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LATIN BEAT

By Geri Smith

Channeling the Remittance Flood

In 2005, migrant workers in the U.S. sent \$52 billion back to Latin America and the Caribbean. Now governments are working to leverage that money to promote economic development

Alvaro Ramírez is no stranger to back-breaking work: The 29-year-old Mexican spent six years picking apples and grapes in Wasco, Calif., earning less than \$4.50 an hour. Four years ago, having heard that meat-packing plants paid much higher wages, he moved to a small town in Iowa, where his wife packages pork and he works the graveyard shift maintaining plant machinery. They each earn \$12 an hour, and after income and Social Security taxes are withheld -- yes, they do pay U.S. taxes -- they clear about \$3,500 a month (see BW Online, 7/18/05, "[Embracing Illegals](#)").

That's nearly 10 times what they would earn in Mexico, and it's enough to buy a used two-bedroom trailer and a 1998 pickup truck to cart their two preschool daughters around town. Once a month, Ramírez wires \$250 to his 50-year-old mother in Mexico City -- something he has done almost without fail for the 11 years he has lived in the U.S. as an illegal alien. "I'll keep sending her money as long as she lives," he vows.

Ramírez (not his real name) is one of an estimated 11 million Mexicans living in the U.S. -- some legally and some illegally -- who are expected to send a record \$20 billion to Mexico in 2005, a 20% increase over last year. Mexico is the world's largest recipient of "remittances," or funds sent home by migrant workers abroad (see BW Online, 10/18/05, "[Immigration: Is Bush Fenced In?](#)").

As a whole, Latin America and the Caribbean have an estimated 25 million citizens living abroad, of whom some 20 million send home \$2,500 a year on average. The region is set to receive \$52 billion this year, up from \$45 billion in 2004.

MATCHING FUNDS. That's more than the region receives annually in foreign direct investment and foreign aid combined. The importance of the inflows cannot be exaggerated. Remittances to El Salvador account for 18% of gross domestic product and lately have exceeded the value of the country's exports. Throughout Latin America, the remittances reach poor rural areas that get little development assistance. The money flows provide such basic necessities as food, clothing, and schooling.

Unlike foreign investment, which usually drops during recessions, remittances increase, because migrants know their families back home are suffering. That provides a countercyclical cushion. Yet remittances are not without their downside: Families and countries risk becoming dependent on them, and many small towns have become depopulated -- and families fractured -- as breadwinners head north.

For years, governments have sought to leverage the remittances to boost economic development, so that future generations of Latin Americans will not have to migrate to find economic well-being. In Mexico, the government has helped communities refurbish schools, pave streets, and build small factories by offering matching funds to some 1,500 "hometown associations" formed by Mexicans in the U.S.

These groups often hold fund-raising events in cities with large Mexican populations, such as Los Angeles and

Chicago. They typically send anywhere from \$20,000 to \$100,000 home for projects chosen by the community, and the Mexican government matches those funds with as much as \$3 for every \$1 sent.

MICROFINANCE GROUPS. But such projects represent a tiny percentage of the money sent. Governments and multilateral organizations such as the Inter-American Development Bank are trying to expand the impact of remittances by encouraging recipients to save money and build credit histories, so they can get mortgages and small-business loans.

Today, fewer than 10% of remittance recipients have bank accounts, largely because traditional banks haven't been interested in small clients. That will change as more remittances are channeled into credit unions and microfinance organizations, says Manuel Orozco, executive director of the Remittances & Rural Development project at the Inter-American Dialogue, a think tank based in Washington, D.C.

In the Dominican Republic, for example, a women's microfinance bank plans to offer medical insurance and education savings plans for remittance-receiving street vendors. Some institutions that have track records of receiving money transfers have been able to securitize those flows, using the funds raised to lend to small businesses. "This is one way countries can help channel this money into the productive base of the economy," says Orozco.

Foreign-aid donors are working with microfinance groups to find ways to make the most of the remittance boom. In Jamaica, the U.S. Agency for International Development is helping the Jamaica National Building Society channel remittances more cheaply through debit cards. Profits from the money-transfer transactions equip rural schools with computers.

ROUGH CROSSING. A group of 100 Hondurans living in New York formed the New Horizons Investment Club, which invests in the stock market and buys Bronx rental properties. The club uses the proceeds to develop job-creating tourism projects in their Honduran Atlantic-coast hometowns. The Inter American Development Bank's Multilateral Investment Fund and the United Nations' International Fund for Agricultural Development funded a feasibility study on how to invest the money for the greatest possible community impact.

For now, remittances are robust, in part because it became more difficult to cross the Mexico-U.S. border after Sept. 11, 2001. So instead of going home for an annual Christmas visit, migrants like Ramírez are hunkering down in the U.S. They compensate by sending home more money over the holidays.

Like many migrants, Ramírez figures he'll move back to Mexico someday. His remittances helped build a home in Mexico City, where he could join his mother and siblings. But if his application for U.S. residence is approved, he may settle in Iowa with his wife, whose papers are in order. With two U.S.-born children, he isn't always able to send home as much money as he did before. That's typical of migrants who have lived abroad for some years.

MIGRATION TRENDS. As Mexican families have fewer children, the number of young workers who will journey north of the U.S. border will start declining over the next 10 years, says Raul Hinojosa, director of the North American Integration & Development Center at UCLA. All the more reason for migrant-sending countries to leverage the current flow of remittances.

And if the American government builds a wall along much of the border, as the U.S. House of Representatives voted recently to do? "They can build a wall, but people will always find a way to get in," Ramírez told me during a recent phone call from his snow-bound trailer in Iowa. "Even though many Americans don't want to recognize it, we contribute a lot to this country, and we take low-wage jobs that others don't want." As long as that's the case, there will be migrants -- and remittances.

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Nickname: Chicago_48

Review: It's not that others don't want the jobs, "others" don't know how to work. Our children aren't taught from the first years to do menial housework (like sweeping floors). They have "maid" service or "mom" service. So when they reach their teens, they may "want" to work, but don't know "how" to work. I'm happy for the Latinos. They can show others how it's done to prosper and take advantage of the opportunities in this country.

Date reviewed: Dec 28, 2005 6:22 PM

Nickname: jvaca

Review: It's great that a publication such as BusinessWeek has the guts to write articles like this one. People in the U.S. need to know that immigrants (illegal or not) pay taxes just like anybody else. This article exposes and hopefully starts educating Americans that immigrants don't come to the U.S. to "steal jobs" or "tax public services" without paying their dues. I believe if more information makes it to the public about the immigrants, we will see a change in people's attitudes. Less ignorance about migrants' situation and more tolerance toward other cultures.

Date reviewed: Dec 28, 2005 12:27 PM

Nickname: UseMyBank

Review: The U.S. border is wide open as long as the Fortune 500 can hire aliens without fear of prosecution and the U.S. collects taxes. Western Union makes billions in fees from this business.

Date reviewed: Dec 28, 2005 12:23 PM

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Edited by Patricia O'Connell

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