For instance, remittances have provided a source of income to families in Mexico, the Dominican Republic, and El Salvador for subsistence needs, especially under deteriorating labor market conditions and difficult economic times. Remittances also have acted as a social safety net, probably reducing additional outmigration. In the Dominican Republic, remittances are received by

individuals throughout the socioeconomic spectrum, although the poorer recipients rely on them more heavily (Itzigsohn 1995). Research finds that remittances have had both positive and negative effects, providing discretionary income, middle-class consumption, investments in land and cattle, increased local commerce, and contributions to the balance of payments and job creation. They also have led to a disparity between recipients and nonrecipients, to decreased food supplies because of reduced agricultural production, to rising prices, and to a vulnerable economy. Patricia Pessar and Sherri Grasmuck, an anthropologist and sociologist respectively, (1991) found that 33.8 percent of the Dominican population received some remittances, with most receiving 200 pesos or less (at that time $156), which does not include in-kind remittances. Further, remittances have provided three-fifths of family income to recipients and created a dependent culture (generally women, children, and parents, though also unemployed males). For this reason, it appears remitters have developed a "subsistence ethic," sending to their family members just enough money to provide for basic needs but not enough for excessive consumption (Ferran and Pessar 1990; Georges 1990; Pessar and Grasmuck 1991).

In El Salvador, up to one-third of the families receive remittances from U.S. relatives, and those remittances provide a substantial portion of their income. While the funds provide hard currency and allow the maintenance of incomes and imports, they also have created income inequality. Moreover, they rarely enter the official banking system, making them unlikely to assist in long-term development. Investment was particularly difficult because of the sporadic and small nature of remittances, a lack of knowledge regarding investment opportunities in El Salvador, and a lack of faith in the economic climate. Since the typical remittance received (somewhere between $100 and $150 per month) was more than other earnings, the high levels of migration and remittances have had a negative effect on the labor market participation of non-migrants and thus reduced unemployment. One report stated that remittances affected 55 percent of the Salvadoran population and comprised 72 percent of the regular family income, compared to only 17 percent of family income in Guatemala (ECLAC 1991). They have also created a mentality where people believe that migration and remittances are a mechanism for social mobility. Though improving the living conditions, it has been argued that remittances have changed the country's culture, consumption habits, attitudes toward work, and broadened the social composition of the elite (Lopez and Seligson 1990; Funkhouser 1992; Itzigsohn 1995; Garcia 1996).

As in the other countries, research finds that in Mexico remittances have mixed impacts on the economy, some direct and some indirect. They are used for "nonessential" consumption, cause inflated prices for land, housing, and food, and lead to income inequality, little productive investment, and dependence on the remittances for a large percentage of family income. However, they also reduce poverty, lower internal migration, increase employment and investment (above what it otherwise might have been), and create local demand for goods and services such as livestock, seed, cattle, transportation, and education. Further, the money spent by rural recipients tends to produce larger income multipliers because rural recipients tend to consume more domestically produced goods than urban households (Cornelius 1990; Durand, et al 1996; Binational Study 1997).

Table 4
Benefits and Costs of Remittances

Benefits	Costs
Ease foreign exchange constraints and improve	Are unpredictable

balance of payments	
Permit imports of capital goods and raw materials for industrial development	Are spent on consumer goods, which increases demand, increases inflation, and pushes up wage levels
Are potential source of savings and investment capital formation for development	Result in little or no investment in capital-generating activities
Are net addition to resources; raise the immediate standard of living of recipients	High import content of consumption demand increases dependency on imports and exacerbates balance of payments problem
Improve income distribution	Replace other sources of income, thereby increasing dependency, eroding good work habits, and heightening potential negative effects of return migration
	Are spent on "unproductive" or "personal" investment (e.g., real estate, housing)
	Create envy and resentment and induce consumption spending among non-migrants

Although direct investments represent only a modest percentage of the use of remittances in the Dominican Republic, El Salvador, and Mexico, case studies show evidence of business development stimulated by remittances (Cornelius 1990; Lopez and Seligson 1990; Portes and Guarnizo 1990). Strong connections exist between Dominican small business owners and Dominican businesses in New York, as many in the Dominican Republic are former migrants, acquired skills in New York, have clients in New York, or used remittances to start or maintain their businesses. Their businesses had more capital than other Dominican businesses because of these additional funds. In the sample studied, 90.3 percent of the business owners were returnees or lived abroad, 89.4 percent had started their businesses with money earned abroad, 42.5% still received remittances, and 71.7 percent had former migrants as workers. Though the investments were irregular, the total investment from migrant savings in their sample was $1.2 million, 57 percent in money, 37 percent in-kind. The mean value of each transfer was $5,400, and the median value was $3,000 (Portes and Guarnizo 1990).

In El Salvador, the small businesses that receive remittances rely heavily on them, which reduces the need for bank credit. Lopez and Seligson (1990) studied the use by small businesses of remittances and found that as many as one-third of businesses depended on remittances to get started and as many as two-thirds required remittances to maintain their business, with remittances almost taking the place of the normal business income that was not available because of the social, political, and economic problems in El Salvador.

In Mexico, *migradollars* have increased the odds of business formation and productive investment by households and communities, although the *migradollars* (savings) are often brought back by the migrants and used by the migrants rather than remitted to their families while they continue to work

abroad. One study found that 63 percent of businesses surveyed were owned by present or former migrants, 61percent of which were started with money earned in the United States and 44 percent of which were sustained that way (Cornelius 1990). In another study, 21percent of the businesses were started with money earned in the United States. That study concluded that business formation is a logical decision process by migrants, but that becoming an entrepreneur also requires a certain level of resources (often from *migradollars*), education, occupational skill, economic factors, and family labor (in addition to a conducive economic and political environment). The relatively small size of these businesses and their lack of employment generation was attributed to conditions in Mexico rather than problems with the businesses themselves. Further, while remittances do contribute to economic development by providing capital and business development, they do so within the context of other influences and cannot be the sole hope for development (Massey and Parrado 1997).

Increasing the Benefits and Decreasing the Costs: Proposals for Linking Remittances to Development

If it is true, as one researcher wrote, that "as the length of stay in the host country increases, there is a resulting decrease in the average amount of remittances sent per worker" and that short-term migrants tend to remit more than long-term migrants, then the use of remittances has serious implications for the development of a labor-sending country (Lozano-Ascencio 1993: 14-15). Recognizing that remittances are a significant source of dollars for countries which export labor, some of their governments have attempted to use incentive programs to attract these funds and encourage their investment in the home countries. Researchers who view remittances as a potential source of financing also have made proposals that would help senders and recipients (as well as communities and the private sector) channel remittances toward investment and development projects, ranging from reducing the costs of transmitting remittances, to creating an environment and infrastructure in the home countries that encourages and rewards investment and development. Other researchers are interested in why remittances contribute significantly to development in some communities and not in others. All the proposals deal with the question of whether there should be a laissez-faire attitude toward remittances, whether attention should be focused on improving the general economic and political environment, and whether and in what form more direct intervention is needed.

Before reviewing the proposals, it may be useful to review the lessons learned by countries in other regions with regard to attracting remittances and using them for development purposes. In other parts of the world, migrants found to have made "the best" use of remittances were relatively educated and sophisticated, had bank accounts, and came from countries with a long tradition of savings (Gonzalez 1997). Further, it has been written that overly bureaucratic plans to encourage remittances and their investment lead migrants to send the remittances through unofficial means, the opposite of the intent (Diaz Briquets and Perez Lopez 1997).

According to Russell (1995) important factors in attracting official remittance flows are: a stable political environment; low rates of inflation; low black market exchange rates or unitary exchange rates; currency devaluations; increases in domestic interest rates; secure means of transferring remittances; and national banking services in the country of employment. In addition, she found that the factors in the remittance-receiving country can be more influential than many of the special programs created by governments, and that these "policy measures to capture and influence the uses of remittances have been considered relatively ineffective when viewed in relation to the total volume of remittances" (1986: 693). Russell concluded that " In the final analysis, the effects of migrants' remittances on development will probably be determined by many of the same factors that shape the

decisions of foreign investors and development generally: a stable political environment; sensible macroeconomic policies; adequate investment in human capital; and the availability of institutional mechanisms for investment in activities with attractive rates of return" (1992: 277).

Given these cautions and the limited success of previous attempts, descriptions of the proposals follow. The first group of proposals includes those aimed at increasing the flow of remittances into official channels. The second group will include trying to increase private sector involvement and productive use of the funds.

Increasing Remittance Flows

Mandatory Transfers. Some countries have tried to increase flows through cooperative agreements between the labor sending and receiving countries through such means as deducting a certain percentage of earnings and requiring their transfer back to their country of origin. Researchers Diaz Briquets and Perez Lopez (1997:415) wrote that "Mandatory remittance policies have been effective... in labor flows organized through bilateral official channels when governments have direct access and control over the migrant's earnings." Examples of countries where workers are required to remit a significant percentage of their earnings include: the Philippines, China, and Korea (Russell 1986; Taylor, et al. 1996a).

Decreased Transmittal Costs. Another means of increasing flows through official channels is by decreasing the costs of sending remittances. As discussed earlier, remitting money back to one's home country through wire transfers, money orders, and couriers is not cheap, with migrants spending up to 15 percent of the remittance to send it and losing up to an additional 10 percent in the currency exchange. Thus, due to transfer costs, the amount of money available to the recipient could be as much as 20 to 25 percent less than the available funds. Proposals have included opening branches of national banks in the countries where their nationals are working—by expanding bank branches or at least money receivers to more rural areas, and by working to form partnerships between U.S. and foreign banks, postal services, and money transfer and exchange agencies.[17] Standard exchange rates also could be set, and banks in the remittance-receiving countries could work with wire transfer and courier service companies to ensure that the remittances go directly into savings accounts. Improved regulation of international money transmitters also has been suggested (Bascom 1990; Siri and Delgado 1995; Delgado 1996; Gonzalez 1997). Moreover, since the money transfer businesses profit either with high-volume small-profit services or low-volume high-profit services, the wire transfer, money order, and courier companies might be willing to reduce their fees for a guaranteed volume of business.

Temporary Incentives. A third means is to eliminate any potential obstacles that would prevent migrants from sending their savings back home. As sociologists Massey and Basem wrote, "...migrants tend to save, remit, and invest productively when the incentive structure is such that this behavior is likely to be rewarded" (1992: 204). For instance, migrants may be more likely to remit into savings accounts (rather than cash for consumption) if they can have dollar denominated accounts, receive higher than normal interest rates, better exchange rates, tax and customs exemptions, low-interest loans, access to credit and technical support, assistance for small business development, and coverage of rural areas. Other short-term proposals to increase the amount of remittances in the country include promoting return visits, tourism, return after retirement, supplements for small businesses, and non-profits that promote development (Bascom 1990; Diaz Briquets and Weintraub 1990; Seligson and Lopez 1990; Siri and Delgado 1995).

A few countries have implemented these types of incentives. For instance, Sri Lanka, Bangladesh,

Pakistan, and India all have foreign currency accounts that pay above-market interest rates and convert into local currencies at premium rates (Taylor, et al 1996a). India also shelters income from certain migrant investments as long as the migrants remain outside of India. Egypt and Turkey both have offered good exchange rates for certain migrant investments, and Poland offers a good rate of exchange on social security checks. In Pakistan, migrants are encouraged to spend their earnings in Pakistan through tax-free stores at the airport rather than buying the goods in the country where they are working (Russell, 1986; North and Whitehead 1990). Some Salvadoran banks even have established subsidiaries in U.S. Salvadoran communities such as California, New York, Texas, and Washington, D.C., to increase their share of remittances. Moreover, in 1989, El Salvador authorized dollar accounts and higher interest rates for those living abroad, but these accounts have not garnered much interest because the rates are similar to those in the United States. (Siri and Delgado 1995).

Increasing Productive Use

Increased Savings Rate. It has been suggested that remittances would be safer and used more productively if they entered the banking system before being spent (regardless of how). For instance, additional funds entering the banking system could allow banks to increase the number of loans, which could stimulate business. Further, rather than keeping remittances at home under a mattress, the funds could earn interest and remain physically secure before being spent. Such a proposal could be accomplished by creating a partnership between banks and wire transfer and courier service companies, channeling the money directly into an account.[18] A partnership with the postal services may not be viable, however, because of insecurity and lack of speedy transfers in some countries. By having the funds enter a bank and using electronic transfers, the cost of the transaction will decrease, making the remittances more efficient, decreasing the pressure on the exchange rate, decreasing inflation, lowering the current account balance, and providing banks with more funds to use for loans and investments (Bascom 1990; Siri and Delgado 1995; Gonzalez 1997).

Securitization. An idea already tried by some European investment banks is asset securitization, which involves lending money to banks in Mexico based on the expected inflow of funds from remittances. For instance, in August 1996, SBC Warburg, Inc. sold $100 million in securities to Banco Internacional in Mexico. The year before, J.P. Morgan Securities Inc. and Merrill Lynch & Company sold $206.5 million in bonds to Banco Nacional de Mexico [Banamex] (Case 1996). These transactions allowed the banks to issue secured bonds before they actually had the money—based on the expected amount of remittances that would enter the system through wire transfers—and then reinvest the money they did receive. A related suggestion is to encourage banks that depend on the remittances for cash flow to invest some of the funds in the countries to which the money is transferred (Pastor and Rogers, 1985).

Remittance Banks. Another proposal involves the creation of national and regional Caribbean remittance banks to link migration with development. These inter-American financial institutions could be supervised by private organizations or by public international and regional organizations such as the World Bank and Inter-American Development Bank that would help identify potential investments. Migrants would deposit their remittances in the banks, which would transfer the requested percentage of remittances (directly or through investment dividends) to the migrants' families. The remainder of the funds would stay in the bank and be used as leverage for international and regional funds for development projects. The funds also could go into an investment fund for local projects or be used as additional financing for small business development, along with technical support.[19]

This proposal would address the problem of governments lacking the matching funding frequently required to receive international aid for projects, and would also transfer funds more safely and cheaply than occurs now. Moreover, it addresses the argument that migrants and recipients do not invest in their home countries because there are few investment opportunities, or because they fear losing their money due to inflation or political instability. Outside supervision would help ensure good returns on the investment and provide security and stability. In addition, the migrants would have a financial stake in their home countries, and potential job opportunities should they return. Further, the governments would see an increase in the funds available for loans and investment through the banks, as well as foreign exchange that used to go through private channels. One point to consider, however, is that people from rural areas who migrate often do so to get the capital they cannot through formal banks, so any such plan should not deprive people of their major source of investment income, which would slow economic growth (Pastor and Rogers 1985; Diaz Briquets and Weintraub 1990; Siri and Delgado; Smith 1997).

Remitter Specified Uses. Remitters also could be given more control over the destination and use of their remittances (e.g., a savings account or particular expenditures). For instance, a binational agency for economic development (created with visa fees and tax withholding) or a private entity could make matching grants to communities who pooled their remittance dollars together for local development projects. There could also be social networks, such as churches, that channel the remittances to development projects in the local communities (Tamayo and Lozano 1990; Massey 1997). These types of self-developed projects already have occurred spontaneously in some locations.

A group of migrants in Los Angeles from Zacatecas, Mexico, for example, organized to channel funds to building a school and road in their hometown. The same has occurred in El Salvador, as *El Fundo Social de Inversiones* channels remittances toward public works projects such as potable water and electrification. In Los Angeles, residents of San Ysidro, El Salvador independently created a non-profit organization in 1992 called ASIC, *Asociacion de Sanisidrenses Residentes en California,* to collect funds to finance communal development projects. While they have funded a few projects, including equipping the town's library, they haven't had many positive results, partly because the town failed to define projects. Another organization, FUSEC (Fundacion Sanisidrense para la Educacion y la Cultura), was also founded in 1992 at the initiative of school teachers to address the lack of books for students, and they relied on ASIC's support to equip the library (Siri and Despradel 1995; Garcia 1996).

In Guatemala, a partnership between Cemaco and U.S.-based Ace Hardware is in the early stages of development. The project would allow migrants in the United States to purchase items for their relatives on-line in Ace and pay for them. The order gets transferred to Cemaco, and the family member picks it up in Guatemala (Rosales 1997). There is a similar program in the Dominican Republic in conjunction with electrodomestic stores, offering delivery service in less than 24 hours of a good or service (such as health care) ordered and paid for by the migrant in the United States and delivered in the Dominican Republic. Other recent programs include remittances being transferred directly into a savings and loan association to cover loan payments, and *remesadores* who offer to directly pay school, supermarket, electrical, or telephone bills using remittances (Despradel 1997).

These types of projects are not new, as migrants have organized themselves in the past in Turkey and Yugoslavia to focus on development efforts. Again, the workers' companies and migrant investments in industry were not that successful, although there have been success stories. In one Italian region, return migrants started their own businesses, and in Slovenia a factory that still produces hydraulic equipment today was founded by a group of migrants (Rogers 1990).

Structural Change. This final proposal likely would have the most significant and lasting impact of any but would also take the longest to achieve. As one research team concluded, "...the way for policy makers to encourage productive investment is...to pursue macroeconomic policies that yield a stable and propitious investment climate and to make expenditures on the infrastructure of specific communities which makes investment an attractive, profitable proposition" (Durand, et al. 1996b:261).

Proposals involve good macroeconomic policies and appropriate monetary, exchange rate, and tax policies (such as currency convertibility and no exchange controls). Improvements in the countries' financial and regulatory systems would assist in political and economic stability, limited risk, and the possibility of positive returns on investment. Further, sound economic development plans could include governmental cooperation with the private sector as well as non-governmental organizations and communal banks. Attention to basic public works and infrastructure projects, such as roads and communications systems, also would be useful, as would a focus on small business development and provision of capital, credit, and technical assistance.[20] Since women tend to be the primary recipients of remittances, education and family planning programs along with special income-generating opportunities could help reduce the tendency for excess consumption of remittances. Further, intensive communication and educational campaigns could be employed to educate the population about all these opportunities and promote their use. Other innovative ideas involve promoting the export of goods produced in local businesses financed by remittances to that country's nationals abroad (Bascom 1990; Diaz Briquets; Siri and Delgado 1995; Taylor, et al. 1996b; Smith 1997).

Recommendations for Additional Research

While there is consensus on some issues, it is clear that there is disagreement or inadequate information on others, and that additional research is needed. Most of the following recommendations originate in the literature itself or the ideas presented in the paper. On the issue of estimating remittances, it remains clear that they could be improved through additional studies and surveys (especially in Colombia and Guatemala) and by imposing reporting requirements of annual transfers on money transmitters and banking authorities. Moreover, the IMF could require countries to standardize the recording and reporting of official remittances.

For the purpose of increasing the efficiency of remittances, however, knowing who is sending and receiving them and how they are used is probably more important than knowing the aggregate amounts, as long as there is consensus that remittances total large sums of money, and account for a significant portion of certain countries' economies. The issue of who sends remittances, how remittances affect their families and communities in the United States, and how ethnic linkages can be mobilized are ones that need to be explored.

Though there is a great deal of case study information about the use of remittances and it is pretty consistent, researchers have proposed additional models estimating the direct and indirect effects of remittances on the trade in goods and services, income growth, net gain to the economy, and contribution to savings. Related to the issue of small business development is the question of whether the flow of remittances into certain communities leads nonmigrants to form businesses that provide goods or services to those with money to spend. Answers to some of these questions may address why some communities have progressed economically because of remittances and others have not (Martin 1990; Russell and Teitelbaum 1992;Taylor, et al. 1996a and 1996b). There also have been suggestions to engage in ethnographic studies about the senders and recipients of remittances, and to study the impact on broader sociological factors such as "class or ethnic group relations, political participation, demand for governmental services, the shape of national development

policies, and the international relations between labor-sending and receiving countries" (Russell 1986:689). Additional research also could be done on the role of women as recipients of remittances and any programs that have focused on expanding the role of women in the marketplace.

Prior to initiating any of the proposals described earlier, even as pilot projects, additional information is needed about the financial and regulatory structure of the relevant countries to understand the rules of money transfers, reporting requirements, the viability of partnerships, and the existence of programs for small business development. More information also could be useful with regard to remittance programs that have and have not worked in other countries and the reasons why. Further, case studies could be used to test better ways to privately channel remittances to promote development and to link international grants and loans with remittances. Related to this would be studies that focus on the use of the remittances of returning migrants (either hand-carried or in bank accounts), particularly those who return permanently.

Conclusions

Based on this review of the literature and discussion with many individuals, there is little doubt that this topic interests many, that it has potential for further study, and that remittances can (and do) make important contributions to the development of certain countries. Nonetheless, for the most part, remittances have not received the sustained attention required, either by the recipient governments, international financial institutions, local communities, or by the private sector.

Depending on one's perspective, either there is little to do or a lot to do with regard to remittances. In the first scenario, the only thing to do is acknowledge that these are private transfers, that they are used rationally by migrants, and that only an improvement in economic conditions in general will encourage the use of remittances (and all other income) for productive investment and development. Using the second perspective, there is a lot that can be done by both the private and public sector to increase the remittance flows into the country and channel them into more productive investment. Proactive efforts could encourage the continued flow of remittances through official channels, reduce the transmittal costs, encourage productive uses of the funds, guarantee good exchange rates, and create conditions where investment would be a rational and profitable decision, as well as other special projects such as those directed at providing women with credit to start small businesses.

Ultimately, the long-term goal would be to provide a stable political and economic system, and significantly improve infrastructure and financial systems to encourage and facilitate investment. The interim steps, however, can involve targeted research, incentive programs, remittance banks, marketing campaigns, pilot projects, and partnerships with money transfer companies. Any proposals should be carefully considered to avoid producing unintended consequences. Finally, groups interested in working with governments or local communities will need a country-specific approach since the impact of the remittances on the economy and local communities varies, as does the means of transmission and migrant flow.

Endnotes

[1]Deborah Waller Meyers is an associate at the Carnegie Endowment for International Peace. This paper was prepared with support from both the U.S. Commission on Immigration Reform and the Inter-American Dialogue.

[2] Remittances can consist of monetary as well as non-monetary transfers, but this paper focuses on the former.

[3] These five countries, along with Brazil, Jamaica, and Haiti, account for 97 percent of the Latin American/Caribbean remittances. The volume of literature available on this issue varies significantly by country, with the most work available on Mexico, significant amounts on El Salvador and the Dominican Republic, some on Guatemala, and very little on Colombia.

[4] Lozano-Ascencio (1997) found that 37.5 percent of remittances were from temporary migrants and 62.5 percent from permanent migrants.

[5] Russell (1986) proposed a model for understanding this decisionmaking process. Potential determinants of remittances in this model include: number of workers; wage rates; economic activity in host and sending countries; exchange rate; relative interest rate between labor-sending and receiving countries; political risk factors in sending country; facility of transferring funds; ratio of females in population in host country; years since outmigration; household income level; employment of other household members; marital status; level of education; and occupational level of migrants.

[6] The other sectors in this industry are: check cashing, travelers' checks, and retail foreign currency exchange.

[7] First Data Corporation, which owned MoneyGram, acquired Western Union in October 1995 as a result of merging with First Financial Corporation. It was then ordered by the Federal Trade Commission to divest one of the two companies; it sold MoneyGram in December 1996. First Data Corporation still performs the processing functions for both companies, however.

[8] An international transfer means U.S. to foreign, foreign to U.S., and foreign to foreign.

[9] Its 1991 estimate was that 65 percent of the remittances were sent through money orders (with an average amount of $259), 6 percent through checks (with an average of $435) and 28 percent through transfer via telegraph (with an average of $333) (Lozano-Ascencio 1993).

[10] Elektra is an electronics, home appliance, and furniture chain that also is associated with Woolworth Mexicana, Banca Promex, and Banco Internacional for the purpose of transferring funds to Mexico. It planned to expand to Central America in October 1997.

[11] Over two-thirds of remittances are sent from the United States through the various means described earlier, and less than one-third are hand-carried home (Cornelius 1990; Lozano-Ascencio 1996).

[12] The three categories are: worker remittances (sent from workers abroad more than one year); compensation of employees (the earnings of those abroad for less than 12 months, including in-kind benefits); and migrant transfers (net worth of migrants moving from one country to another).

[13] Lozano Ascencio made high, intermediate, and low estimates of remittances received in Mexico in 1990. The high estimate was $4.86 billion, the intermediate $3.15 billion, and the low estimate $1.7 billion (1993).

[14] In 1989, 11 percent of Guatemala's population were direct beneficiaries of remittances (ECLAC 1991).

[15] All these estimates are similar to those by the De la Garza, et al. (1997); Smith (1993); and Russell and Teitelbaum (1992).

[16] Only one report cited remittances as a significantly higher percentage of the economy—15 to 25 percent (Zolberg and Smith 1996) and another found lower numbers but used 1988 remittances (Taylor 1996a).

[17] When the Official remittance flows increased in the Phillipines and Portugal banks expanded their services to the countries where the migrants were working (Russell 1992).

[18] Gonzalez (1997) researched the idea of having foreign banks open branches in the United States but found that it is very difficult and expensive due to recently tightened regulations. Banks are able to open money remitter services in the United States, however, which then can wire funds to the migrants' country of origin. Being able to cash a wire transfer in a bank, even without an account, has the advantage of a bank exchange rate and eliminates the need for the company to rent in the other country.

[19] One private sector organization tried to create a remittance fund in El Salvador as a means of providing an alternative funding source to businesses, but faced many obstacles by the Securities and Exchange Commission and by the Drug Enforcement Administration who were concerned about capital raised in the United States and about the potential for money laundering (Danis 1997).

[20] At least one government has tried this: El Salvador's Central Bank created in 1992 *el Program Crediticio para Personas Emisoras de Remesas Familiares del Exterior* to finance lines of credit to Salvadoran emigrants or their families in El Salvador for house or land purchases or to start a business. Its use has been limited despite ample funds (Siri and Delgado 1995).

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