Immigrant Remitting Behavior and Its Developmental Consequences for Mexico and El Salvador

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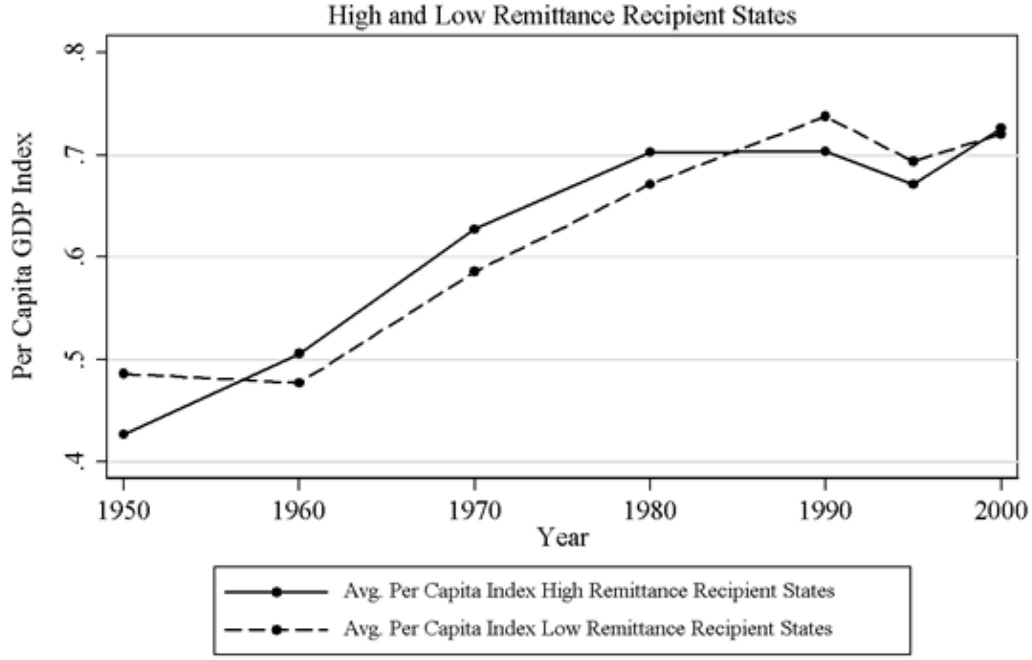
It is estimated that over $30 billion in remittances, the money transferred by immigrants for familial or collective purposes to home countries, were sent from the United States to Latin America in 2004. This burgeoning rate of remittances has led to a uniform assumption by governments throughout the region—remittances are a panacea for resolving developmental and fiscal problems.

However, as is always the case with cure-all solutions such as those currently under consideration by these states, this assumption is plagued with problems. Despite Latin American governments' hopes to channel remittances into development projects, most remittances are sent to assist family members with specific household expenses such as food and basic consumption (67%), followed by health (8%), and education (4%).

Our report—one of the only available empirical analysis of why immigrants say they remit—aims to provide information to community organizations, policymakers, and analysts in countries of origin, and international agencies to assist them in developing realistic estimations of the availability of remittances for community development.

While it is clear that some remittances are used for communal purposes and developmentally-oriented projects, the extent to which such funds promote development is unclear. Remittances are beneficial for development if we define development as income. However, if we use a more robust or thicker definition of development, one that includes levels of education, health, and income, the impact of remittances on development is less prominent.

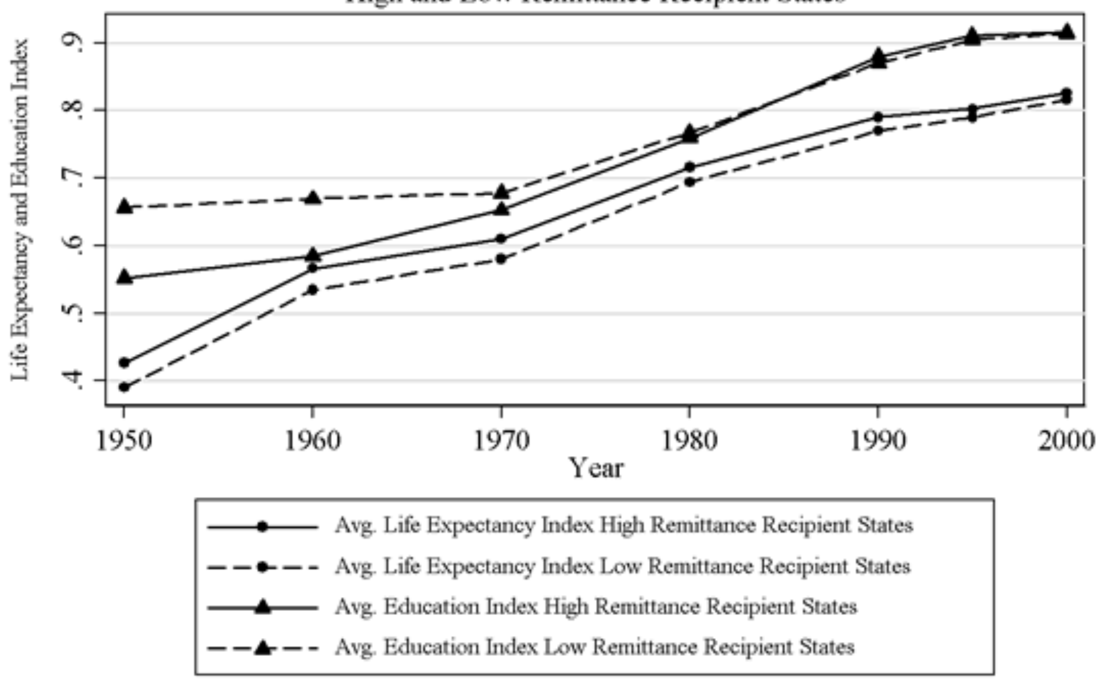
Figure 1: Per Capita GDP Index: 1950 - 2000
High and Low Remittance Recipient States



Source: Authors with data from UNDP (2003) and Banco de Mexico (2004)

Data for the Mexican states, displayed in Figure 1 (left), show that high remittances recipient states' per capita GDP index has increased at a substantially greater rate than that of low remittances recipient states, particularly since the mid-1990s when remittances began their dramatic growth. This picture illustrates that remittances increase per capita GDP, constituting "thin" development. Figure 2 (below) illustrates that under our "thick" definition of development, the impact of remittances on other development indicators is not very clear since high and low remittances recipient states end up having almost identical life expectancy and education indexes, according to the United Nations Development Programme (UNDP).

Figure 2: Average Life Expectancy and Education Index: 1950 - 2000
High and Low Remittance Recipient States



Source: Authors with data from UNDP (2003) and Banco de Mexico (2004)

Under our "thin" definition, there is no doubt that remittances enhance and promote development. Our "thick" definition, however, suggests that because on average so little remittance money goes to education and health, at most it only prevents further impoverishment. Thus, our analysis suggests that even though remittances represent a significant resource for those families who receive these funds, it is very unlikely that familial remittances promote "thick" development. These monies prevent further absolute impoverishment, but they may also increase relative income and wealth inequalities among those who receive and those who do not receive remittances.

The challenge for Latin American governments is to develop creative policies that take immigrants' remitting behavior into account and motivate them to contribute funds for collective purposes and to increase their support for community-oriented projects.

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