

# **Making Remittances Work for Development**

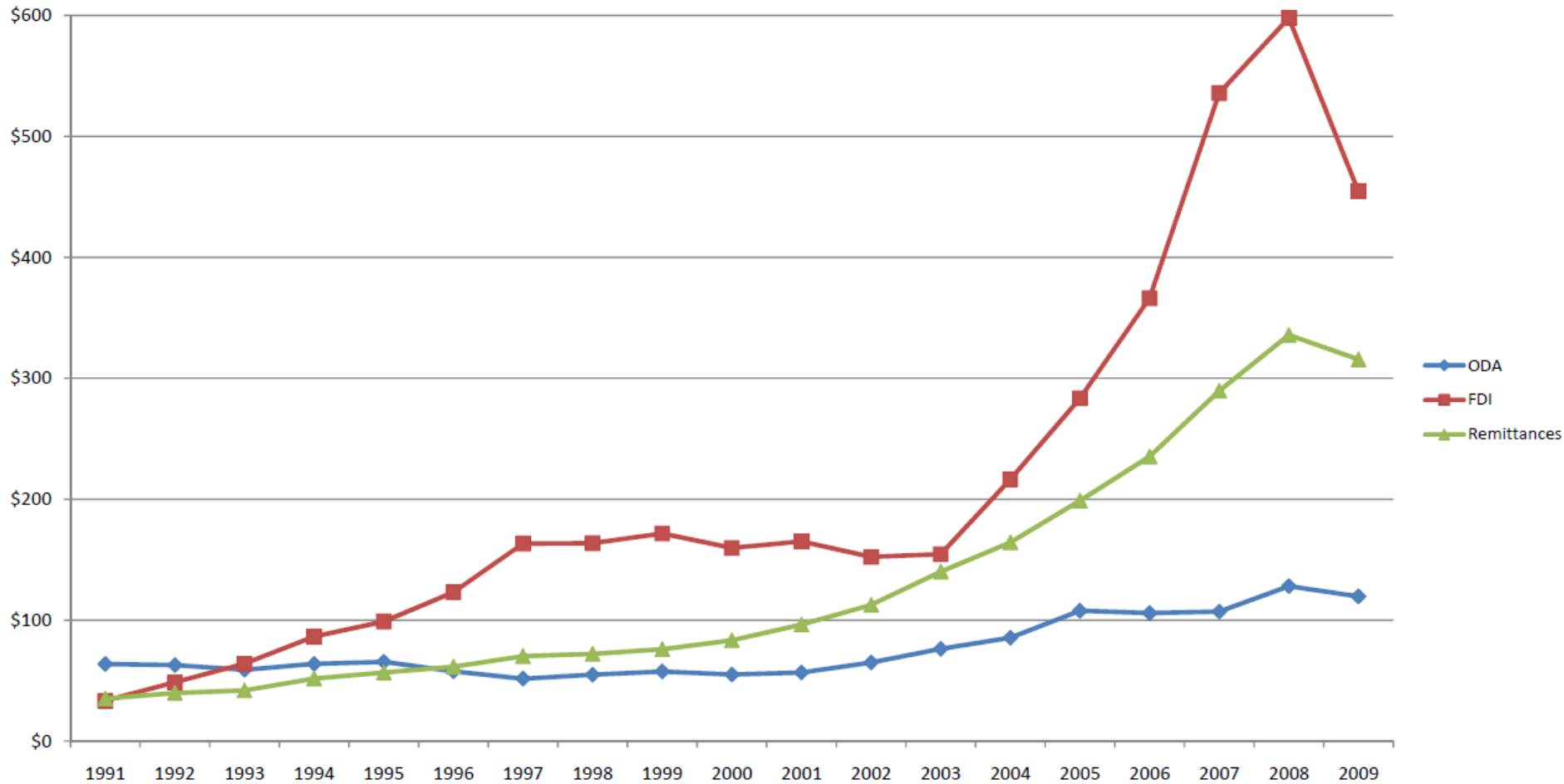
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# The basic numbers

- Between 1965 and 2010, the fraction of people living outside their countries of birth increased from 2.2% to 3.1% of world population
  - Estimated 214 million people in 2010
- These migrants send home huge amounts of remittances, an international financial flow that compares favorably in magnitude with FDI and ODA
- Compared to other regions, the LAC region stands out in terms of absolute numbers of migrants and remittances

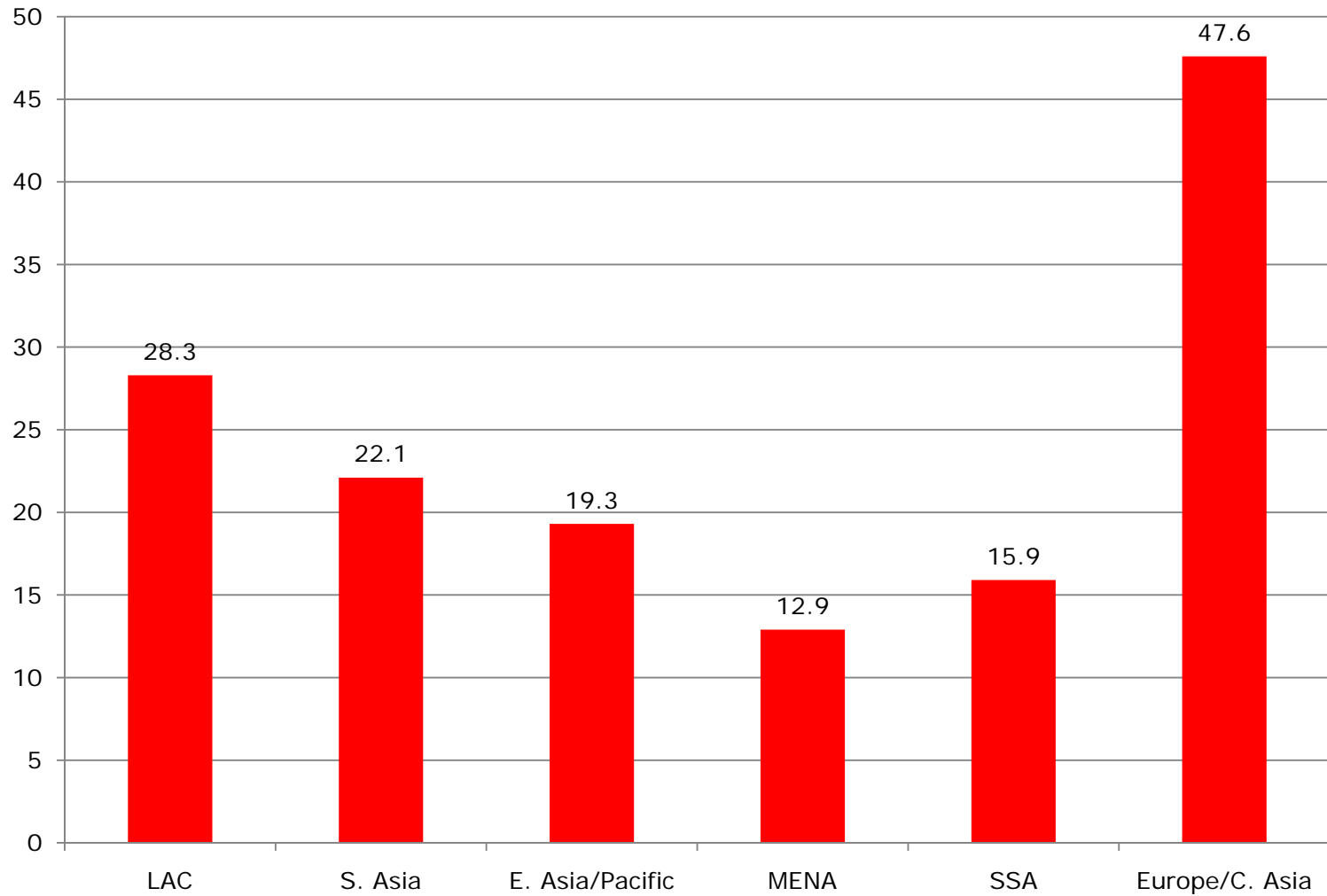
# Remittances vs. ODA, FDI

(Billions of US\$, 1991-2009)

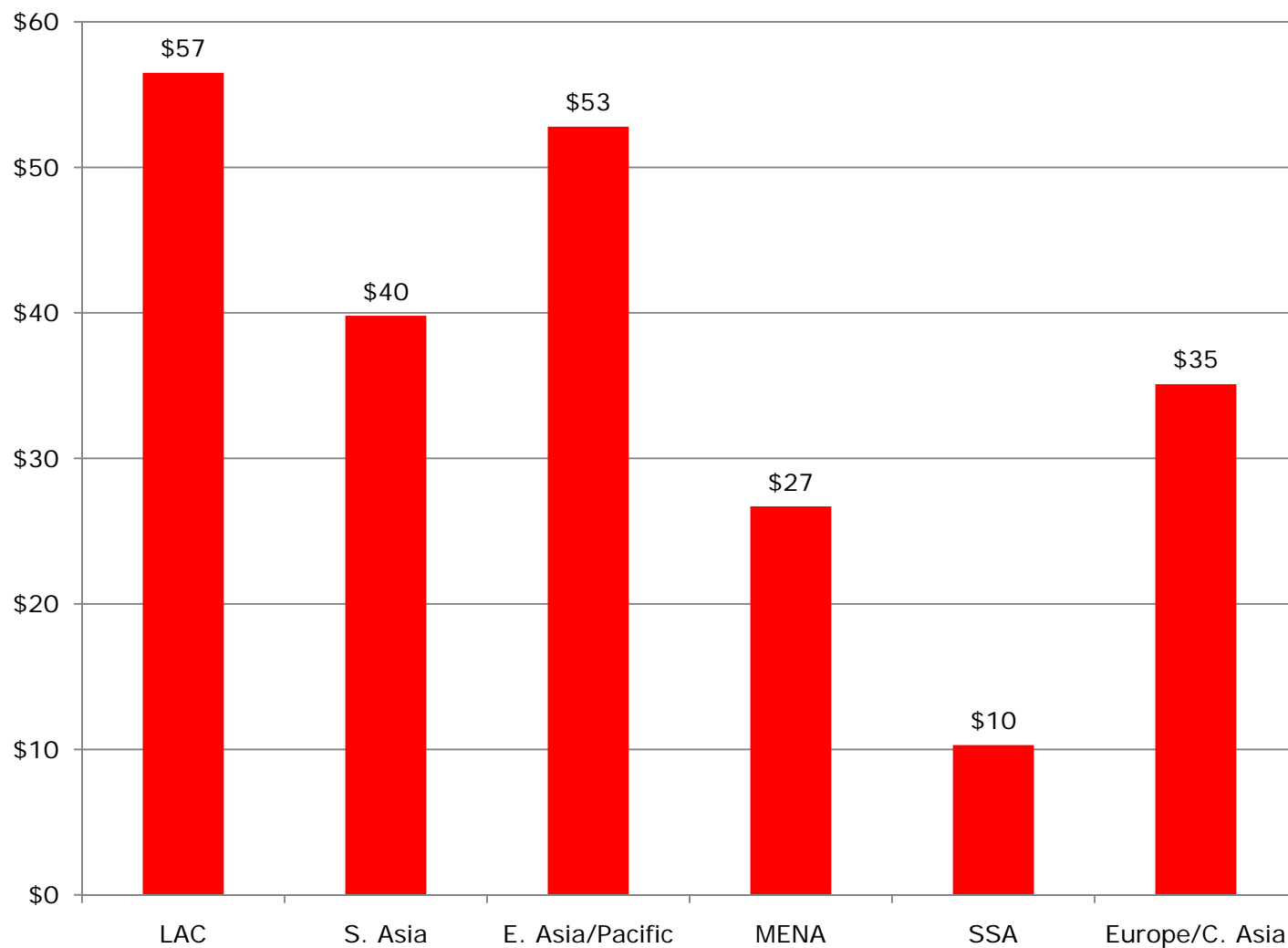


Source: Data up to 2008 are from World Development Indicators 2010. Data are in billions of current US\$, in total across developing countries (low & middle income as classified by World Bank). Variables displayed are: "Net official development assistance and official aid received (current US\$)", "Foreign direct investment, net inflows (BoP, current US\$)", and "Workers' remittances and compensation of employees, received (current US\$)". 2009 data compiled from World Bank Migration and Remittances Factbook, OECD, and UNCTAD.

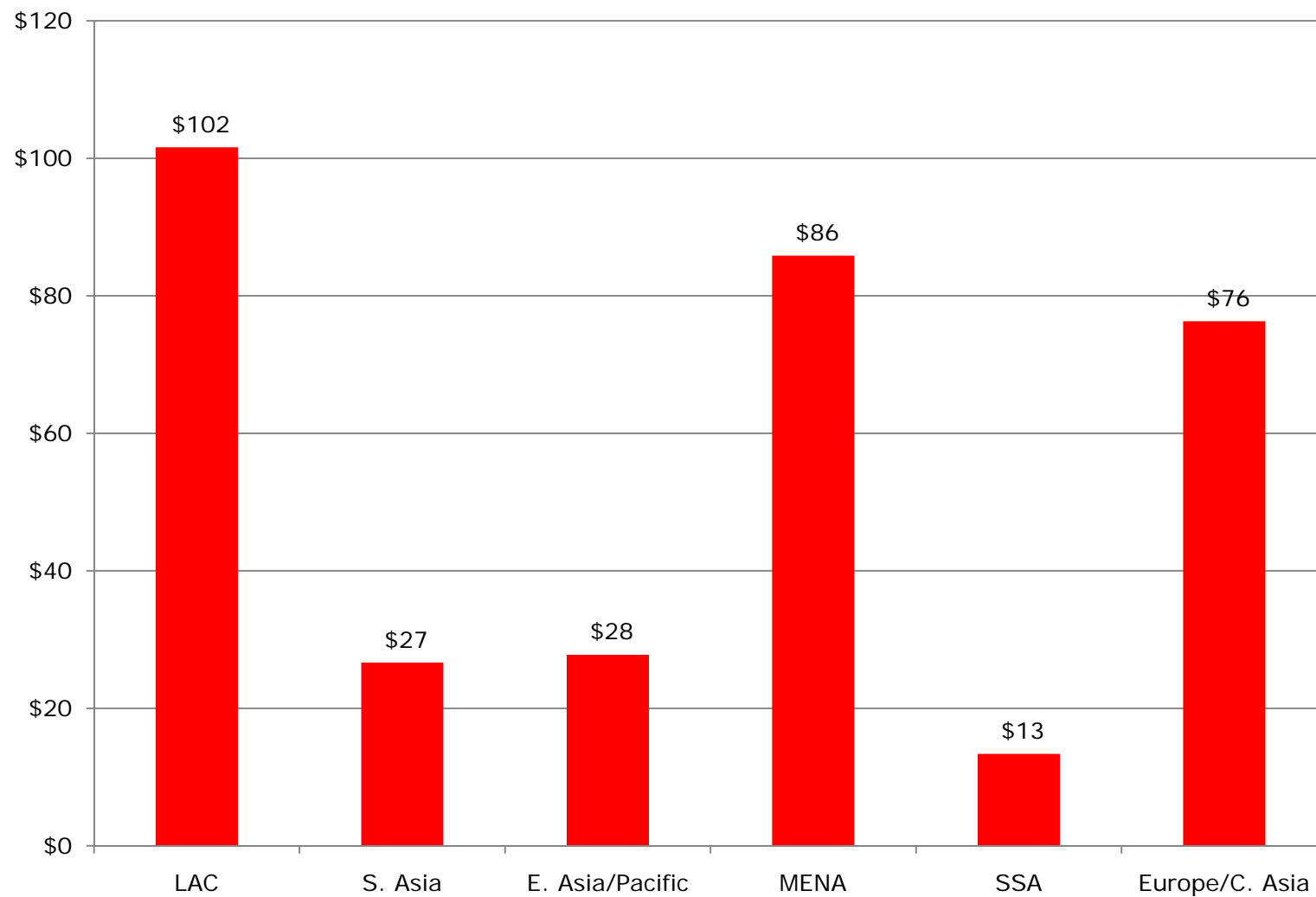
# Emigrants by region (millions, 2006)



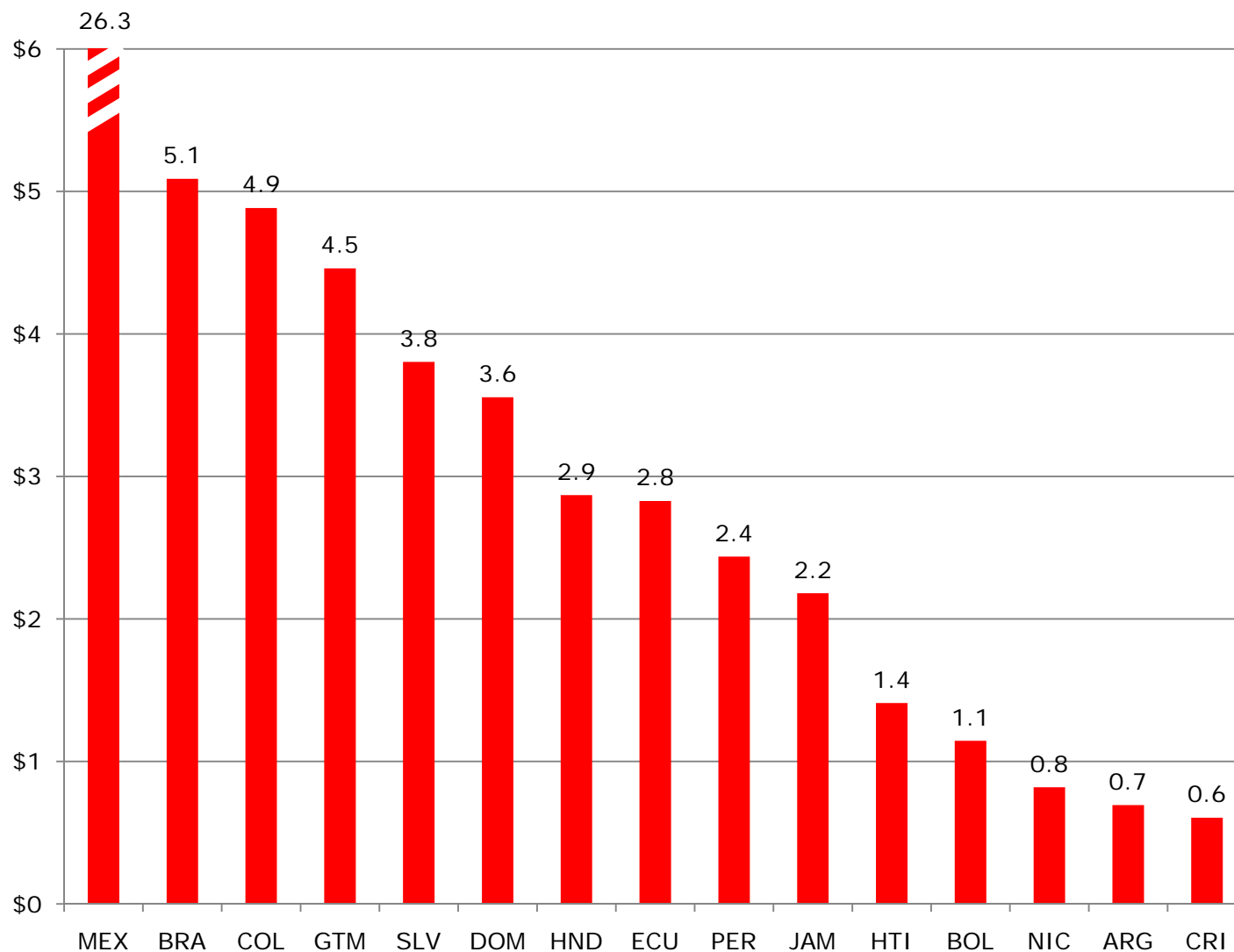
# Remittances received by region (billions, 2006)



# Remittances per capita (2006)



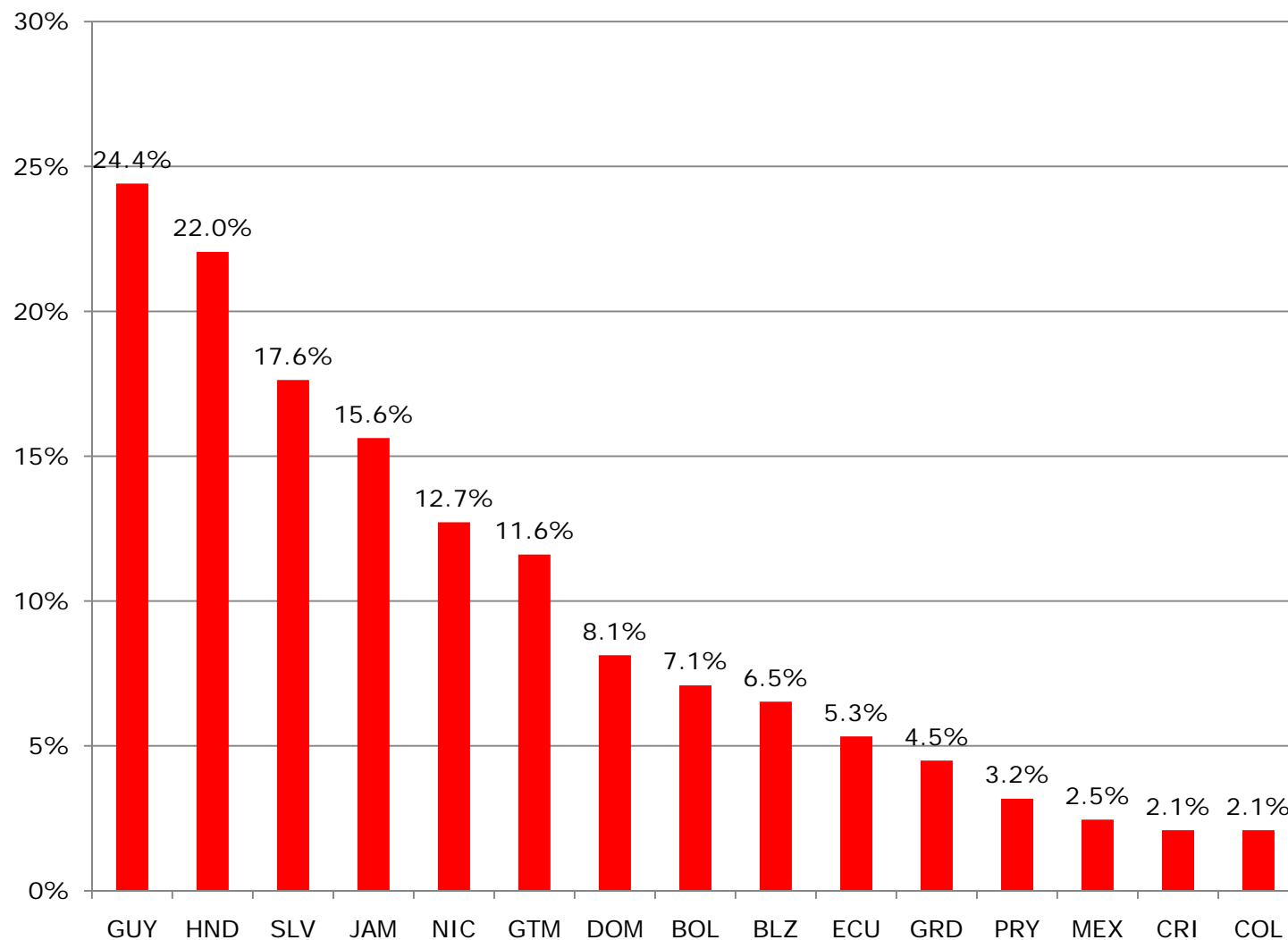
# Top LAC remittance recipients (billions of USD, 2008)



Source: World Development Indicators, 2009.

Notes: These top 15 recipient countries by dollars account for 97.4% of remittances in LAC.

# Top LAC remittance recipients (% of GNI, 2008)



Source: World Development Indicators, 2009.

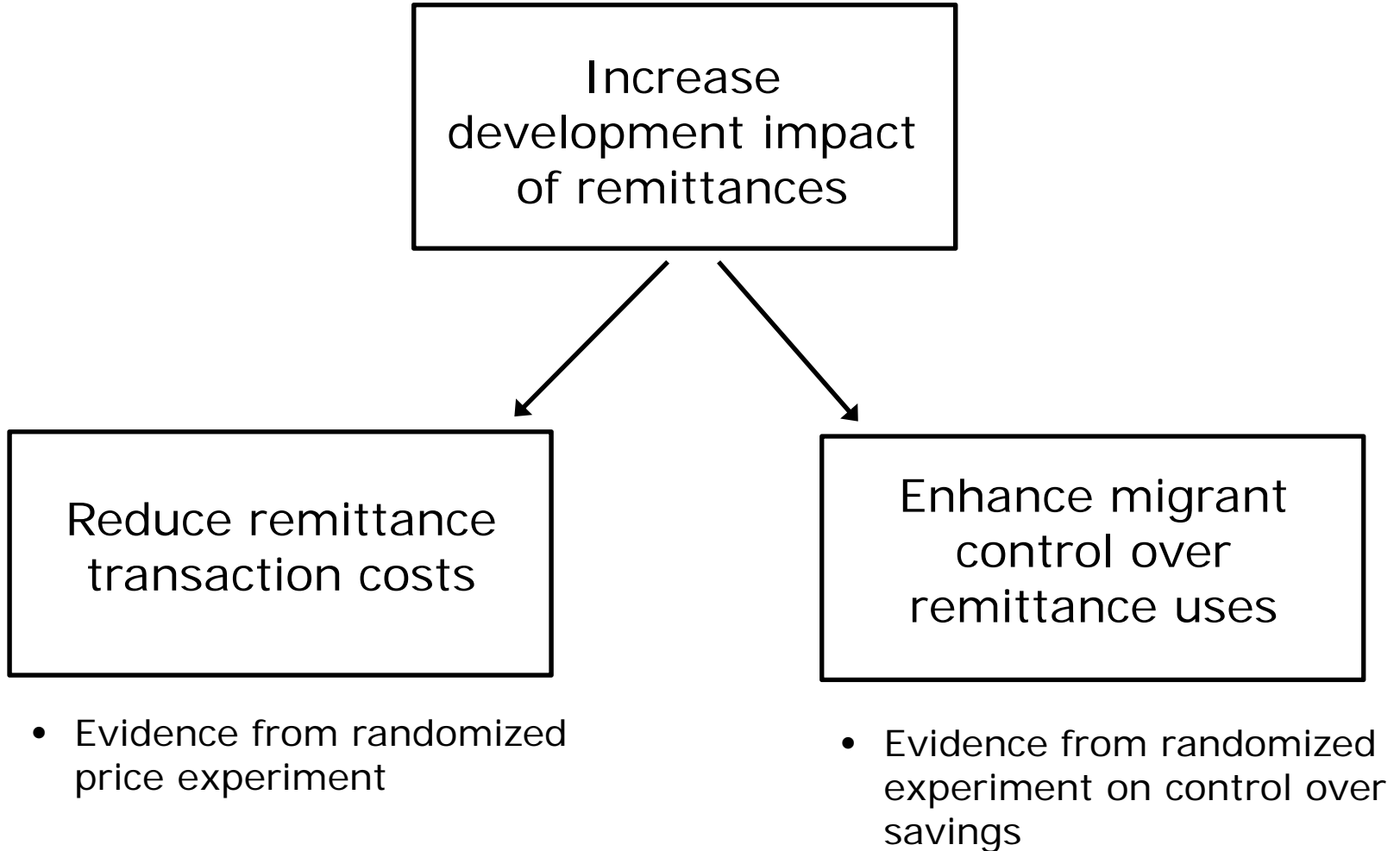
Notes: These top 15 recipient countries by % of GNI account for 97.5% of remittances in LAC.



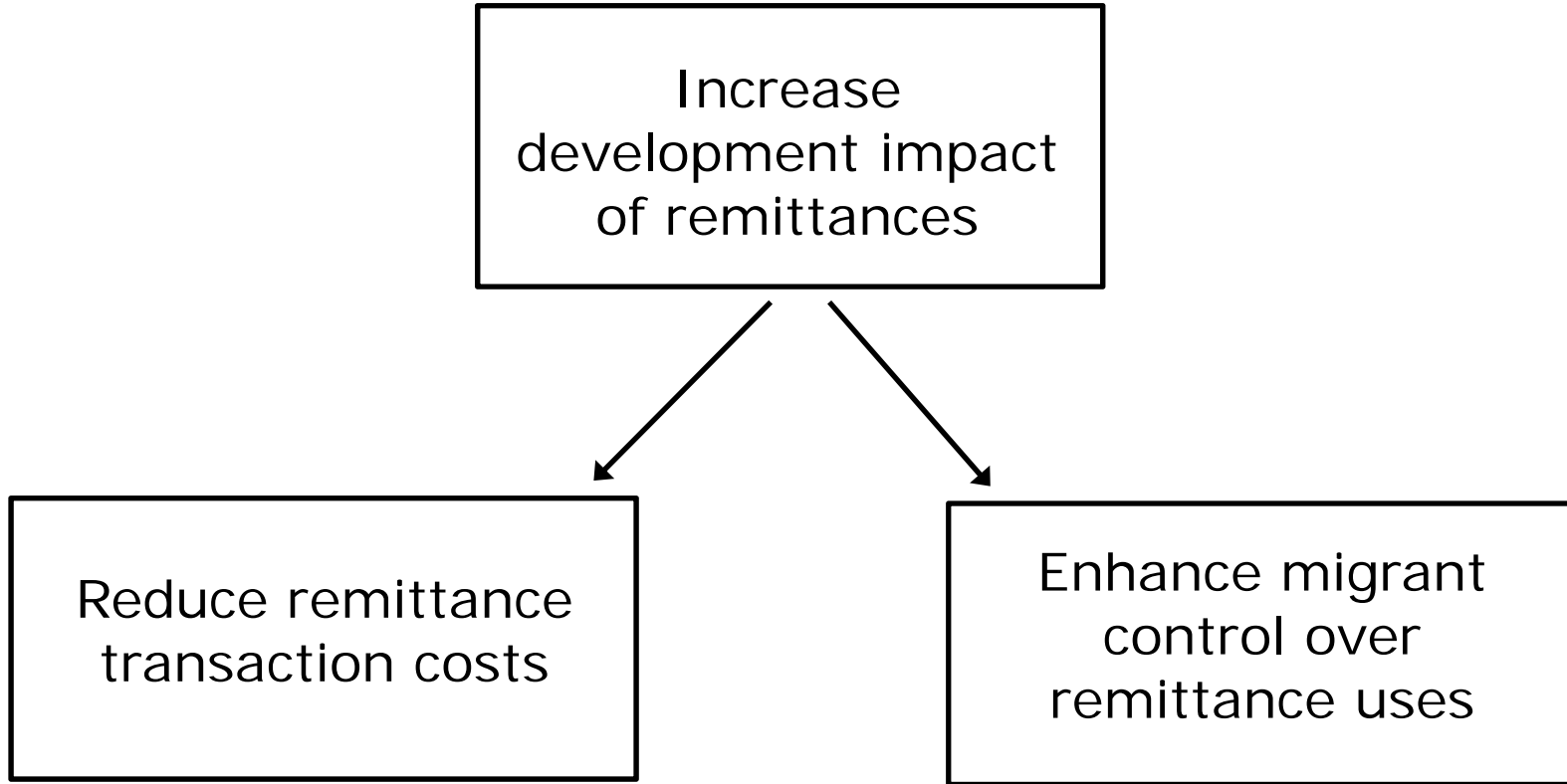
# Remittances and development

- Remittances bring substantial benefits at the household level
  - Higher consumption, lower poverty
  - Increased investments in human capital, small enterprises
  - Most evidence is correlational, but some natural experiments confirm impacts are causal
- But we still lack evidence on policies or interventions that can:
  - Encourage migrants to send more remittances
  - Channel remittances towards uses with more long-term development impacts
- Decentralized nature of remittances poses challenges for policy
  - How to encourage individual migrants to send more?
  - How to channel remittances to particular ends without choking off the flow?

# Policies to increase remittance impacts



# Policies to increase remittance impacts



- Evidence from randomized price experiment

- Evidence from randomized experiment on control over savings

# Motivating ideas

- To date we know have very little evidence on impact of remittance fees
  - On either frequency or total amount of remittances
- Typical fee structure: migrant pays a fixed fee for a remittance of up to a certain ceiling
- Frequent policy recommendation is to pursue policies that will lead to lower remittance fees (e.g., increase competition in money transmission)
  - Main benefit emphasized: lower fees, more funds available to sender/recipient
  - But less consideration that *total amount* remitted may change as well

# The remittance price experiment

- We implemented a field experiment that randomized remittance fees among migrants from El Salvador in the Washington, DC area
- One of the first empirical examinations of the relationship between remittance transaction costs and remittance flows
- Direction of causality not in question, due to randomization of fees
- Unique combination of administrative and survey data
  - Admin data from partner institution avoids problems of measurement error
  - Survey of migrants allows us to assess extent of switching from other remittance channels
- Funding from IDB, MacArthur Foundation, National Science Foundation

# Impact of price reductions

- Reductions in remittance fees lead to: 1) increased frequency of remittances, and 2) increases in *total amount remitted*
- \$1 reduction in fee leads to:
  - 0.11 more remittances/month (mean is 1.2)
  - No change in amount remitted per transaction
  - \$25 more total remittances/month (mean is \$336)
  - Implied elasticity: 0.55
- No evidence of reductions in remittances sent via other channels
- Complementarity between fee reductions and interventions facilitating savings
  - Price effect is larger for migrants also exposed to an intervention facilitating El Salvador-based savings

# Migrants in Washington, D.C.



# Partner remittance branch, Falls Church, VA





# Initial intervention in DC



# Remittance recipient in El Salvador

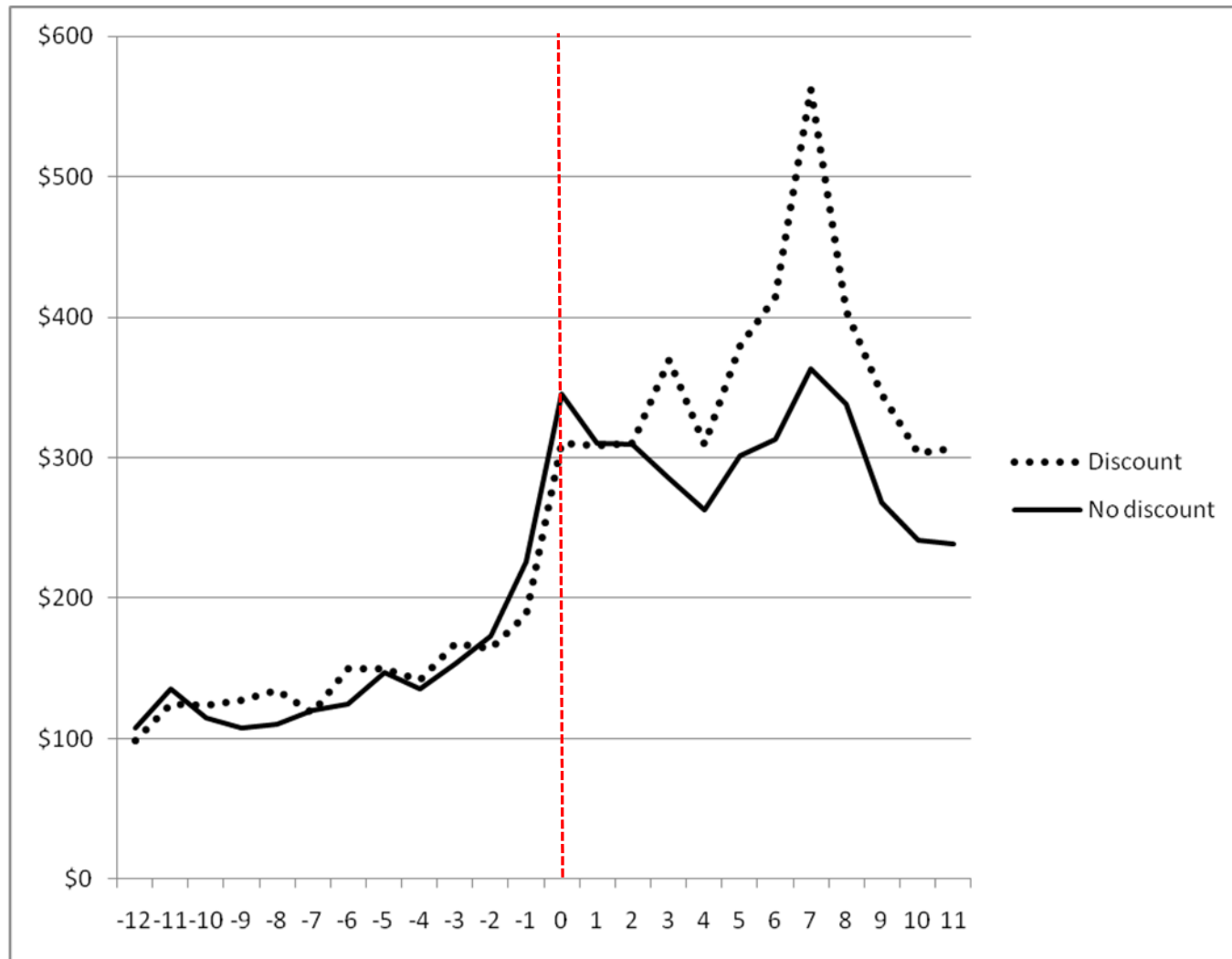




# Partner bank branch, El Salvador

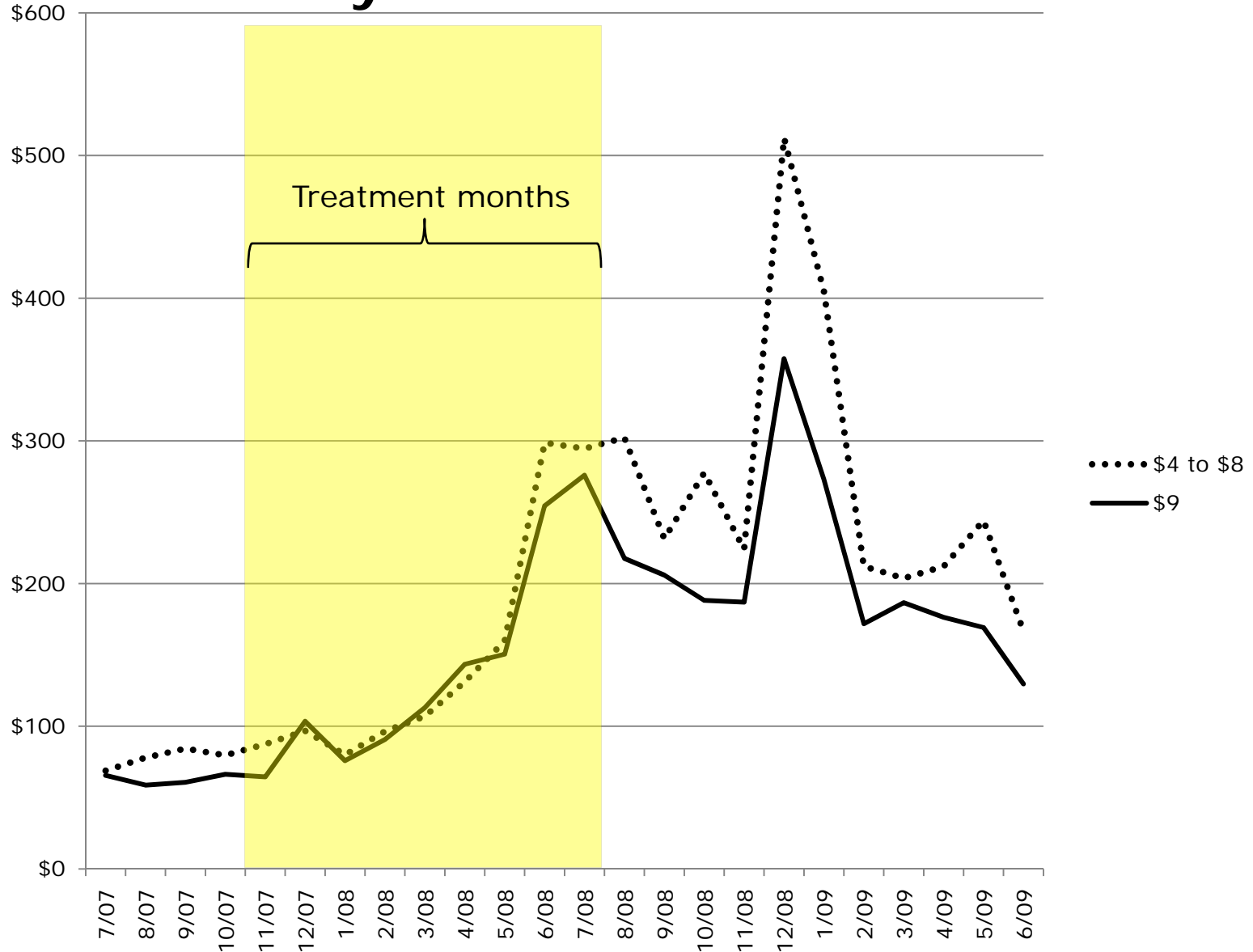


# Remittances sent via partner institution



Notes: Treatment month is month 0, one month after treatment is month 1, one month before treatment is month -1, etc. Treatment months range from Nov 2007 to Jul 2008. Migrants in “No discount” group assigned remittance transaction fee of \$9. Migrants in “Discount” group assigned remittance transaction fees ranging from \$4 to \$8, in dollar increments.

# Remittances by calendar month



Notes: Treatment months range from Nov 2007 to Jul 2008. 50% of migrants in study have 50% probability of being assigned remittance transaction fee of \$9, and 10% probability of being assigned to each of the lower price points, \$4, \$5, \$6, \$7, or \$8. 21

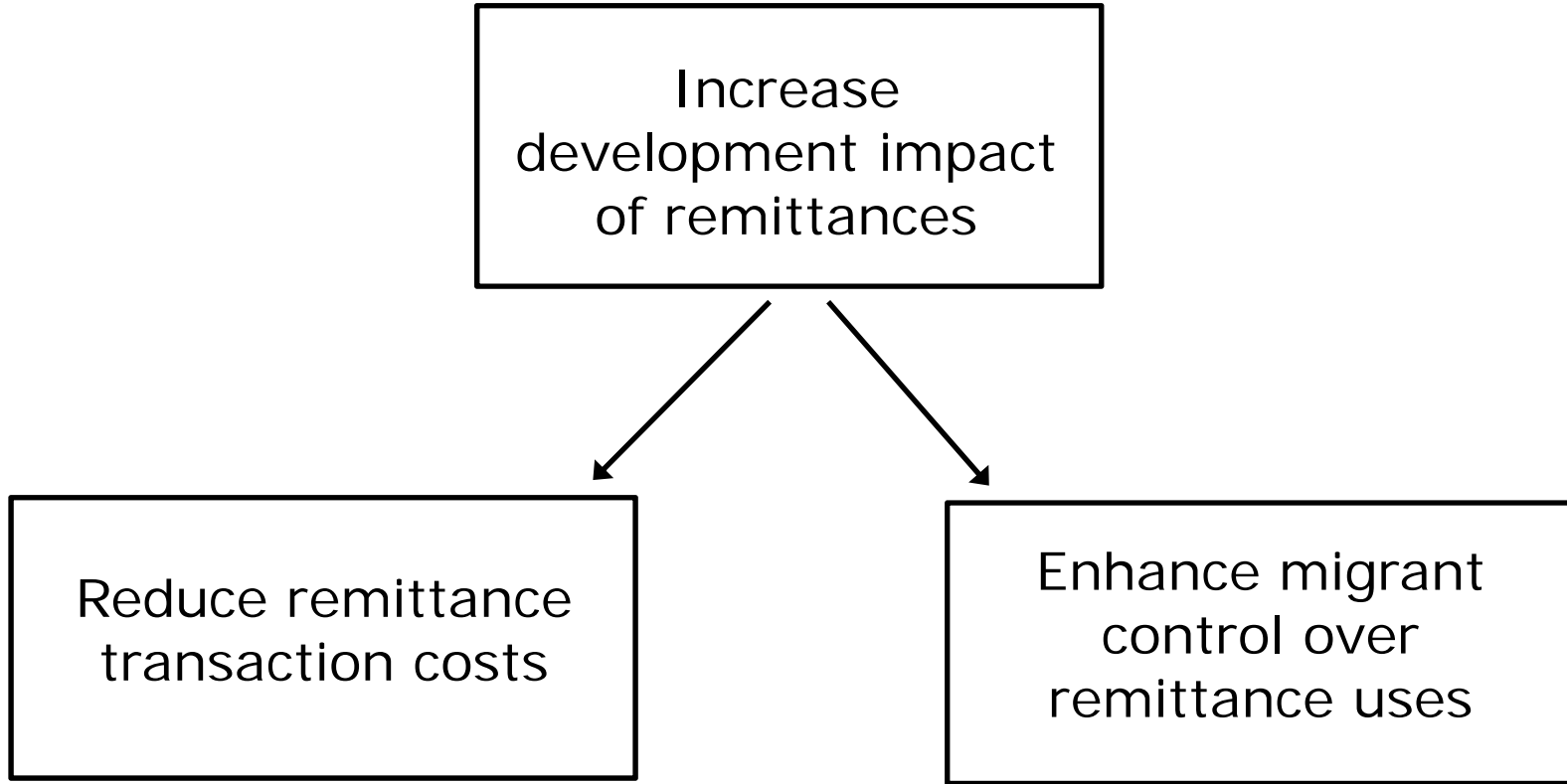
# Reconciling results with theory

- Difficult to reconcile results with fully rational decision-making: increase in remittances >50 times larger than fee savings
- Results likely consistent with a simple behavioral model
  - Migrants are sometimes tempted to spend their earnings prior to remitting
    - And are not fully self-aware about this self-control problem
  - Migrants remit less frequently than they “should”
  - Total amount remitted is lower than if frequency was higher
- Lowering fees leads migrants to increase frequency
- Remitting with higher frequency reduces loss of yet-to-be-remitted funds due to temptation spending

# Broader implications

- Reforms (e.g., improvements in competition, information) that reduce remittance fees can have larger benefits than a purely rational model might suggest
- Benefit-cost ratio of an intervention subsidizing remittance fees likely to be very attractive
  - Money transmitters should be willing to reduce fees if compensated \$0.47 for each \$1 price reduction
  - \$1 price reduction would lead to \$25 in additional remittances
  - Benefit-cost ratio is >50:1
    - Assuming:
      - Zero social value of funds migrants are tempted to spend prior to remitting
      - Social benefit of remittances equal to the \$ value
      - Minimal or zero administrative costs

# Policies to increase remittance impacts



- Evidence from randomized price experiment

- Evidence from randomized experiment on control over savings



## DC-area Salvadorans on control over remittance uses

"I have many uncles and they get drunk, so I just send money when needed, or I send to someone like my sister who I trust."

Male, 34 years old, 8 months in the U.S., works as a roofer

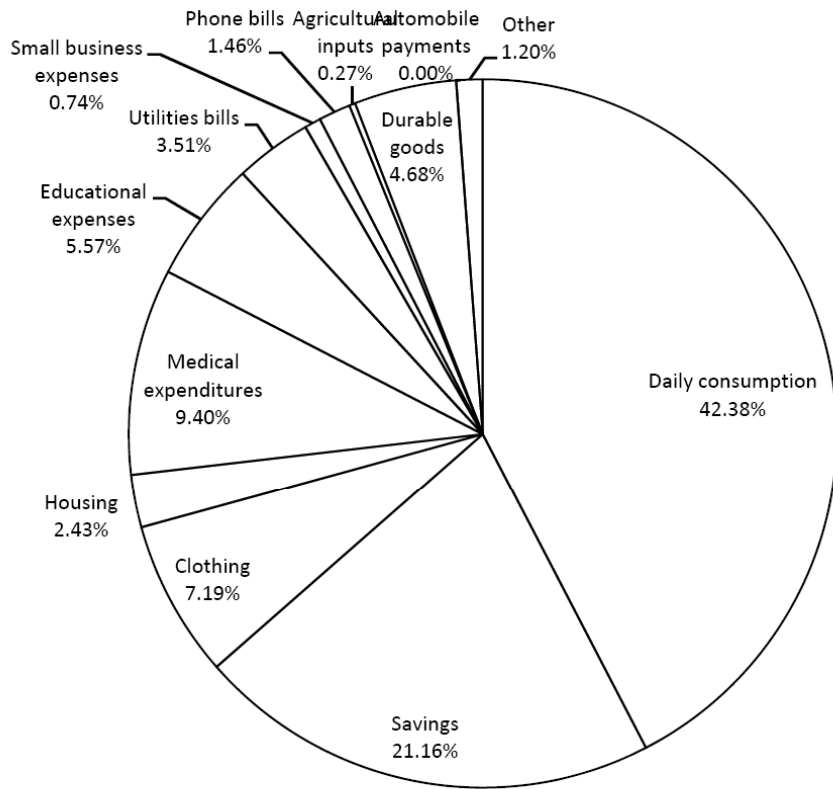
"The brother of my boss sent around \$50,000 to his mother over the years. When he thought he had enough money to build a house, he asked his mom for the money. She said she didn't have it. She had lent it to an uncle. When he asked for the money back, the uncle threatened to kill him if he came back to El Salvador for the money."

Male, 30 years old, 1 year in the U.S., works as a carpenter

# The issue of migrant control

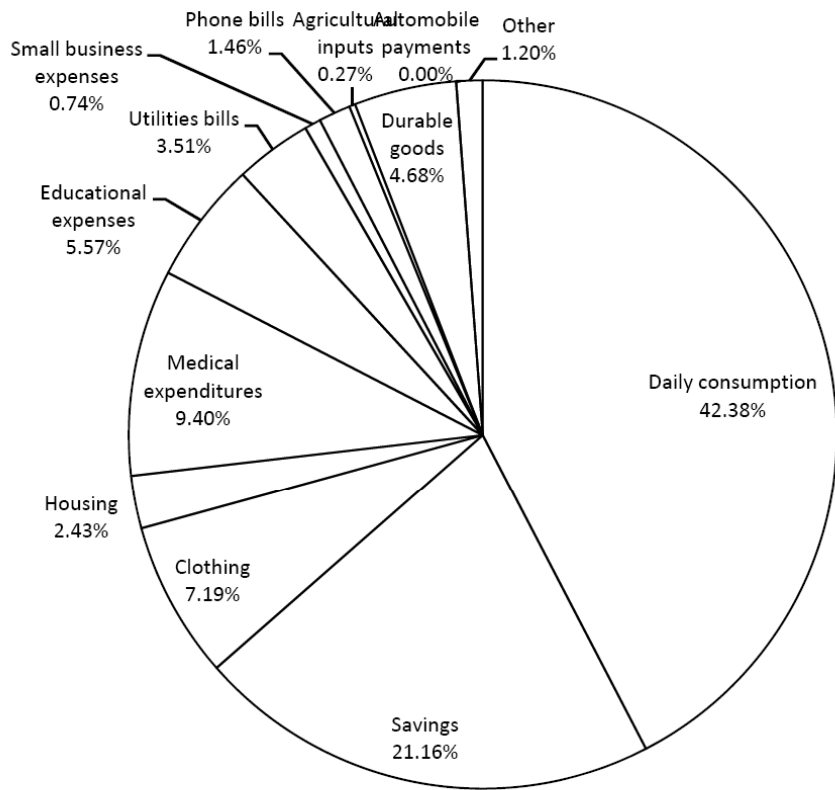
- Migrants currently have limited ability to monitor or control how remittances are used by recipients
- Migrants and recipients have different preferences as to how remittances should be used
- In particular, compared to remittance recipients back home, migrants often have stronger preferences that remittances be saved rather than spent immediately
- If migrants are given more control over remittance uses...
  - Remittance flows may rise
  - And a higher fraction of remittances may be channeled to uses that have long-term development impacts
- Focus here on migrant control over savings

# Migrant vs. recipient remittance allocation (US\$)

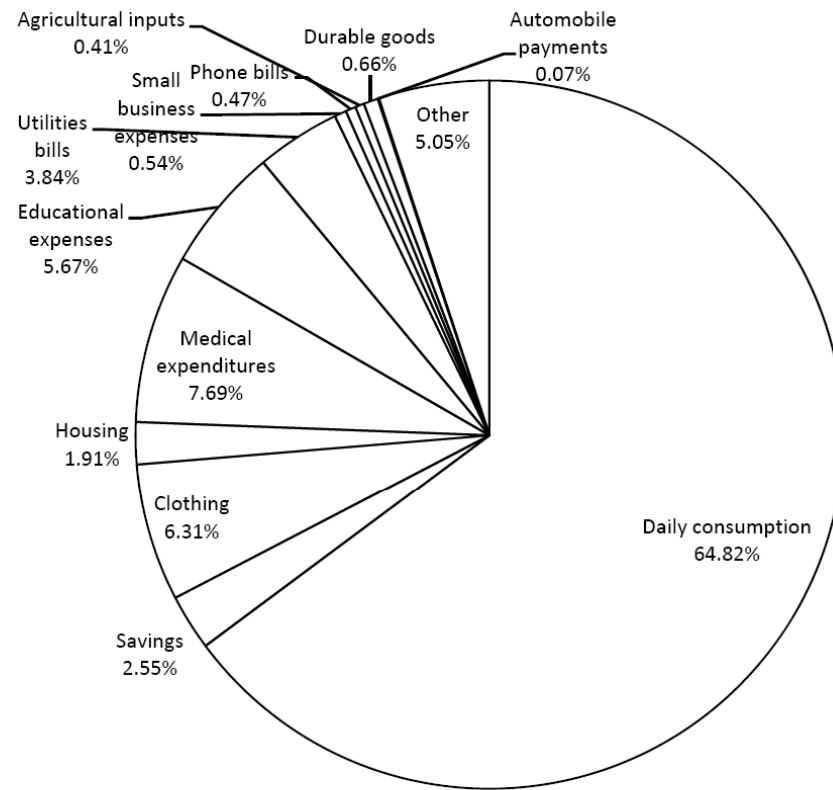


Migrant

# Migrant vs. recipient remittance allocation (US\$)

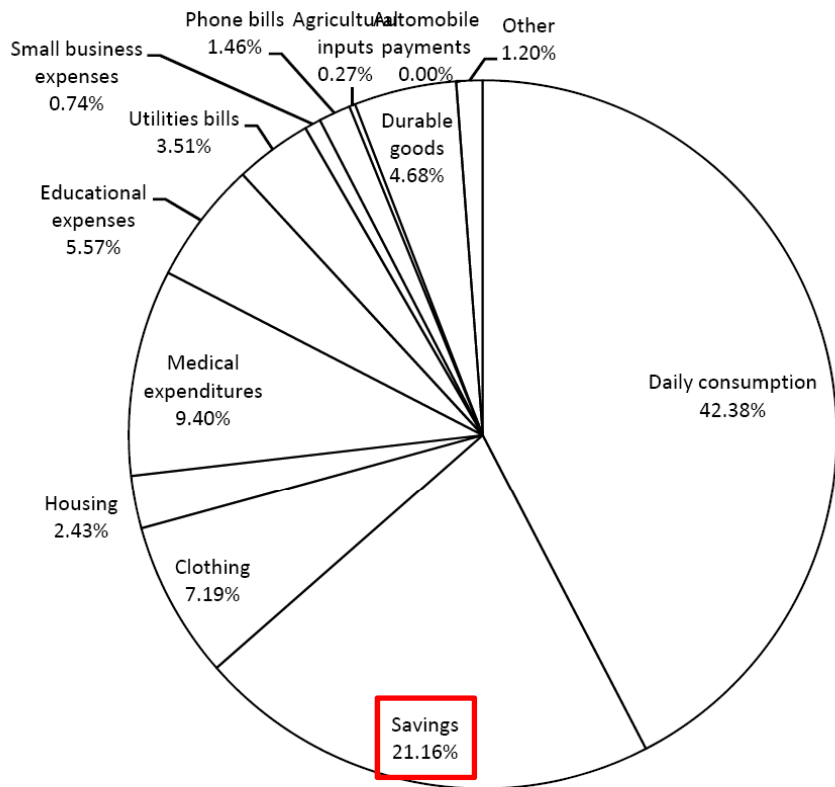


Migrant

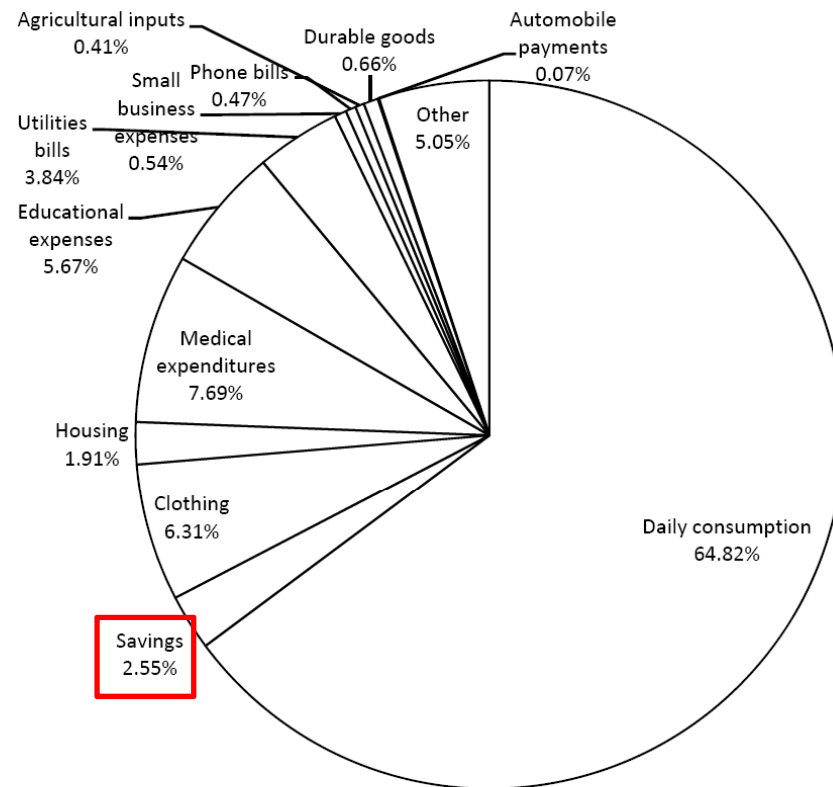


Remittance recipient

# Migrant vs. recipient remittance allocation (US\$)



Migrant

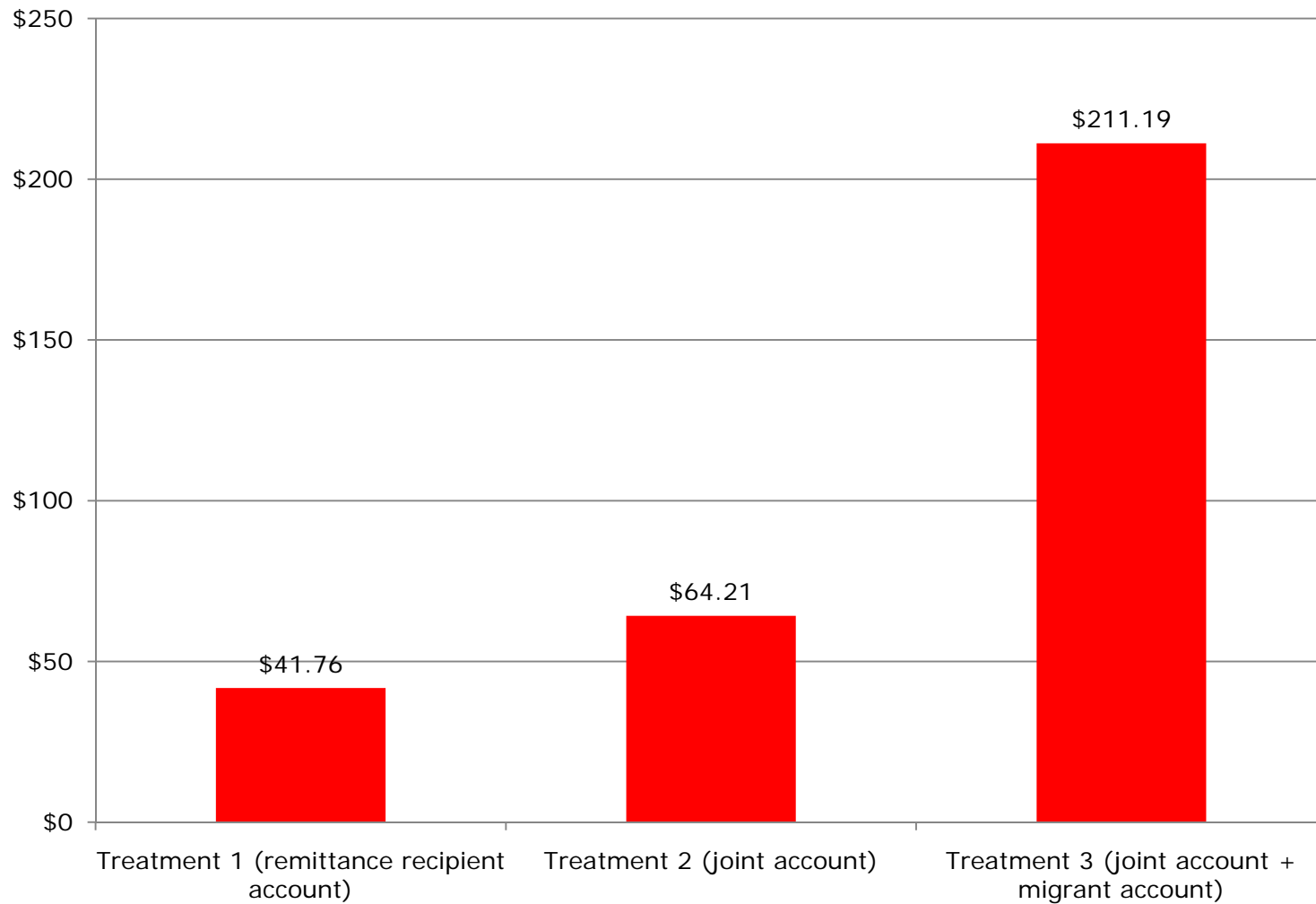


Remittance recipient

# Savings intervention among DC Salvadorans

- We offered Salvadoran migrants in Washington, D.C. the ability to directly channel remittances into savings accounts in El Salvador
  - Facilities developed for project in partnership with a Salvadoran bank, Banco Agricola
- Implemented as a randomized control trial
  - We randomly varied migrant ability to monitor or control savings in El Salvador, by offering different types of accounts to different migrants in the sample
  - Also had a control group that was surveyed but did not receive the savings intervention

# Impact on savings at partner bank



- Savings are at partner bank 6 months post-treatment
- Mean savings in comparison group (Treatment 0) is \$13.70.

# Overview of results

- Treatment condition that offered migrants the most control led to large increase in savings at partner bank
  - Treatment effect after 6 months: \$211 (compared to \$382 in recipient savings in baseline survey)
- Impact on El Salvador savings is largest in joint accounts shared by migrants and recipients
  - Tentative/less robust evidence of savings in migrant-only accounts
- Tentative evidence of a financial education channel: impact in part due to project staff *suggestion* to save jointly with El Salvador family
- Large spillover effect of our intervention on savings at *other* banks (particularly US banks)
  - Total savings increase in combined transnational household
  - Again, likely due to financial advice implicitly conveyed in our intervention



# Sources of new savings

- Treatment 3 has large effects on savings in both El Salvador and the US
- Where are the saved funds coming from?
- Remittances to El Salvador do *not* rise in Treatment 3
  - So increase in El Salvador savings is coming out of constant flow of remittances
- But: US earnings do rise. And increase is more than enough to account for higher US savings.

# Savings control study: take-home messages

- By itself, channeling remittances into savings accounts does not promote savings accumulation
- But impact on savings accumulation in the origin household can be substantial when:
  - Migrants are given ability to monitor and control savings of remittance recipients
  - Financial education emphasizes importance of that control
- Migrant savings interventions can have important spillovers to other economic decisions
  - In particular, savings in the US
  - Also: migrant earnings
- Implications for future work
  - Should be fruitful to study development impacts of interventions that enhance migrant control over other remittance uses
    - E.g., schooling, health, microenterprise investment

# Enhancing migrant control in other areas

- Migrant backed loans
  - Among Guatemalans
- Direct payments for education, health, housing
  - Pilot projects among Filipino and Kenyan migrants

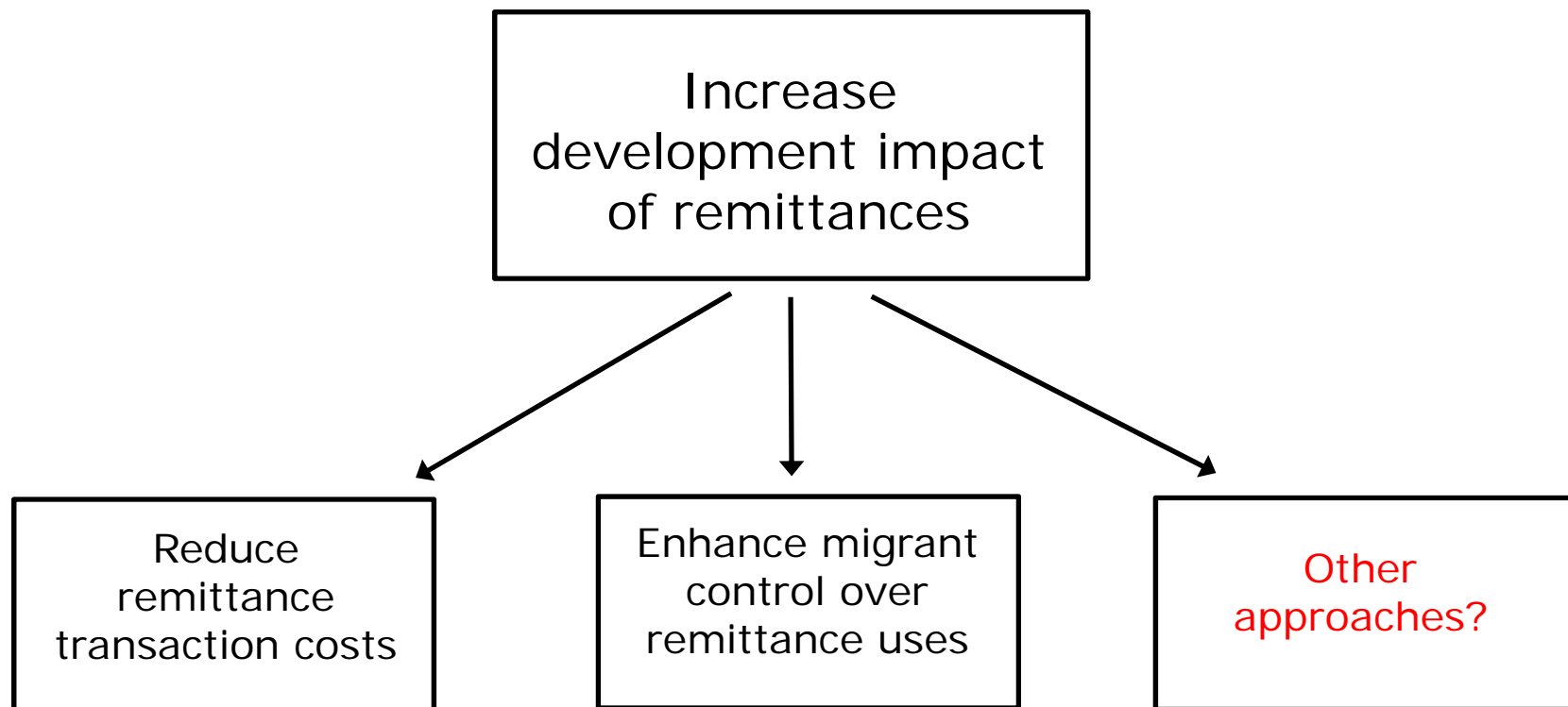
# Migrant-backed loans

- Allow migrants overseas to guarantee loans for individuals back home
  - Can encourage migrants to provide funds for lending, if migrants perceive higher likelihood of repayment
- Partners for pilot project with Guatemalan migrants
  - In Guatemala: association of credit unions, MICOOPE
    - Issue partially-guaranteed loans
  - In US: Microfinance International Corp. (MFIC)
    - Marketing to migrants, processing of applications
- Migrants deposit funds at credit union, and lender provides loan of 2x amount deposited (50% guarantee)
  - Deposit frozen for life of loan, forfeited upon default
- USAID funded pilot test: design and offer of initial loans

# Direct payments

- Among overseas Filipino workers
  - In Italy: offer facility for paying school fees for students back home, and send back information on student performance
  - In Qatar: encourage use of online banking, with online payment facilities for utilities, school fees, etc.
- Among Kenyan migrants in the US
  - Encourage use of web-based service for paying school fees for students back home

# Policies to increase remittance impacts



## Other policies for which we need evidence

- Financial education/literacy training
  - Of migrants
  - Of remittance recipients
- Basic financial access for migrants, remittance recipients
- Promoting home-town associations
- Diaspora bonds
- Citizenship/legalization in destination countries

# In sum

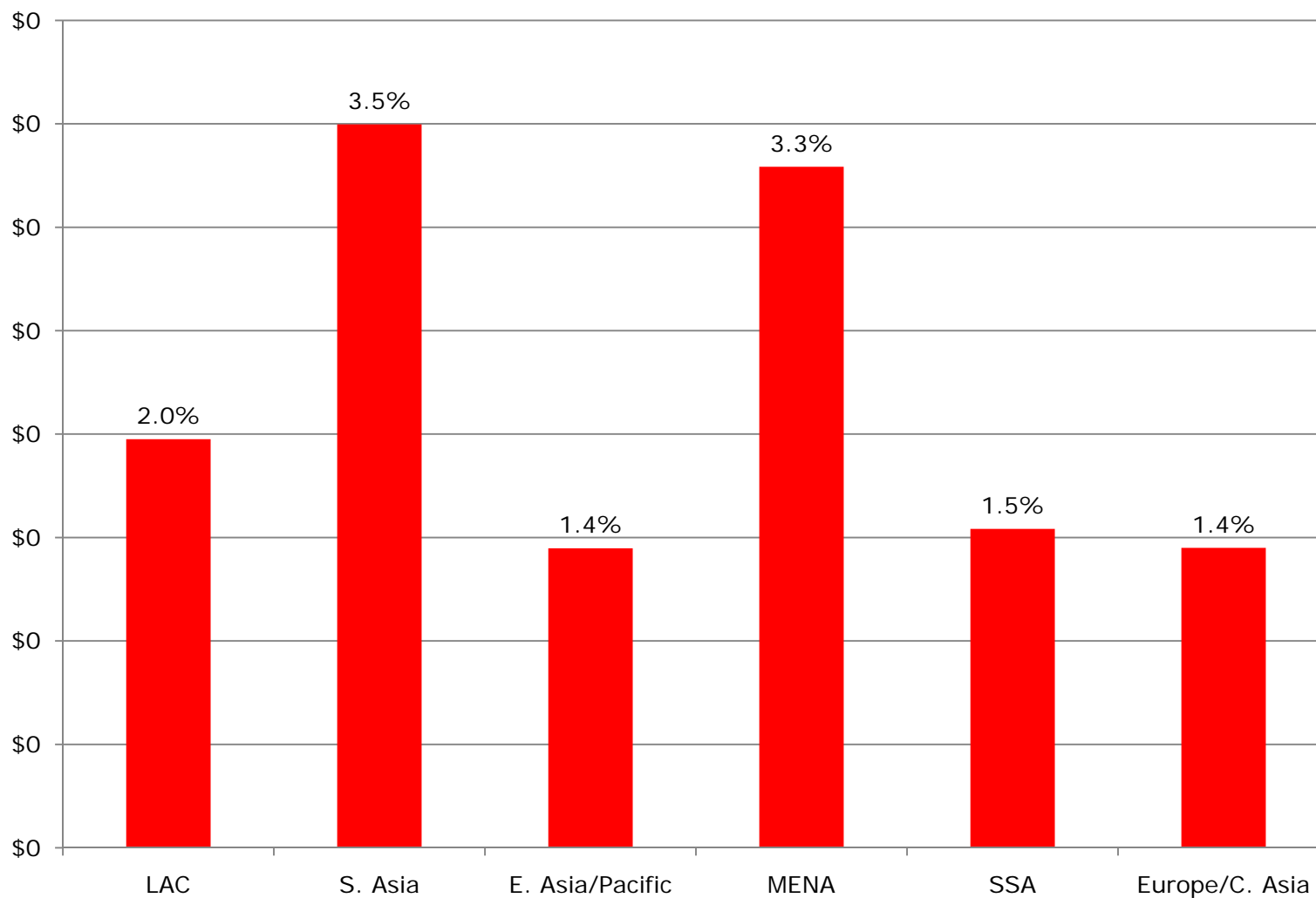
- Recent experimental findings point the way towards promising remittance-related development policies
  - Reductions in remittance fees have dramatic effects on remittances
  - Increases in migrant control lead to greater savings in remittance-recipient households
- Needed:
  - Studies to confirm these findings in other contexts
    - Other LAC migrant populations
    - Control over other remittance uses
  - Evidence on other policies/interventions approaches yet to be tested



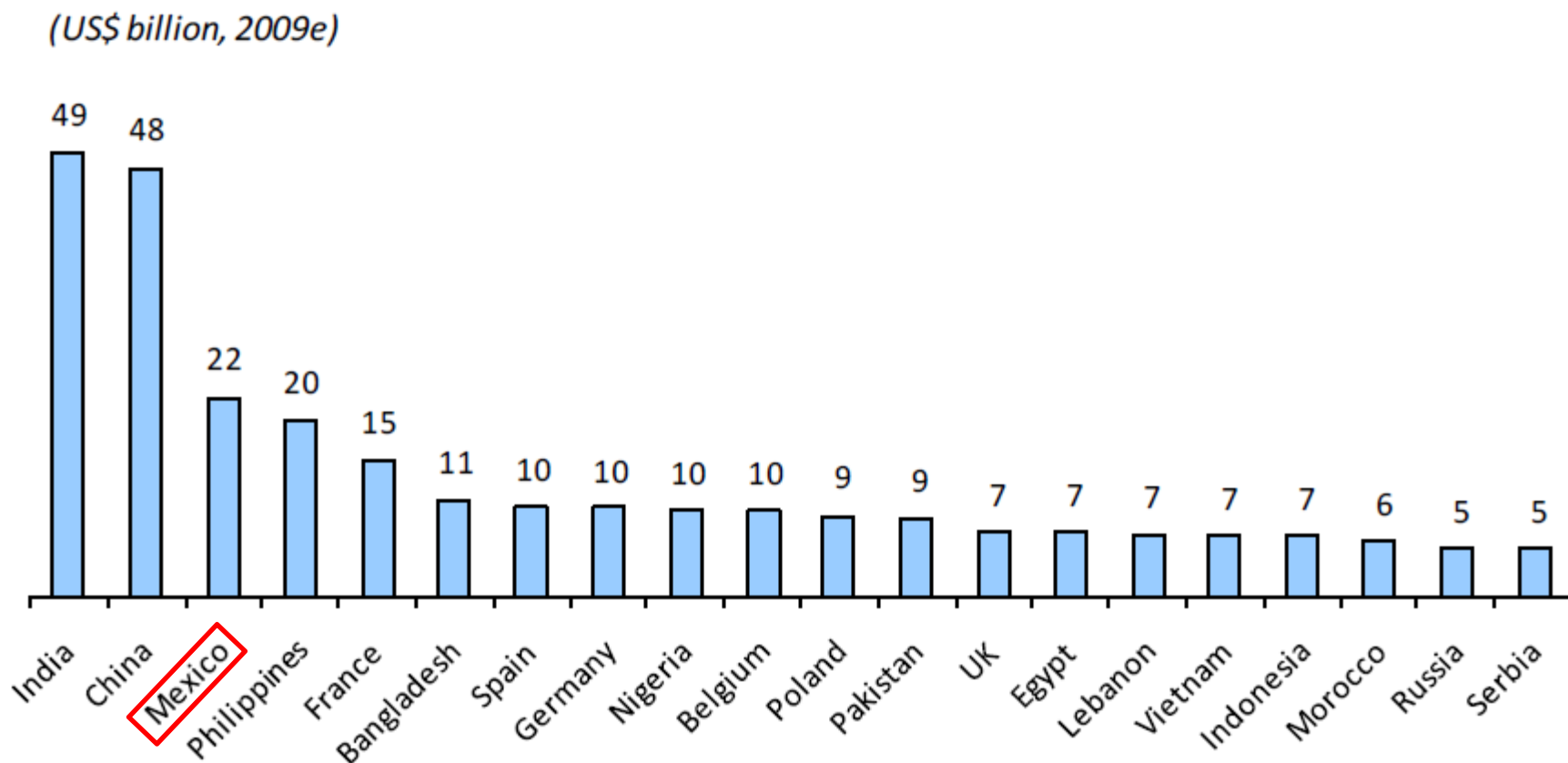
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# Extra slides

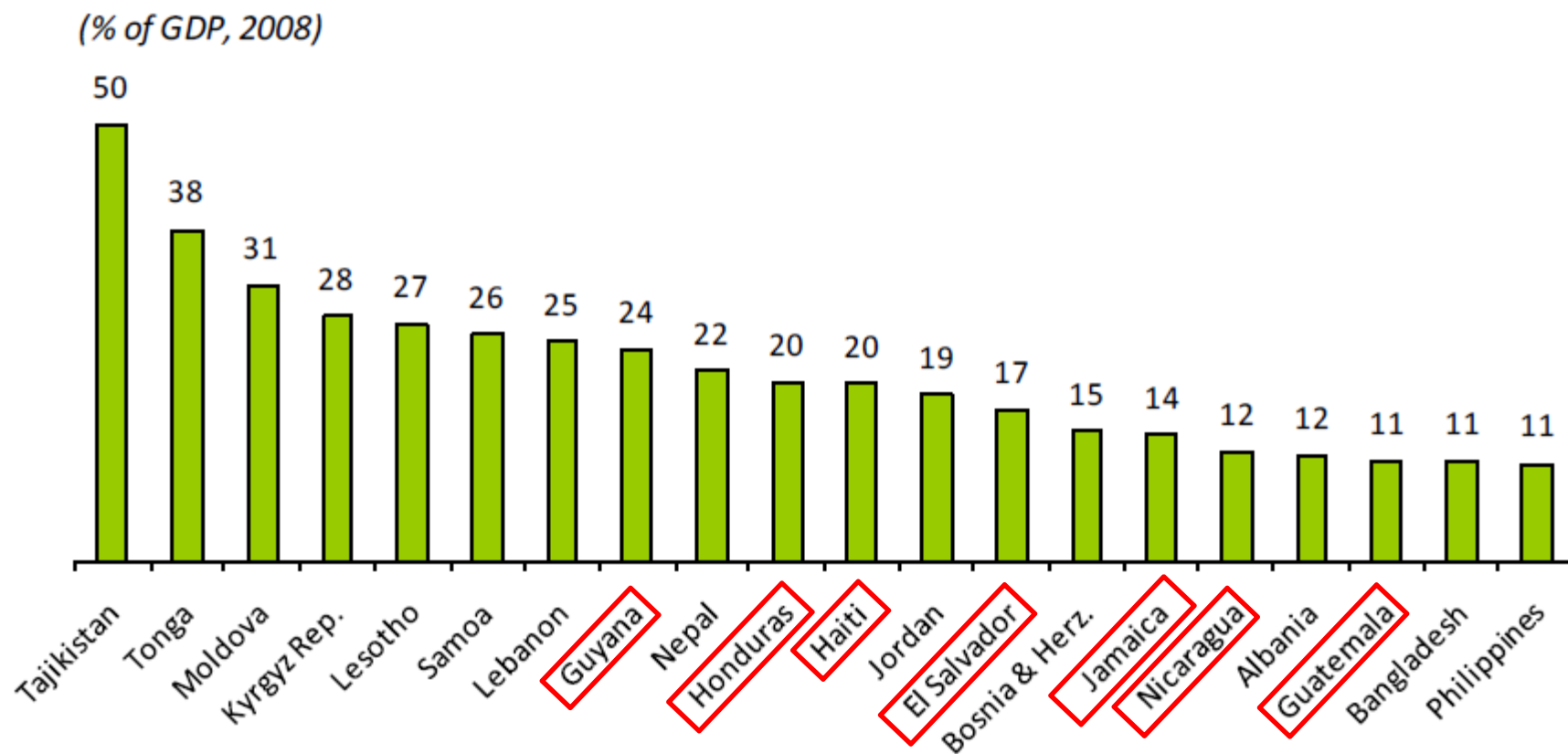
# Remittances as % of GDP (2006)



# Top remittance-recipient countries (2009, in US\$)



# Top remittance-recipient countries (2008, by % of GDP)



# Details on remittance price experiment

- We randomly allocated 1,400 Salvadoran migrants in Washington, D.C. to different remittance transaction fees
  - 50% probability of \$9 fee
  - 10% probability for each of the following fees: \$8, \$7, \$6, \$5, \$4
- Discount offered via a partner money transmission institution with 11 physical branches in DC area (and 64 bank branches in El Salvador)
  - Fee is for remittance of any size up to \$1,500
- VIP Card qualifying migrant for discount sent by mail a few weeks after intervention; non-transferable, ID required at each use
- Study participants enrolled in Salvadoran consulates and branches of partner institution (Nov 2007 – July 2008)
  - Likely to be substantial variation in participant legal status
  - Cross-randomized with an intervention facilitating El Salvador-based savings
- Fee randomization was after stratification on basic demographics
  - Was successful in ensuring balance on baseline characteristics

# Savings accounts offered

- Account for remittance recipient in El Salvador
  - Migrants encouraged to save by remitting into the El Salvador bank account of the primary remittance recipient
  - Account-opening assistance provided
  - Migrant cannot check balance or withdraw
- Joint account for migrant and household (*Cuenta Unidos*)
  - Migrants encouraged to remit into shared account
  - Migrant and hh each have ATM cards
  - Migrant can check balance
- Individual migrant account (*Ahorro Directo*)
  - Migrants encouraged to remit into own account
  - Only migrant has ATM card
  - Not shared with household