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

Nava Ashraf, Harvard Business School

(with Diego Aycinena, Francisco Marroquin University; Claudia Martinez, University of Chile; Dean Yang, University of Michigan)
Remittances vs. ODA, FDI
(1991-2005)

Remittances and economic development

- Some things we know:
  - Households receiving exogenous increases in remittances are more likely to:
    - Send children to school
    - Take children out of labor force
    - Invest in new household enterprises
    - Exit poverty status
  - Remittances serve as insurance, rising in wake of negative shocks

- What we don’t know:
  - Much at all about the microeconomics of the remittance-sending decision
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 U.S., 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 U.S., works as a carpenter
Remittances and Choice: Some Open Questions

- Do migrants and recipients typically agree on the uses to which remittances should be put?

- If not, how do such disagreements affect...
  - the choice of remittance recipients?
  - amounts remitted?
  - remittance uses?

- If migrants were to be given more control over remittance uses...
  - would they remit more?
  - how would they direct them to be used?
  - what would be the impact on household-level development outcomes?
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 potentially intended for use of either recipient or migrant

- Migrants report stronger preferences that remittances be saved, compared to recipients

- 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 Action Research Collaboration

- We worked with Banco Agricola, the largest bank in El Salvador, to offer Salvadoran migrants in Washington, D.C. the ability to directly channel remittances into savings accounts in El Salvador.

- We randomly varied the degree of migrant control over accounts offered.

- Outcomes of interest:
  - Demand for accounts (take-up)
  - Savings accumulation
  - Remittances (identity of recipients, amounts)
  - Later household outcomes
    - E.g., consumption, schooling, entrepreneurial investment, housing
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

Cuenta con tu nueva

Cuenta Unidos

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.

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

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
- 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.

- Es GRATIS
- No pagas intereses por tus compras
- Mayor seguridad al no llevar tu efectivo en el bolsillo.
Marketing visit (1)
Equalizing transaction costs

- **Account-opening costs**
  - For all account types, account opening requires visit by remittance recipient to a Banco Agricola branch in El Salvador

- **Remittance transfer cost**
  - All accounts have equal cost of inbound remittance
  - Inbound remittance costs also equalized with cash remittance
Remittance price randomization

- Remittance prices randomized between $4 and $9
  - For a remittance up to $1500
  - VIP card used to track remittances

- Will examine price elasticity of remittances
Baseline survey contents

- Demographics, household composition
- Employment and income
- Detailed consumption in US and El Salvador
- Use of financial services
  - Savings
  - Remittances
  - Credit
- Financial literacy, planning
- Communication and conflict with family
- Migration history
Basic summary statistics

- **Demographics**
  - 29% female
  - Mean age: 30.8
  - Mean years in US: 5.47

- **Employment and income**
  - Top employment categories are construction (32%), food services (15%), cleaning services (10%)
  - For migrant, median annual earnings is $17,945 for surveyed individual and $25,458 for household
  - For recipient household, median annual income: $2,864

- **Remittances**
  - Most common remittance amount sent: $200 (25%)
  - Median annual remittances: $3,900
  - Median remittances as share of migrant hh income: 14.4%
Allocations of $100 raffle winnings

Migrant
Allocations of $100 raffle winnings

**Migrant**

**Remittance recipient**
Analysis of take-up decision

- Definition of “take-up”: migrant fills out account-opening forms during marketing visit

- Focus on migrants offered Treatments 1, 2, or 3
  - Account opening for Treatment 0 requires analysis of internal bank data or follow-up survey
Percentage opening accounts, by treatment

- Treatment 1: Remittance recipient account only
  - 33.1%
- Treatment 2: Joint account (Cuenta Unidos)
  - 47.8%
- Treatment 3: Joint account (Cuenta Unidos) + individual account (Ahorro Directo)
  - 53.1%

Percentages of migrants filling out account-opening forms as of May 19, 2008 (236 treatment 1, 253 treatment 2, and 243 treatment 3)
Evidence for migrant control?

- Higher take-up in Treatment 2 and 3 vs. 1 may indicate:
  - Migrant desire for control, or
  - Migrant desire for *convenience* (easy access to funds from U.S.)

- Take-up is not statistically significantly higher in Treatment 3 vs. 2

- But 95% of migrants opening accounts in treatment 3 open Ahorro Directo (individual migrant account)
  - Highly suggestive of migrant desire for control

- Data still to come will shed further light: assess whether total savings balances are significantly higher in Treatment 3 vs. 2
Summary of Findings so far

- Migrant demand for savings accounts in El Salvador rises when they are offered more possibility of control over them
  - Demand is 60% higher when migrants have option of joint or individual (migrant) ownership over accounts, compared to accounts in the name of someone else in El Salvador

- Increase in take-up when migrants are additionally offered option of individual ownership (vs. joint ownership) is relatively small
  - But when individual ownership is offered, 95% of migrants opening accounts avail of individual ownership
  - Highly suggestive of demand for migrant control

- Additional tests of importance of migrant control await availability of savings data
To be continued…

- Marketing visits to offer products finished July 2008
- Savings and remittance data will be available in fall 2008
- Follow-up survey in early-mid 2009
  - Examine effects on remittances, savings, consumption, investments (education, small enterprises), etc.