

**Remittances, Migration, and their
Economic Impact:
Lessons from the Philippines**

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Open questions about remittances

- How do remittances affect recipient households?
 - Do remittances “make people lazy”?
 - Or do remittance recipients use the resources to make longer-term investments?
 - E.g., in schooling, health, small enterprises?
- Do remittances help households cope with risk?
- What factors affect migrants’ remittance-sending decisions?
 - In particular, how are remittance decisions affected by migrants’ lack of control over how remittances are used?

What we know so far

- The Philippines has provided a natural laboratory for learning about the role of international migration in development
- Resources sent by migrants have a number of positive effects on households
 - Lower poverty
 - More investment in child human capital (lower child labor, more schooling)
 - More entrepreneurship
 - Insurance against negative income shocks
 - In contrast to common (paternalistic) view that remittances are wasted, or “make people lazy”
- Lessons learned from the Philippine case are getting wide attention
 - Widely cited in the World Bank’s *Global Development Prospects* 2006 report

Remittances and The Problem of Control: A Field Experiment Among Migrants from El Salvador

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DC-area Salvadorans on control over remittance uses

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

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

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

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

Key questions

- Do migrants and recipients typically agree on the uses to which remittances should be put?
- If not, if migrants were to be given more control over remittance uses...
 - would they remit more?
 - how would they direct them to be used?
- And what would be the impact on development outcomes at the household level?

Remittances and savings

- This research focuses on the control that migrants have over how much of remittances are *saved*
- Migrants frequently report wanting household to save some fraction of remittances.
 - Savings can be intended for use of:
 - Remittance recipient
 - Migrant
- Migrants have little or no ability to control or monitor household savings in El Salvador
 - Can only request that household save a portion of cash received

Why would migrants save in the home country?

- Case 1: If savings intended for regular use of family back home, savings in El Salvador are more **convenient**
- Case 2: If savings intended for U.S.-based migrant, many migrants consider El Salvador-based savings more **secure**
 - Undocumented migrants fear they would lose savings in the U.S. if they were deported

The experiment

- We offered Salvadoran migrants in Washington, D.C. the ability to directly channel remittances into savings accounts in El Salvador
 - Facilities developed for project in partnership with a Salvadoran bank, and previously were not widely available
- We randomly varied the degree of migrant control over accounts offered
- Outcomes of interest:
 - For today: Accounts opening (take-up), savings
 - Later: Remittance growth, consumption, schooling, entrepreneurial investment, housing, etc.

The sample

- Migrants recruited in Washington, D.C. area at Salvadoran consulates and Banagricola remittance agencies
 - Must have remitted to someone in El Salvador in last 12 months, and have been in U.S. for no more than 15 years
- Migrant asked to identify “primary remittance recipient” in El Salvador
 - We also follow these individuals over time
 - Data collection:
 - For all migrants and recipients:
 - internal bank data
 - follow-up survey in 2009
 - Subsample of migrants and recipient households administered baseline survey

Migrants in Washington, D.C.



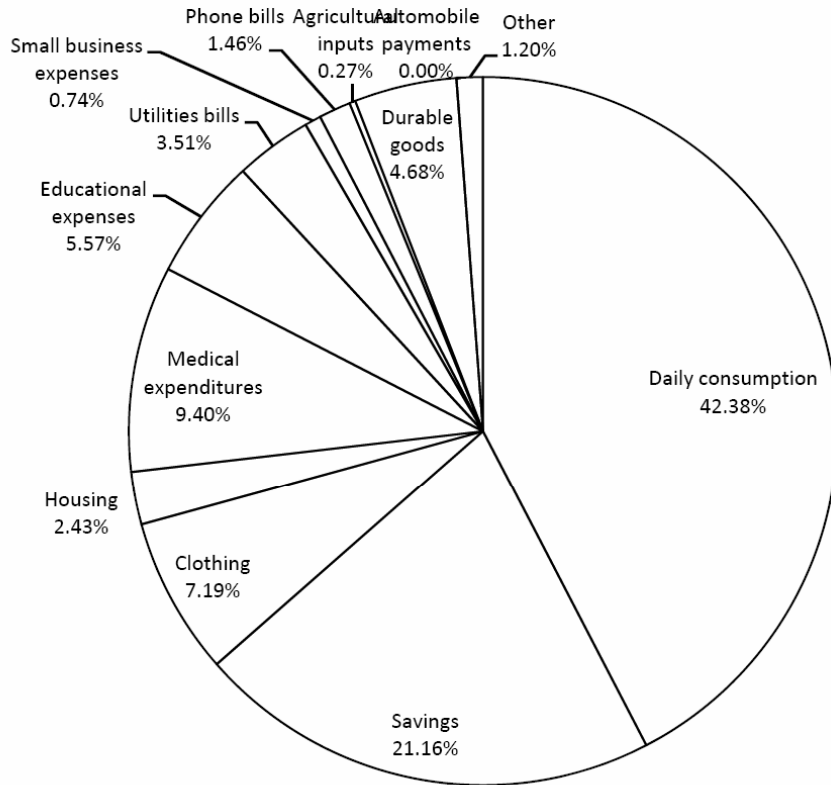
Remittance recipient in El Salvador



Revealing preferences for remittance uses

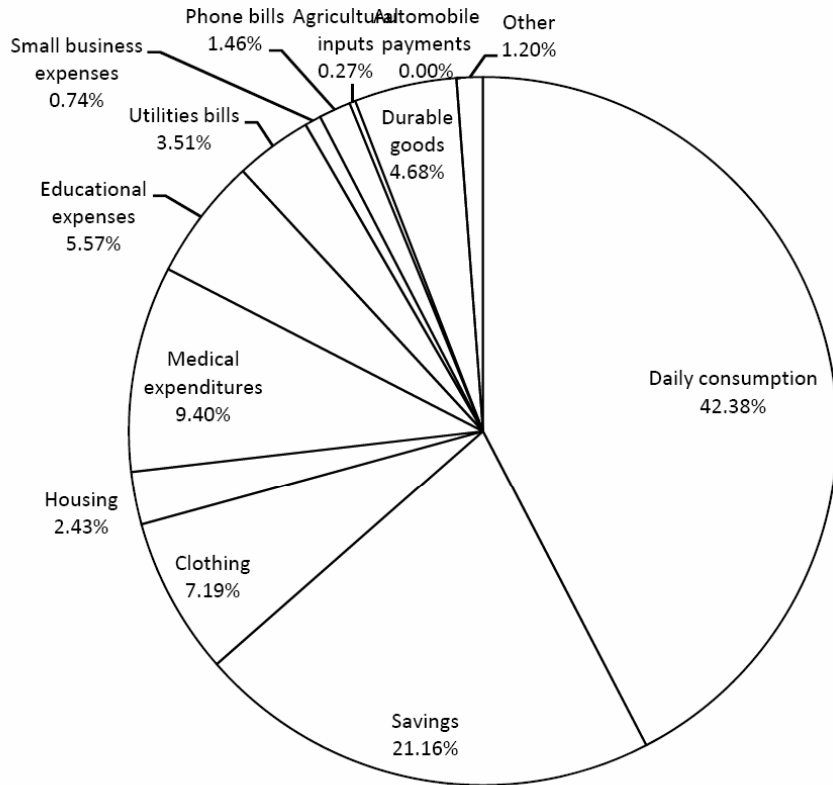
- Goal: Reveal via survey answers whether migrants and households differ in their preferences over how remittances are used
- Our approach: enter respondents into a “remittance raffle”
 - Winning family in El Salvador will receive remittance of \$100
 - Migrants specify how they would like the money to be used by recipients
 - Household respondent specifies how they would like the money to be used when received
 - 13 categories of expenditures
 - “Cash” is not an option

Migrant allocation of \$100 remittance

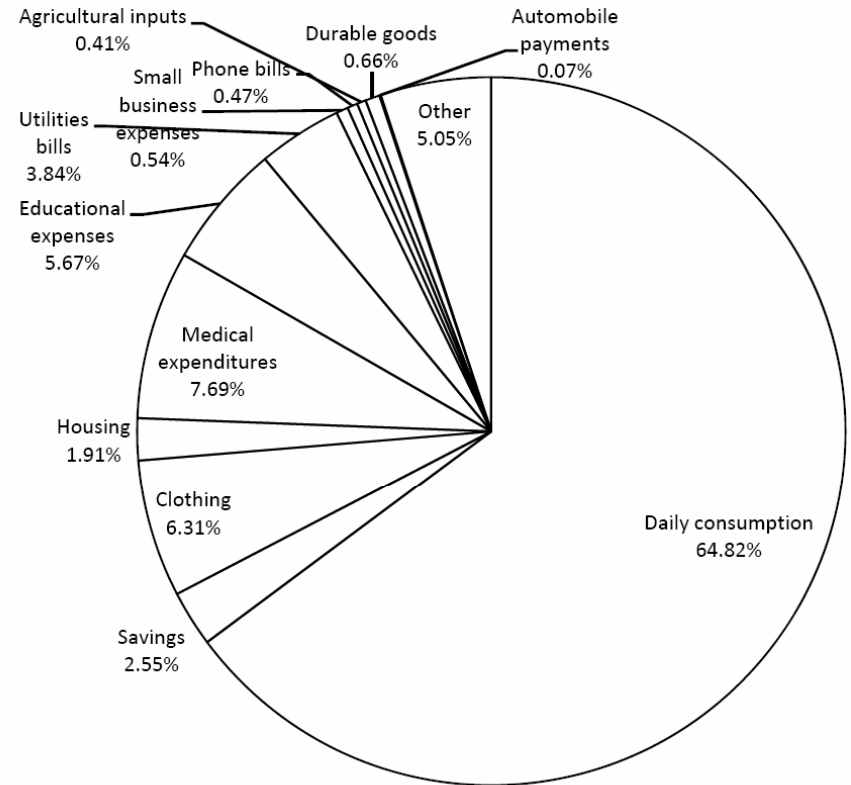


Migrant

Migrant vs. recipient remittance allocation (US\$)



Migrant



Remittance recipient

Treatments

0. Control group

- Migrants encouraged to remit into a household member's bank account, but no account-opening assistance provided

1. Account for remittance recipient in El Salvador

- Migrants encouraged to remit into an individual's bank account
- If no such account exists, offer to help household set up account
- Migrant cannot check balance or withdraw

2. Joint account (for migrant and household)

- Migrants encouraged to remit into shared account
- New product: "Cuenta Unidos"
- Migrant and hh each have ATM cards; migrant can check balance

3. Individual migrant account

- Migrants encouraged to remit into own account
- New product: "Ahorro Directo"
- Only migrant has ATM card
- Not shared with household

Marketing brochures

Ahorro Directo

Cuenta con tu nueva



CHEQUE MAX



Cheque Max Visa

Tu dinero disponible en todo el mundo, las 24 horas del día, los 7 días de la semana.

Comprar con tu Tarjeta de débito Cheque Max Visa, es la forma más conveniente y segura de utilizar tu propio dinero

Disfruta el beneficio de comprar sin usar efectivo en establecimientos comerciales alrededor del mundo, porque tu tarjeta es tu dinero.

Si necesitas efectivo, puedes retirar tu dinero en la red de cajeros automáticos VISA Plus.

VENTAJAS:

- Es GRATIS.
- No pagas intereses por tus compras.
- Mayor seguridad al no llevar tu efectivo en el bolsillo.

Ábrela desde Estados Unidos, sin tener que viajar a El Salvador

Tu Cuenta Ahorro Directo:

- Es la forma más conveniente de llevar el control total de tu dinero.
- Serás el único titular de la cuenta, sin otros autorizados.

VENTAJAS

- Es GRATIS
- No llevas el dinero en efectivo, evitándote el riesgo de extravío.
- Podrás consultar los saldos y movimientos de tu cuenta, para mantener el control.

BANCO AGRICOLA
CUENTA CON NOSOTROS

Cuenta Unidos

Cuenta con la mayor confianza para tus proyectos familiares en El Salvador



CHEQUE MAX



Cheque Max Visa

Tu dinero disponible en todo el mundo, las 24 horas del día, los 7 días de la semana.

Comprar con tu Tarjeta de débito Cheque Max Visa, es la forma más conveniente y segura de utilizar tu propio dinero

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Si necesitas efectivo, puedes retirar tu dinero en la red de cajeros automáticos VISA Plus.

VENTAJAS:

- Es GRATIS.
- No pagas intereses por tus compras.
- Mayor seguridad al no llevar tu efectivo en el bolsillo.

Es la mejor manera de compartir el fruto de tu esfuerzo con tus seres queridos y controlar tus planes y proyectos en conjunto .

VENTAJAS

- Es GRATIS
- Tu familiar en El Salvador abrirá la Cuenta Unidos para que envíes tu remesa.
- Ambos, tú y tu beneficiario de remesas, podrán consultar los Movimientos y Saldo de la Cuenta.
- Ambos, tú y tu beneficiario de remesas, tendrán acceso al uso y retiro de fondos a través de la Tarjeta Cheque Max.

BANCO AGRICOLA
CUENTA CON NOSOTROS

DC marketing team



Marketing visit in DC



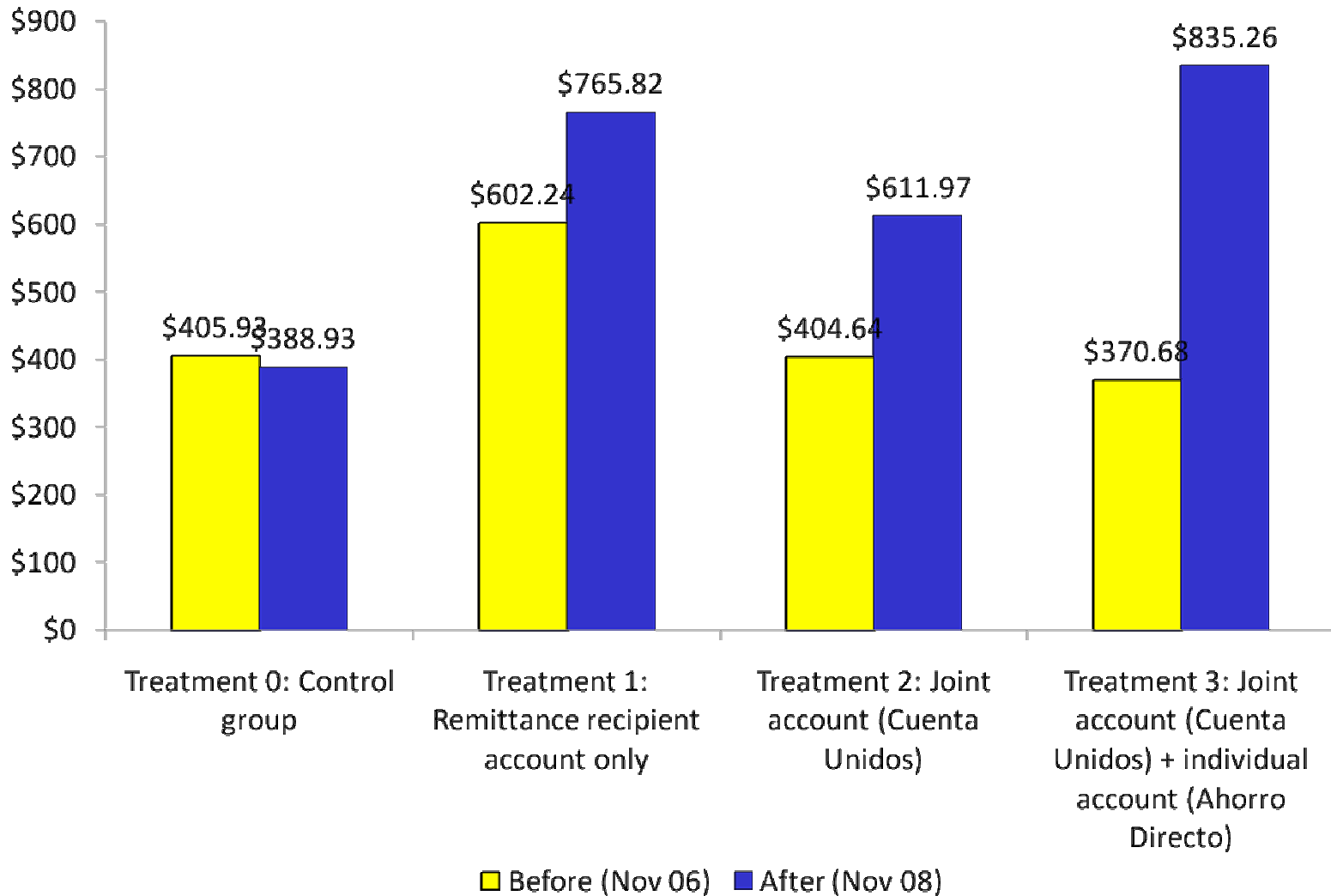
Marketing visit (2)



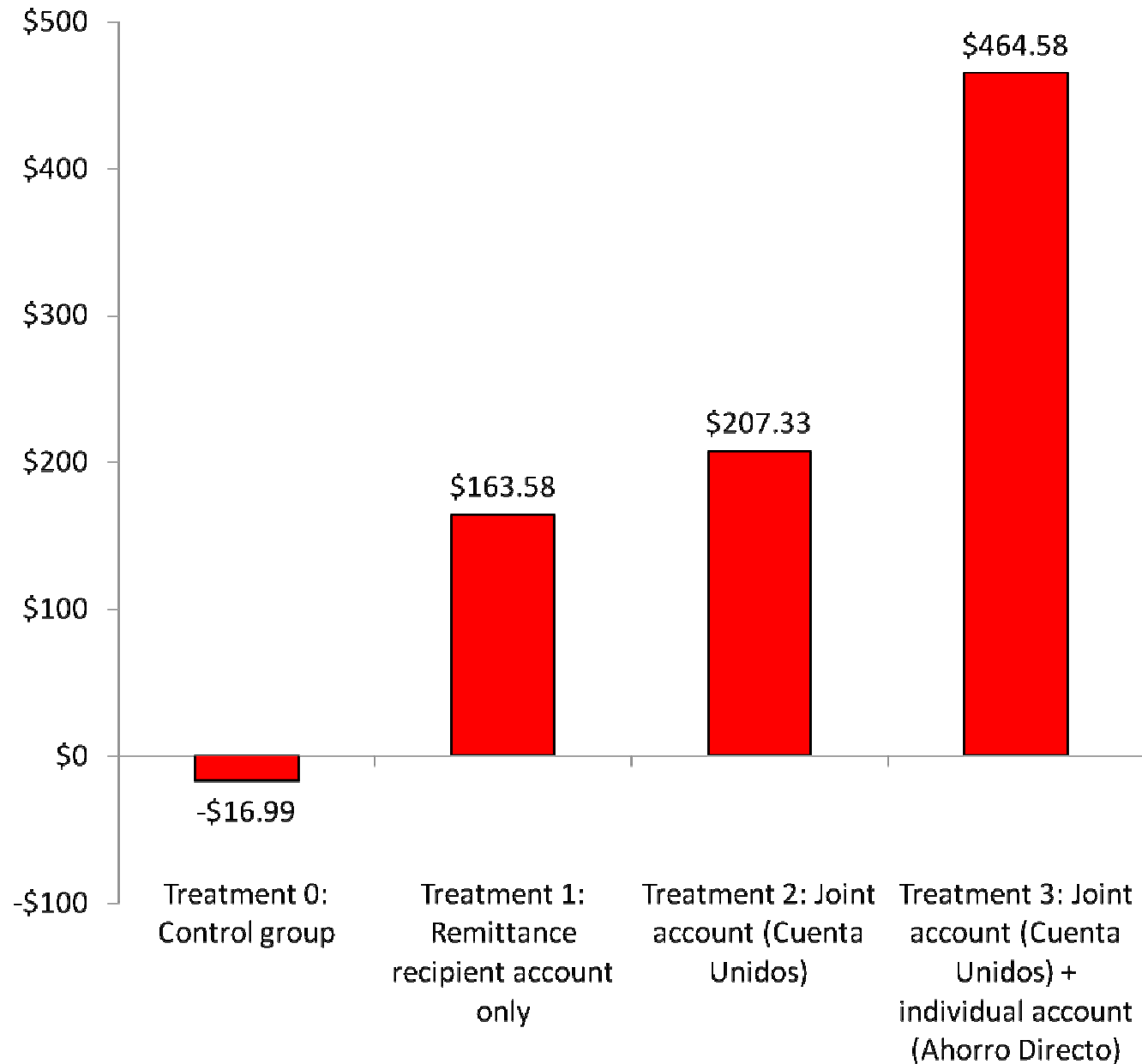
Banco Agricola branch, El Salvador



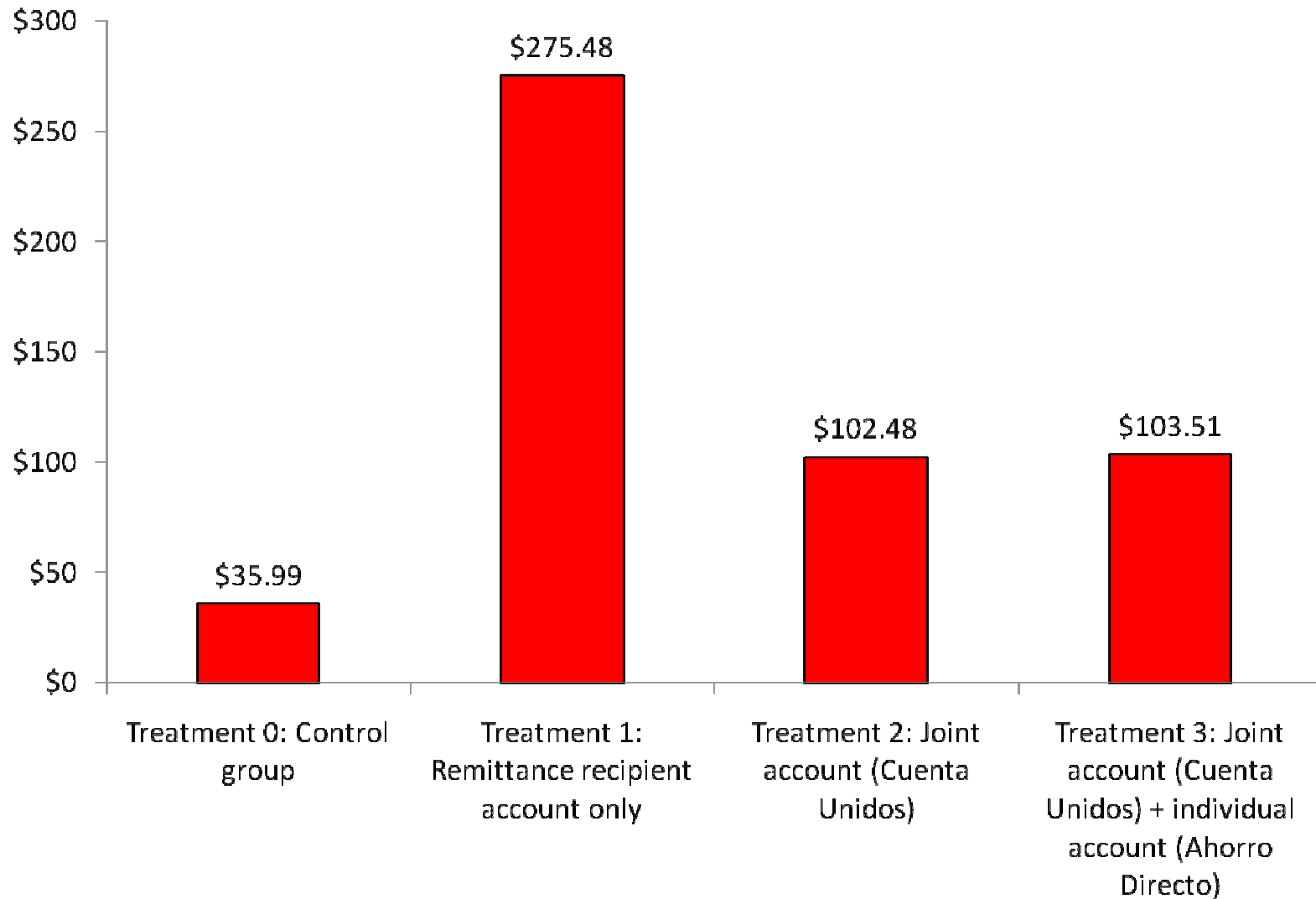
Recipient savings, before and after



Savings growth, remittance recipients



Savings growth, migrants



Who is the savings for?

- Savings in El Salvador appear to be intended for remittance recipients or for joint recipient/migrant purposes
- Simply offering account-opening assistance (Treatment 1) appears to have a positive impact on savings in *migrants' own* accounts
- But expanding migrant control leads funds to be reallocated to accounts under *recipients'* names
- Migrants are not accumulating savings in individual migrant accounts offered in Treatment 3 (*Ahorro Directo*)

In sum

- When migrants are offered greater control and monitoring of bank accounts at home, savings growth is substantially higher
- When migrants are offered the greatest degree of control, savings more than double (>\$400 increase) between Nov 2006 and Nov 2008
 - Counterfactual: roughly zero savings growth from baseline of \$400 (slight \$17 *decline* in savings over same period)

Lessons for policymakers and private sector

- Migrants value control over savings, and in particular joint accounts with remittance recipients
 - Private sector should offer such savings facilities
 - Public sector may choose to promote/subsidize them as well
- Further research is necessary to determine whether migrants value control over other types of expenditures
 - Housing
 - Human capital (education and health)
 - Durable goods
- If so, public policy can help promote direct payment facilities for expenditures with clear development impacts
 - Education, health, small enterprises

Financial innovations for OFWs

- Ongoing research among overseas Filipino workers in Qatar
- Will involve surveys of OFWs in Qatar, and families in the Philippines
- Objective: test demand for and impact of new financial products for OFWs
- Partnership with BPI, University of the Philippines, Georgetown University, and University of Michigan

Extra slides

Summary statistics

Table 1: Summary statistics

<u>Variable</u>	<u>Mean</u>	<u>Std. Dev.</u>	<u>10th pct.</u>	<u>Median</u>	<u>90th pct.</u>	<u>Num. Obs.</u>
Basic variables collected for all study participants						
Treatment 0 (no savings facility offered)	0.25	0.44	0	0	1	1,452
Treatment 1 (remittance recipient account only)	0.24	0.43	0	0	1	1,452
Treatment 2 (joint account)	0.26	0.44	0	0	1	1,452
Treatment 3 (joint + migrant account)	0.25	0.43	0	0	1	1,452
Migrant is female	0.29	0.46	0	0	1	1,452
Migrant has US bank account	0.67	0.47	0	1	1	1,452
Recipient is migrant's parent	0.49	0.50	0	0	1	1,452
Recipient is migrant's spouse	0.14	0.34	0	0	1	1,452
Recipient is migrant's child	0.05	0.22	0	0	0	1,452
Recipient is migrant's other relative	0.32	0.47	0	0	1	1,452
Migrant has been in US 0-5 years	0.51	0.50	0	1	1	1,452
Migrant has been in US 6-10 years	0.35	0.48	0	0	1	1,452
Migrant has been in US 11-15 years	0.14	0.35	0	0	1	1,452
Migrant allocation to savings in raffle	20.92	40.23	0	0	100	1,452

Summary statistics (contd.)

<u>Variable</u>	<u>Mean</u>	<u>Std. Dev.</u>	<u>10th pct.</u>	<u>Median</u>	<u>90th pct.</u>	<u>Num. Obs.</u>
Migrant's years in the US	5.57	3.60	1	5	11	900
Migrant has US bank account only	0.53	0.50	0	1	1	900
Migrant has El Salvador bank account only	0.07	0.26	0	0	0	900
Migrant has account in both US and El Salvador	0.10	0.30	0	0	1	900
Migrant's annual income (US\$)	25,710	58,339	5,779	18,430	41,280	868
Migrant's household's annual income (US\$)	38,533	90,200	8,237	26,840	62,300	900
Migrant's years of education	8.80	4.93	2	9	12	868
Migrant's age	30.89	7.65	22	30	41	896
Migrant's annual remittances sent (US\$)	4,987	4,120	1,200	3,900	9,600	900
Migrant's remittances as share of annual hh inc.	0.512	2.792	0.039	0.155	0.598	899
Migrant's total hh savings balance (US\$)	2,845	5,107	0	750	8,100	808
Migrant's savings as share of annual hh inc.	0.149	0.539	0.000	0.030	0.297	807
Migrant is US citizen	0.01	0.08	0	0	0	896
Migrant hh size in U.S.	4.81	2.15	2	5	8	900
Migrant is married or partnered	0.59	0.49	0	1	1	899
Migrant is coresident with spouse/partner	0.73	0.44	0	1	1	528
Recipient allocation to savings in raffle	2.55	15.35	0	0	0	741
Recipient's annual hh income (US\$)	14,117	177,786	1,200	3,540	9,680	741
Recipient has savings account	0.20	0.40	0	0	1	736
Recipient total hh savings balance (US\$)	381	1,729	0	0	380	736
Recipient's years of education	5.13	5.66	0	3	12	731
Recipient's age	46.84	14.93	26	48	66	741
Recipient's annual remittances received (US\$)	3,155	2,809	650	2,400	6,000	741
Recipient hh size	4.61	2.37	2	4	8	741

Notes -- Data collected in 2007-2008 in Washington, D.C. and El Salvador. Indicator for "Migrant is coresident with spouse/partner" is undefined if individual does not have a partner or spouse.

Basic summary statistics

- Demographics
 - 29% female
 - Mean age: 30.9
 - Mean years in US: 5.57
- Employment and income
 - Top employment categories are construction (32%), food services (15%), cleaning services (10%)
 - For migrant, median annual earnings is \$18,430 for surveyed individual and \$26,840 for household
 - For recipient household, median annual income: \$3,540
- Remittances
 - Most common remittance amount sent: \$200 (25%)
 - Median annual remittances: \$3,900
 - Median remittas share of migrant hh income: 15.5%

Savings

- Migrants
 - 70% have a savings account
 - 53% have one in US only
 - 7% have one in El Salvador only
 - 10% have one in both countries
 - But savings are quite low
 - Median savings: \$750
 - Median savings as % of annual hh income: 3.0%
- Remittance recipients
 - Only 20% have a savings account
 - Savings are low
 - Median savings: \$0 (mean savings: \$381)