Remittances and Rural Development

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Paper prepared for Twenty-Seventh Session of IFAD’s Governing Council
Rome, 18-19 February 2004
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>HTA</td>
<td>Hometown Association</td>
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<td>IDB-MIF</td>
<td>Inter-American Development Bank-Multilateral Investment Fund</td>
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<td>NGO</td>
<td>Non-Governmental Organization</td>
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<td>ODA</td>
<td>Official Development Assistance</td>
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<td>PREMODER</td>
<td>Reconstruction and Rural Modernization Programme</td>
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<td>PRODAP-II</td>
<td>Rural Development Project for the Central Region</td>
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REMITTANCES AND RURAL DEVELOPMENT

I. INTRODUCTION

1. Globalization and migration are rapidly changing traditional spheres of human activity. Age-old boundaries are rapidly breaking down. Formerly isolated towns and villages in the Latin American countryside have suddenly become closer to New York or Los Angeles than to the capital of their own nation. Development organizations assisting poor rural families in overcoming poverty soon find that essential members of these families make their living abroad, far away from their dependants. “The global village” has become a reality. However, the situation of poverty that forced rural inhabitants to migrate in the first place still exists in their places of origin and continues to influence their lives and prospects in their “new countries,” as well as those of the people they left behind. A fairly new challenge for addressing rural poverty is to take these new social and economic realities into consideration and integrate them into innovative strategies for promoting rural development.

2. This paper deals with the social and economic impact of remittances on the Latin America and Caribbean region. It analyses, from a gender perspective, the continuous interaction of migrants with their communities of origin and the unique role many migrants play as agents of change in both their country of settlement and their country of origin. It is argued that these particular circumstances create new opportunities for IFAD. Given its long-standing role in promoting rural development in the Latin America and the Caribbean region through participatory projects, which include the most vulnerable sectors of the communities, the Fund is in a unique position to help the senders and recipients of remittances to increase their access to financial services and invest in employment- and income-generating projects.

3. IFAD has already begun to explore the possibilities of working with migrants. It is suggested that IFAD could broaden its target group to a transnational level by: (a) recognizing the existence of a large migrant population with strong ties to the rural poor; and (b) identifying and strengthening groups among the migrant communities, particularly in the United States, who are interested in developing their communities of origin. It is argued that by changing its perspective of the target group and viewing communities as interspatial entities with members spread across nations, and expanding its partnership with migrants who have a direct interest in the well-being of the rural communities they left behind, IFAD would pioneer a ground-breaking strategy to further its work in the region.

II. REMITTANCES IN LATIN AMERICA AND THE CARIBBEAN: AN OVERVIEW

4. Over the past ten years, a substantial amount of research has been conducted on the phenomenon of international migration, the emergence of transnational communities and their socio-economic effects on both the migrant communities and their communities of origin. It is estimated that, worldwide, migrants’ remittances amount to USD 100 billion annually. In 2002, remittances to the Latin America and Caribbean region amounted to approximately USD 32 billion. This amount is three times greater than it was six years earlier. In some countries, remittances have surpassed the level of foreign direct investment (FDI) and official development assistance (ODA). Remittances – the
money that migrants earn abroad and send back to their country of origin – are not the only exchanges between communities. Knowledge, skills, goods, culture, etc. are also being shared, with both positive and negative effects.

5. Remittances are not just one-way flows of money that are quickly used for the acquisition of consumer goods; they are also increasingly being used collectively to rebuild the infrastructure of rural communities and co-finance development projects. In Latin America and the Caribbean, governments, inter-governmental organizations and non-governmental organizations (NGOs) have begun focusing on how to channel and utilize remittances to promote sustainable development. However, it should be kept in mind that remittances are private transfers from hard working individuals to their families and, as such, governments, as well as donors, should not consider them as public development resources.

6. The exchanges between families and communities across continents are often initiated and then strengthened through economic interactions. However, the social effects of the continuous exchange between small and medium entrepreneurs in Latin America and the Caribbean and their partners or clients in the United States are also noteworthy. These entrepreneurs, along with other travelling migrants, are the active “weavers” in developing social networks, creating new opportunities for those back home and abroad. It is worth noting that the huge social and economic impacts remittances have on the Latin American and Caribbean countries are the result of a strategy by the poor to help their families overcome their poverty in the home country.

7. It has been estimated that, in 2000, 14.5 million of the foreign-born population, or 51% of the total foreign-born population living in the United States was born in Latin America and the Caribbean, a significant increase from 8.4 million in 1990 (Current Population Survey, United States Census 2002). The United States Census estimated that, in 2000, the leading source for its foreign-born population was Mexico (7.8 million), followed by Cuba (952 000), El Salvador (765 000), and the Dominican Republic (692 000).

8. Once these migrants establish themselves in the United States, they manage to find employment, and some have even become successful entrepreneurs. However, many often find their dreams of financial and personal achievement broken by the harsh realities of life in El Norte (the North). Some Latin American and Caribbean migrants find themselves marginalized in the new country. The 1999 median earnings for male full-time, year-round workers born in Latin America and the Caribbean were approximately USD 21 000, whereas for women they were approximately USD 17 200.

9. Among Latin American and Caribbean migrants, 71% were employed as service/skilled workers, or farm/manual labourers (Current Population Survey, United States Census 2002). Women tend to be even more limited in terms of occupational opportunities; they generally end up in the domestic service area. Due to the concentration of Latin American and Caribbean migrants in low-wage sectors of employment in the United States, large proportions of them have incomes below the poverty line. In 1999, 21.9% of Latin American and Caribbean migrants were poor, compared to 9.3% of foreign-born persons from Europe or 12.8% from Asia (Current Population Report, United States Census 2001).

10. Migrants make significant sacrifices to send an average of USD 200 eight or more times a year to their home country (i.e. between USD 1 600 and USD 2 400 a year). For the average Latin American or Caribbean migrant who earns less than USD 25 000 a year, this amount may account for

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2 According to Hinojosa (2001:4-6), current economic and immigration policies in the United States tend to increase the flow of undocumented migrants and the dependence of United States businesses on cheap labour. The United States Bureau of the Census, Current Population Survey, estimated that in 1999 the poverty threshold in the United States was USD 17 029 for a family of four.
nearly 10% of his or her income (Orozco, 2002b:7). These are significant sacrifices if we consider that the majority of the migrants are poor by United States standards.

11. Considering the total volume of worldwide remittances from a regional perspective, the Latin America and Caribbean region is the main recipient, having received approximately 31% of the flows in 2002. After Latin America and the Caribbean came southern Asia (20%), followed by the Middle East and North Africa (18%), East Asia and the Pacific (14%), Europe and central Asia (13%) and southern Africa (5%) (Orozco 2003b:3).

12. El Salvador and the Dominican Republic have high volumes of per-capita remittances due to recent increases in out-migration. In the case of El Salvador, one out of every four Salvadorans lives abroad (approximately 2.5 million persons). El Salvador also stands out by the fact that even if Salvadorans represent only 1% of the migrant population worldwide, they contribute 7% of total global remittances. 3

13. In recent years, remittances to El Salvador have surpassed the total value of exports. In the Dominican Republic and Nicaragua, they represent more than half of the value of the nation’s exports. In Mexico, remittances represent 10% of the total exports (Orozco 2001:6). In terms of gross domestic product (GDP), remittances in El Salvador have come to constitute approximately 15.1% of its GDP, 29.4% of Nicaragua’s, 24.2% of Haiti’s, 16.6% of Guyana’s, 12.2% of Jamaica’s and 11.5% of Honduras’ (IDB-MIF 2003:6). When remittances are considered not in terms of volume, but as a percentage of the GDP (of the receiving country), and in comparison to national exports, it becomes quite clear how critical they are in supporting many Latin American and Caribbean countries. 4

14. The data from the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) – based on a survey conducted in the 19 Latin American and Caribbean countries receiving the majority of the total value of remittances in 2002 – reveals that remittances almost equalled total FDI to the region and substantially exceeded ODA to each country. Remittances from Europe are also increasing. In 2002, it was estimated that remittances from Spain to Colombia, Ecuador and the Dominican Republic amounted to 706 million euros (CECA, 2002:16).

15. For many countries, remittances are crucial for the national economy, providing as much, and in some cases more foreign exchange as the country’s exports (agricultural and industrial). Mexico receives the largest total volume in the region (USD 10.5 billion in 2002), followed by Brazil, Colombia, El Salvador and the Dominican Republic. Jamaica receives the highest volume of

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3 According to Upton (2002:5), the total value of remittances in 1999 amounted to approximately USD 100 billion (compared with only USD 2 billion in 1970). More recent studies by Orozco (2002d:1) and Gammeltoft (2002:181) support this estimate. The following data illustrates the importance of remittances in developing countries worldwide as a source of income and foreign exchange. In 1999, Egypt received USD 5.1 billion in remittances, a figure very close to the USD 6.9 billion Egypt received the same year from the Suez Canal, oil exports and tourism combined. According to the Central Bank of The Philippines, in 1999 the country received around USD 7 billion in remittances, a figure significantly higher than ODA and FDI flows during the same period (Upton 2002:5). In the case of Africa, according to the International Organization for Migration (IOM) (using World Bank data), in 1999 Morocco received approximately USD 1.9 billion in remittances, Mauritania and Guinea Bissau each received approximately USD 1.8 billion and Nigeria received approximately USD 1.3 billion (Migration for Development in Africa, IOM 2002).

4 The total flow of remittances may be grossly underestimated since most estimates do not account for the flow of informal remittances (e.g. remittances sent through unofficial channels such as self-carry, hand-carry by relatives or friends or remittances in the form of clothes and other consumer goods). Many Latin American and Caribbean migrants continue to use informal remittance channels. This may be due to the fact that many migrants are still unfamiliar with the banking system. Forty-three percent of Latin American and Caribbean remittance senders do not have a bank account and 55% do not have credit cards (Suro et al., 2002:19).
remittances per-capita because it is the country with the largest proportion of its population living abroad from the region. Although Jamaica’s population is 2.5 million, the country has 800,000 migrants in the United States (who sent back USD 900 million in 2001) (Orozco 2002a:20).

16. Remittance flow has a significant impact in rural areas. According to the Migration Survey along the Northern Border of Mexico, 42% of Mexican migrants come from rural areas. In 1996, 10% of rural households reported receiving remittances, compared with 4% of urban households (Colegio de la Frontera Norte 2002:33-37). El Salvador provides a similar pattern (Garcia 1998:7-8). In the case of Nicaragua, migration is predominantly to the United States and Costa Rica, with a large percentage of migrants coming from rural areas. In 2003, more than 30% of Nicaraguan immigrants in Costa Rica came from rural areas (Orozco 2003a:7-8, 20).

III. MIGRATION AND THE EMERGENCE OF TRANSNATIONAL COMMUNITIES

17. The globalized context of rapid economic change facilitates the development of social structures that transcend national borders. However, while economic explanations of the emergence of migrant communities’ strong links to their country and culture of origin are valid, it is also important to remember that many of these migrants often find themselves in a hostile environment. Intimate contacts with the home country may serve as a type of survival strategy against various forms of discrimination and isolation faced in the new country.

18. Furthermore, while a series of economic factors influence the migrant to leave his or her home country — unemployment, low wages, limited career prospects for highly educated people — psychological and social push-and-pull factors are also important. For example, people are propelled to migrate by the presence of relatives in the recipient country and/or lack of basic social services in the sending community. Migration is seldom a decision made on the spur of the moment (not counting migration caused by food insecurity, political persecution or wars). It is a rational decision, taking into account the risks involved and the possible benefits that may be gained (Vargas-Lundius, 1991:318). Considering that individual and psychological factors intermingle with economic decisions, it is easy to realize why migrants might be unwilling to sever ties with their communities of origin. Several reasons make them prone to maintain these ties: continually improved means of communications, the fact that they left family members behind, an urge to help their original communities to prosper, creating new and better opportunities for their inhabitants, etc. Contacts “back home” may also serve as insurance if the migrants don’t prosper and enhance the quality of their lives in the new country.

19. “Hispanics” or “Latinos” have become the largest ethnic group in the United States, constituting close to 13% (32.8 million persons) of the total population. In the United States, neighbourhoods have been created that seem more Latin American or Caribbean than American. In such communities, members are always up to date on the latest happenings in their towns of origin; their native language is spoken more than English; and their traditional foods and products are more common than “American” goods. International migrants straddle two, sometimes more, nations. Many are building what some scholars call “transnational villages” (Levitt 1998:2), social and economic networks that facilitate the frequent exchange of people and resources.

20. In the Dominican Republic, there are hundreds of small- to medium-size enterprises (including small factories, commercial/retail establishments and financial agencies) which are transnational by their form of doing business. They have been created and are run by former migrants who have returned to their home country after acquiring capital abroad and depend on their ties to the migrant communities in the United States for their survival (Portes 1997:10). A similar scenario can be found in the case of Salvadoran businesses. Dominican and Salvadoran entrepreneurs regularly travel to the United States to obtain clients and investors, sell their products and purchase supplies.
21. A significant manifestation of the importance of transnational communities is the growth of remittances during the past two decades. The IDB reported that in the Latin America and Caribbean region, the flow of remittances reached an estimated USD 32 billion in 2002, and cumulative remittances for the period 2001-2010 are estimated at USD 400 billion. (IDB-MIF, 2003:4-6). Due to the potential socio-economic power of migrants, governments are increasingly institutionalizing a transnational view in their national and international migrant policies.

IV. GENDER AND MIGRATION

22. Looking at migrants from a gender perspective, it is interesting to note that international migrants are perceived as being predominantly male. However, according to the Migration Policy Institute, women comprise approximately half of the estimated 150 million annual international migrants. For Latin America as a whole, there are more male migrants than female. 5 However, the Caribbean region is the only region, where more females migrate to the United States than males.

23. Migration changes the traditional make-up of families, influencing parent-child relations. In certain areas (especially rural areas) 6 age ratios change, as well as gender roles and relations. Some of the knowledge, skills, ideas and values brought back by migrants (either visiting or returning to their communities of origin) are welcomed; others are not. In addition to tensions arising from cultural differences between migrants and their communities of origin, many countries are facing problems of violence brought back by deported criminals. The health of women, particularly wives and partners of migrant men, may also suffer (e.g. HIV/AIDS) as a consequence of their husband’s or partner’s time away. 7 The high volume of young men and women leaving their homes in Latin America and the Caribbean affect the composition of households. Many rural households in Latin America and the Caribbean are becoming characterized by the predominance of elderly members and children (Andrade-Eekhoff, 2002:III-6).

24. In the case of Dominican female migrants, scholars argue that women who migrate to New York and work outside the home begin to value their self-sufficiency. They become aware that their voices carry as much weight as those of their male relatives. While considering a return to the Dominican Republic after saving their earnings for several years, many of them start to question this possibility since it may mean giving up their new-found social and economic independence (Grasmuck and Pessar 1991, in Baver 1995:5). It is important to note that while female migrants may find themselves empowered in the new country, they often face great challenges in balancing their new way of life with the one in the country of origin. Women migrants abroad often face long working hours, financial obligations (including remittances to relatives left behind), family responsibilities (raising their children in the country of settlement or dealing with guilt and worry related to having left their children behind with relatives), acculturation issues (including discrimination), and competing social expectations.

25. When male members of a household (especially the head of the family) migrate, the effects on their female relatives left behind can be negative, in particular for spouses or partners. Even with the arrival of remittances to the village and the growth of the local economy, women do not always benefit substantially. Newly created jobs are often primarily for men, while women tend to be stuck in traditional forms of employment (Georges 1990, as quoted in Baver 1995:7).

5 For the region, the sex ratio (males per 100 females) was 103.8, 84.8 for the Caribbean, 112.6 for Central America and 118.1 for Mexico (Current Population Report, United States Census 2001).

6 For example, in El Salvador there are many rural villages in departments with historically high levels of out-migration, where only the elderly and the very young remain.

7 After sub-Saharan Africa, the Caribbean region has the highest rate of adult HIV infection. In both regions, the AIDS epidemic has been exacerbated by increased intra-regional migration.
26. A study on the use of remittances in Central America found that among the families with migrants abroad, the incidence of female-headed households was much higher than among families without migrants (Torres, 2000:38). The study found that in El Salvador, 48% of remittance-receiving households were headed by a woman, compared with 32% of the non-remittance-receiving households. In Guatemala, 38% of remittance-receiving households were headed by women, compared with 25% of non-remittance-receiving households. In Nicaragua, the figures were 52% and 23%, respectively. Accordingly, in Central America, the female head of household plays an important role in the use of remittances.

27. When men are absent, women have to step in, doing more work and engaging themselves in traditionally male chores. The agricultural sector in many Central American and Caribbean countries is moving from being male-dominated to being female-dominated. Although the “feminization” of agriculture in these countries could be seen as a positive trend, it is important to recognize that these rural women must still carry out other household and family responsibilities. As a result, their daily workload is increased.

28. Gender is a key factor in the likelihood of remittances being sent and received; this is a fact that is often ignored. Ortiz (1997) demonstrates that among Dominican microenterprise owners, although the female owners represent a smaller percentage, they are more likely to receive remittances than their male counterparts (26.4% compared to 18.7%). In general, Dominican female migrants abroad send more remittances to their relatives than male migrants. A total of 55.1% of the remittances received by those surveyed were sent by women, while 44.9% were sent by men (Ortiz, 1997:15). This appears to be unique to the Dominican Republic. Ortiz’s study is one of the few that looks at remittances from a gender perspective. A complete understanding of female migrants and their remittance behaviour will not be possible until gender issues are properly addressed in remittance studies.

V. ECONOMIC AND SOCIAL EFFECTS OF REMITTANCES ON LATIN AMERICAN AND CARIBBEAN COUNTRIES

29. It is not the poorest of the poor who migrate abroad, but rather the “relatively poor.” When the most educated or most resourceful workers leave their country of origin, the poorest and most disadvantaged are not always able to benefit from remittances. While it is true that one positive effect of migration is remittances, it is seldom enough to help the rural poor to break out of their marginalization. Furthermore, as the migrants in the United States continue to send remittances to their country of origin, thus sacrificing a large portion of their income, many of them could remain marginalized.

30. At the macroeconomic level, remittances are a significant source of foreign exchange; they increase national income, finance imports and contribute to the balance of payments. However, remittances can also have negative macroeconomic effects: creating dependence among the recipients (thereby reducing the incentive to invest in their own income-generating activities); encouraging continued migration of the available labour force; reducing the likelihood of national or foreign investment due to an unstable or unreliable workforce; and stimulating greater inequity among rural communities (families receiving remittances can have a higher standard of living compared to non-recipient families) (Puri and Ritzema, 1999: 26 and Martin, 2001:3).

31. Remittances generally improve the standard of living of the recipient relatives, increase household income and allow the head of the household to allocate more resources to providing food, accessing health services and education for the children and improving the house itself. For example, the average amount received by a household can be superior to GDP per capita in many Latin American countries. This is significant considering that only a small percentage of rural inhabitants earn incomes equivalent to per capita GDP.
In a study of the effect of remittances on 14 rural communities in Mexico with a population of under 3,000, remittances were found to constitute approximately 11% of all household incomes and 17% of the income of households with migrants abroad. For every additional family member who migrated to the United States and sent remittances, the income of recipient families rose by approximately 10% (Yúñez-Naude, 2001:3).

Despite a low level of “productive investments,” the multiplier effect of remittances on local economies is noteworthy, especially if they are spent locally (Taylor as quoted in Martin, 2001). Even though it is clear that remittance recipients spend the bulk of their funds on consumer goods and do not invest them, the increase in spending in rural towns has positive effects, creating a financial “injection” into the town’s economy that in reality is greater than the original value of the remittances sent (Yúñez-Naude, 2001:5).

That the bulk of remittances goes to consumption does not mean that rural people have suddenly become big consumers rather than investors. It should be kept in mind that many of them are extremely poor and use the money to feed and educate their children. These people are usually geographically and politically marginalized, living in communities with little or no infrastructure (running water, electricity, sanitation services, transport, etc.). Most of the rural poor have never held a bank account or received a loan, mainly due to the lack of financial institutions in rural zones. Given the “inherently private nature” of remittances and the difficult access to financial institutions (or even the lack of exposure to these types of institutions), one would argue that the poor are making rational decisions about the use of remittances (Puri and Ritzema, 1999:26).

It has been argued that remittances may create a reluctance to work. However, this is not a widespread phenomenon. One study found that young people directly or indirectly affected by migration still continue with their studies and seek employment. However, the study also found a decreasing interest among young people to stay within the agriculture sector (Andrade-Eekhoff, 2002:1-7).
36. A study carried out in Central America showed that remittances do not contribute to the generation of significant savings (Torres, 2000:37). However, it has been argued that most studies of remittance use may be somewhat misleading since they generally do not take into account the fact that remittances become part of the total income of a household, and are thus not separated from other sources of income (Andrade-Eekhoff, 2002:1-6-7). Remittance studies ought to compare the structures of expenditures between recipient families and non-recipient families.

VI. PROFILE OF LATIN AMERICAN AND CARIBBEAN REMITTANCE SENDERS

37. Not all Latin American and Caribbean migrants send remittances to their communities of origin. A Mexican study (DeSipio, 2000) summarizes the major characteristics that predict the likelihood of a migrant sending remittances:

- Older migrants are less likely to remit.
- Migrants whose incomes increase modestly (earning more than the lowest earning levels of recently arrived migrants) are more likely to remit. However, migrants who are part of the highest income categories are as less likely to remit as those in the lowest income categories.
- Men are more likely to remit than women. However, as mentioned above, this is not the case in the Dominican Republic.
- In general, higher education seems to correlate with a lower likelihood of remitting.
- The longer the period spent away from the country of origin, the less likely a migrant is to remit.
- When a migrant has immediate family in the United States, the likelihood of remitting decreases.

38. It is important to emphasize this last determining factor. The closer the ties between the migrant and his or her relatives left behind in the community of origin, the greater the likelihood he or she will send remittances. The amount sent is also dependent on familial ties, with a greater amount being sent when ties are closer.

39. It appears that the migrants who remit the most (and most often) are generally of working age, have children or parents back in the country of origin, and have been in the country of settlement long enough to earn enough to support themselves as well as send money home. They also have lower levels of education (highly educated migrants tend to remit less). However, for most migrants the simple explanation for sending money “home” is probably their dedication to their family and communities, who continue to struggle against poverty.

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8 According to this study, only 5.7% of the remittance-receiving households in El Salvador, 9.4% in Guatemala and 8% in Nicaragua reported that the principal use of the funds received was for savings or investment, e.g. in small businesses or the purchase of land. Remittances used for education and health were 8.4% in El Salvador, 3.9% in Guatemala and 6.1% in Nicaragua. (Torres, 2000:37).

9 According to the IDB-MIF (2002:7), two-thirds of remitters are between the ages of 25 and 49.

10 It has been estimated that 60% of remitters living in the United States have been in the country for over ten years, and most remitters have been sending remittances on a regular basis for over five years. (Ibid).
VII. MECHANISMS FOR TRANSFERRING REMITTANCES

40. Migrants have various options when it comes to deciding how they wish to send funds to their relatives or community of origin:

- Through money transfer companies (such as Western Union, Money Gram, Gigante Express, etc.) or credit-card companies;
- via the postal service;
- as a financial transfer through a bank or a credit union, or to a business (such as a supermarket) in the name of a relative; and
- informally, via an individual courier (known as viajeros or encomenderos). Remittances may also be hand-carried by the migrants themselves.

41. Services for transferring remittances have expanded and diversified. This is especially true in the non-bank financial institution sector. Money transfer companies, such as Western Union, handle the majority of all remittances sent from the United States to Latin America and the Caribbean. In 2000, at least 90% of all remittances were transferred electronically or via money order (Orozco, 2000:2).

42. Remittance fees are high in countries where there is less remittance market competition (such as the Dominican Republic, Guyana and Jamaica), or in countries with greater market restrictions (such as Cuba and Haiti) (Orozco, 2002c:15). High fees affect not only the senders but also the recipients (who pay a fee to collect the funds or are faced with unfavourable exchange rates). New technologies and the expansion of banks and credit unions into the market may help lower costs. However, there is a need to disseminate information among migrant communities and the recipient communities so that they are able to make better informed decisions.

43. The typical fee for transferring USD 200 (the average amount sent by Latin American and Caribbean migrants) is approximately USD 25 or 12.5% (although this varies from country to country). In fact, Latin America and the Caribbean is the most expensive region in the world to send remittances to (IDB-MIF 2003:6). Although there has been a general decline in the cost of remittances, overall they remain grossly over-priced. In addition to the international money transfer fee, remittance senders are often faced with additional costs, such as check-cashing and/or conversion fees. This problem is even greater in rural areas because recipients have to travel long distances to collect their money.

44. Governments, inter-governmental organizations and community-based organizations are currently involved in efforts to lower the costs of remittance transfers. As more banks and credit unions become involved and extend services to migrant communities and their rural communities of origin, costs will most likely continue to decrease. However, it is important that migrants and the recipient communities gain a better understanding of the various options for remitting. In particular, migrants and recipient communities need access to local financial institutions, not only because of the lower remittance costs, but also because of the greater opportunities to initiate or increase their savings.

VIII. THE GROWTH OF HOMETOWN ASSOCIATIONS

45. Remittances are not only used by individual households; some are also used by rural communities for communal purposes. Many migrant associations in the United States are sending donations to their towns or villages of origin, working at times with the local municipality, NGOs or independently. Unlike family remittances, these collective donations are sent with a specific purpose –
usually to improve the town’s infrastructure (paving roads, installing electricity, phone lines, sanitation facilities, building schools and health clinics, etc.). Generally, the call for aid comes from a town leader or a group of town members to a group of migrants abroad from the same town. However, it is also common that the initiative for a community project arises among the migrants themselves, who then seek out a counterpart in their town or region of origin (Torres, 2000:56-57). Collective remittances are evolving rapidly. However, compared with the total volume of remittances, they still constitute only a small fraction. In the case of Central America, collective remittances constitute only 1% of total remittances (Torres, 2000:58). Torres also estimates that if collective remittances were more efficiently collected through greater organization and coordination of migrant associations and their counterparts in their countries of origin, then collective remittances could increase substantially to constitute 3-5% of total remittances for Central America within the next ten years. In other words, this potential increase could mean approximately USD 100 million flowing annually into the Central American region (Torres, 2000:58).

46. Migrants in the United States have a long tradition of joining up with others from the same community of origin and forming social clubs. These associations or clubs (often referred to as hometown associations (HTAs)) provide a type of support network for migrants. The majority of Latin American and Caribbean migrant associations are concentrated in areas with large migrant communities (California, Florida, New York and Texas). HTAs can be found especially among the Colombian, Dominican, Guatemalan, Mexican, Nicaraguan and Salvadoran migrant communities. The Mexican migrant community has the most successful and developed record for migrant-organized activities. Mexican HTAs have increased in number and strength, in part due to a growing leadership within the migrant community, but also due to the outreach efforts of the Mexican government and its consular offices in the United States.

47. A recent study on Mexican HTAs showed that at least USD 60 million in donations are coming from HTA contributions to carry out school, health and infrastructure projects (Orozco 2003a). A relevant aspect of these donations is that in many of the beneficiary communities they represent more than the municipal government’s budget for public works. Another example of the growing importance of HTAs is the case of Guyana. Guyanese associations in the United States and Canada total 300 for a migrant population of 300,000 and have donated about USD 3 million in support of development projects in their home country (Orozco 2004).

48. In general, the purpose of migrant associations or HTAs is social in nature, as they tend to centre around a church or a sport activity (mainly soccer) and organize community activities such as dances or dinners. Through the remittances members send to assist in improving their communities of origin, many HTAs have become conscious of their potential role. Several of these migrant associations have gained a new focus: assisting the economic and social development of their towns of origin with the hope that fewer men and women will be forced to migrate in the future.

49. HTA activities have become more diversified in recent years. The organizations raise money (through dances, dinners, raffles, etc.) to pave the roads of their towns, build schools or health centres, build parks, install water treatment plants, build or improve cemeteries, even sending back deceased migrants to be buried in the local cemetery. HTAs are also beginning to focus on the social development of their communities of origin. They are focusing on improving the health and education standards of the inhabitants of the community by providing scholarships, books for the library, medical equipment and medication, and financing local sports activities. Finally, HTAs are becoming more involved in investing capital in employment- and income-generating projects that are managed by the community members themselves and often supervised by members of the HTAs and local NGOs.

50. It is important to understand that many of the programmes channelling remittances and human knowledge for rural development, including outreach efforts, are very new and fragile. In fact, there are many problems associated with government-HTA interactions. Many of the migrant associations
retain their traditional distrust of governments due to high levels of corruption and the general lack of services and attention given to the rural poor in the region. Many migrants are at first very skeptical about government efforts to use their hard-earned money because they worry they will end up taking on what is the government’s responsibility. However, other migrants believe that if they do not step in and collaborate in co-investment projects, their hometowns will not improve.

51. In general, the interactions between governments and HTAs tend to be politicized, even if it usually is to a small degree. Most HTAs start out with the intention of not allowing politics to interfere with their donations or development projects, but they soon find that politics cannot be completely avoided. Often it is the relationship between the municipal government and the HTA that is the most problematic. If the municipal government is of a different political party than the leadership of the HTA, tensions may arise and the municipal government may decide not to provide its support. In some cases, the municipal government may even attempt to block efforts by the HTA to implement projects in the community.

Juan Carlos’ Story
Juan Carlos Arana was born in San Pedro Chirilagua, a small rural town in the department of San Miguel, El Salvador. At the age of 13, he emigrated to the United States and has lived in Los Angeles ever since. Although he enrolled in high school, he left at the age of 15 to begin working in pool maintenance. He also has a second job as the lead singer in a local band (which plays traditional Latin music). His combined income is approximately USD 42 000 a year, of which he provides approximately USD 1 200 per year to his mother, who lives in El Salvador for half the year.

Juan Carlos is an example of how hard many migrants to the United States must work to earn a living and support their communities back home. He begins work at six in the morning, Monday through Friday, and finishes around four in the afternoon, often later. However, his days don’t always finish then. Juan Carlos also dedicates time to his band and to his responsibilities as the president of the local San Pedro Chirilagua HTA (Comité Escolar San Pedro Chirilagua). Each Wednesday, Juan Carlos practices with his band for three hours after work. On Friday and Saturday nights, he and his band play at local clubs (where they give one or two performances) or at private parties. On Sunday afternoon, he dedicates five hours to his Comité (approximately 50-55 migrants from his town live in the area and participate in the Comité and there are six members on the executive committee, including Juan Carlos). These Sunday meetings are used to plan fund-raising events (the majority of them small dinners, also one or two large parties a year). The time spent on these planning meetings does not include the time he and the other members of the executive committee spend in door-to-door fund-raising. Juan Carlos’ Comité is new (founded in 2002), but he and his paisanos have big plans for their town San Pedro Chirilagua. They have been actively fund-raising to improve education in the town by donating money to build a computer centre in the town’s school.

Juan Carlos and his band performed at an HTA dance organized to raise funds to help send deceased members of the diaspora community back to El Salvador. Apart from being fund-raising occasions, these events are forms of “accluturation,” maintaining and strengthening the ties to the home country. The HTAs help migrants to maintain a social network that supports not only the survival of their relatives in the country of origin, but also helps the migrants to endure the marginalization and discrimination they may face in the United States.

IX. USING MIGRANT SKILLS AND KNOWLEDGE

52. Greater efforts must be made to tap into the human capital constituted by migrants. Migrants gain new and valuable skills and knowledge in their country of settlement. For example, many migrants who were agricultural workers or farmers in their home country work in the industrial or service sectors of the United States. Many learn entrepreneurial skills and are able to set up businesses. Their experience of new forms of employment provides them with training, skills and knowledge that they did not have before migrating. Many migrants feel empowered by their acquired skills and experiences and are eager to share their knowledge with others, especially with their communities of origin.
53. Recognizing that migrants return to their country of origin with increased skills and knowledge, governments are taking steps to encourage their entrepreneurial proclivities. In Mexico, *Proyecto Esperanza* has been established to promote the inclusion of returning migrants in the economy through training programmes and low-cost loans (Lowell and de la Garza, 2000:12). Jamaica has a Returning Residents Programme to encourage the return of Jamaican nationals from abroad through a public information campaign and through offering tax concessions on the import of household goods (Thomas-Hope, 2000:9).

54. There are several forms of untapped human and financial capital, including tourism (migrants visiting their country of origin) and ethnic markets. According to Orozco (2002a:7) approximately 40% of the tourists arriving in the Dominican Republic are Dominicans who live abroad (largely in the United States). In Mexico, at least 20% of the tourists who arrive in the country are Mexicans living in the United States (Orozco, 2002a:7). Tourism of migrants generates considerable wealth in the home country. For example, Dominican tourists tend to stay an average of fifteen days in their home country and spend approximately USD 65 a day (Orozco, 2002a:7). Ethnic markets also have a growing importance for Latin American and Caribbean communities. In many cases, home country producers have established businesses in the United States to cater to the migrant community (Orozco, 2002a:8).

55. Another important business related to migrant communities is telecommunication. Frequency of international phone calls made by migrants from the United States to their home countries is very high. In the case of Dominican migrants, about 60% of them call their relatives two or more times a week (Orozco 2003b).

56. Migrants in the United States are increasingly becoming aware of profits to be gained from the growing ethnic market sector and are establishing businesses in their countries of origin to produce local goods. One example is the American-based company Roos Foods, Inc., which manufactures and sells processed milk products in Central America and in the United States (to migrants from Central America and Mexico) (Orozco, 2002a:8). Governments, such as that of El Salvador, have begun to realize the importance of migrant purchasing power and are promoting trade fairs (as well as real estate fairs) in areas of the United States with high concentrations of Latin American and Caribbean migrants.

57. While the above-mentioned initiatives are innovative steps forward, the potential benefits from utilizing migrants’ human capital have not yet been sufficiently explored by governments. Migrant associations would be eager partners in such types of initiatives, as they are becoming increasingly aware of their potential to assist their communities of origin with their experiences and skills gained abroad. For example, at the workshop on Transnational Salvadoran Associations organized by IFAD in Los Angeles, United States (see the box that follows), a representative from Las Vegas, United States, expressed strong interest in cooperating with a microenterprise initiative (supported by the Rural Development Project for the North-Eastern Region in El Salvador (PRODERNOR), an IFAD-funded project) in Morazán, which provides training to youth through car repair workshops. This representative, an instructor at the Community College of Southern Nevada, proposed to volunteer his time in the summer to go to Morazán and collaborate with the PRODERNOR auto-mechanics workshops, upgrading them by providing training in new and advanced technologies. The strong interest of migrants to share their resources, not just financial with their home community, provides an opportunity for IFAD to upscale resources for its projects in the Latin America and Caribbean region.
Cofinancing a Community Development Project with Remittance Resources – An Example of Transnational Collaboration and Community Empowerment

El Salvador’s Ministry of Agriculture and IFAD are cofinancing the Rural Development Project for the Central Region (PRODAP-II) in El Salvador.* In 2003, the project carried out a participatory rural diagnosis of the strengths and weaknesses of rural organizations in the project area. Targeted organizations received technical assistance to prepare and implement projects, were assisted in identifying their needs and informed on accessing the community development fund sponsored by the project. One of the conditions to access the fund is that they provide at least 25% of the investment requested.

One of the organizations that participated in the diagnosis exercise was the Association for the Development of the Community of La Labor, which identified the construction of a school extension complex as its main priority. In order to finance the complex, the association contacted representatives of the Committee for the Betterment of La Labor, an HTA of Salvadorans who had migrated from La Labor to Los Angeles, to request assistance for cofinancing the complex. The committee has been collaborating with its town of origin in the reconstruction of the church and a community house, reparation of roads, purchase of medicines and school uniforms, and in the construction of temporary housing for earthquake victims.

The school project was prepared with the assistance of PRODAP-II. Through competitive bidding, it was assigned to a local firm. The Central American Foundation for Sustainable Human Development, a local NGO, served as reference counterpart to administer the financial resources from the HTAs. The project consisted of four additional classrooms and bathrooms to extend the teaching facilities up to the high school level for the 685 students from La Labor and other nearby communities. Project costs were estimated at USD 55,284, of which PRODAP-II would contribute USD 29,107 and the association USD 26,177. To assist the association with the cofinancing requested by PRODAP-II, the committee in Los Angeles contacted another HTA of people from La Labor residing in Virginia, as well as El Rescate, a Salvadoran community-based organization in Los Angeles. The three United States-based organizations contributed with 35.7%, 1.5%, and 7.4% of the total project cost, respectively, for the purchase of the land and construction material, while the local association contributed 12.7% in kind.

One of the main contributions of PRODAP-II was the technical assistance provided to the local association to negotiate with local authorities for obtaining support from the Ministry of Education. This was not an easy task since the Ministry does not invest in privately owned facilities; neither was the construction of the school nor the financing of teachers contemplated in the Ministry’s budget. The association gave the facility as a free loan (in comodato) to the Ministry for 25 years, and the Ministry agreed to finance the teachers and school material for that period. Another contribution highly appreciated by the HTAs was the participatory process through which the project was identified, the short construction time, the quality of the facility and the transparency with which the project was adjudicated and implemented.

When the new school was inaugurated, the vice-president of the Los Angeles HTA, Arturo Montalvo, said he was very pleased with the outcome of the joint effort, stating that, “The easiest thing would be to forget about them [the people of the village], because in one way or another we find ourselves far away from the district and live in a country where we have been given an opportunity to improve our living standard. However, we will never forget our people [back home] and will always try to help them”.

* PRODAP-II aims at improving the income and living conditions of the rural poor by strengthening their organizations, improving natural resource management skills, and providing financial, agricultural, microenterprise and marketing technical services in a gender-equitable manner. The project also includes a community development fund to help community-based organizations in the cofinancing of social and productive projects. Of the total project cost of USD 20 million, USD 3.3 million are allocated to this fund.
X. POSSIBLE SCENARIOS FOR IFAD’S INVOLVEMENT IN MAXIMIZING THE EFFECTS OF REMITTANCES FOR RURAL DEVELOPMENT

58. In El Salvador, IFAD has launched a pilot initiative to cofinance community development projects with migrant associations through its three on-going projects (PRODAP-II, PRODERNOR and the Reconstruction and Rural Modernization Programme (PREMODER)). Given the initial success of this initiative, the approach could be replicated in other IFAD projects in the region.

59. IFAD has been investing in the sensitization of Salvadoran migrant communities on the productive use of remittances and on the potential role of HTAs to partner with IFAD for the economic development of their communities of origin. The participation of HTAs from Los Angeles, San Francisco, Houston, New Jersey, Las Vegas, Virginia and Washington D.C. in three workshops (Washington, D.C., 2001, San Salvador, 2002 and Los Angeles, 2002) clearly demonstrates an initial success on the part of IFAD to raise awareness on the productive uses of remittances and warrants support for future follow-up, including the development of specific criteria and mechanisms for collaboration with migrant associations.

60. In the project launch workshop organized in December, 2003 in El Salvador for PREMODER, four representatives of various United States-based HTAs participated and expressed their members’ interest in cofinancing employment- and income-generating projects, as well as supporting the identification of “nostalgic” markets for rural products in the United States. The crucial next steps are to continue to assist these associations to organize themselves and provide them with a framework for potential involvement in IFAD projects, not just through remittances, but also through the exchange of knowledge and skills.

61. If IFAD is going to promote cofinancing projects with migrant associations, its interventions should be based on a careful analysis of both opportunity (how to help improve the access to and impact of remittance services for the benefit of the poor) and risk (remittances, like savings, should be fully protected). On this basis, several key activities related to remittance services that could frame its intervention are as follows:

- Invest in increasing the capacity of HTAs and their counterpart organizations in the communities of origin. Many HTAs lack effective counterpart associations and thus lack sufficient support and orientation for the identification and implementation of development projects. Through its existing projects and continuous support to rural communities, IFAD could assist in strengthening the linkages between HTAs and their communities of origin. In this way, IFAD will ensure that its projects are enhanced, providing greater benefits not only to the rural communities it serves, but also to the migrants who maintain ties with, and support, these communities.

- Identify effective mechanisms for tapping the knowledge and enthusiasm of migrants to help their communities of origin.

- Collaborate with other inter-governmental organizations to promote the productive use of remittances. Such organizations include the World Bank and the IDB-MIF, as well as research and academic institutions such as the North American Integration and Development Center of the University of California, United States.

11 This workshop was organized in collaboration with the World Bank and the United States-based NGO SHARE.

12 This workshop was organized in collaboration with SHARE and the Ministry of Agriculture in El Salvador.

13 This workshop, was organized in collaboration with El Rescate, a Salvadoran community-based organization in Los Angeles, United States.
Strengthen financial institutions both in migrant communities in the United States and in the countries of origin, linking such institutions to provide better remittance services, particularly to female-headed households. By channelling remittances through community credit unions, more capital should be available for members of the communities of origin to access and use in developing or investing in small businesses. Remittances can also benefit local financial institutions, helping to expand their funding sources and client base.

Become involved in the IDB-MIF’s existing projects, currently focusing on strengthening local financial institutions to provide more and better remittance services, thus lowering the costs of sending remittances to Latin America and the Caribbean and increasing the pool of capital available for the recipient communities.

Collaborate with organizations such as the World Council of Credit Unions with the objective of developing and strengthening the remittance services offered by local financial institutions and strengthen local credit unions, thereby introducing more rural people to the formal financial sector. In addition to lowering transaction costs, this would help to promote savings mobilization and facilitate remittance recipients’ access to diversified financial services (such as loans, savings and insurance).

Assist rural communities to capitalize on the growing level of tourism of migrants in their home countries and on the increase in demand for “local nostalgic” products (especially food products) from the migrant communities in the United States.

Help promote market fairs of local or traditional products and provide technical assistance to migrant communities and their communities of origin in order to enable them to create niches in the growing ethnic market in the United States.

Support the development of transnational community networks as well as coordination of different actors in the remittance field.

Encourage more detailed studies of Latin American and Caribbean migrants and the communities they leave behind from a socio-economic and a gender perspective. In particular, this would involve studies on female migrants and women left behind in the communities of origin so as to gain a greater understanding of the role of women in sending remittances and in their management of remittances received.

IFAD’s efforts to sensitize the Salvadoran migrant communities in the United States on productive uses of remittances have already had some impact. These interactions have created a new sense of energy and motivation among the migrant associations to organize and collaborate in cost-sharing arrangements in the home country. Nevertheless, further action is required if the human and financial resources of migrants are to be effectively channeled towards rural development and have the multiplicative effect to enhance employment- and income-generating opportunities in the rural areas.

One of the recipients of the second round of the IFAD/CGAP Rural Pro-Poor Innovation Challenge in October 2003 was Fonkoze, an NGO in Haiti, to support their work on remittances. IFAD has also extended a grant to Asociación Mexicana de Unione de Crédito del Sector Social (AMUCCS), a Mexican NGO to strengthen remittance services of financial institutions.
XI. CONCLUSIONS

63. Migrants are forging new and innovative forms of communication with their communities of origin, thus increasing the exchange of money, goods, ideas and cultural values. More than ever, migrants are able to retain strong ties to their hometowns and create settlement communities abroad where their culture is kept alive and mixed (for example, with American culture). Back in the communities of origin, the lives of individuals and families are being influenced and changed by the absent relatives, as well as by the influx of money, ideas and culture from migrants abroad. Migrants are significantly re-shaping the traditional social structures of rural communities, in both positive and negative ways.

64. Since they are involved in dual communities, migrants are unique players in social and economic development. They are actively participating in the improvement of not just their communities of settlement, but also their communities of origin. A migrant may be involved in a community organization in the United States that is advocating for the improvement of migrant working conditions, while at the same time be involved in a migrant association that is funding the construction of a school in his or her hometown.

65. It is critical that the actors involved in the issue of remittances do not forget that behind the huge amounts of money flowing to the region are real men and women who have made great sacrifices to establish themselves in a new country and be able to remit. Many of the families left behind, particularly female-headed households, continue to live in conditions of poverty and lack access to basic social services, such as health and education, or access to financial resources and institutions. At the same time, many Latin American and Caribbean migrants continue to be marginalized abroad due to economic and social barriers. Their dedication in supporting relatives in the home country often comes at a cost to their own personal development in the new country. The money sent home might mean forgoing an opportunity to invest in their own education or start a business. However, despite their marginalization, migrants continue to work for their own integration into both their communities of origin and the new society where they live and work. Their increased organization in the countries of settlement has opened up new opportunities for social activism, and many migrant communities have been empowered.

66. To promote remittances as a tool for rural development, agencies must carefully cultivate partnerships with migrant associations and view and treat migrants as equal partners in development. For IFAD this implies expanding its target groups in Latin America and the Caribbean to a transnational level, thereby including migrant communities abroad (especially in the United States) in the design, implementation and evaluation of projects, as well as potential service providers. For too long, target groups have been looked at in the context of national boundaries, and not within their transnational setting, thus ignoring the influence and potential of those that migrated but remain active in the actual and future development of their communities of origin.

67. IFAD should view migrants as partners with unique resources to offer for the development of rural zones in the Latin America and Caribbean region. Such partnerships would enhance investments as well as the stock of knowledge and innovation in rural areas. However, in order to effectively tap this financial and human capital, IFAD would have to continue supporting the capacity-building process of migrant associations. The Fund could do this by providing the training necessary for the associations to effectively organize and communicate their ideas and concerns regarding the use of their resources in their hometowns. In particular, the Fund should continue to support the strengthening of leadership roles of female migrants and female relatives of migrants left behind in the communities of origin.
Finally, it is important to recognize that remittances are not the only form of exchange between communities. As discussed in this paper, remittances are the transfer of money from migrants to their relatives or communities back home, but they constitute only one form of exchange. Migrants also send back culture, skills and knowledge. The skills and experiences gained by migrants abroad is an as-yet unexplored pool of human capital for supporting rural development in the Latin America and Caribbean region.

Given IFAD’s long-standing experience in the region, it is in an advantageous position not only to channel remittances towards rural development through its existing framework of projects, but also to support a collective empowerment of migrants and their communities of origin. Strengthening these relationships would in fact help to ensure the effective channelling of remittances towards rural development. However, to enhance the multiplicative effect of remittances on rural development, there is also a need to strengthen local financial institutions and sensitize the migrant communities and their communities of origin on the potential benefits of channelling remittances through these institutions. With its widespread rural project network in the Latin America and Caribbean region, IFAD is in a unique position to utilize and promote such an innovative strategy.
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