

**Remarks of Dean Yang on May 26, 2009 in Washington, DC at the conference
*Beyond the Fence: Research Lessons on How Immigration and Remittances Shape Global
Development***

Thanks again everyone for the invitation to speak here today. Let me start out by thanking – let me start out by thanking a number of people who are here today who have made this work possible. MacArthur Foundation; Milena Novy-Marx is here, our program officer who provided the bulk of the funding for this work that I will be sharing with you today.

Also the Inter-American Development Bank, the Multilateral Investment Fund. Don Terry was a big supporter of this work and helped get this project started as well. And finally, of course, the Center for National Development here at Harvard and Bob Hildreth's support made some funding possible from that institution as well. So thank you very much. There are a lot of people here today who have had their hands in the pot of making this happen.

So what do I want to share with you today? Basically, obviously, we're all here because we're interested in remittances and enhancing the development impact of remittances. What motivated this project is the idea that perhaps remittances are actually – even though they are the largest international financial flow to developing countries today, perhaps second only to FDI and perhaps that will change soon – perhaps remittances are smaller in magnitude than they might actually be if migrants who are sending their remittances actually had more control over how the remittances are used once they arrive home. That's basically the motivation behind this work.

And in particular, one reason why this may have an additional development impact is that if migrants had more control over how remittances were used, they might actually direct those remittances to be used towards purposes that might have more of a development impact: education, savings, health investments, small enterprise investments, et cetera. So this is the notional motivation for this work. And what we do is we investigate this possibility by a field experiment that we conducted right here in Washington, D.C., among the migrant population from El Salvador here in Washington, D.C.

Let me start off by sort of situating this work in broader literature on remittances and economic development. We know a number of things currently about the impact of remittances on economic development outcomes. Papers and the literature that myself and others have contributed to have identified that households that receive exogenous increases in remittances are more likely to send their children to school, reduce child labor, they're more likely to invest in new household enterprises as well as in a broad sense exit poverty status.

In addition to direct impacts on well-being measures like this there's also substantial evidence that remittances serve as insurance. Remittances arise when economic conditions get worse in the receiving countries and they fall as economic conditions improve. There's sort of this important insurance function. However, there are a number of things that we don't know yet. Some of these and questions in the realm of things that we don't know motivate this work.

From the policy standpoint, clearly, one of the biggest questions on the table is how might remittances be channeled towards uses that have more development impact? But there's an economics angle to take on this question as well which is to what extent are migrants' remittance decisions affected by their lack of control over remittance uses? And what I will be sharing with you today is preliminary results from research that we think sheds light on these policy and economic questions. So let me give you a sense of the broad outline of the ideas and hypotheses that we're addressing in this work.

The basic starting idea or point is that migrants currently have very limited ability to monitor or control how remittances are used by recipients. And at the same time, this becomes important because migrants and recipients typically have different preferences as to how remittances should be used. And I'll share with you some data on this in a moment. But in particular, just to give you the headline results, compared to remittance recipients back home, migrants often express stronger preferences that remittances be used for purposes that you might consider more long term or future-oriented. So they express much stronger preferences that remittances be saved, for example, as well as used for investments in human capital and entrepreneurial investments.

The upshot of these ideas, if they are true – and some of these, when we started the project were just hypotheses – the upshot is that if migrants are given more control over remittance uses, then first of all, they may decide to send more remittances back home so remittance flows themselves may rise and at the same time, a higher fraction of remittances may be channeled to uses that have long-term development impacts. So these are the motivating ideas and hypotheses of the work. And as the product went along we received – I'll be sharing with you today – increasing confirmation that many of these ideas have turned out to be true in practice.

Let me move from the broad generalizations and ideas to a couple of quotes from El Salvadorian migrants here in the D.C. area that we interviewed at the very beginning of the project, so these are quotes from real people perhaps who aren't very far from us as we sit here today. This is a male, 34 years old at the time of the interview; worked eight months in the U.S. as a roofer at the time of the interview. He says very simply, 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.

This sort of encapsulates – a simple statement, a very common refrain that one hears among migrants. When you ask migrants if they have ever had any bad experiences with how their remittances were used once they send them home and what they don't want recipients to use their money for, alcohol comes up as almost the number one type of thing that's seen as an undesirable use of remittances. A second quote I want to show you is more closer to home in terms of what this specific project is going to be about. It's about how much – about the security of remittances that are sent home in order to be saved for some future purpose.

So this is a 30-year-old male who has been in the U.S. for a year working as a carpenter. He says, 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. When 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. Now, this is a relatively extreme situation. I'm not making any claim that this is the typical situation, but we wanted to share it with you because it does encapsulate concern over the fraction of remittances that are saved.

So this work is going to focus on control that migrants have over how much of remittances are saved so in this sense is reminiscent of the work that Sendhil is doing although the key difference is it's focusing on the preferences of migrants and the actions of the migrants who are in the sending country as opposed – the remittance sending country as opposed to the remittance recipients. So I'll show you some data that justifies the idea that migrants want households to save some fraction of remittances and typically some very large fraction of remittances.

One thing I want to point at the outset, many people ask, when I describe this project why migrants have a demand for savings in the home country? Why can't they save in the U.S. in savings accounts here in the U.S.? We should think about these savings as having two potential intended beneficiaries. First of all, the savings may be intended for the remittance recipients. So the typical recipient – remittance recipient in El Salvador is a parent. The migrant may have a preference that the parents build up a buffer stock for their own insurance purposes for the future or they may want mom and dad to – perhaps there's more of a sense that as well that the migrant wants mom and dad to start a habit of saving, get into a habit of saving.

In addition, as exemplified by the second quote that I just shared with you on the previous slide, the savings could also, in principle, be intended for the migrant. Many migrants at the outset of the project that we interviewed mentioned that they thought of some of the savings that they might put into El Salvador-based accounts as intended for themselves because in particular for undocumented migrants there's this fear that if they're deported they may lose access either formally or effectively to any money that they have in savings accounts in the U.S.

This all becomes important of course – you know, the issue of difference in migrant and recipient preferences over how much to save becomes important because migrants typically have little or no ability to control household savings in El Salvador. The typical situation is that you may send back \$300 a month to your mom or dad and you request – a migrant may request that they save say, \$100 out of that remittance but there's no – typically – direct way to enforce that mom or dad do exactly that with the remittances and save a third of the remittances, for example.

So here's just some data that we collected at the outset of the project from migrant – El Salvadorian migrants that we interviewed here in Washington, D.C., as well as remittance

recipients in El Salvador, so we also sent out survey teams to interview remittance recipients in El Salvador, the very same people who were receiving money from the people we interviewed here in Washington, D.C. And these two pie charts basically summarize the answers that the migrants gave – migrants in D.C. gave, versus the remittance recipients in El Salvador, what they gave to how they would allocation a notional \$100 that they received in remittances.

I don't want to go too much into the detail, but the basic point is that the biggest difference between how migrants allocated remittances in some ideal sense and remittance recipients allocated remittances is in the areas of daily consumption and savings. So on the migrant side, the biggest chunk of allocation was to daily consumption, about 42 percent. But another 21 percent, the second largest pie piece here, went to savings. Migrants, in other words, wanted recipients to save about a fifth of the money coming in, \$20 out of 100.

Remittance recipients, on the other hand, preferred to allocate 65 percent, about \$65 out of 100 to daily consumption and only \$2.50 to savings. That's the very small sliver over there compared to 21 percent allocated by migrants. So basically, the basic point here is that in survey questions at the very outset of the project it was very clear that migrants had a much stronger preference that money go towards savings than did remittance recipients. Then, the rest of what I'll be sharing with you is actually hard data on actual saving decisions to see whether when you give migrants more control over the savings decision do families actually end up saving more?

So what do we do in this experiment? We offered Salvadorian migrants here in Washington, D.C., the ability to directly channel remittances into savings accounts in El Salvador. We developed these facilities in partnership with a Salvadorian bank, Banco Agricola, that largest bank in El Salvador. These facilities previously were not widely available. And the essentially experimental thing that we manipulated was the degree of migrant control over the accounts that we offered the migrants here in D.C.

So basically, we essentially held a lottery. We randomly assigned migrants in our study into different experiment conditions that varied in the degree of control they had over the accounts into which they were remitting in El Salvador. There are many different outcomes that one might be interested in examining in terms of what this experiment might have affected. The very first thing of course to ask about is savings and that's what I'll be talking about today. Later on, in fact – once we have our second round survey, our follow-up survey completed next month, we're going to look at a number of different outcomes like remittance growth, consumption, schooling, entrepreneurial investment, et cetera.

But today what we're looking at is savings accumulation. So here's just an example of a family that we interviewed here in Washington, D.C. You can tell what time of year it was. And here's an example of a remittance recipient that we interviewed in El Salvador. This is in San Salvador where, for crime concerns, our enumerators were typically not allowed into the households. And so, this interview took place on the sidewalk in front of someone's house.

What did we offer people? We offered three different types of savings accounts. So I mentioned that we've randomly varied the amount of control migrants had over the accounts into which they were remitting and we did have by offering three different types of savings accounts. The first was an account purely in the name of a remittance recipient in El Salvador. So this is something that the migrant had no formal control ownership over. We have offered account opening assistance in case there was no such account that a migrant could remit into. But it should be clear here that this offers no real control for a migrant. It's just an account into which they could remit. They can't check the balance in this account. They can't withdraw.

The second type of account that we offered was something that layered on an ability to at least monitor if not fully control what was in the account. So this is a joint account that would be in the name of the migrant who was sending the remittance and the household receiving the remittance, or the household member receiving the remittance. This is a new product we developed with the bank called Cuenta Unidos. In this case, the migrant and the household each have ATM cards. The migrant can check the balance.

But it should be clear that this isn't really control in the sense that the recipient in El Salvador is also an owner of the account and could completely empty the account if he or she wanted to but this does allow in comparison to the first account the migrant to check the balance and to monitor whether the recipient household is saving as the migrant might prefer. And finally, we also offered in another treatment condition what we just – I just think of it just as an individual migrant account amount – an account only in the name of the migrant who's sending the money. This is a new product as well. We call this Ahorro Directo. Only the migrant here has an ATM card and it's not shared with the household.

So these are the different types of savings accounts that we offered. What we did was in terms of setting up the experimental treatments was that – this is a table that basically outlines what types of accounts we offer to people in different treatment conditions. The migrants were randomly allocated into one of either treatment zero or treatment one, two, and three. Treatment zero was a control group that didn't get offered any accounts. They just served as the baseline or comparison group for everyone else in the study. Folks that were allocated randomly into treatment one were offered the account for the remittance recipient and then in treatments two and three, we layered on additional types of accounts that gave migrants essentially options for control should they choose to exercise additional control over funds that were saved.

So in treatment two, we layered on the offer of the joint account with the recipient, and then on treatment three, on top of treatment two, we layered on the ability to have one's individual account, the Ahorro Directo account for the migrant. So this is just sort of – just to give you a sense of how this project worked on the ground. We had a marketing team here in D.C. that went out and met with each of the 1,500 or so migrants that were in the sample. They're all Salvadoran from the area. All, I have to say, at least legal permanent residents, so legal to work on the project, not necessarily true about everyone in our study although we didn't track that information.

This is an example of the marketing visit that one of our staff members did with a migrant with his back to us here in D.C. Basically this has taken place in a restaurant and the staff had a laptop, printer, and a scanner to basically enable the account opening process, fill out all the account form which then got mailed to El Salvador for the opening of the account. And then this is just an example: the Banco Agricola branch in El Salvador which recipients could use if an account was open in their name to access their funds.

So here are the basic results. What I'm presenting here is the bars are the change in savings from before to after the project for individuals for households, I should say, in different treatment conditions. So what I'm depicting here is savings growth in accounts under which – that are in the name of the recipient or at least shared between the migrant and the remittance recipient. And, as you can see, as we – the theoretical prediction comes out exactly in the pattern of results.

The prediction was that as we move from treatment zero, the control group, through to treatments one, two and three, as we moved from the left to the right of the slide, we would see increases in savings as we layered on great ability for migrants to have control over the funds that they were – the savings accounts that they were remitting into. And that's exactly what we see. So just as a little bit of background, let me give you a sense of these – the starting levels here. At the beginning of the project in November, 2006 – or the baseline date that were taken as the start of the project, November, 2006 – families in El Salvador typically had about \$400 in Banco Agricola savings accounts. So that's the baseline you should be thinking about.

For folks in treatment zero, this negative 16.99 means that for folks in the treatment group savings actually declined by about \$17, and I would take that to be roughly stagnant, from about \$400 dropping about \$17 over the next two years. In comparison, instead of being stagnant, savings across the other treatment conditions actually rose, and in one treatment condition, treatment three, rose quite substantially vis-à-vis the baseline of \$400.

So in treatments one and two, savings rise from about 160 to about \$200, but the real bang for the buck comes in treatment three where savings rose by \$464 over the life of the experiment. This is as of last November, November, 2008. So from November 2006 to November, 2008, we get more than a doubling from the baseline of 400 of savings for the individuals that we randomized into the treatment condition where the migrants had the greatest degree of control over savings in these accounts.

So another set of results that I'll only refer to as opposed to showing additional data in the interest of time is some sense that we're starting to get as to who the savings are for. So remember, at the outset I mentioned that the savings could have been for the remittance recipients or for the migrants themselves. At the outset of the project we didn't have a strong sense as to who the savings would actually be for.

It turns out that the preliminary data we've been getting in suggests that the savings in El Salvador appear to be intended for remittance recipients primarily or for joint purposes between the recipients and the migrants but not solely for the migrants. And we say this because as far as we can tell so far, migrants tend not to be accumulating savings in the individual migrants accounts that we offered them in treatment three, what we call the Ahorro Directo account, which was surprising to us but that's why we do research because sometimes we're surprised by the results.

One question that may arise, of course, is why we see such a big increase in savings going into recipient accounts in the treatment three condition, even though this is not depicting at all any savings that are being held in the migrant exclusive accounts, the Ahorro Directo accounts. And as far as we – the best answer that we can give at this point is that it's possible that these Ahorro Directo accounts, these accounts that we offer to migrants in their own name serve in some way to increase the migrant's bargaining power vis-à-vis the recipient household in terms of basically increasing the credibility of a migrant threat to save on his or her own, independently of the receiving household.

So one might say to mom and dad, I have this Ahorro Directo account that this project helped me set up. I'm not using it at the moment. I prefer to save in a joint account with you, but – and this may be implicit – if you don't – if we don't save together to the extent that I'd like us to that I may start just using this Ahorro Directo account. So it's being held in the banks. Almost everyone in the project is opening these accounts but very few migrants are actually using these accounts. Clearly, our interpretation is that the migrants clearly prefer to save jointly with the remittance recipients as opposed to independently on their own.

So let me just summarize. When we offer migrants greater control and monitoring of bank accounts back home, we see savings in the home country rise substantially, particularly in accounts under remittance recipients' names. When we offer migrants the greatest degree of control, savings more than double. They increase by more than \$400 from a base of about the same size over this two-year period. The counterfactual is roughly zero savings growth from a baseline of about \$400.

So still to come. Where are we going with this? I mentioned this project is still ongoing. These are preliminary data. We're doing the follow-up survey right now, as we speak, to look at impact on other outcomes, consumption investments, labor supply, also ability to cope with risk. This obviously – this follow-up survey happens to be happening precisely in a time of economic crisis in the U.S. as well as in El Salvador, and we'll be looking at whether these savings accounts help. Those families that end up with the savings accounts that migrants have more control over are better able to weather this economic crisis, this economic shock.

Let me say a brief word about how – what we think as these results become solidified what the lessons might be for policy-makers in the private sector. So clearly, the first lesson is that migrants value control over savings, and in particular joint accounts with remittance recipients. We think this suggests at the very least that the private sector should consider

offering these types of savings facilities. The bank that we're working with, Banco Agricola is also aggressively, perhaps too aggressively in some sense from our standpoint trying to offer these savings facilities as well in the U.S.

The public sector may choose as well to promote and subsidize them. When I say public sector I mean governments as well as international institutions that are interested in increasing the development impact of remittances. One thing that I failed to mention here but that also may end up being important is modifications of regulations in developed countries like the U.S. where banks from developing countries like Banco Agricola may want to promote these types of accounts.

I think that it's clear to us from having done this project that there's a huge grey area in terms of the legality of actually promoting these types of accounts for migrants in the rich world to the extent that the banker working with Banco Agricola does not have a banking license in the U.S. and this may run afoul of a state level banking regulations that are intended to prevent institutions external to the U.S. from engaging in these types of activities and these types of account promotion activities.

Beyond this particular project on remittances and savings, we think that the projects suggest that further research is necessary to determine whether migrants value control over other types of expenditures, for example, housing, human capital, education, health expenditures, durable goods, and if it does turn out that these dimensions of control are important as well, then public policy can help promote direct payment facilities for these types of expenditures also.

And let me just mention in closing that I think this is an ongoing set of questions I think are very worth while exploring in future research. Personally, I'm involved in a couple of other projects that are testing demand for precisely these types of direct payment facilities focusing on outcomes that are likely to have broader development impact so education, and health, expenditures, giving migrants more control over say paying school fees or health insurance for family members for back home.

With some collaborators I'm doing work among overseas Philippine workers in Qatar. We're in the final stages of designing payment facilities in partnership with the second largest bank in the Philippines, the Bank of the Philippine Islands. And we'll start our pilot test this summer. We're carrying out surveys of workers in the Philippines – workers in Qatar and their families in the Philippines to assess impacts.

And finally, I think, in closing, I think for those of you who are interested in sub-Saharan Africa, for countries that have large migrant populations and they get non-negligible remittances like Kenya, Nigeria and Ghana, I think there are huge amount of opportunities for thinking about direct payments for African migrants who may want to pay for the same types of expenditures, education and in health for their family members back home but also for important agricultural inputs like fertilizer that are dramatically underused in developing countries. So let me close

there. I think there's a great deal of attention in this area. I'm happy to talk with anybody afterwards if folks have any further questions.