Immigration, remittances and development: responding to regional dynamics

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Introduction

Partly as a result of prevailing inequalities, persistent poverty and the adverse effects of an increasingly globalized world economy, achieving sustainable economic growth and development continue to be major challenges for Latin America and the Caribbean. One critical factor associated with this reality is widespread immigration to the United States, Europe and other wealthier economies in the region itself. This migration has had a substantive impact on development and growth in many parts of the Western Hemisphere, one which merits a closer look.

This briefing addresses the challenges of growth and the impact of remittances and related economic practices on Latin America and the Caribbean; it further explores policy solutions that respond to these realities. Specifically we recommend three areas of policy attention:

- to further leverage existing legal economic practices of immigrants by adopting policy options that have been shown to promote development;
- to accelerate regional and country specific economic reforms with a strong emphasis on enhanced social development, focusing on increasing educational attainment and wealth generation; and
- adopting a guest worker program with conditionality clauses for migrant sending governments about their performance.

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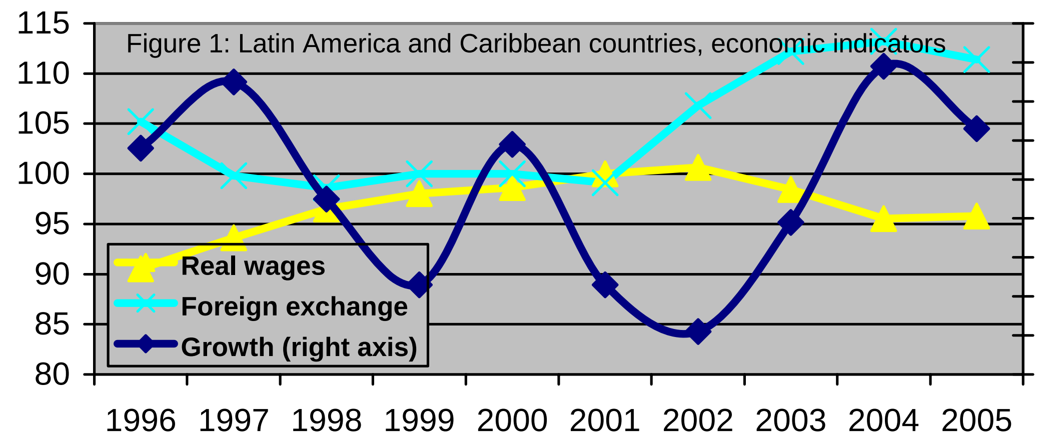
1. Poor economic growth

Despite a period of macroeconomic stability since the 1990s after the political transitions in Latin America and the Caribbean, most of these countries continue to struggle to grow and deliver basic social goods and services to their societies. Partly as a result of persistent income disparities, as well as the negative effects of globalization, economic growth and wages rates continue to be low. In addition, local currencies have remained weak. Overall these economies have not been able to grow above 3.5% a year, which is equal or near population growth.



Source: Economic Commission of Latin America and the Caribbean

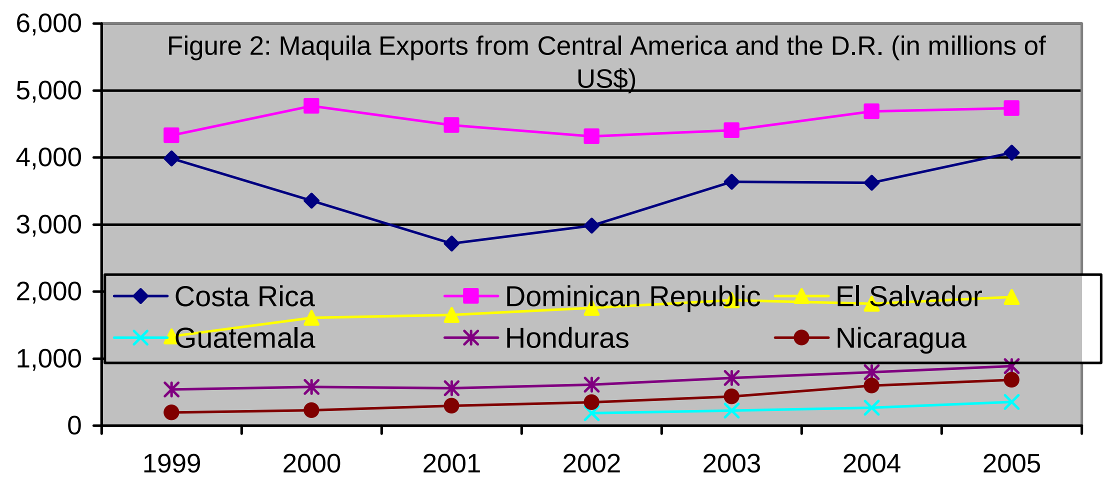
Compounding this situation is the fact that the region has a predominantly young population, bringing its productive force to less than 40%. Moreover, the way in which the region has tried to keep up with the demands of the global economy has not offered opportunities to increase productivity throughout the region, but rather has focused on enclave economies in tourism, non-traditional exports or maquila exports. These sectors are highly vulnerable to external fluctuations that are usually out of the control of these economies and oftentimes exhibit lower distributive effects than other activities with greater value added components.

Latin American and Caribbean countries face additional serious difficulties in competing with global markets that are either subsidized in the industrialized economies, oversaturated with similar commodities or have a demand for high quality high technology oriented manufacturing. Thus, the way most of the region has kept its global integration mode has been through a few commodities. A stark example took place in the late 1990's when the value of coffee exports declined, resulting also in the commodity's reduced share of total exports.

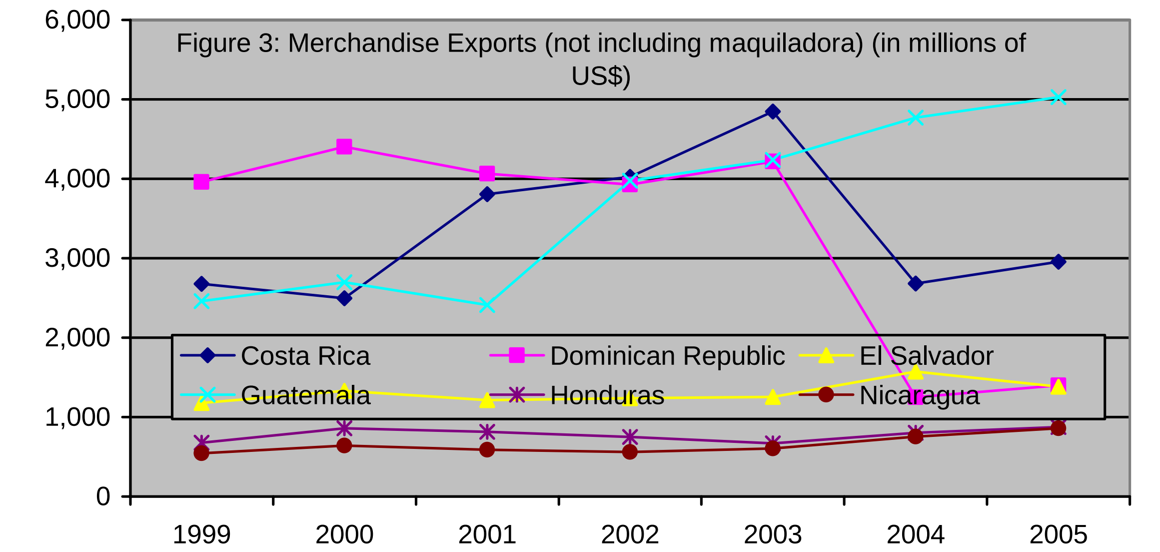
Table 1: Coffee Exports as Percentage of Total Exports

	1990	1995	1998
Costa Rica	12.3	12	7.3
El Salvador	40.4	21.8	13.1
Guatemala	26.7	26.8	20.7
Honduras	20.2	23.9	21.5
Nicaragua	21.4	24.9	27.9
Panama	3.1	5.8	3.4

Source: ECLAC



Source: Central Banks of each country



Source: Central Banks of each country

Together these factors have not been conducive to sustainable growth rates. Instead, the productive base of these economies have struggled to cope with increasing costs of living, now more pronounced as energy prices exact a heavy toll on many of these societies.

Many Latin American and Caribbean cities operate on low wages and precarious employment, making them unable to compete even with domestic markets, much less in the global economy. Wages are often one third or one quarter of the cost of living. For example, an agricultural worker in Catamayo, Ecuador, working in sugar cane fields earns US$150 a month, and a store clerk in Salcaja, Guatemala or Suchitoto, El Salavdor earns US$200 and US$150, respectively. At the same time, the cost of the basic food basket in these countries ranges between US$150 and US$350. This reality makes it difficult for workers to maintain a decent standard of living through their own employment and the gap between earnings and cost of living has been a key factor in the decision to migrate for many people.

Table 2: Monthly Cost of Living, Income and Remittances

	Jerez	Catamayo	Suchitoto	Salcaja
Cost of living . . .				
Food	219	228	209	201
Services (utilities)	60	44	40	43
Education	13	32	29	56
Health	40	41	34	68
Entertainment	27	3	40	35
Income . . .				
Wages	323	303	125	162
Total earnings, remittances included	930	501	622	353
Monthly remittances amount received	637	331	515	181

Source: Survey of 120 remittance recipients and non-recipients

Finally, natural disasters have also had an adverse effect in many of these countries, particularly in those in the Caribbean Basin. A series of events have severely affected the region in the last few years, including the decline in coffee prices, drought, hurricanes, and earthquakes. These events devastated the local populations and economies.

Along with the coffee crisis, Central America was hit with a drought in early 2000 that significantly affected four countries in particular: Guatemala, El Salvador and, even more dramatically, Honduras and Nicaragua. According to the United Nations World Food Program, nearly 1.6 million Central Americans were affected, half of them from Honduras. Many Central Americans faced starvation. In Guatemala, more than one hundred peasants died during the first six months of 2001 as a result of the drought. In other countries the death toll was even higher. The main source that help sustain Guatemala during the coffee and drought were remittance transfers (see chart A2 in appendix).

Table 3: Drought in Central America: Population affected

Country	Population affected
Guatemala	113,596
El Salvador	412,064
Honduras	791,970
Nicaragua	187,645

Source: World Food Program, WFO, UN.

Following the drought in 2001, two earthquakes in El Salvador affected the economic and housing infrastructure of more than one hundred thousand households. Five years later, the country is still recovering and rebuilding from that disaster. Between 2002 and 2006, the region has also faced other natural disasters, which have added to the strains on the economy and increased flow of migrants.

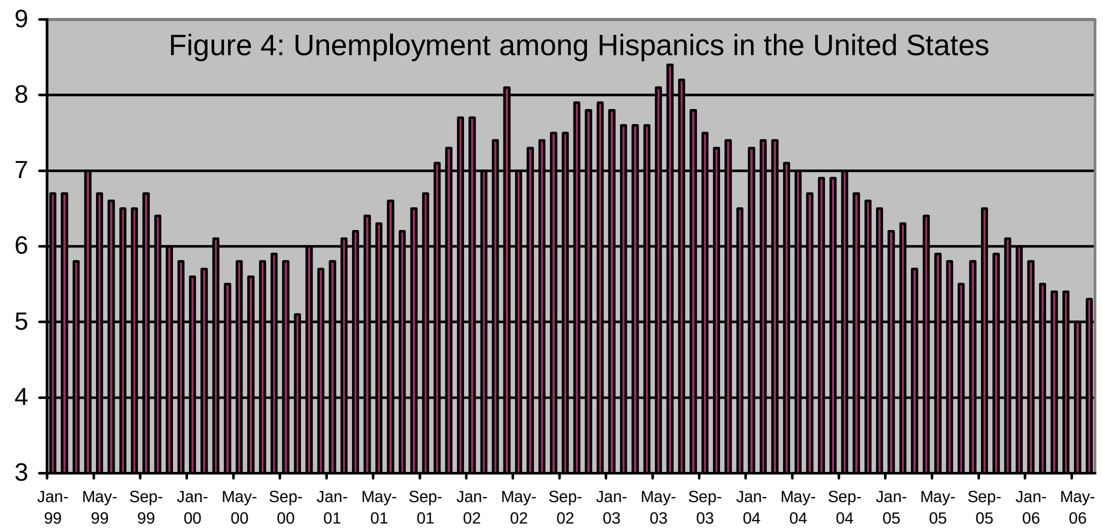
Foreign labor market's demand for immigrant workers coexists with the push factor of poor economic performance in Latin America. That is, migration has also been shaped by a foreign labor market demand among industrialized countries facing their own challenges in meeting the demands of a competitive global economy. This foreign labor force works in service industries that are intrinsically connected to the global economy, demanding cheap labor and activities that other players in the economy are not prepared to carry out. This is a labor force that often lives under poor conditions and works in various labor intensive industries such as hospitality, cleaning, construction, and retail.

Andrade-Eekhoff[1] argues that this process of labor "integration" suffers relatively high levels of exclusion and marginalization due to the undocumented nature of many of its migrants who respond to economic push-pull and transnational networks and linkages. For example, migrants in the poultry industry in the US South working for Tysons Foods[2] live under

[1] (Andrade)-Eekhoff, Katharine. Globalization of the periphery: The challenges of transnational migration for local development in Central America. El Salvador: FLACSO Programa, April 2003.

[2] Fink, Leon, The Maya of Morgantown: work and community in the Nuevo new south, Chapel Hill: The University of North Carolina Press, 2003, p. 200. and Striffer, Steve, "We're all Mexicans Here: Poultry

precarious circumstances, working long hours with a limited social safety net. Similar conditions can also be found among foreign part time workers in the so called 'logistics sector', such as FedEx, delivering packages on time from all over the world.[3] Interestingly, this demand for this kind of foreign labor in the United States has not changed dramatically over the past seven years. For example, the decline in unemployment rates among Hispanics suggests that a demand for foreign labor has increased in the economy after the 2000-2002 economic recession.



Source: US Bureau of Labor Statistics

Moreover, one can not ignore the political events that influenced the emigration of many in the eighties and created transnational family ties. The repression and civil wars of the seventies and eighties led to mass migrations. Guatemala, El Salvador, Honduras and Nicaragua experienced brutal forms of political repression directed by a ruling class formed by praetorian guards, conservative oligarchies, and conformist elites. The end result in each of these countries was civil war, each lasting over ten years and forcing millions to flee. Haiti and Colombia have also faced fates similar to that of Central America, brought on by violence or repression. Finally, there are also the latest emerging neopopulist movements that discouraged many citizens from remaining in countries like Bolivia, Ecuador or Venezuela.

2. The impact of transnationalism in Latin America and the Caribbean

All of these factors combined have helped sustain and create transnational families—defined as groups that maintain relationships and connections with home and host societies.[4] Their

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Processing, Latino Migration, and the Transformation of Class in the South" in The American South in a Global World, edited by James Peacock, Harry Watson, and Carrie R. Matthews, Chapel Hill: The University of North Carolina Press, 2005.

[3] Smith, Barbara Ellen, Marcela Mendoza and David H. Ciscel, "The World on Time: Flexible Labor, New Immigrants, and Global Logistics" in The American South in a Global World, edited by James L. Peacock, Harry L. Watson and Carrie E. Matthews, Chapel Hill: The University of North Carolina

[4] There are a range of definitions of transnationalism, for example, "groupings of migrants who participate on a routine basis in a field of relationships, practices and norms that include both places of origin and destination"

cross-border engagements encompass a range of activities including but not limited to remittance sending, social networks, economic relationships, cultural practices, and political participation.

Money transfers, tourism, transportation, telecommunication, and nostalgic trade, together known as the 5Ts, have had a significant impact on the economies of these countries and pose important policy questions about the relationship between transnationalism and development. In practical terms, a typical immigrant's economic linkage with their home country extends to at least four practices that involve spending or investment: family remittance transfers; demand of services such as telecommunication, consumer goods or travel; capital investment; and charitable donations to philanthropic organizations raising funds for the migrant's home community (see box below).[5]

Remittances, the first of these linkages, are the most widespread and important migrant economic activity. While the determinants of sending do not vary between nationalities, the frequencies and quantities of money sent fluctuate across groups. For example, Latinos and Filipinos in the U.S. send an average of US$300 a month, whereas Southeast Asians in Japan send $671, Filipinos US$600 and Ghanaians in Europe send US$400 every six weeks.[6]

Migrants also maintain links with their home countries by staying in touch with friends and family by calling and visiting their homeland. They purchase and consume foodstuffs from their home country such as tortillas, beef jerky, cheese, rum and coffee, and spend money on phone cards to call their families. Eighty percent of Latinos buy phone cards and speak to their relatives by phone for an average of two hours a month. This exchange creates important revenue for U.S. firms.

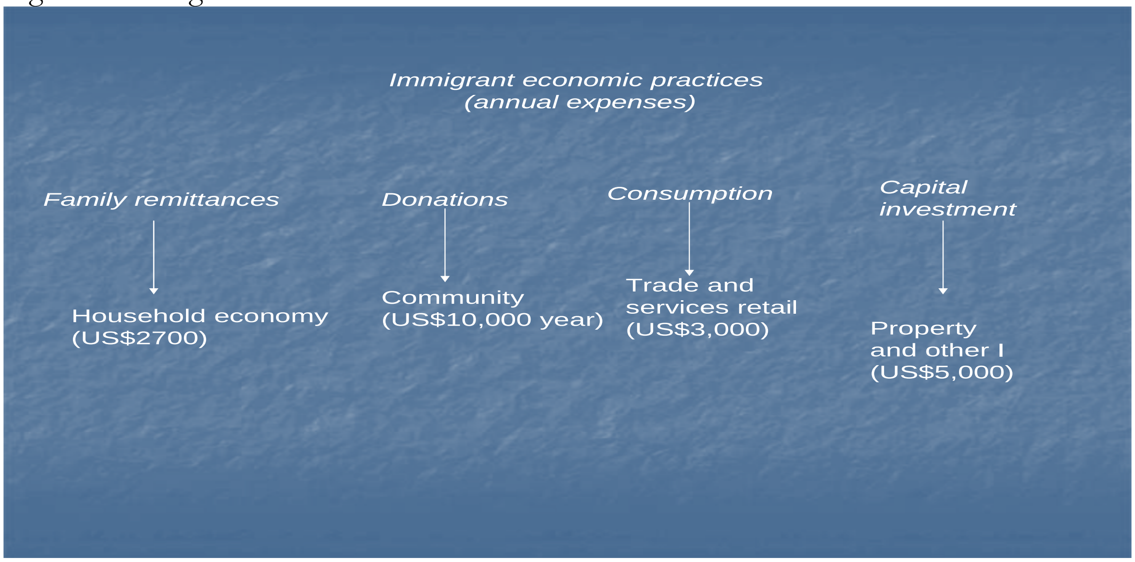
The final two transnational activities involve donations and investments. In the case of donations, migrants raise funds to help their hometowns through organized civil society groups. Belonging to a hometown association (HTA) is an important migrant activity that can provide substantial economic resources for the communities of origin. Individual donations may amount to between US$100 and US$200 a year per person, and in some countries, like Mexico, donations on aggregate may translate to more than fifty million dollars. Finally, migrants often have a desire to invest in a property or a small business, devoting between US$5,000 and US$10,000 to that activity.

(Lozano 1999). The trend of ties is spreading everywhere north-south, as well as south-south with significant regional migration patterns.

[5] For an in-depth analysis of the 5Ts,see Manuel Orozco *Transnational Engagement, Remittances and their Relationship to Development in Latin America and the Caribbean.* Institute for the Study of International Migration, Georgetown University: July 2005.

[6] Orozco, Manuel with Rachel Fedewa, "Regional Integration? Trends and Patterns of Remittance flows within South East Asia." Inter-American Dialogue, Washington, DC, August 2005. South East Asia report, 2005

Figure 5: Immigrant Economic Practices



These practices generate significant revenue and benefits for many. Take, for example, the cases of Salvadorans in the United States. This migrant community has been established for more than thirty years in the U.S. and has maintained its associations with the homeland at different levels. The table below shows estimates of the number of transnational activities that keep these migrants connected with their home country. The highest amount of money spent is on remittances (from which earn average companies revenues of 10%); however, other activities are also important relative to their impact on the two economies, such as phone calls.

Table 4: Percent of Salvadorans who . . .

Percent of people who…	(%)	Number	Annual Cost /expense (US$)	Volume (US$)
Call on average 120 minutes	41	340,300	288	98,006,400
Send over $300	32	265,600	4200	1,115,520,000
Buy home country goods	66	547,800	200	109,560,000
Travel once a year	24	199,200	700	139,440,000
(& Spend over US$1,000)	61	506,300	1000	506,300,000
Have a mortgage loan	13	107,900	7000	755,300,000
Own a small business	3	24,900	7500	186,750,000
Helps family w/ mort.	13	10,790	2000	215,800,000
Belong to a hometown assoc.	5	41,500	200	1,500,000

Note: Number of Salvadorans remitting from the U.S. is estimated at 830,000; Source: *Transnat.*

These practices among diasporas are not fungible, but rather reflect specific needs and priorities among migrants and together do not necessarily represent assets in themselves.

The consumption of goods and services, for example, is attributed to daily livelihood realities. Remittances, on the other hand, are both a combination of social protection and stock accumulation. Studies show that, depending on the groups and families, migrants may see a portion of remittance as an asset in itself because they then use it to invest in their families' material circumstances to transform their lives.[7] Remittances sent to address educational needs, for example, create such a basis for asset building.

Investments in business and real estate and migrants' donations to their local communities are unambiguous, concrete forms of asset accumulation at the individual and community levels. In the case of financial activities we find that nearly two in ten migrants invest in their home country, and nearly three in ten build savings at home. The table below shows the kind of asset building practices that were found to take place among migrants from twelve different Latin American countries.

Table 5: Percent of remittance senders and recipients who . . .

	Sender	Recipient
Have a bank account	27	50
Mortgage loan	10	10
Have a small business	3	17
Have a small business loan	1	4
Have a student loan	1	3
Are paying insurance policies	2	6
Lends money to family to invest	2	2
Do not have financial obligations	NA	32

Source: Orozco, Manuel. *Transnational Engagement…*

Table 6: Percent of remittance senders/recipients who in addition to remittances help/are helped by their family to address other economic obligations, such as. . .

	Sender	Recipient
Mortgage loan	12	28
Pays loans to take care of a small business	2	27
Pays for a student loan	2	8
Helps pay for health insurance	2	16
Other financial obligations	22	26

Source: Orozco, Manuel. *Transnational Engagement*.

i. The direct impact of remittances

The volume of remittance flows to Latin America and the Caribbean has increased to over fifty billion dollars in 2005 (see Figure 6). The increase is due to a number of factors that include reactions to economic downturns in Latin America and the Caribbean, strengthened ties between the U.S. and Latin America, improved competition in money transfers, increases in the contact among members in a transnational family, and improved accounting of the money received. For example, in 1980 only 17 countries reported flows on

[7] Pozo, Susan and Catalina Amuedo-Dorantes "Remittances as Insurance: Evidence from Mexican Migrants," *Journal of Population Economics*, 2006,

remittances; by 2004 the number was 30. Even these figures, reported by Central Banks, are considered to be conservative estimates.

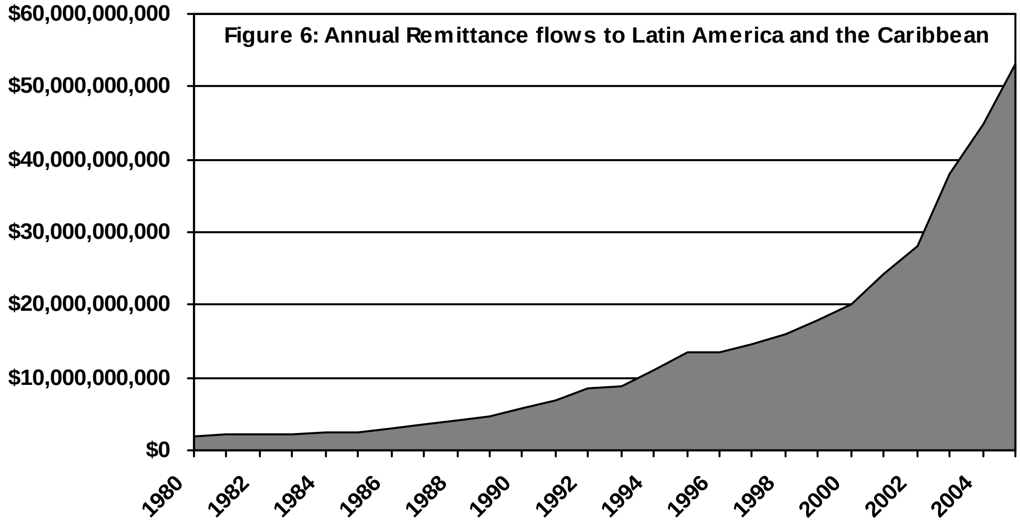


Figure 6: Annual Remittance flows to Latin America and the Caribbean

These flows have had an economic impact in several of these economies. First, the sheer volume has become an important source of foreign savings that help to sustain foreign currency reserves. For example, in many Caribbean and Central American countries, remittances are the most important source of income and exhibit far more stable flows than other factors. Second, remittances respond to macroeconomic shifts, particularly to inflation, thus manifesting countercyclical tendencies. Third, in some countries, particularly in smaller ones, these savings have an effect on the country's growth rate. Fourth, they represent an economic engine attached to an intermediating industry that includes other kinds of services and transactions. Fifth, remittances have a distributive impact in a country's economy.

Table 7: Central America in the global economy, 2005, in million US$

Sector	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica	D.R.
Remittances	2,992.8	2,830.2	1,763	600.4	362.0	2,410.8
Merchandise Exports (not including maquiladora)	5,028.6	1381.47	875.0	857.9	2,954.0	1,397.9
Maquiladora	352.4	1,920.7	886.4	682.1	4,072.3	4,734.6
Official Development Assistance*	218.4	211.5	641.7	1,232.4	13.5	86.9
Income from Tourism	868.9	542.9	472.2	207.1	1,598.9	3,519.7
GDP	27,400.0	17,244.0	8,000.0	5,000.0	20,014.5	29,333.2
R+X+A+T/GDP	35%	40%	58%	72%	45%	41%

Source: Central Bank of each country

In the broader Latin American and Caribbean context, remittances are increasingly taking on an important share of the National Income. Although they only represent 2 percent of regional Gross Domestic Product, the impact of remittances varies across countries and regions and is greater in smaller economies.

At the national level, such variations are associated with the relationship to GDP, to per capita flows and per capita GDP as well as to the cost of sending the money. For example, Haiti, Honduras, Nicaragua, El Salvador and Jamaica are countries where remittances received represent more than 10% of total GDP. However, not all of these countries are relevant when remittances are measured in per capita terms. Those countries that receive more than US$100 per capita include ten countries, among which are Mexico, Guatemala, Ecuador, Barbados and Grenada. These differences are also noted in the average amounts sent as well as in the relationship between the annual amount sent and per capita income in these countries. These differences can be observed in the table below. Although the average amount sent is around $270 per month, when that figure is compared to per capita GDP, again the results vary. Recipients in Haiti, Honduras and Bolivia, for example, receive amounts that are nearly three times per capita GDP. The cost of sending money also varies across countries and may be associated with volume; the lower the volume entering a country, the more expensive the transfer will be.

The differences in these trends are a function of specific country conditions as well as the history of migration. For example, although Central America, the Caribbean and Mexico have a historical relationship of migration to the United States, each migratory pattern and its subsequent remittance flows respond to the realities of these countries. Thus, Salvadorans and Dominicans may receive relatively similar volumes; however, their migrant populations are different in size and the timing of flows responds to varying dynamics. In the case of El Salvador, they responded to the civil war and its post-conflict process, whereas in the Dominican Republic there is a response to a longer historical tradition with one reference point being the exiled communities escaping the Trujillo dictatorship.

Table 8: Remittances and key economic indicators

	Remittance transfers …				
Country	**and GDP**	**Per capita**	**Cost**	**Average Transfer**	**Annual Volume**
Mexico*	2.98%	187.18	6.0%	351.00	20,034,000,000
Brazil*	1.09%	30.85	8.13%	541.00	5,750,000,000
Colombia*	4.84%	90.48	5.0%	220.00	4,126,000,000
Guatemala*	11.42%	237.54	5.6%	363.00	2,992,770,000
El Salvador*	18.28%	411.31	5.2%	339.00	2,830,200,000
Dominican Republic*	13.35%	271.03	6.4%	176.00	2,410,800,000
Ecuador*	6.01%	136.07	3.9%	293.00	1,800,000,000
Jamaica*	18.33%	622.78	8.2%	209.00	1,651,000,000
Peru*	3.71%	89.21	4.6%	169.00	2,495,000,000
Honduras*	23.09%	244.72	5.8%	225.00	1,762,980,000
Haiti*	34.53%	115.50	6.7%	123.00	985,000,000
Nicaragua*	19.05%	154.91	5.2%	133.00	850,000,000
Paraguay*	8.52%	89.31	9.11%	263.00	550,000,000

	Remittance transfers …				
Country	**and GDP**	**Per capita**	**Cost**	**Average Transfer**	**Annual Volume**
Bolivia*	10.17%	93.66	5.6%	235.00	860,000,000
Costa Rica*	2.11%	92.44	9.46%	301.00	400,000,000
Argentina**	0.2%	7	9.02%	212.00	270,000,000
Panama*	1.36%	61.90	10.50%	196.00	200,000,000
Guyana*	36.89%	359.52	10.14%	179.00	270,000,000
Barbados	4.3%	418	11.66%	220.00	113,000,000
Trinidad and Tobago*	0.77%	70.75	10.41%	200.00	92,400,000
Uruguay**	0.3%	71	11.28%	198.00	93,000,000
Belize*	3.77%	148.70	8.78%	220.00	40,150,000
Suriname*	4.20%	122.49	10.17%	220.00	55,000,000
Grenada**	5.2%	220		220.00	23,000,000
Venezuela, RB*	0.11%	4.64	17.10%	138.00	124,000,000
Chile**	0.0%	1	8.90%	279.00	13,000,000
Antigua and Barbuda**	1.5%	140		220.00	11,000,000
Dominica**	1.5%	56		220.00	4,000,000
St. Kitts and Nevis**	1.2%	86		220.00	4,000,000
St. Lucia**	0.6%	25		220.00	4,000,000
St. Vincent and the Grenadines**	0.8%	27		220.00	3,000,000

*Source: Central Banks of each country, World Bank Development Indicators, data collected by the author. Note: * 2005; ** 2003.*

Table 9: Remittances and other indicators

	Rural areas	Female Recipients (%)	Female Senders (%)	Recipients who spend in Health and Education (%)	Recipients with Bank Accounts (%)	Non-Recipients With Bank Accounts (%)	Senders With Investment (%)	Recipients with Investment (%)
Bolivia		52	71		44	35	4	
Colombia		68	54	84.14	52	45	5	14.5
D.Republic	40	73	45	38.89	66	58	3	21.1
Ecuador	57	74	28	48.01	46	34	1	29.8
ElSalvador	39.5	72	46	50	31	19	3	10.6
Guatemala		80	29	59.41	41	17	2	5.1
Guyana	40	71	48	22.8	62		8	11.7
Haiti	54	53	32	86.4	68.4		25.5	17.7
Honduras			37		34	16	4	4
Jamaica			49		65	60	2	
Mexico	45.7	63	17		29	28	2	
Nicaragua	45	72	44	53.92	10	10	3	27
Peru		46			37	35		

A look at these flows and their manifestations in the Latin American and Caribbean region show the presence of three distinct groups as they relate to the impact these funds have in each country. One group is represented by those countries whose flows have an effect in most if not all the indicators mentioned above. This means that remittances have an important presence both in the country's national and per capita income, as well as in the inflow to a household's income, which is at least twice the average per capita income. A second group is one wherein the effect of remittances is felt in half of these indicators, and the third group is that which is minimally impacted by remittances.

Table 10: Impact of remittances on Latin American and Caribbean economies

Impact of Remittances		
Strong	**Medium**	**Low**
Guatemala	Paraguay	Dominica
Ecuador	Colombia	Panama
Nicaragua	Peru	Antigua and Barbuda
El Salvador	Dominican Republic	St. Vincent and the Grenadines
Haiti	Brazil	Chile
Honduras	Suriname	Trinidad and Tobago
Bolivia	Costa Rica	Argentina
Guyana	Belize	St. Kitts and Nevis
Jamaica	Grenada	Uruguay
Mexico	Barbados	St. Lucia
		Venezuela, RB

Ratio of remittances: 1: < .66; 2:0.67-1.5; 3: > 1.51; Remittances as % of GDP:1: < 1%; 2: 1 to 4%; 3:>4%; Remittances per capita: 1<36; 2: 37-100; >100; Remittances cost: 1: > 7.5; 2: 7.6-9.5; 3: <9.5.

The impact of remittances and other economic activities of migrants in the U.S.

It is also important to acknowledge that the impact of remittances and other migrant related economic activities also extends to the U.S. economy. For example, despite this substantive amount of resources sent, they only represent less than 20% of migrants' income: the rest is spent in the United States.

Table 11: Basic propensity to remit (ratio between amount sent and income)

Country of origin	Mean ratio	Standard Deviation	N
Colombia	.1357	.09665	204
Cuba	.0743	.07022	150
Ecuador	.3718	.29328	96
El Salvador	.1550	.13706	372
Guatemala	.3041	.25154	94
Guyana	.1434	.21995	174
Honduras	.1080	.07713	67
Mexico	.2890	.25427	440
Nicaragua	.1128	.08273	135
Dom. Rep.	.1246	.11146	149
Bolivia	.1154	.07710	68
Jamaica	.2169	.53953	180
Total	.1883	.24774	2129

Source: Orozco, Manuel. Surveys conducted by the author.

Moreover, the revenues these economic activities create for U.S. businesses, small and large, are quite substantial and in revenues represent ten percent of the volume sent abroad. The money transfer industry itself, handled predominantly by minority owned businesses, creates between thirty to three hundred jobs with indirect benefits to thousands of agents operating nationwide.[8] Thus, a decline in volume transferred would affect companies.[9]

The phone industry also has had great financial gains from these economic activities. Immigrant contacts account for a substantial share of telephone companies' revenues on service between the United States and Latin America. Half of calls from the United States to Latin America, for example, are household to household calls (Table 12). Similarly patterns are found in the airline industry, where revenues from international flights are substantively related to visits made by migrants and their families.

Table 12: Phone Calls between the United States and Selected Latin American Countries

País	Minutes 2003 (000)	Household minutes (000)	**U.S. revenue (US$)**(000)	**Payment to country (US$)**(000)	Monthly pay
Nicaragua	152,067	120,280	38,868	18,670	$45
El Salvador	1,016,670	492,510	129,727	90,267	$26
Guatemala	1,455,877	305,442	299,989	103,677	$33
Honduras	411,481	169,418	108,623	95,946	$60
Dominican Rep.	780,344	660,806	124,328	51,226	$27
Colombia	838,903	634,940	96,195	55,651	$22
Haiti	231,766	234,000	31,640	19,057	

Source: Data from author's 2003–2004 survey of immigrants in New York; Los Angeles; Washington, DC; Chicago; and Miami; administered by Emmanuel Sylvestre and Associates. United States Census Bureau. 2000; 2001, 2002 International Telecommunications Data, Federal Communications Commission, December 2001, and January 2003. Note: Computation based on an average of four calls a month at 5, 8, 15, 25, and 30 minutes per call. Formula was sum of phone calls = annual minutes × percent calling × immigrant percent remitting (from 2000 U.S. census).

There are other realities that are not to be neglected. These include, for example, the emotional effect of separation among families, the effects of migration on gender relations, in settings where social capital still has a strong gender bias against women.

3. Alternatives and policy options

The challenges to address the lack of robust growth in Latin America and the Caribbean require the increase of cooperation as well new policies that can leverage on the existing flows of money. Here we look into those issues.

First, people generally do not wish to migrate and stay apart from their families, thus they prefer a better performing home country economy. The pressures of globalization and the higher costs of living in their countries do not encourage potential migrants to stay. Second, current immigration includes undocumented border crossing practices which upset many groups who argue that the migration of low skilled undocumented workers is unsustainable,

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[8] Orozco, Manuel. *International Flows of Remittances: Cost, competition and financial access in Latin America and the Caribbean- toward an industry scorecard*. Washington DC: May 12, 2006, Report prepared for the Inter-American Development Bank.

[9] First Data Corporation, for example, argued that the U.S. immigration activities and debate "in the second quarter negatively impacted Western Union's total revenue growth by 2% and total operating profit by 3%." FDC attributed their drop in transactions to Mexico from 17% to 6% in the second quarter of this year.

is as high as 12 million people, has a direct effect on wages, takes jobs from the native born and is illegal. Although the actual figure of undocumented migrants may be lower[10], and the effects of migrants may vary and have different implications, governments have the obligation to reduce undocumented flows and better manage migration.

Immediate policy solutions to promoting economic growth and reducing undocumented migration still intersect with the ways in which development is accelerated in many of these countries. Here we suggest three practical approaches, namely, to leverage the already existing economic practices of immigrants by adopting policy options that are tested and directly associated with development; accelerate economic reforms with strong social components focusing on increasing educational attainment and wealth generation; and support a guest worker program with conditionality clauses for migrant sending governments about their performance.

i. Leverage transnational economic practices through policy

There exists an imperative urgency to leverage policies that encourage asset accumulation among migrants and their families that requires creative thinking about how to proceed. Moser stresses the consideration of first and second generation policies. The first focuses on laying out a social and economic infrastructure (such as access to financial institutions or better education), while the second one attempts to "strengthen accumulated assets, to ensure their further consolidation and to prevent erosion."

Within the context of transnational migration, and specifically among remittance senders and recipients, first generation policies should also concentrate on increasing the percentage of migrants and families with access to financial institutions. In addition, they should center on ways and means of accelerating the process of educational attainment by increasing average schooling and improving student academic performance. This means that educational services need to conform to the purchasing power of remittance senders and recipients to offer better quality education. Second generation policies should focus on designing tailored financial products that build assets for individuals, families and communities.

Broadly speaking we identify six initiatives where donor activity can be critically important to promoting asset accumulation by leveraging schemes through remittance funds and migrant capital investment.

First generation policies:

1. Accelerating financial intermediation projects with credit unions and MFIs;
2. Engaging banking institutions more actively by identifying their opportunity costs in rural areas;
3. Design projects that include education and health services among range of services offered by MFIs in cooperation with schools, public or private:
    a. Education funds, tutoring classes, extracurricular activities, internet,
    b. Health insurance, specialized medicine funds;

[10] We estimate that the number of undocumented Hispanics/Latinos is seven million at most (see table 1 in appendix). Undocumented migrants from nationalities outside Latin America could amount for as much as two million.

c. Define goals and standards among community leaders, financial institutions and local governments to raise educational attainment from 6th to 12th grade levels;

Second generation policies

4. Supporting projects on feasibility investment schemes to develop investment portfolios, including recommendations on business consolidation where microenterprise is ineffective or inefficient;
5. Link investment opportunities to the transformation of subsistence agriculture;
6. Engage local governments and the private sector to review their roles as environment enablers to promote investment and increase productivity.

An example of donor initiative: the Multilateral Investment Fund of the Inter-American Development Bank

One of the pioneering institutions in addressing the link between remittances and development has been the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IADB). The MIF has addressed this issue from a research, advocacy and operational perspective. Since 1999, it has engaged in a series of discussions and studies about the impact of remittances in Latin America and the policy problems posed by high transaction costs. As its research and public discussion ensued, the MIF encouraged movement on this front by taking the initiative to fund projects aimed at modernizing a financial infrastructure that could attract money transfers at lower cost, while addressing the financial needs of unbanked remittance receiving households.

To that effect, the MIF has funded over 20 million dollars in projects in several countries in Latin America (Brazil, Colombia, Dominican Republic, Ecuador, El Salvador, Mexico, Nicaragua), many of which go to microfinance institutions or alternative savings and credit institutions. Table 13 identifies some of the more widely known projects funded and related to remittance transfers.

Table 13: Projects funded by the Multilateral Investment Fund, 2001-2004.

Project	Country	Amount
Expansion and strengthening of a microfinance institution FIE	Argentina	$2,396,060
Remittance Fund for Entrepreneurs	Brazil	$5,000,000
Mobilization of remittances through microfinance institutions	Colombia	$824,770
Distribution Channels for Remittances	Dominican Republic	$2,500,000
Financial and business services for remittance recipients	Dominican Republic	$840,000
Support Micro-Enterprises Utilizing a Line of Credit	Ecuador	$2,200,000
Strengthening of Financial Services and Remittances	El Salvador	$1,500,000
Capitalization of Remittances for Local Economic Development	Mexico	$1,115,000
Strengthening Savings and Credit Unions	Mexico	$3,500,000
Investment of Remittances	Mexico	$460,000
Investment in Financiera Nicaragüense de Desarrollo	Nicaragua	$1,750,000
Support for returning entrepreneurs	Peru	$500,000
Enhance dev. impact of Peruvian workers' remittances from JP	Peru	$7,200,000
Financing for micro and SMEs thru formal financial intermediaries	Regional	$8,200,000
MIF-IFAD partnership facility for rural private sector dev-LAC	Regional	$4,000,000
Total		**$41,985,830**

The Fund has also engaged in partnerships with other donors and institutions. For example, it now has an alliance with the International Fund for Agricultural Development (IFAD) of the United Nations. In April 2004, the two organizations announced the creation of a $7.6 million dollar fund aimed at funding remittance related projects that addressed microfinance and investment. Under this agreement, for which MIF provided $4 million, local counterpart organizations, such as microfinance institutions and credit unions, are expected to commit $1.6 million to the projects they propose (IADB-MIF 2004).

One of the more successful cases resulting from IADB efforts is the Red de la Gente project. In Mexico, BANSEFI, the National Savings and Financial Services Bank, a quasi-government institution mandated to expand financial products and services to all Mexicans, entered the remittance market and received funding to strengthen its technology and network of banks. In 2003 BANSEFI established a network of over 1200 distribution centers called L@Red de la Gente, together with popular banks, micro-finance institutions and credit unions, to act as a remittance payer. In addition, BANSEFI forged agreements with several MTOs including GiroMex, Dolex, Vigo, and MoneyGram. Furthermore, it also linked its network to the FedACH International SM Mexico Service.

Under this scheme, the members of L@Red de la Gente offer remittance transfer services in mostly low-income urban and rural areas that experience significant emigration to the US, and where the formal financial system has no coverage. In January 2005, BANSEFI made 25,000 transactions a month and had opened accounts for 10 percent of the individuals who had come in for remittance services, an improvement from the 6 per cent who opened accounts in 2003. By June 2006 L@Red de la Gente grew four times to 100,000 transactions a month and continued banking remittance recipients.

Other IADB-MIF grantee institutions like FEDECACES, the federation of credit unions in El Salvador, have targeted remittance recipients directly as potential members of the credit union. Approximately 25 percent of remittance recipients who choose FEDECACES to receive their remittances are also FEDECACES clients.

Table 14. Number of accounts opened by remittance recipient household clients of Fedecaces (May 2005)

Institution	New accounts opened	Monthly transfers	Conversion rate	Rural presence
Fedecaces	4375	22000	20%	90%
Acocomet	800	2383	34%	100%
Acacu	2703	2703	100%	90%

U.S. foreign assistance can help enable credit unions to transfers remittances through them and enhancing their capacity while reducing costs. At the same time, by offering money transfer services, credit unions and micro-finance institutions will bank the unbanked in the region, having a direct economic effect on their countries. Banking the unbanked has direct distributive and multiplier effects in an economy as the savings rates increase, opportunities to invest are expanded at the local level and the inflow of remittances resulting from a decline in prices also increases. USAID can establish programs to facilitate the access of remittances recipients to credit unions for micro-finance opportunities, but also to receive remittances. USAID in particular can set up programs to enable savings and loans cooperatives to establish interfaces with credit unions and community banks in the United States.

USAID's successful experience in Jamaica is a proven example of what can be accomplished by leveraging remittance flows through financial access. Through a grant from the United States, in November 2003 USAID entered into an agreement with Jamaica National Building Society (JNBS), one of the country's remittance companies holding 15% of market share in the country, to introduce smart card technology to reduce the cost of money transfers and create greater accessibility to funds. In addition, JNBS would leverage the savings created from the implementation of the smart card into development work. As result in less than two years JNBS was able to activate 20% of its transfers through debit card while it used terminal point of sales among its merchants to enhance the use of the card among remittance recipient costumers. To date, JNBS is perhaps the only institution worldwide with the highest percent of recipients withdrawing money with a debit card and using it for purchases, thus reducing cash and transiting to account to account transfers domestically.[11] USAID provided a quarter of a million dollars to JNBS to achieve this goal, in turn more than ten thousand remittance recipients use debit cards today and the majority of JNBS costumers have bank accounts.

ii. Accelerate modernization reforms

Many Latin American and Caribbean countries exhibit low education rates, and the opportunities to increase wealth are partly associated with access to education. Bilateral and multilateral development agencies as well as governments and civil society have stressed the importance of targeting support in key areas such as free trade, social policy in education, and health, and democratization. There are at least ten issues where attention is needed, and substantive cooperation is important. Some of these issues include strengthening trading capacity, as well as financing for small and medium enterprises.

Program assistance has contributed to maintaining basic needs; however, given the prevailing constraints, there is need for more attention. To that effect it is important to increase aid flows. Foreign aid to the most of Latin America and the Caribbean has steadily droped since the 1990s, with the exception of aid to Colombia. Specifically, pre-existing programs will require strengthening while new programs need to be created. The list below highlights the main issues for an initiative on development in Central America. Here we point to some but of these opportunities

Ten Opportunities

Democracy and Politics

1. Strengthening justice and the rule of law:
2. Anti-corruption options
3. Democratization: party modernization, equality and civil society

Economics and Trade

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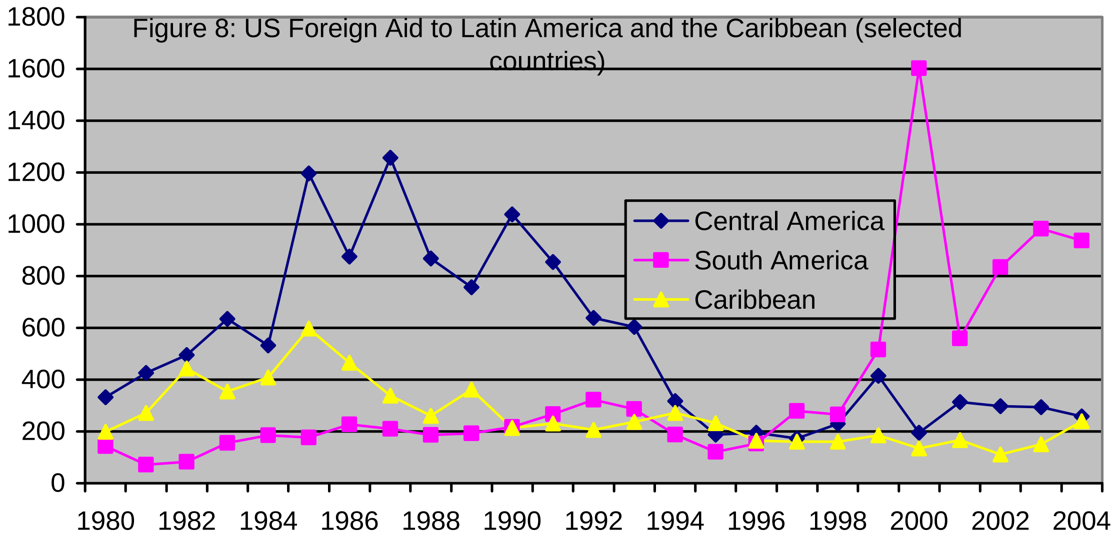
[11] In most places remittance payers have less than 5% of its costumers use debit cards.

4. Free Trade liberalization
5. Administration of Remittances
6. Small and medium enterprise for urban and rural development
7. Regional Integration

Social

8. Education
9. Public Safety and Crime
10. National Disaster Prevention: early warning systems, reconstruction initiatives and food security



Support for rural development continues to be a strategic area for the region and one in which USAID has been relatively successful. In particular, US funds allocated to improve *financial services to small and micro-enterprises* have been important in creating an economic base of Central American consumers and markets. Current allocation of these funds, however, has been relatively small (under $3,000,000 per country). Further expanding credits to finance local development activities in the rural sector will prove an important tool for the development of local markets, which in turn generate wealth in these areas. Current evidence of the inflow of remittance money from the United States into micro-credit activities shows that with further financing, local development can occur. Specifically, U.S. assistance can focus its energies on providing resources to small financial groups.

Another important area in the rural sector has dealt with the *diversification of export commodities*. A focus on diversification and non-traditional exports rather than basic grains is a longstanding strategy that works in the long term as it yields higher value returns than other traditional produce. This approach will also have an effect on the affected coffee industry in two ways. First, it will help support the shift from coffee production into non-traditional exports. Second, it will support strategies to produce more competitive coffee in the international market. To that effect, continuous support to train farmer to produce alternative crops is an essential strategy which will also be connected to finance opportunities. Although this area has been of great importance to USAID, funding has been limited; depending on the country, funding for alternative crop diversification has been under one million dollars.

Closely related to agricultural change is the constraint brought by the lack of identification and access to *market linkages and modern technology*. These two issues, however, are not restricted to the agricultural market but rather apply to all industry sectors. The ability to expand exports and get businesses involved in competitive ventures depends on access to markets and alliances with international businesses.

U.S. assistance can foster development alliances between U.S. and Central American businesses to quickly import technologies that will lower production costs and increase productivity and competitiveness.

Food security is also another area that requires significant attention. Current weather projections estimate that El Niño will hurt Central America again with a serious drought. The immediate effect is not only a loss of production, but also an inability to feed people in rural areas. A prevention plan for the region is required to confront the unfortunate but coming disaster this summer. U.S. assistance to Central America to confront drought has been essential, yet it hasn't meet the demands of food for the nearly one million people affected. This year assistance needs to arrive on time and in significant quantities.

Strengthening free trade is another area of critical importance. The legacy of the Caribbean Basin Initiative (CBI) in Central America, for example, has been an important one. Since its implementation, commerce has continued to increase. The growth in non-traditional exports has been significant, and an important economic transformation took place: the region's industrial exports have benefited more under the CBI than have its agricultural exports. The table below shows how the manufacture of textiles and garments is a key source of export revenue for these countries. Under the new free trade agreement, CAFTA-DR, these countries require substantive technical assistance in order to adopt greater competitive capacity and improve investment in new areas.

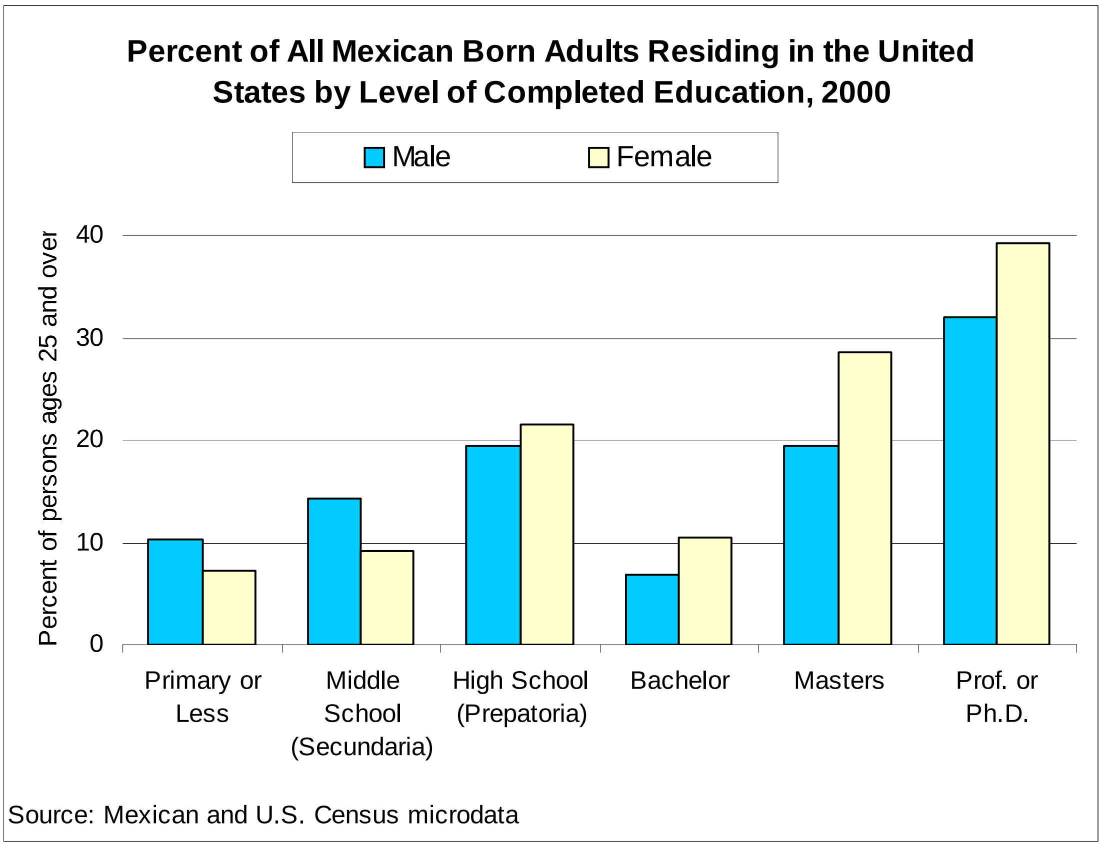
Table 15: U.S. Imports of Central American Goods, (as percent of total imports, 2005)

Product	D.R.	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
Textiles and Garments	40%	14%	81%	56%	70%	60%
Coffee, tea, spices	5%	1%	3%	9%	2%	4%
Total	45%	14.01%	84%	65%	72%	64%

Source: US International Trade Commission, Interactive Tariff and Trade Data Web, 2006.

Education is a major area that needs fundamental attention. The global economy demands people with education levels above secondary education, yet most of Latin America and Caribbean countries hold a sixth grade education, and drop out rates are alarmingly high in many countries. Moreover, skills acquisition is inadequate and many in the labor force learn to adapt remedial techniques on productivity, whether in agriculture or manufactures. Governments are to be urged to increase investment in education, involve the private sector to invest in its labor force and retain it, and deepen and expand learning tools for economic development.

While criticism in the United States by some sectors argues that most of the Mexican labor force has low education levels and is predominantly unskilled, the effect in Mexico is distinctively different: there is a high percent of Mexican individuals with graduate and postgraduate education that have left Mexico. Retaining professionals, while sponsoring return migration programs to skilled labor force is critically important to enhance development opportunities in Latin America and the Caribbean.



Data collected by Lowell, Lindsay. High Skilled Mobility: Changes and Challenges, 2006.

iii. Adopt a reliable and responsible guest worker program

Any analysis and recommendation about leveraging migrant foreign savings as sources for asset accumulation cannot ignore the broader context of migration. Specifically, the context in which migration takes place between the United States and Latin America is a combination of market demand for foreign labor, inefficient government migration management and poor economic performance in Latin America. The end result is the employment of foreign labor working under precarious conditions, living on low wages and struggling to turn their resources into assets.

The local economies and governments in the countries where migration occurs are constrained by private sector unwillingness to leverage foreign savings, an uncertainty as to how to proceed, and struggling economies that are barely growing, thus limiting the options for asset building or accumulation. Given the realities of continued transnational migration, a demand for and ready supply of foreign labor, and increasing interest among donors to leverage these flows, managed migration through a guest worker program and the legalization of undocumented workers is of critical importance.

Adopting a guest worker program as recommended by President Bush based on country quota allocations is an important step forward. This kind of initiative should include two important components tied together by a conditionality framework. First, the guest worker program should be accompanied by a small but compact foreign assistance package aimed at supporting a local financial and economic base to encourage migrants to eventually return home on better conditions. Second, local governments should commit to adopt policies aimed at leveraging remittance flows, while strengthening their ties to their diasporas. Thus, access to a guest worker program should be conditioned to the leveraging of migrant's foreign savings through policy incentives and initiatives and sound economic performance. Governments, with the exception of Mexico, have adopted few policies to encourage financial access either through direct government incentives or through incentives for private banking institutions.

Although in January 2004 at the Summit of the Americas, the United States committed to help reduce transaction costs, along with its Latin American counterparts, the United States and Mexico are the only countries that have followed through with their commitment. Western Hemisphere states agreed to "adopt, as needed or appropriate, measures such as: the promotion of competition between the providers of these services, the elimination of regulatory obstacles and other restrictive measures that affect the cost of these transfers, as well as the use of new technologies, while maintaining effective financial oversight." Furthermore, in late 2004 these and other efforts on the part of government, private, nonprofit, and international organizations led to major money transfer companies signing a "Goals and Recommendations" letter stating that "remittance institutions should compete on the basis of fair and non-discriminatory contractual arrangements." Moreover, they recommended that "public authorities should facilitate remittance markets, and avoid attempts to tax, over-regulate or otherwise take actions that impede the flow of remittances."

Unfortunately this commitment has fallen short of compliance, yet immigration continues to be of critical importance to these countries. Setting conditions to compliance to the Summit of the Americas declaration and adopting metrics to measure success of their implementation should be a guiding indicator to allowing a country participate on a guest worker initiative.

Appendix

Table 1: Average estimates of remittance senders and undocumented migrants

Country	Average sent	Av. Freq.	Annual Remittance Volume	Senders	% in US	% Undoc.	Undoc rem. (#)	All undoc. (#)
Colombia	218	12	$4,126,000,000	1,580,014	70%	32%	353,923	460,100
Cuba	155	12	$1,000,000,000	537,337	90%	9.3%	44,975	58,468
Ecuador	222	12	$1,800,000,000	676,437	70%	60%	284,104	369,335
El Salvador	246	12	$2,830,200,000	958,420	90%	37%	319,154	414,900
Guatemala	298	12	$2,992,770,000	838,035	90%	60%	452,539	588,300
Guyana	333	12	$270,000,000	67,635	80%	30%	16,232	21,102
Honduras	151	12	$1,762,980,000	971,232	90%	51%	445,795	579,534
Mexico	301	12	$20,034,000,000	5,543,423	95%	56%	2,949,101	3,833,831
Nicaragua	158	12	$850,000,000	447,400	60%	15%	40,266	52,346
Dom. Rep.	163	12	$2,410,800,000	1,235,801	80%	8%	79,091	102,819
Bolivia	246	12	$860,000,000	291,667	80%	58%	135,333	175,933
Jamaica	375	12	$1,651,000,000	367,358	70%	30%	77,145	100,289
Total	254	12	$40,587,750,000	13,514,758			5,197,659	**6,756,957**

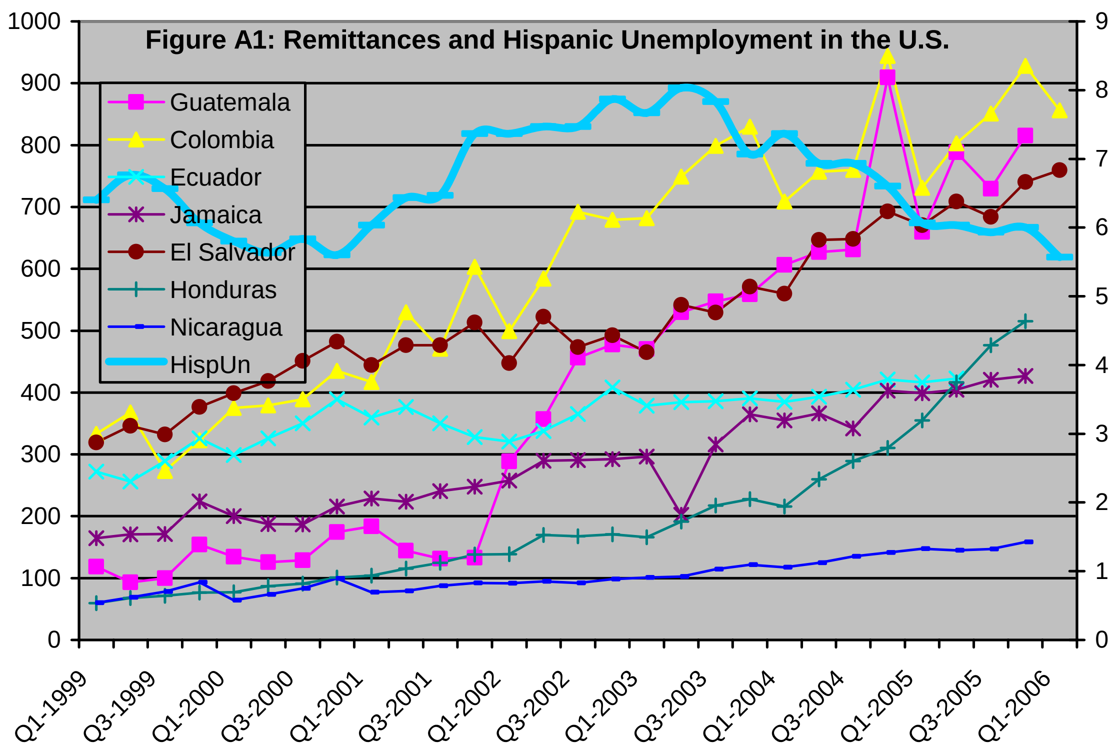


Figure A2: Guatemala and the Coffee Crisis