Researchers
Nava Ashraf
London School of Economics and Political Science

Diego Aycinena
Universidad Francisco Marroquín

Claudia Martinez
Pontificia Universidad Católica de Chile

Dean Yang
University of Michigan

Timeline
2007-2008

Research Implemented by IPA
Yes

Responses to Degree of Control over Remittances in El Salvador

Abstract

How do migrants decide how much money to send home in remittances? Would they like to have some control over how much of the money is spent and how much is saved? This study offered a variety of special bank accounts to migrants from El Salvador living in Washington DC, offering the sender varying degrees of control over an account held in the receivers name. Migrants offered greater control sent significantly more. Those offered some control over bank accounts roughly doubled their total savings in the combined trans-national household (migrant plus remittance recipient).

Policy Issue

By the year 2000, individuals living outside their country of birth had grown to nearly 3% of the world's population, reaching a total 175 million people. The money these migrants send home, called remittances, is an important but relatively poorly understood type of international financial flow. Recent research into the economics of migration has documented several beneficial impacts of remittance flows on household well-being and investments. However, research has only just begun to look at how migrants make their remittance-sending decisions, particularly if they desire greater control over how family members back home use the remittances they receive, and whether that impacts the amounts remitted.

Context of the Evaluation

El Salvador is highly unusual among developing countries in its number of overseas migrants relative to the national population. After the 1980 civil war, large flows of Salvadorans emigrated, and continued to do so at a remarkably steady pace. At least one in seven Salvadorans now lives outside of the country, primarily in the United States. The total income of the approximately 1 million Salvadorans living in the U.S. was roughly equal to the El Salvador's total GDP in 2001. Concurrent with the expansion of Salvadoran communities overseas, the dollar value of remittances sent to El Salvador has grown dramatically, from $790 million in 1991 to $3.8 billion in 2008.

Remittances appear to have significant benefits for recipients – households in El Salvador receiving more remittances have higher rates of child schooling, for example. But the lack of control migrants have over how remittance funds are used at home could be reducing the amount that they choose to send home. The fact that migrants report far higher preferences for saving, about 21% of income, relative to recipient households, who prefer to save less than 3%, supports this assumption.

Details of the Intervention

Researchers, in collaboration with Banco Agrícola, designed a field experiment that offered a way for Salvadoran migrants to directly channel some fraction of their remittances into savings accounts in El Salvador. To isolate the importance of migrant control over savings, researchers tested the demand for different products that offered migrants varying levels of control over remittance use. Baseline surveys were administered to both migrants in the U.S. and their corresponding remittance-receiving households in El Salvador.

The sample consisted of Washington DC area migrants who first entered the U.S. in the past 15 years and sent a remittance in the last 12 months. All 898 migrants received a marketing visit, where a marketer described the uses and benefits of savings, and were encouraged to save. They were also randomly chosen to be offered one of three new accounts in El Salvador that they could remit to. The account would either be (i) opened in the name of an individual in El Salvador, granting the recipient full control, (ii) a joint account where the recipient and the remitter would have access through ATM cards, allowing monitoring, but no enforcement on the part of the migrant, or (iii) an account only in the name of the migrant, providing full ability to control funds in the account. In the case of the first two accounts, project staff arranged by phone for the El Salvador remittance recipient to meet with the bank manager of the nearest Banco Agrícola branch to complete the final account-opening procedures. To help track migrants' remittance behavior after the marketing visit, all visited treatment migrants were given a special card (called a "VIP card") that provided a discount for sending remittances via the partner institution's remittance locations. A final group of migrants received the marketing visit but were not offered an account, serving as the comparison group.

Results and Policy Lessons

Results indicate that a desire for control over remittance uses – in particular the fraction that is saved in formal savings accounts – was large, and had significant influence on migrants' financial decision making. When offered an account in the name of the recipient, allowing no formal control of the remittances, migrants were 16.4 percentage points more likely than the comparison group to open accounts. When offered joint control, migrants were 21.4 percentage points more likely to open accounts than people in the comparison group, and 34 percentage points more likely when offered exclusive control.

While effects on savings at Banco Agrícola were substantial, there was also a substantial increase in savings outside of the partner bank, including U.S.-based banks. Researchers interpret this result as due to the financial advice offered as part of the treatments. Migrants implemented savings strategies suggested by the marketers but using savings facilities at other banks.

This resulted in large treatment effects in savings. Compared to a base of roughly $430 in reported comparison group savings, offering joint or exclusive control of bank accounts roughly doubles total savings in the combined trans-national household (migrant plus remittance recipient).

August 14, 2013