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

Dean Yang  
University of Michigan

With:

Nava Ashraf (Harvard Business School)  
Diego Aycinena (University of Michigan)  
Claudia Martinez (University of Chile)

# Agenda

- The problem of control over remittances
- The El Salvador Study of Migrant Families
- Data from first 300 migrant surveys

## DC-area Salvadorans on the problem of control

“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 US, works as 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 US, works as a carpenter

# Our hypothesis

- Migrants may disagree with family members back home on how remittances should be used
  - Migrants may prefer that remittances be:
    - Saved
    - Invested (in education, housing, small business)
  - While family members may prefer consumption
- Key problem: migrants cannot directly control how remittances are used
  - Migrants may send less home than they would if they had direct control
- Giving migrants more control over remittance uses may
  - Encourage them to send more resources home
  - Raise household savings
  - Raise investment uses of remittances

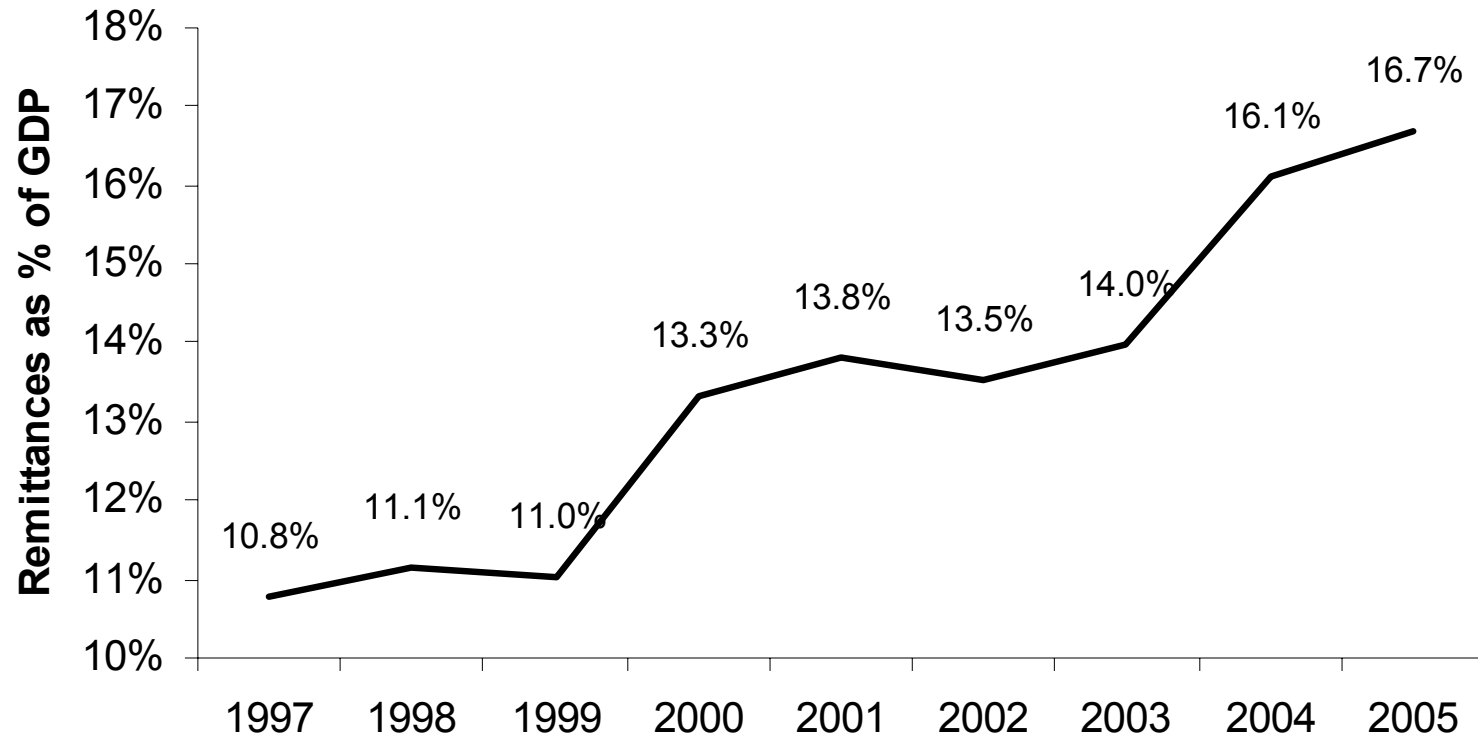
# The El Salvador Study of Migrant Families (ESSMF)

- Design consumer financial products to give Salvadoran migrants in the U.S. more control over the money they send home
  - Savings
  - Investments
- Study the impacts of the products using a randomized field experiment
  - Salvadoran migrants in Washington, DC area, and their families back home
- Timeframe: Summer 2007 – Summer 2008
- Funding support from Inter-American Development Bank, Multilateral Investment Fund, and MacArthur Foundation

# Why El Salvador?

- Importance for the country
  - Ratio of Salvadorans in the US to Salvadorans at home is roughly 1:6
  - Remittances accounted for nearly 17% of GDP in 2005, and three times FDI
  - Latin American country with highest per capita remittances
- Practicality in surveying migrant populations and source households
  - Salvadorans relatively highly concentrated in a few US locations
  - El Salvador itself is very compact, reducing cost of finding origin households
- Partnership with the largest Salvadoran bank, Banco Agrícola

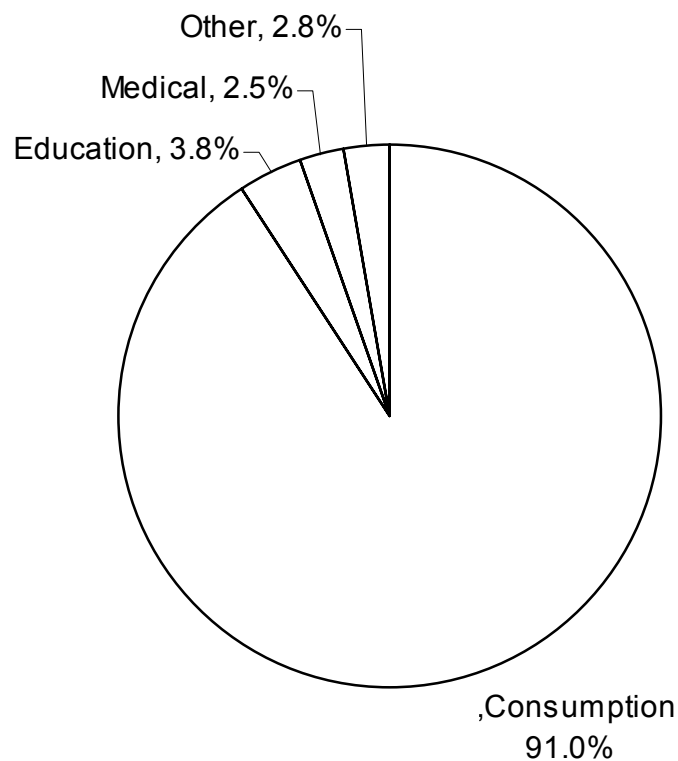
# Remittances as % of GDP, El Salvador



Source: Central Reserve Bank of El Salvador

# Reported uses of remittances, El Salvador

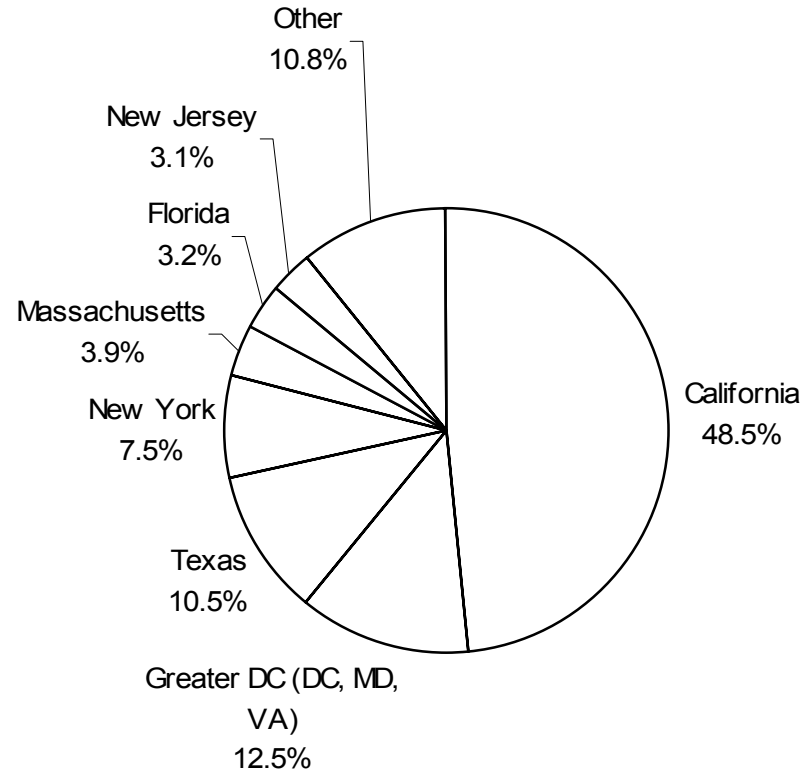
Figure 26: Breakdown of remittance uses by households  
Year 2002



Source: 2002 round of Encuesta de Hogares de Propósitos Múltiples (EHPM).

Note: Figure presents mean percentage of remittances spent on various uses, across remittance-recipient households.

# Locations of Salvadorans in US

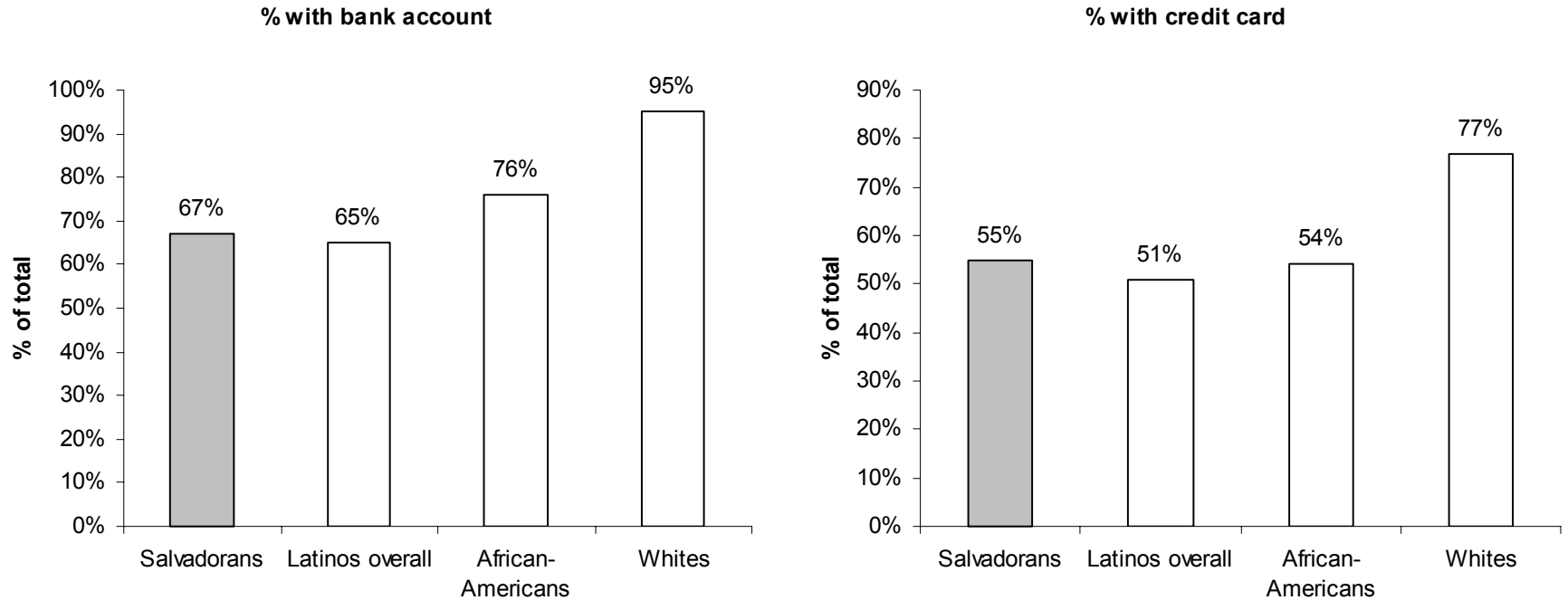


Source: 2001 round of US government's Census 2000 Supplementary Survey (C2SS).

Note: Salvadorans in US are those born in El Salvador and those self-identifying as Salvadoran in Hispanic origin question.

# Salvadorans' use of financial products in US

Figure 21: Use of financial products by Salvadorans in US



Source: 2001 National Survey of Latinos.

# Initial focus: savings vs. expenditures

- Migrants frequently report wanting household to save some fraction of remittances
  - Savings can be intended for use of household and/or migrant
- Currently, 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

# The intervention

- Allow migrants the ability to “split” a remittance into savings vs. cash
- Savings accounts located in El Salvador
  - Deposit via remittance
  - Withdraw using ATM card
- Migrants in DC offered new accounts by University of Michigan project team
  - Project team helps migrants with form-filling, documentation
- Forms sent by mail to Banco Agricola in El Salvador
  - Postal mail version of existing online account-opening procedure
- Passbook, ATM card mailed back to migrant from El Salvador

# Experimental conditions

1. Base case (control): Migrants encouraged to remit into a recipient's bank account
  - This facility already exists (encouragement to use an existing product)
  - Migrant cannot check balance or withdraw
2. Shared migrant/household account: Migrant offered a joint savings account with a member of recipient household
  - Migrant and household in El Salvador each have ATM cards
  - Migrant can check balance
3. Exclusive migrant account: Migrant offered own savings account in El Salvador
  - Only migrant has ATM card
  - Not shared with household in El Salvador

# Rationales for treatment conditions

1. Base case (control): Ensures that any differences vis-à-vis treatments 2 and 3 are not simply due to “encouragement” to save
2. Shared migrant/household account: Impact of having *shared* control over account
  - Monitoring of account balance
  - Withdrawals
3. Exclusive migrant account: Impact of *exclusive* control over account

# Impact evaluation

- Surveys
  - 1,500 migrants in Washington DC area
  - 1,500 households in El Salvador receiving remittances from these DC-area migrants
- Randomized treatment-control design
  - 500 migrants randomly assigned to each of 3 experimental conditions
  - ESSMF marketing team visits all 1,500 migrants to administer treatments 1, 2, and 3

# Hypotheses to be tested

- Hypothesis 1: Take-up of new savings products will be...
  - Highest for Treatment 3 (exclusive migrant account)
  - Next-highest for Treatment 2 (joint migrant-hh account)
  - Lowest for Treatment 1 (exclusive hh account)
  - Difference should reflect value migrants place on control over savings
- Hypothesis 2: Growth in migrant savings will be...
  - Highest for Treatment 3
  - Next-highest for Treatment 2
  - Smallest for the Treatment 1
- Also will examine effects on:
  - Cash component of remittances
  - Other household investment activities, such as schooling, health spending, entrepreneurship

# Baseline survey

- Salvadoran migrants in Washington, DC who recently remitted to someone in El Salvador
  - Intercepted in Salvadoran consulates and Banagricola remittance agencies
- Information on a wide range of socio-economic variables, including:
  - Employment
  - Income
  - Consumption in US
  - Communication with family
  - Remittances
  - Savings
- Today: summary statistics from first 300 surveys

# Migrant survey – Washington DC



# Household survey – El Salvador



# Basic demographics

- 70% male
- Mean age: 31
- Mean time in US: 5.5 years
- Median household size: 5
- 96% Salvadoran citizens, 4% dual Salvadoran-US citizens
- 36% married, 22% partnered
  - Of married or partnered, 73% live with partner in US

# Employment and earnings

- Top 3 employment categories are construction (28%), food services (19%), cleaning services (15%)
- Median annual earnings:
  - \$16,600 (surveyed individual)
  - \$25,100 (household)

# Communication with family

- 88% have a cellphone
- 95% have *not* visited in the past 3 years (proxy for legal status)
- 70% communicate at least once a week
- Methods of communicating with family:
  - 73% Cellphone
  - 22% Landline phone
  - 2% Email
  - 0% Letters

# Remittances

- Top recipient types by relationship:
  - 52% parent
  - 15% sibling
  - 13% spouse/partner
  - 7% child
- Most common amount per remittance: \$200 (25%)
- Median annual remittances: \$2,700
- Median remittances as share of income: 16%

# Savings

- 71% have a savings account
  - 49% have one in US only
  - 12% have one in El Salvador only
  - 10% have one in both countries
- But savings are quite low
  - Median savings: \$575
  - Median savings as % of annual hh income: 2.0%
- Migrants express desire for more savings
  - 36% “very unsatisfied” or “unsatisfied” with current level of savings
  - 81% would open account in El Salvador if given opportunity to do so

# To be continued

- Timeline:
  - Baseline survey in summer/fall 2007
  - Product offers in fall/winter 2007
  - Follow-up survey in fall 2008
    - Examine effects on remittances, savings, household expenditure patterns