THE DEVELOPMENTAL ROLE OF REMITTANCES IN U.S. LATINO COMMUNITIES AND IN LATIN AMERICAN COUNTRIES

A Final Project Report*

BY

B. LINDSAY LOWELL

Director of Research
Institute for the Study of International Migration
Georgetown University

RODOLFO O. DE LA GARZA

Vice President
Tomás Rivera Policy Institute
Mike Hogg Professor of Community Affairs
Department of Government
University of Texas-Austin

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Executive Summary

For international migrants seeking employment in the United States, the desire to remit a portion of their earnings home is a time-honored motivator. Although the basic facts surrounding remittances to Mexico and Central America have changed little in recent decades, the flow of money southward from the United States has taken on significant new features. Since the 1980s, remittances have averaged 26 percent annual growth in the countries of focus in this project, i.e., Mexico, the Dominican Republic, El Salvador, Guatemala, and Colombia. Today, officially recorded remittances to these countries total $8 billion.

This report describes four major consequences of the transformation of remittances. First, the transfer of remittances attracts new businesses. Second, new actors are trying innovative approaches to leveraging remittances. Third, U.S. immigrant hometown associations (HTAs) increasingly are contributing abroad. Finally, U.S. immigrants fuel the remittance market—but what determines their remitting behavior, and does the flow undercut poor households?

More Competition in Remittance Transfer Markets.

The transference of remittance monies is a story of rapid marketplace changes. The international component of the U.S. money transmission sector grew an astounding 20 percent annually from 1991 through 1996. International money orders, the second most frequent means of transferring remittances, grew at a rate of about 7 percent annually. The average amount of money transferred from the United States to foreign countries is $320 with fees ranging from 6 to 15 percent; additional costs can run the total to 20 percent or more. Latino organizations and customers complained that the money-transmission companies charge exorbitant hidden fees and filed a class action suit against the major players. A preliminary settlement in late 1999 proposed compensation via the disbursement of discount coupons to past customers. Approximately $4.7 million is to be contributed to Mexican American communities in the United States. Perhaps such changes will lead to a more competitive and secure marketplace that will attract remittances that otherwise have followed informal routes. One study of Mexican migrants suggests that as much as 46 percent of remittances may be hand-carried back to Mexico.

Competitive pricing, greater accessibility to financial institutions, and strategies to improve security eventually should channel more remittances through formal institutional mechanisms. Our research suggests evidence of increased competition and likely decreased transaction costs, which leaves more money available for the migrants and their families. An increase in the monies available for recipients correspondingly should increase the multiplier effect of remittances on the migrant-sending economy. The most critical future transaction issue is the need for clear regulations and credible financial supervision by governmental authorities.

New Practices for Leveraging Remittances.

Governments worldwide attempt to capitalize on portions of the remittance flows; Mexico has been a leader in the Western Hemisphere. We review here four practices: setting aside a portion of each remittance into development funds, using special financial instruments, capitalizing on migrant labor earnings through investment breaks or training, and establishing joint ventures with HTAs in the United States.

A few countries have mandated that a certain percent of the earnings of their workers abroad be deposited into a fund for national development. Only South Korea has succeeded, while mandatory earmarking of remittances has failed elsewhere. Instead, transfer services might offer an option for remitters voluntarily to earmark a portion of their monies for educational reform or tax deferral, or as contributions to qualifying charitable organizations. Western Union has agreed in principle with a Chicago court to permit such a "check-off" feature.

Mexican banks several years ago began offering "remittance bonds" backed by money sent home from migrant laborers. Some countries offer migrant workers preferential domestic bank accounts that are not subject to foreign exchange regulations, or they are given discounted exchange rates.

Another set of practices aims to influence the remittances or the skills that returning migrants bring with them. Tariffs may be reduced for migrants abroad (or returning migrants) on the importation of machinery and equipment. Other programs encourage the entrepreneurial proclivities of returning migrants.

The development of formal U.S. HTAs can stimulate remittances. Although the Mexican experience has proven the most successful to date, Salvadoran, Dominican, and Guatemalan groups also are being encouraged by their governments to form organizations. One incentive for collective-remittances is to match HTA monies with government funding; another approach is to actively solicit and encourage HTA investment in microenterprises.

Activities of Hometown Associations.
Hometown associations consist of members from the same town or state in the migrant-sending country. Along with their growing numbers has come greater institutional outreach and collective-remittances. 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. The HTAs from the Mexican state of Zacatecas committed up to $600,000 for 56 projects in 1995.

Job-generating ventures and collective investment in microenterprise occurs to a lesser degree. The Mexican state government of Guanajuato has taken a lead in pitching investment in garment *maquiladoras* to its émigré HTAs. Other investment schemes include microenterprises that cost less. The economic multipliers created by collective community-building projects likely may be no less valuable than job-creation investments.

While we have identified an international focus of HTAs, their members often are involved in various U.S. activities. Ultimately, the organizational skills gained by HTAs may be the greatest outcome for the United States, because the HTAs use their institutional base to effect domestic change.

Household Remittances, U.S. Acculturation, and Welfare.
Research for this project addresses the remitting behavior of U.S. households. About 60 percent of temporary or permanent Mexican migrants report remitting. Among these Mexican immigrants who remit, the average monthly remittance is $240, a significant sum of money for households with

an average annual income of $7,455. Likewise, two-thirds of immigrant households with Colombian, Dominican, Guatemalan, or Salvadoran members report remitting in the past year, at an average annual rate of $2,285.

What leads some immigrants to remit, and others to reduce their remittances? Among migrants living in the United States, the likelihood of remitting will decline steadily as they acculturate, although the amount those remitting send home will increase as employment earnings rise. Complete family units are particularly important in determining whether money is sent abroad.

We know that established immigrant households often receive income from U.S. government transfers. If a positive link between transfers and remittances existed, U.S. taxpayers would effectively subsidize households abroad. Yet a statistical analysis finds that the receipt of needs-tested public transfers does not stimulate remittances, although some benefits from non-needs-tested income are transferred abroad.

Conclusions.
This project describes what appears to be a new face of the remitting phenomenon. It holds significant promise for several reasons. The high volume of remittances coming from a sizable and growing U.S. immigrant population creates the prospect of more money at the margins available for targeted use. Competition of the for-profits in this marketplace, together with the entry of nonprofits, may reduce transfer costs, leaving more remittance monies to be spent by those most in need. Innovations in capturing a share of remittances—from development bonds, to matching-funds, to HTA collective-remittances—can pool monies into a critical mass for truly substantial accomplishments. We conclude with cautionary notes on the scope and future of these innovations, as well as several recommendations.

The Developmental Role of Remittances in U.S. Latino Communities and in Latin American Countries

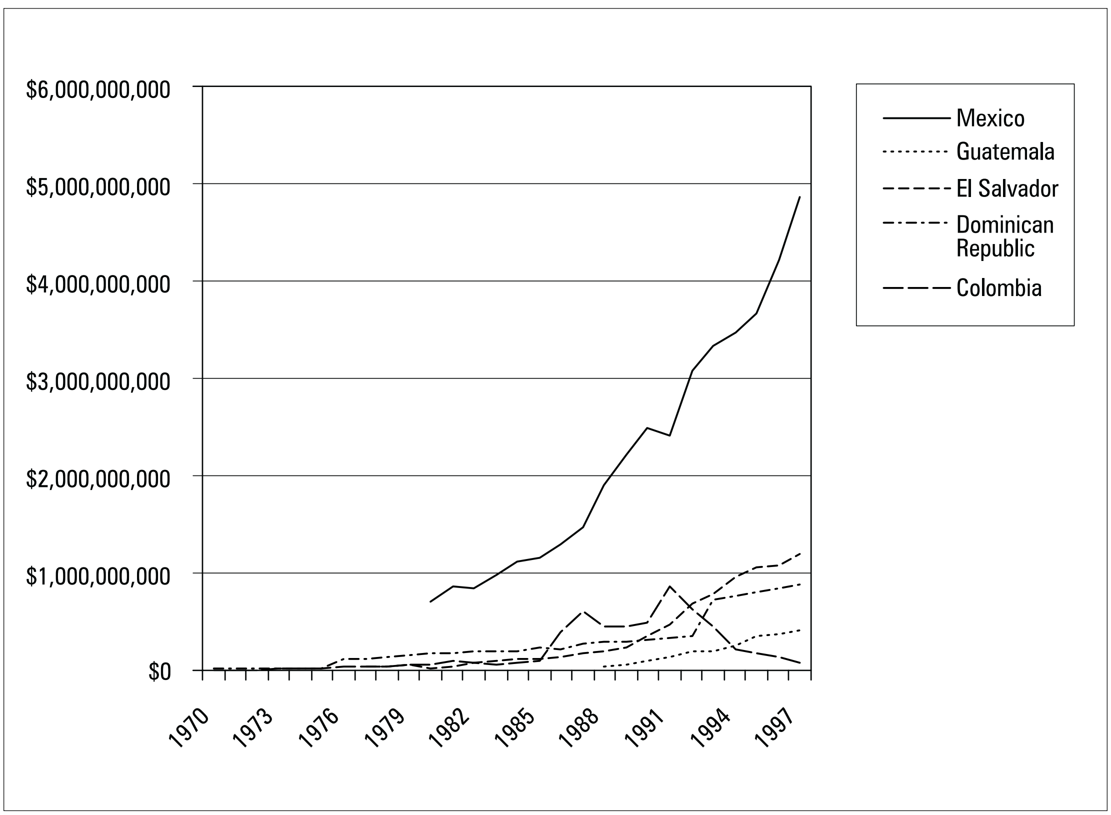
B. Lindsay Lowell and Rodolfo de la Garza

A New Phase in the Story of Remittances

For international migrants seeking employment in the United States, the desire to remit a portion of their earnings home is a time-honored motivator. Although the basic facts surrounding remittances to Mexico and Central America have changed little in recent decades, the flow of money southward from the United States has taken on significant new features. In the past decade or so, remittances have evolved from a stream flowing from families through informal networks, to a major river with new tributaries fed by transnational migrant organizations, channeled through an increasingly formal marketplace, and attracting the involvement of migrant-sending governments.

The Tomás Rivera Policy Institute called our attention to the dramatic growth of remittances in a recent report (de la Garza et al. 1997). As shown in **figure 1**, the officially recorded volume of remittances has grown several fold since the 1980s in most countries studied in this report, i.e., Mexico, the Dominican Republic, El Salvador, and Guatemala. Only Colombia has experienced

Figure 1. Remittances to Latin America 1970-1997.

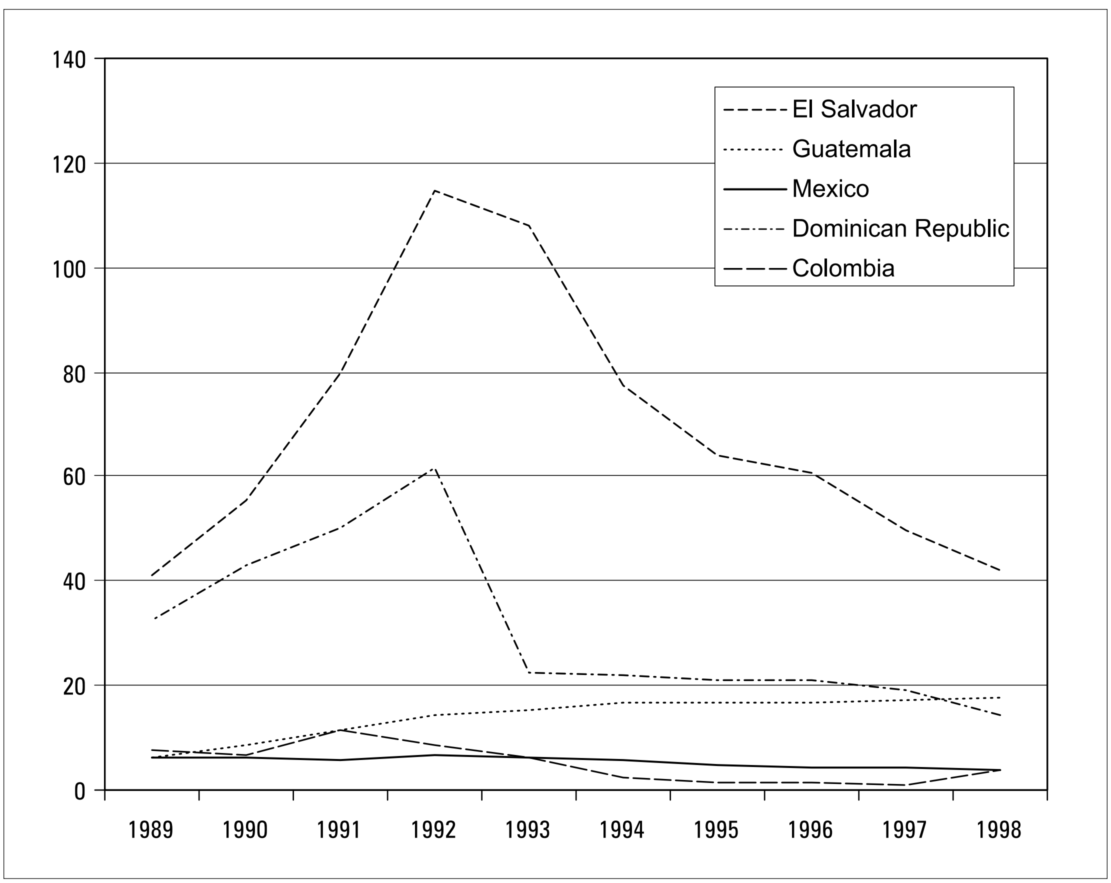


SOURCE: International Bank for Reconstruction and Development, *1999 World Development Indicators*, CD-ROM (1999).

rapid growth in volume, followed by an equally rapid fall of remittance levels, the latter possibly due to U.S. drug and narco-dollar interdictions. Nevertheless, the total dollar amount of remittances to these four countries is at least $8 billion today. No longer are remittances simply a small flow, albeit an integral part of international migration. The absolute level of remittances today moves them into a completely different realm of economics.

This trend is most clearly seen in the common comparison of remittances to national exports, as shown in **figure 2**. Remittances to El Salvador in 1992—toward the end of a period of conflict—actually were one-fifth greater than the country's exports. Since then, the volume of remittances has remained nearly as great as that of exports. The Dominican Republic's remittances are about half the volume of its exports. Although remittances remain somewhat less than one-fifth the magnitude of exports in Guatemala, this is still a significant historical feat. Remittances to Mexico reached over ten percent of the volume of exports in the early 1990s, only to decline to less than five percent following the surge in exports that has made Mexico the second largest U.S. trading partner. In relative terms, although the growth rates of gross national product and exports from these countries exceed that of remittances, the dramatic increase in remittances makes them significant contributors to the balance of payments.

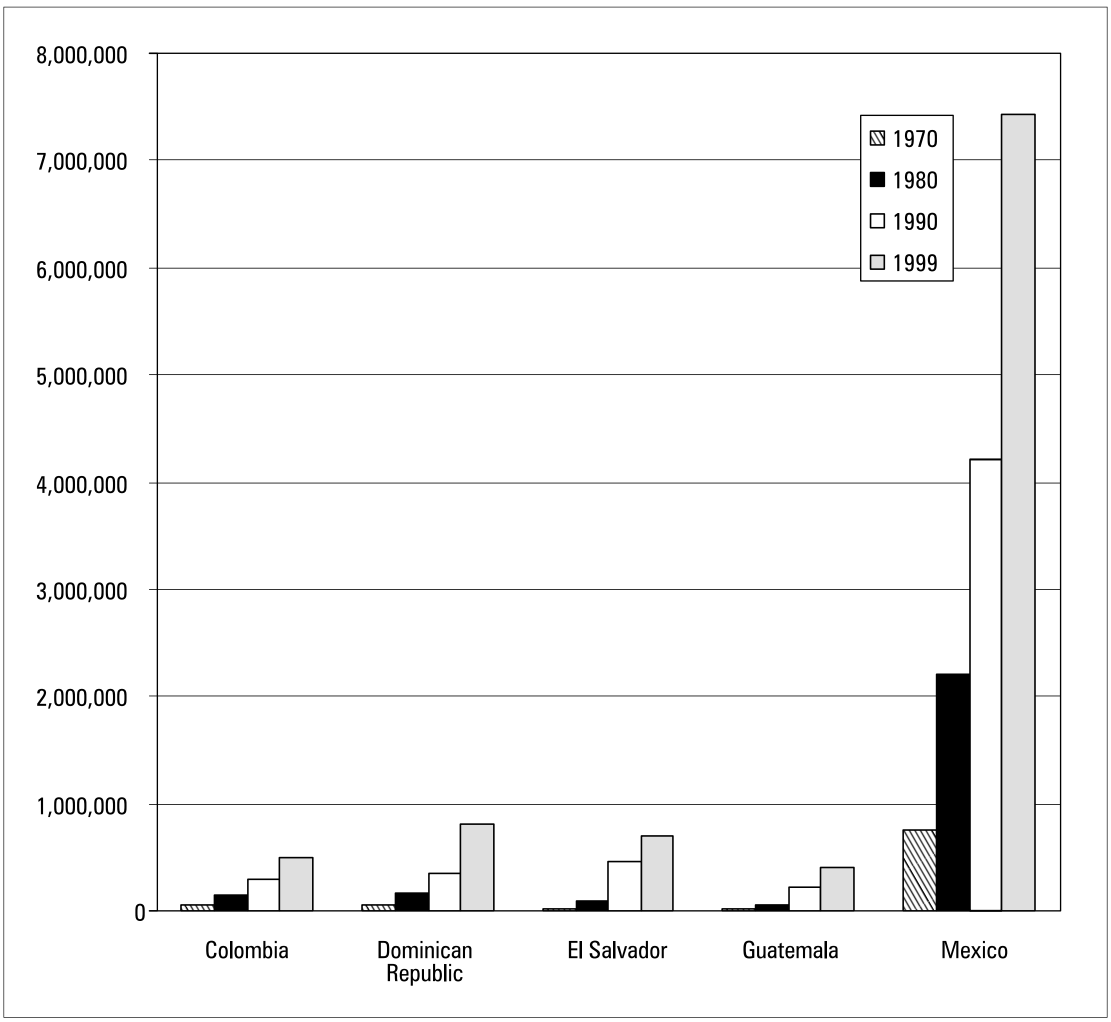
Figure 2. Remittances as a Share of Exports in Percent, 1988-1998



SOURCE: International Bank for Reconstruction and Development, *1999 World Development Indicators*, CD-ROM (1999).

Many possible reasons exist for the growing levels of remittances, as well as for their relative importance to migrant-sending countries. Unfortunately, no definitive empirical conclusions can be made, nor can a general consensus be reached about the strength of various factors that drive remittances (Russell 1986; Puri and Ritzema 1999). The number of immigrants living in the United States should play a major role, although the rate at which U.S. Latino populations have grown has lagged behind the more dramatic rate of remittance growth (de la Garza et al. 1997). Surely, though, the immigrant population has increased remarkably and has become the source of practically all remittances. The Latino population at large has grown from a very small minority in the 1970s to being the projected largest U.S. minority, with 13.3 percent of the population, by 2005. By the middle of the next century, Latinos are forecast to comprise one-quarter of the U.S. populace. As a group, the actions of Latinos now have a truly significant impact on the socioeconomic and political climate of the United States.

Figure 3. Foreign-Born in the United States, 1970-1999.



SOURCES: Bureau of the Census, U.S. Department of Commerce, *1970, Census of Population*; *1980 Census of Population; 1990 Census of Population*; *1997 Current Population Survey, March Supplement,* Online: http://ferret.bls.census.gov.

This report describes four major consequences of the transformation of remittances. First, the financial marketplace that handles the transference of remittances has new actors. Although that marketplace has earned a reputation for efficiency, it also has earned one for immoderate costs. Additionally, an unknown portion of remittances travels through informal channels. Can competition and government oversight lead to lower costs and capture informal flows? Second, new approaches and new actors are involved in ways of remitting that did not occur a decade ago. The challenge to this project became how to categorize and identify the proliferation of innovations. Third, U.S. immigrant hometown associations (HTAs) are now involved in development. How do these collective-remittance efforts spur development abroad, and what role, if any, do these organizations play in their U.S. community? Finally, U.S. immigrants fuel the remittance market, but will they continue to do so at current levels? From a domestic point of view, do remitting households, which are often poor, undercut U.S. welfare?

More Competition in Remittance Transfer Markets

Scholarly research and press reports have documented significant costs involved in remitting, as well as abuses such as the charging of exorbitant exchange rates or theft of monies. These concerns may be of decreasing urgency, however, as the financial infrastructure in Latin America grows and more service players enter the market. Today's market in financial or transaction services is evolving and may be the most efficient resolution to more egregious costs and abuses (see Lowell 1998a, 1998b; Orozco 2000b).

Growth of the Financial Service Sector.

The transference of remittance monies is a story of rapid changes in the marketplace, coupled with serious challenges of fairness for consumers and strategies needed to expand the institutional handling of remittances. Migrants send money home via formal and informal means. The formal routes of remitting are primarily through non-bank financial institutions (NBFI) that carry out a monetary transaction to subsidiaries or affiliated outlets in the home country. An NBFI institution is authorized to engage in banking activities not involving the receipt of money on any current account subject to withdrawal by checks. These institutions manage the majority of remittances, although an unknown proportion, including in-kind remittances, travels through informal channels.

Coopers & Lybrand (1997) found that the international component of the U.S. money transmission sector grew an astounding average of 20 percent annually from 1991 through 1996. International money orders, the second most frequent means of transferring remittances, grew at approximately 7 percent annually. The report notes that recent immigrants "have been a major driver of this growth." In Mexico until the early 1990s, *Telégrafos de Mexico* monopolized money transfers, but the North American Free Trade Agreement (NAFTA) liberalized these transfers and hastened changes in the financial system (Cevallos 1998). NAFTA ushered in a shift from telegraphic transfers to money orders and to the widely used electronic transfer. Today, at least 90 percent of all remittances are transferred electronically or via money orders, and U.S. firms and their Mexican associates control 90 percent of the market.

Currently, the money transmission sector has few big players and is rather profitable (see **table 1**). Coopers & Lybrand (1997) report that Western Union and MoneyGram dominate the market in the U.S. with 97 percent of money transmissions in 1996.

Although they move less volume, smaller players own about one-fifth of the storefront outlets one typically sees in U.S. cities, and they play a niche role focusing particularly on immigrants. Of $11 billion U.S. dollars transferred nationally and internationally in 1996, the money-transmission sector had an estimated $1.2 billion in revenues.[1] The average amount of money transferred from the United States to foreign countries is $320, with fees ranging from 6 to 15 percent. This loosely corresponds with our findings that fees for the major vendors varied by the amount sent, with 10 percent being a median. Additional costs can run the total to 20 percent or more (Meyers 1997). For example, as of January 1999, a major carrier to Mexico exchanged U.S. dollars to pesos at 89 percent of the day's standard benchmark rate, yielding 11 percent of the transfer amount in additional revenue (Orozco 2000b).

Addressing Business Practices.
Such excesses among the market players are being addressed: Latino organizations and customers complained that the money-transmission companies charge exorbitant hidden fees for transactions to Mexico, and customers in Illinois, Texas, and California filed a class action suit against Western Union, MoneyGram, and Orlandi Valuta. A preliminary settlement in 1999 involved compensation by distributing discount coupons to past customers, as well as extending community outreach efforts in the United States and Mexico. About $4.7 million is to be contributed to Mexican American communities in the U.S. Western Union lost nearly 10 percent of market share following this bad publicity and is actively seeking to win back customers through its outreach programs, such as "Helping Hands," which assists immigrants orient themselves and get healthcare. MoneyGram and others now exchange transmissions at the prevailing rate, although fees are charged for exchanging dollars into the local currency, as is common practice.

Governments in Mexico and elsewhere are taking more active roles in monitoring the marketplace and informing consumers. The Mexican federal consumer agency, *Procuraduria Federal del Consumidor,* pursues information campaigns on the actual transfer costs incurred by different non-bank financial institutions and joined in investigating reported abuses by the major companies (Cevallos 1998). U.S. Representative Luis

Table 1 . The Market: Couriers, Banks and Credit Unions

Mexico	El Salvador	Guatemala	Dominican Republic
Dinero Seguro	Gigante Express	Gigante Express	Mateo Express
Western Union	Leon Express	Western Union	Western Union
Money Gram	Western Union	IRNet	Vimenca
Wells Fargo	IRNet		La Nacional
Bancomer			Pronto Envio
Orlandi Valuta			
Raza Express			
RIA Envia			
IRNet			

Source: Orozco 2000.

[1] These figures cover total money transfers within the United States, as well as internationally. Further, revenues include fees charged, foreign exchange, and investment. In contrast, the money-order sector is less concentrated, with American Express and Travelers Express controlling 88 percent of volume and U.S. outlets. The competitive nature of this sector reduces revenue; in fact, money orders may be sold for nothing or at a loss to attract business for ancillary services. A volume of $99 billion in money orders yielded $700 thousand in revenue.

Gutierrez has proposed the Wire Transfer Fairness and Disclosure Act of 1999 (H.R. 382) that would "ensure that each customer who solicits an electronic wire transmission of money is fully informed of all commissions and fees charged on all transactions and has clearly been quoted the exact rate of exchange available to them for exchanging currency" (Gutierrez 1999). Information would be provided in English and the languages in individual business transactions.

At the same time, representatives of transfer firms report that their marketing research finds that most consumers do not find costs excessive (Lowell 1998a). And studies suggest that the costs of sending money to Central America run less than 10 percent today, compared to costs ten years ago that ranged 12 percent and more, according to an Economic Commission on Latin America and the Caribbean (ECLAC) survey. In El Salvador, two banks sending money charge a flat ten-dollar fee for a one- to two-day interbank transfer. Dominicans spend an estimated five-dollar fixed fee for remittances averaging between $100 and $300 monthly, and an additional 5 percent of the transaction amount for courier delivery to the recipient's home. The U.S. Postal Service recently began a promotional program, *Dinero Seguro*, that charges highly competitive rates for the electronic transfer of remittances to Mexico.

A small but promising entrant is the International Remittance Network (IRNet), a credit-union-to-credit-union service that charges a flat $6.50 per member transaction, one of the lowest fees in the market. In short, more players in the market should reduce costs over time.

Attracting Remittances to the Formal Financial Marketplace.

Perhaps a more competitive and secure marketplace will attract remittances that otherwise have followed informal routes and do not show up in formal central-bank balance of payments. Some of these flows are not recorded as remittances. For example, goods brought in by returning migrants or savings brought home in cash and subsequently exchanged at domestic banks may be recorded as "personal imports" (Puri and Ritzema 1999). Remittances can take the form of labor income returned by short-term migrants that may be recorded as "other goods, services, and income" (Pérez-López and Díaz-Briquets 1998). Indeed, methods of estimation that go beyond government accounting differ markedly in the amounts that temporary and permanent migrants send (Ascencio 1998). More to the point, an unknown proportion of the flow of "unrequited transfers" (remittances) are not sent through the formal market discussed above, nor are they captured anywhere in the balance of payments. Research on Asian countries suggests that informal transfers may comprise anywhere from 13 to 50 percent of the true amount of remittances (Puri and Ritzema 1999). One focus-group study of Mexican migrants indicates that between 28 and 46 percent of remittances may be hand-carried back to Mexico (Alarcon 2000).

Migrants tend to use informal means of transferring monies. Long-ingrained habits and lack of knowledge; distrust of the banking system and, by extension, of formal agents; perceived and real needs for secrecy; desire to avoid formal records of the transaction because of lack of faith in the government; and the reduced cost of returning the money themselves or via family or friends—all these reasons explain the continued informal transference of funds. Indeed, the formal means can be risky. One study found that as much as one third of the monies sent through Mexican government post offices was lost (Lowell 1998b). *Casas de Cambios* (streetcorner exchange offices) and other services have been a problem, especially in the rate of exchange offered. Banks and other receiving institutions cannot avoid the effects of inflation and are often simply not near rural residents. Still, individuals who use informal transfers and couriers face a high risk of theft. In terms of the long-term value of remittance monies, encouraging the use of formal transfers and savings institutions would be valuable.

Trust can be improved in several ways. Studies of consumer preferences find that some fear going to banks in person to receive monies because of thieves who might prey on them when they return home. Licensed and bonded agents are used, in the Dominican Republic for example, to carry remittances directly to the recipient's home. Both the U.S. Postal Service and Moneygram provide the remitter with a phone card worth three minutes of international time that they can use to confirm the receipt of money by household members.

Summary.

The non-bank financial services sector has grown apace with the volume of remittances. More players and competition should be good for the consumer, and in a market this large many niches exist for different types of financial services. Our research suggests that the increased competition and, likely, decreased transaction costs leave more money available for the migrants and their families. The most critical transaction issues for the future are the need for clear regulations and for credible financial supervision by governmental authorities. Improved and more secure services may have the additional benefits of pulling more of the informal flow of remittances into the financial services sector and, hopefully, encouraging migrant households to utilize banking services.

New Practices for Leveraging Remittances

The increasing flow of remittances naturally attracts the transaction business, but it also inspires innovative financial services and government programs. During the past couple of decades, various means of accessing and leveraging remittances have evolved worldwide, but particularly in Asia, where labor migrants have made substantial circular movements to neighboring countries and to the Middle East. In the Western Hemisphere, Mexico has been a leader in developing practices to influence the increasing flow of remittances, as might be expected from the nation with the largest flow of emigrants and remittances (see Orozco 2000b, Alarcon 2000, Goldring 2000).

Capturing a Share of the Flow of Remittances.

Governments or the private sector can intervene at the point at which remittances are transferred to the home country. Such approaches include import duties and the mandatory or voluntary earmarking of remittances into development funds. None of the countries under study, however, has specific regulations that levy remittances. Customs offices have regulations about emigrants bringing goods into the country (often remittances in kind), and Mexico and Central America have relatively liberal import duties. Their central banks have well-developed procedures for monitoring unilateral transfers and counting them as family remittances.

A few countries have attempted to mandate that a certain percentage of the earnings of their workers abroad be deposited into a national fund to be used partially for development. Only South Korea has succeeded, while mandatory earmarking of remittances has failed in the Philippines, Pakistan, Thailand, and Bangladesh (Puri and Ritzema 1999). Instead, financial service organizations might offer, at the point of sale or transference, an option for remitters to voluntarily earmark a portion of their monies for educational reform or tax deferral, or for qualifying charitable organizations that work in the home country. Western Union agreed in recent negotiations with a Chicago court to permit such a voluntary check-off feature on its money-transfer forms (Migration News 1999).

Financial Instruments Based on Remittances.

Attracting remittance monies from low-return transactions or informal transfers into the formal banking sector, while not directly investing in development, can create value. It makes sense to improve the earnings of the domestic finance sector, the returns to individual migrant earnings, and the national balance of payments.

Mexican banks several years ago began offering "remittance bonds" backed by money sent from migrant laborers in the United States (Druckerman 1998). Banks that receive large amounts of wire transfers from workers and companies abroad issue the bonds. The remittance monies may also be part of banks' check cashing or money order business. The money is deposited in an offshore account prior to converting the remittance monies into local currency and paying the recipients. For example, in El Salvador, Banco Cusctlán SA reportedly handles at least one-third of the country's $1.2 billion in remittances and in 1998 offered $50 million in remittance bonds.

Unlike the broad market intended for remittance bonds, some countries offer migrants foreign-currency accounts or bonds. Some countries offer migrant workers foreign-currency accounts in domestic banks that are not subject to foreign-exchange regulations (Puri and Rizema 1999). In Asian countries such as India and Pakistan, interest rates are maintained on these accounts at levels that are higher than those on domestic or Euro-currency deposits. Premium exchange rates may be offered.

Channeling Individual Migrant Labor Earnings.

Another set of practices aims to influence the use of remittances for production and not consumption. Incentives are created for migrants abroad to spend remittances on job-creating investments (Puri and Rizema 1999). Tariffs may be reduced for migrants abroad (or returning migrants) on the importation of machinery and equipment to establish microenterprises.

Other programs seek to leverage the skills that returning migrants bring and to encourage their entrepreneurial proclivities, a worthwhile idea because returning migrants are more productive than nonimmigrants (Zahniser and Greenwood 1998). The *Proyecto Esperanza* works with Mexican migrants. Individual returning migrants are given the option to pursue training in endeavors such as auto repair or retail sales in cooperation with Mexican training programs through in-state institutions. Low-cost loans are available to help the returning migrants purchase the needed equipment. The Mexican state of Zacatecas has a small program that assists migrants who want to start a business in the state.

Migrant-Sending Government Outreach to Migrant Collectives.

Assisting in the development of formal immigrant associations (so-called hometown associations) and encouraging their commitment to their home countries can stimulate remittances. The Mexican government has had a formal outreach effort since 1990. The federal programs include the *Paisano* program and the Program for Mexican Communities Living Abroad. The former attempts to improve the treatment that returning migrants receive at the hands of Mexican officials by reducing corruption and abuse. The latter provides a wide range of services to Mexicans residing in the United States, including health, education, legal, and social services. Mexican consulates in the United States have implemented the *Programa de Atención a Comunidades Mexicanas en el Extranjero,* which has been key in the creation of a large number of HTAs. By 1998 more than four hundred Mexican HTAs were operating throughout the United States.

Although the Mexican experience has proved the most successful and organized among Latino organizations, Salvadoran, Dominican, and Guatemalan groups also are encouraged by their governments to form organizations. The Salvadoran embassy has learned from Mexico's experience; it now works to maintain friendly relations and conducts outreach efforts with Salvadoran communities. Although its expatriates seem little aware of the importance of their remittances, the Guatemalan embassy has initiated steps to reach out to Guatemalan communities in various parts of the U.S. It also is considering investment strategies.

Migrant-Sending Government and U.S. Community Joint Ventures.

Governments recognize that they can attract emigrants' monies if they offer incentives. One approach is to match remittances with government funding, increasing the pool of money available for various projects. Another approach is to actively solicit and encourage investment by emigrants in their hometowns. In some instances, private-sector players have contributed to these ventures.

In 1992, the Mexican state government of Zacatecas began a formal tripartite two-for-one "matching fund" project — that is, for every dollar donated by the emigrants, the federal and state governments each contributed an additional dollar. A three-for-one program now exists that includes the municipal government. These projects have prioritized development that benefits entire communities, such as providing potable water, building schools and recreational facilities, paving streets, and building churches, plazas, and parks. In 1995, HTAs from Zacatecas committed up to $600,000 for 56 projects in 34 towns. The state has expressed hopes to build microenterprises and other economically productive projects (Marquez 1998).

The state of Guanajuato works with its immigrant associations in the United States (*Casas de Guanajuato*), created in part through the government's outreach efforts, to invest in small garment factories in the immigrants' hometowns. Under the "My Community" program, the investment is professionally managed. A minimum of $60,000 is required from the community, or typically a few individual members. The state puts up three months of wages during the start-up period and makes available low-cost loans. Thus far, six garment factories (structured as *maquiladoras*) have been started that now have about a year's experience, and three more are in the start-up phase. Plans are underway to create 60 *maquiladoras* in the next several years.

Summary.

During the 1980s, new approaches to the channeling and leveraging of remittances began to be more widely adopted. No doubt several factors accounted for this pattern, perhaps the most important of which was the growth of remittance flows worldwide. In the context of North America, Central America, and the Caribbean, Mexico appears to have the lead in experimenting with different approaches. We review here four general approaches: setting aside a portion of each remittance into development funds, using special financial instruments, capitalizing on migrant labor earnings through investment breaks or training, and establishing joint ventures with U.S. HTAs. Each of these may bolster development, but the activities of HTAs are the closest parallel to family remittances, and their activities have ramifications both abroad and in the United States.

Activities of U.S. Hometown Associations

Hometown associations consist of members from the same town or state in the migrant-sending country. Their first purpose is typically social: these are the well-known soccer clubs or community organizations that host dinners, dances, and other events. Along with their growing numbers, however, has come greater institutional outreach and ties to their home community, reflected in part in collective-remittances (see Orozco 2000a, Goldring 2000, Alarcon 2000).

Hometown Associations Are Growing in Number.

The 1990s have witnessed an increasing number of HTAs, in line with what some observers assert is a growing number of various types of transnational migrant organizations (Levitt 1997). Mexican HTAs have the longest history and are the best known. Motivated by the initiatives of local immigrant leaders and the Mexican government through its consular offices, many small HTAs have emerged in recent years. Mexican HTAs in Chicago illustrate the steady increase from 1994 to 1998, as shown in **figure 4**. The Mexican states of Guerrero, Jalisco, Zacatecas, and Guanajuato encompass nearly 70 percent of all associations. The HTAs for these four states alone quintupled from about 20 to just over 100 during this four-year period.[2]

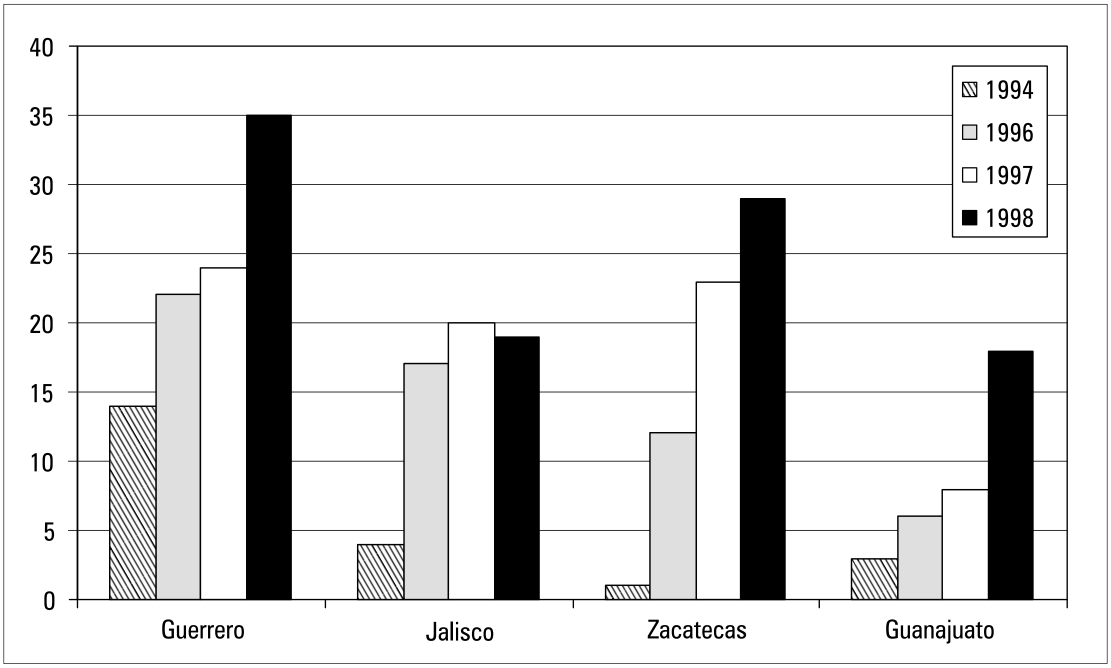
Dominican HTAs created by the migrants themselves have long histories, as determined in prior research in New York and Boston. They are organizationally strong, having been influenced by the experiences of other groups and movements. The development of both Guatemalan and Salvadoran HTAs follows increasing political stability at home. Salvadoran HTAs have generally been formed within the past five years and are active. Probably because peace in Guatemala has been formally achieved only in the past three years, organizational ties with the home country are very recent. Umbrella organizations such as the National Congress of Guatemalan Organizations have mobilized support to their country after the 1996 peace agreements, and for people affected by Hurricane Mitch.

Hometown Development Projects.

The funds raised collectively by these associations primarily go toward infrastructure and community-building efforts. Consider the Salvadoran "United Community of Chinameca," founded after the 1992 peace accords. Its members discovered that their war-ravaged hometown needed reconstruction, so they began with small donations to the local parish. Their first largesse was a grant for $5,000 to build a school. After that, the association constructed a septic tank worth $10,000. Later they built a Red Cross clinic at a cost of $43,000, and bought an ambulance worth $32,000 in cooperation with a sister organization in Los

[2] Most HTAs appear to be based in rural migrant-sending areas; urban-sending areas seem not to create U.S. HTAs to the same degree. Perhaps this is because urban areas send fewer emigrants, or because their émigrés are less cohesive, or because city governments control development more exclusively.

Figure 4. Number of Mexican State Hometown Associations in Chicago, 1994-1998.



Source: Mexican Consulate in Chicago, 1998.

Angeles (which contributed $7,500). The Chinameca HTA has purchased 200 laundry machines (*lavanderos*) and donated money for reconstruction of the church and for building a children's park. These are typical examples of projects; others include road construction, retirement homes, community halls, sports fields, and even rodeo rings.

Job-generating ventures and collective investment in microenterprise occurs to a lesser degree. As mentioned above, the Mexican state government of Guanajuato has taken a lead in pitching investment in garment *maquiladoras* to its émigré HTAs. Although not large manufacturing plants, these cost $60,000 to $100,000, employ more than 30 people each, and include many investors on the board of directors. Other investment schemes being pursued include cheaper microenterprises such as small construction outfits or retail outlets that employ a few people and, quite probably, attract one or just a handful of investors. The economic multipliers created by collective community-building projects are likely no less valuable than job-creation investments, although some government actors may find investment schemes more alluring with their promise of a direct impact on permanent employment.[3]

Explaining Effective Development Projects. Based on available information, ongoing success requires that the actors on both sides meet minimal standards. On the migrant-sending side, state and local governments play a crucial role in facilitating (or hindering) projects. State governors are most likely to attract collective-remittances when they acknowledge migrants' importance, visit them

[3] The value of collective community-development projects, as opposed to job-creation investments, partly depends on how one pursues "economic development." Job-creation enterprises directly stimulate employment, boost self-reliance, generate revenue, and indirectly improve collective welfare. Community development directly improves collective welfare while building infrastructure and social capital that can have developmental multipliers and may indirectly attract new enterprises.

in the United States, establish programs that migrants favor, and push projects through logistical and local barriers. For its part, effective leadership is a necessary organizational feature of HTAs, but its collective nature must be considered. Necessary conditions for success include a clear process for democratic succession and the transparent management of finances. If individual enrichment is perceived, the HTA's agenda will not gain wide support and backing may decrease. Projects that are for the "collective good" of the entire community, rather than the private benefit of an individual or family, are the most effective.

Economic and Non-Economic Impacts on U.S. Communities.

The amount of money sent abroad by all HTAs, or any single HTA, is likely to be relatively small. One obvious reason is that many times more money leaves the United States in the form of private remittances than in collective-remittances. The HTAs raise their funds through dances, community dinners, and so forth, and through small contributions by individuals (presumably after their personal remittances). Because the associations are voluntary and do not incur administrative costs, their donations to the hometown are frequently in the form of cash or in kind. The TRPI/IAD project's research suggests that most HTAs raise less than $10,000 on average each year. Although a relatively small amount, this parallels the average income of other Hispanic organizations.[4]

From a non-economic perspective, the experience of organizing into HTAs may create the potential for building links with other organizations in the U.S., and an expanded U.S. agenda. For example, the Zacatecan umbrella organization in southern California has successfully negotiated matching-funds projects in Mexico and has obtained concessions from political authorities, such as the governor's expression of support for the political goals of Mexicans in the United States. Now Zacatecans have begun to develop ties with local Latino politicians in the United States. Political participation may be the key that earns HTAs recognition from mainstream Latino organizations. The experience of organizing as a Mexico-oriented organization builds leadership capacity, as well as organizational identity, experience, and a track record: factors that contribute to more active participation in the United States.[5]

Finally, the international focus of immigrant HTAs should not lead to the mistaken view that they are somehow neglecting U.S. communities. The collective efforts of HTAs reflect the best tradition of U.S. self-help organizations, and they are generally first created to maintain social solidarity among the émigrés. The HTAs play a significant role in the adjustment of immigrants to the United States, just as they did historically. They likely pursue both international and domestic activities. A study of 176 Colombian, Dominican, Salvadoran, and Guatemalan organizations found that the groups are involved in a range of domestic activities: they pursue solutions to issues of education, health care, housing, and other challenges facing their U.S. community (NALEO/TRPI, 1997). Women immigrants in particular, even as members of HTAs, are known to be actively involved in multi-

[4] Nearly two-thirds (63 percent) of Latino charitable organizations rely on government and private donations, and more than 62 percent have annual incomes of less than $25,000 (Orozco 2000a).

[5] Mainstream Latino organizations, often dominated by the second and later generations, have tended to be little involved with "provincial" HTAs that, after all, are less vested in U.S. community welfare. This appears to be changing somewhat in the wake of opposition to California's Proposition 187 when HTAs were mobilized with mainstream Latino nongovernmental organizations (Goldring 2000).

generational U.S. community organizations —from church committees to environmental activist groups.[6]

Summary.

Immigrant hometown associations (HTAs) appear to have increased in number in the past decade, and they also have increased their activities abroad. They perform a range of collectively funded development projects, and a few invest in microenterprises. The success of these endeavors hinges on the proactive involvement of migrant-sending governments (or their non-hindrance), the HTAs' management, and the HTAs' ability to maintain their members' commitment. While the volume of HTAs' collective-remittances likely pale when compared with household remittances, their aggregated capital value can have significant impacts. These ventures build institutional skills and status that may enhance their domestic focus. Whether the HTAs have an international or domestic focus in the long run may be determined by their organizational capacity or changes among their members' households.

Household Remittances, U.S. Acculturation, and Welfare

Remarkably little comparative research exists on the remitting behavior of U.S. individuals or households. Two original studies commissioned for this project address this need: the first examines the determinants of individual remitting behavior (DeSipio 2000), and the second inquires into whether U.S. welfare payments subsidize household remittances (Taylor 2000). The results indicate that a clear majority of immigrants remit and that the average remittance is substantial. Over time, as individuals assimilate, their remittances taper off. Increased earnings from employment tend to increase remittances up to a point, but poor households remit less, and means-tested welfare income reduces remitting as well.

Many Immigrants Remit Substantial Amounts.

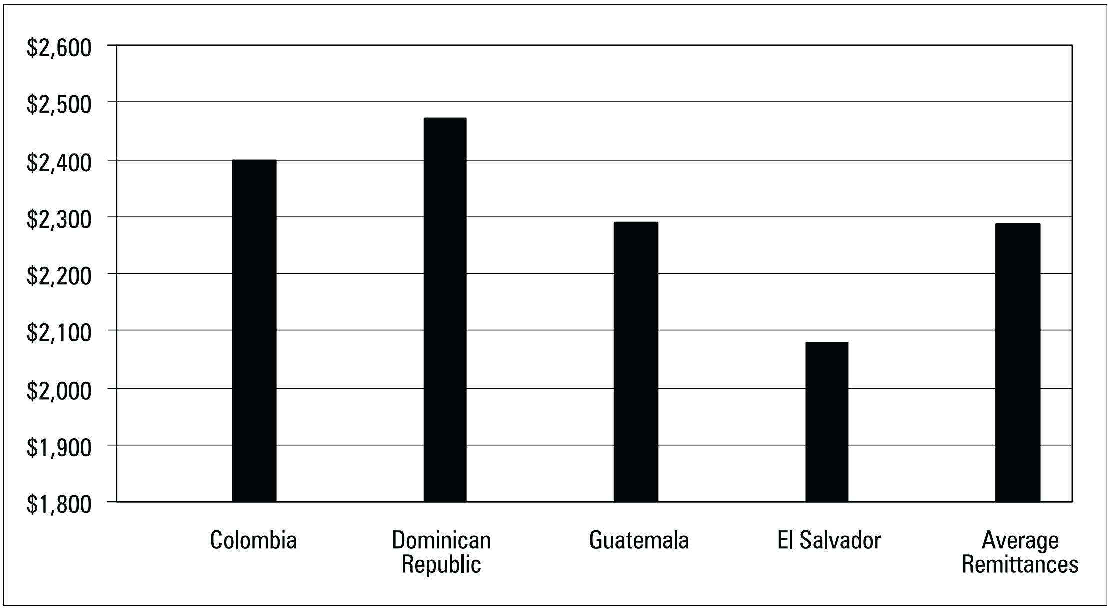
A 1998 marketing study of Latino households, including immigrants and natives, found that 26 percent remit and that the proportion of remitters has increased from 1994 through 2000 (Strategy Research Corporation 1998). Latinos in Houston were the most likely (34 percent), and Latinos in the Lower Rio Grande Valley of Texas were the least likely (5 percent). Among households that send money, the average is $221 monthly (about $2,652 annualized). The amounts vary by city, with Chicago Latinos sending the highest amount ($444) and lower Rio Grande Valley households the least ($121). Note that U.S.-born Latinos in the survey households, being unlikely to remit, pull the average down.

The four unique surveys used for this research, solely considering immigrants, indicate that a high proportion has remitted (see endnote for samples/acronyms cited below).[7] About 60 percent of temporary or permanent Mexican migrants report remitting. Among the Mexican immigrants who remit, the average monthly remittance is $240, a significant sum of money for households with an average

[6] Based on her fieldwork, Goldring (2000) argues that HTAs are dominated by male immigrants who value the HTAs as a means of gaining prestige in the United States and the sending community. Women purportedly are less vested in status-gaining endeavors than they are in projects that benefit their community, broadly defined to include the United States, where they can have a more immediate impact.

[7] Two of the three surveys used to analyze the determinants of remitting were collected under prior TRPI auspices. The NALEO Educational Fund and TRPI Study of "Emerging Latino Populations" [NALEO/TRPI] is a survey of Colombians and Dominicans in New York and Northern New Jersey, and Salvadorans and Guatemalans in Los Angeles. It represents all immigrants (and their descendants) and most are legal residents. A second data source is the TRPI "Television Survey" [TRPI-TV] representing Latinos from throughout the Americas, including Cubans and Puerto Rican migrants. The well-known "Mexican Migration Project" [MMP] data primarily is a sample of mobile returning migrants, and the majority is unauthorized. The fourth survey, used to analyze remitting behavior by welfare-receiving households, is the "Health Migration Survey" [HMS] given in Houston and San Diego. These communities were the primary destinations for migrants in the Mexican Migration Project.

Figure 5. Annual Remittances For Persons Who Send Remittances, 1995.



Source: NALEO/TRPI, 1995.

annual income of $7,455 [MMP]. Likewise, two-thirds of the immigrant households with Colombian, Dominican, Guatemalan, or Salvadoran members report remitting in the last year: more than 70 percent of Guatemalans and Salvadorans, compared to 60 percent of Colombians and Dominicans [NALEO/TRPI]. Of individuals remitting in the last year, the average annual amount is $2,285 (see **figure 5**).

At the same time, fewer immigrants appear to remit on a current or regular basis. Approximately 40 percent of Latinos born abroad who had relatives abroad send remittances regularly (TRPI-TV). This result may be due to asking about remitting in the present tense, so past remittances such as a holiday gift or for a one-time emergency are not included. Still, most immigrants remit at some point during the course of any given year.

Factors That Affect Remitting Behavior. What leads some immigrants to remit and others to reduce their remittances? We review here the consistent results of multivariate regression analyses of the three surveys. For example, the results demonstrate that demographic factors play a role. For otherwise similar immigrants, each year of aging reduces the likelihood of remitting by about 3 percent. Men are more likely to remit than women. Education has an even stronger impact, with each additional year of education reducing the likelihood of remitting by 7 percent (TRPI-TV).

Adjustment to the United States reduces remitting. Results from a multi-nation sample indicate that each 1 percent increase in the time spent in the United States decreases the likelihood of remitting by 2 percent. Naturalized citizens, a status typically demonstrating commitment to the United States, are less likely to remit than other immigrants. Furthermore, respondents whose primary political focus is the United States are half as likely to remit as those whose political focus includes both countries. Interestingly, the ability to speak English does not prove a significant predictor of likelihood of remitting (NALEO/TRPI).

Networks and the presence of family members, here or abroad, are other aspects of settlement and adjustment. Households with minor children present are approximately 25 percent less likely to remit than households without minor children present. Respondents who reported having minor children who were not resident in the household were more than twice as likely to remit as those who did not (NALEO/TRPI). A sample of Mexicans shows that, among circular migrants in the United States, contact with fellow townspeople during their last stay was a modestly positive predictor of remitting (MMP).

Income from employment earnings initially increases the likelihood of remitting, at times considerably. Of course, the effect of time in the United States, which usually boosts earnings, is factored out of this statistical result. Households in the lowest income categories (equal to or less than $9,999 annually) are less likely to remit, and will remit fewer dollars, than households with moderate incomes (between $10,000 and $39,999 annually). Immigrants in higher income categories, however, are no more likely to remit than those in moderate-income households (NALEO/TRPI). In short, the poorest households are the least likely to remit, but individuals no longer increase their remitting after an earnings threshold is reached.

Theoretically Speaking, Does Welfare Income Subsidize Remittances?

Because we know that established immigrant households often receive welfare income, it is possible that the more households receive in public transfers, the more they remit. If a positive link existed between public transfers and remittances, U.S. government transfers would effectively subsidize households in other countries. In the case of needs-tested transfers, remittances would offset the poverty alleviating effects of transfers here, while helping reduce poverty abroad. If immigrant households lose income transfers due to 1996 welfare-reform legislation, then remittances could decrease and poverty abroad could increase, possibly intensifying migration pressures.

Welfare Does Not Stimulate Remittances among Poor Households.

Households may receive U.S. welfare transfers that are needs tested, that is, government transfers to poor households that meet certain size and income criteria. Households may also be eligible for non-needs-tested public transfers if they have contributed to the social security system or find themselves unemployed. Of course, households may qualify for both.[8]

A statistical analysis finds, with all other factors equal (including total income), households that receive needs-tested transfers have a 14 percentage point lower probability of remitting than households without needs-tested transfers.[9] They remit $160 less per month than households that do not receive needs-tested income. In contrast, households receiving non-needs-tested income have a 15 percentage point higher probability of remitting than households that do not receive non-needs-tested transfers. Their remittances are $200 higher per month than households without non-needs-tested public transfers. In short, the econometric findings indicate that the receipt of needs-tested public transfers does

[8] Means-tested or, as referred to in the text, needs-tested transfers are Women and Infant Children, Food Stamps, Aid to Families with Dependent Children, Supplemental Security Income, Medicaid, and other welfare. Non-means-tested income, or non-needs-tested as referred to in the text, are social security and unemployment insurance.

[9] Many Mexican households in the Health Migration Survey [HMS] receive both needs- and non-needs tested public transfers and many remit. Just over half (51 percent) of the households received some type of needs-tested, and 22 two percent of households received non-needs-tested transfers. Of households including both immigrants and natives, 23 percent remitted an average of $2,705 annually: figures extremely close to those reported above in a national survey of all Latino households (Strategy Research Corporation 1998).

not stimulate remittances. Some of the benefits from non-needs-tested income, however, are transferred abroad through remittances.

Summary.

What conclusions can be drawn from what is known about remittances, based primarily on these two research endeavors? (1) Among migrants who live in the United States, the likelihood of remitting will decline steadily, although the amount remitted will increase among those remitting as their employment earnings increase.[10] (2) Regardless of time in the United States, poor households receiving needs-tested welfare income are less likely to remit. Transfer payments by the U.S. government do not stimulate the remittances of poorer households and their family members abroad (although better off non-needs-tested households are more likely to remit).

Conclusions

Migrant remittances have been discussed for several decades as a family affair. Over time, however, as the migrant stream and the marketplace change, does the institutional nature of remittances also change? A member of the family seeks opportunity abroad and shares what earnings he or she can with those who remain behind. This cycle of international mobility, earnings, and money returned to the home is at the core of most migrant streams. At least in the case of economically motivated emigration, young single males typically lead the way with targeted-earning goals. Migrant strategies evolve from target to seasonal to long-term and finally to settlement. Multiple members of extended households and even community associations are now involved.

The volume of remittances began to increase a little over a decade ago. The dramatic growth in volume is a partial result of significant additions to old-stock U.S. population from Mexico and the Dominican Republic, as well as a newer population impelled from politically unstable Guatemala and El Salvador. Mexico has begun to pursue market reforms, while Guatemala and El Salvador are embarked in rebuilding. Governments believe that remittances can play a significant role in the pressing demand for economic development, and at least a few players have begun to seek out their émigrés and ways to leverage remittances. The financial service sector is responding to the volume of remittances, and these transactions have become big business. New actors in government, the nongovernmental sector, and the private marketplace are involved more intensely in the issue of remittances than they have been in the past.

The Promise of the New Features of Remittances.

The causes linking remittances with these processes are still mostly theoretical and have yet to be systematically developed. This project, pursuing an inductive approach, has arrived at a description of what appears to be a new aspect of the remitting phenomenon. It holds significant promise for several reasons. The high volume of remittances coming from a sizable and growing U.S. immigrant population creates the prospect of more money at the margins available for targeted use. Competition of the for-profits in this marketplace, together with the entry of nonprofits, may reduce transfer costs, leaving more remittance monies to be spent by those

[10] Taken together, however, the two projects offer a further nuance. The first study analyzed individuals and found that age, time, presence of family, and other indicators of U.S. adjustment reduced remitting. Conversely, the second study on public transfers analyzed households and found that for the head of household, age, time, and presence of family is not related to remitting. The likeliest conclusion is that individual acculturation does, in fact, reduce remitting. But Latino households are complex and often include many members with different sources of income and patterns of migration. Thus the household may continue to remit even when the more established members within the household stop their personal remitting.

most in need. Innovations in capturing a share of remittances, from development bonds, to matching funds, to HTA collective-remittances, can pool monies into a critical capital mass for truly substantial accomplishments.

Reasons for pause do exist, however. Overestimating the potential in these changes would be easy. This project has primarily investigated and described the new features of current remitting; definitive evaluations of the economic development that they generate still must be made. There are, in fact, caveats for caution against undue optimism.

Cautionary Note: A Hierarchy of Actors. This report documents a hierarchy of actors involved in the flow of remittances at various levels of play. The hierarchy starts from the traditional individual and family at the base, moving up to encompass collective action by HTAs, to financial service providers, then again to nongovernmental organizations, and finally to various levels of the migrant-sending government.

The motivations and field of operations of the actors are different—at worst they conflict. Starting from the bottom, individuals and families focus almost exclusively on the household. HTAs focus on communities. The financial sector in the middle services the individuals at the base, while the companies' field of operation is defined by outlets spread across communities and nations. Their focus, obviously, is on corporate health. Starting from the top of the hierarchy of actors and moving down, governments focus on regional development with a macro agenda in mind.

Thus, either the focus or desired end-use of remittances differs, or their level of operation constrains the ability of actors to reach common goals. We know that improving individual welfare will not immediately improve communities, a conclusion that is drawn from the established literature on remittances. Moreover, it is unclear that HTA collective-remittances for community-development will be without conflict. The emerging literature on HTAs reports that individual self-interest often usurps the collective intent, and local government perceives HTAs as a threat and sometimes obstructs their activities. State or national government may intervene, but their success likely depends on having cooperative local organizations (Siri 1997). And while actors above and below the financial service sector would like to co-opt some of the HTA profits, this runs awry of market efficiency.

More to the point, individuals and families at the base of the hierarchy generate almost all remittances.[11] With the exception of instruments such as remittance bonds, no easy way exists to access the bulk of these monies that are and will remain targeted to individual households. Families are the biggest senders and recipients of remittances because this is the most basic unit of decision-making and reproduction. Policymakers who want to see remittances used more productively will find that the new actors and innovations described in this report may have remarkably little access to the bulk of individual remittance monies. From an aggregate economic perspective, even the amount of money sent back to Mexico in the form of collective-remittances may not be enough to have a significant effect, either in the United States (as a lost investment) or in Mexico (as an investment). The greatest impact of collective-remittances is their aggregation of capital for noteworthy projects, but they do not equal the total volume of remittances.

Cautionary Note: A Hierarchy of Needs. Whether individual or collective, remittances are spent in an ordered way, on a hierarchy of

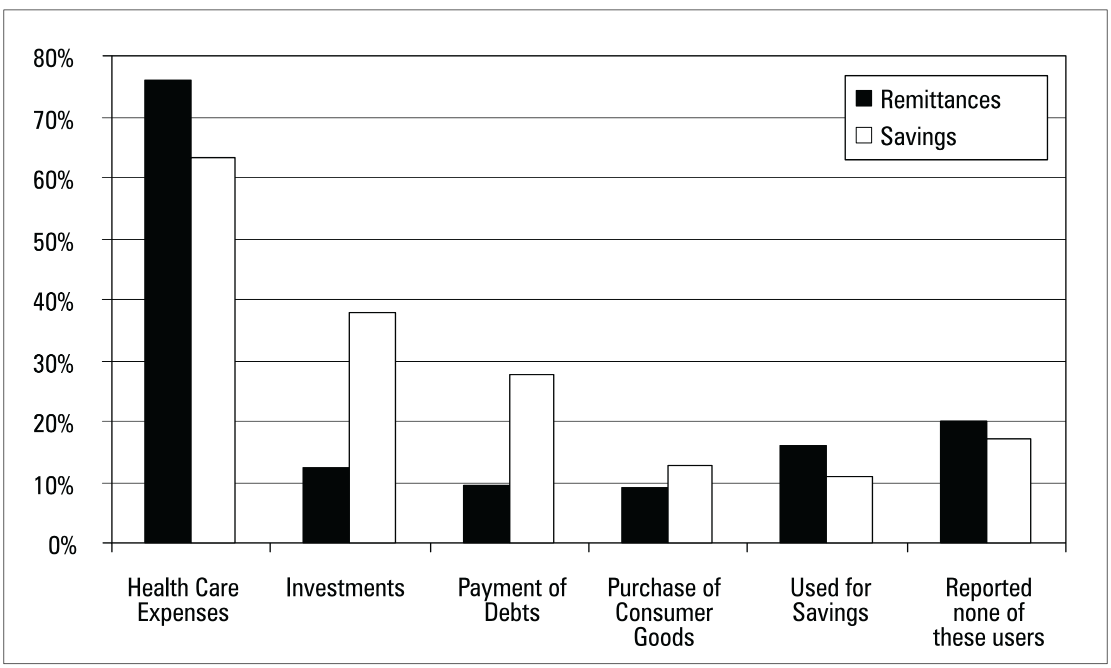
[11] One rough estimate places collective HTA remittances at just one percent of the Salvadoran remittances total (Torres 2000); although this is likely an extreme lower-band estimate based on imperfect information. Nonetheless, this is still a significant sum.

needs. Some economists question whether remittances are spent differently than other sources of income. Research suggests that households with remittances have consumption patterns that are similar to households that do not. Yet other research suggests that the total saved out of remittances is higher than out of other income (Puri and Ritzema 1999). This suggests that remittances are treated differently than other forms of income. There is evidence of an additional constraint on the amount of remittances that can be captured and channeled into productive projects.

Most remittance monies may be solidly earmarked for basic needs and are unavailable for other purposes. Consider **figure 6**, taken from available data on Mexican migrants analyzed for this project. It shows the use of monies sent home that senders classified as remittances, as well as funds first placed in savings before being repatriated. Among those who remit, fully three-quarters report that some portion of the funds was used for health care. Among those who saved, nearly two-thirds reported that some of the savings was used for health care. Few households report using remittances or savings on consumer goods.

Unless policymakers can free households from their basic needs, arguably households will continue to spend remittances first on health care and other basic needs (Lowell and de la Garza 1999). Households that use remittances on investments may be more amenable to interventions (whether in land, tools, or farm animals); this was the second largest category for the use of both remittances and savings. Only a minority of respondents, however, used their funds for this purpose. Interestingly, nearly a third of households with repatriated savings use these

Figure 6. Use of Remittanes or Savings Repatriated to Mexico, Percent of Households Expending.



* Respondents can report multiple uses of remittances, so the total will not add to 100 percent.
Source: Mexican Migration Project Data in DeSipio 2000.

funds for investments, suggesting that tariff breaks and training programs targeting returning migrants are on the right track. Another small portion of remittances and savings is used to pay down debt. The choice of the expenditures appears to be related to households' migration history and the circumstances of the local community (Massey and Basem 1992).

Perhaps an optimist will point out that today's economic research indicates that family remittances, even when not invested, will have a substantial "multiplier effect" (Cortes 1998; Taylor and Adelman 1995). One remittance dollar spent will stimulate retail sales, which in turn stimulates demand for goods (e.g., for medicine), which then stimulates employment, and so on. The evidence indicates that these multiplier effects can substantially increase gross national product. If significant multiplier effects occur—although the use of remittances is limited mostly to basic needs and not investment—then facilitating individual remittances can be the critical intervention.

Two courses of action may be the most fruitful for governments. One course is to set the ground rules for a competitive and secure marketplace for money transfers. Reduced transfer costs will leave more remittance dollars to spend, and greater security may induce more migrants to use the formal financial system. Apparently, migrants are quite willing to save, but from what we know too few actually use formal banking institutions, thus foregoing security and interest.[12] Second, we should not forget that the fundamentals come first. Stable economic growth and good macroeconomic policies generate the optimal conditions to maximize both the flow of remittances and their economic impact (Puri and Ritzema 1999).[13]

Cautionary Note: The Future of Remittance Flows.

Governments and others likely will want to leverage today's high volume of remittances using the innovations described in this report: from targeting individual remittances with foreign-currency accounts or giving return migrants investment breaks, to facilitating the collective efforts of U.S. HTAs. Certainly these are worthwhile approaches that contribute to the larger goals of encouraging participation in the formal financial sector and achieving stable economic growth. But will remittances continue to increase or will they remain at current levels?[14] Will HTAs remain active niche players in the remittance market? The commonplace presumption is that immigration from Mexico and Central America will continue at its current levels, if not progressing to higher ones. Likewise, one might presume that remittances would follow such a trend.

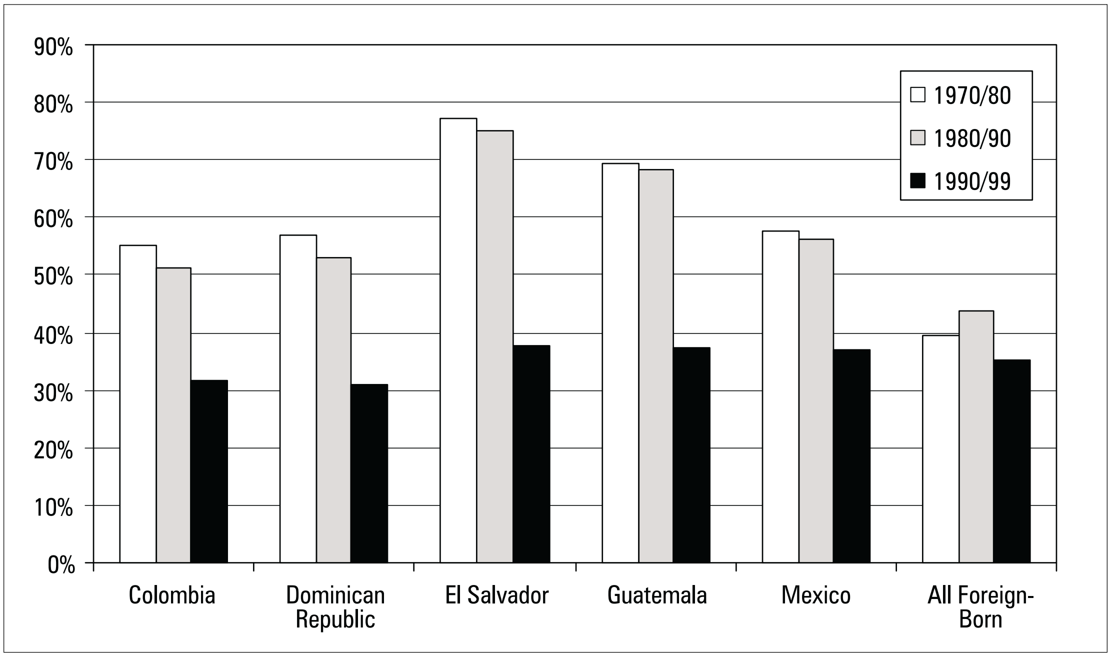
Remittances are driven by recent immigrant arrivals, not long-term settlers, and immigrant populations are maturing. Research for this project supports the proposition that new arrivals are more likely to remit, but as these immigrants adjust to the United States many choose not to remit at all. Time in the United States also raises earnings, which increases the amount of remittances sent, but this is offset by the reduction in the number of assimilated households who choose to remit. And the number of recent arrivals among Latino immigrant populations has been decreasing steadily (see **figure** 7). Perhaps the rise in remittances reflects the past influx of new

[12] Putting money "under the mattress" is common to migrants in the United States as well. They bring with them to the U.S. a lack of prior experience and a distrust of the banking system. It is necessary to overcome that distrust in order for immigrants to deposit safely and earn interest on their monies, and to establish credit worthiness for loans (Schoenholtz 1998).

[13] Puri and Ritzema (1999) are referring to macro-economic policies that will induce migrants to shift from informal transfers to use of the financial system. However, their logic applies just as well to the discussion here.

[14] Pessimists, quite wrongly, thought remittances would decline even during the 1980s; and that they had little favourable impacts (Keely & Tran 1989).

Figure 7. Recent Immigrant Arrivals in Prior Decades, Percent of Immigrant Population.



SOURCES: Bureau of the Census, U.S. Department of Commerce, *1980 Census of Population; 1990 Census of Population*; *1997 Current Population Survey, March Supplement,* Online: http://ferret.bls.census.gov.

immigrants and the initial stages of their labor market adjustment. As yesterday's new arrivals adjust, and as today's number of new arrivals falls, the combined effect may be that remittances have peaked.

Some observers believe that the flow of international migrants also may have hit a maximum and is on a downswing. For Central America, today's stable political situation does not provide the same motivation as it did for earlier emigration. Forecasts by an eminent Mexico/U.S. team suggest that economic and demographic trends may conspire to reduce emigration early in this century (Mexico/U.S. Binational Study of Migration 1997). Declining fertility and a smaller cohort entering the labor force means fewer jobs are needed. At the same time, Mexico's recent robust growth, buoyed by NAFTA, is creating more jobs. These two trends are projected to overlap in 2005, when jobs created will outstrip the supply of new workers, which slowly may bring more Mexicans into the formal labor force and significantly decrease emigration.

Likewise, the long-term and increasing strength of transnational ties is not a given. More research is needed to establish the extent to which the number of U.S. HTAs has increased in the past few years. Certainly, the information reviewed for this project strongly suggests that the number of these organizations has significantly increased. We do not know, however, if the purported increase is related to the growth of the immigrant population, to migrant-sending government programs, or to other factors. Is it reasonable to believe the assertion of some observers that the new HTA activity is the result of an evolving open-system, global world? Perhaps the pull of transnational communities will cause HTAs to grow in size and scope of activity? Or do the international linkages and activities of HTAs today reflect a mature stage in international mobility that is reaching its apogee? It may be just as likely, in their next developmental phase, that HTAs' outreach and activities will decline as their immigrant membership ages and they and their children adjust to the United States.

These caveats do not mean that the new features of remittances, despite appearances, are of little promise. Rather, the cautionary notes point out that neither have they so radically altered the remittance story that economic development can now be placed on a completely different trajectory. The ultimate value of these approaches for economic development has not yet been adequately documented, and evaluations for each, as well as a systematic evaluation of the array of approaches, are needed. There is promise for significant contributions to economic development in today's volume of remittances and in the contributions of new actors. Making that promise a reality depends on strategically addressing problems and on the implementation of innovations. It also depends on maintaining the good will necessary for domestic and international marketplaces and alliances.

Recommendations

The large flow of remittances and the increasing numbers of actors involved in their transfer and use offers one more set of powerful tools for economic and social development. Toward that end, we make the following recommendations.

Facilitate the flow of remittances through the formal marketplace. Bringing migrants into secure credit unions and the banking system will increase their purchasing power, and provide a clearer understanding of remittance flows. Building trust in financial institutions through greater transparency and education is an important component of this goal. Competition in the financial services marketplaces has led to improvements in services and lower transaction costs, and efforts to maintain a competitive marketplace should be pursued.

Develop more structured approaches to leveraging remittances for development and investment. In particular, migrant-sending governments should evaluate current initiatives such as matching funds and remittance bonds that have already had early success in some communities. In addition, governments can encourage public-private partnerships to foster community development by reaching out to immigrant associations and to businesses that profit from remittance activities. Convening a task force with members from the government, business and non-governmental sectors in both the migrant-sending countries and the United States would be a useful step in analyzing current practices and encouraging innovation. It will be important for both HTAs and governments to identify priorities for their remittance-based development plans. This will require careful analysis of the impact of existing projects, which range from supporting infrastructure development to promoting microenterprises.

Foster hometown associations as agents for development. We are favorably impressed by initial collective-remittance projects organized by HTAs and how governments can work with HTAs to expand these development funds. In order to advance, HTAs will need a greater management capacity. While the HTAs capture the imagination of many observers, the literature on their effectiveness is rather new and not deep. A systematic analysis of which organizational models succeed and why would be invaluable. Lessons learned should be disseminated to the HTA community, governments, NGOs and others seeking to improve HTA performance.

Explore further assistance and special programs for return migrants. More research and evaluation is needed of approaches, already being implemented, that train return migrants or give special tax/tariff breaks to those who would invest in their home communities. This project uncovered only scant information on such programs. Yet, they offer a great potential to leverage not just remittance dollars, but also the well-known productivity of migrants.

Improve data collection on remittances. In order to understand current trends and craft appropriate policy responses, governments need to improve their data collection on remittances, including flows that move outside of formal channels. Given the significant role remittances play in the economies of some Latin American economies, a reduction in flows could have serious negative impacts. Researchers and policy makers should watch for shifts in the volume of remittances, as well as for changing conditions for remitting, such as the number of new migrants.

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