

Leveraging Migrant Remittances to Mexico: The Role for Sub-National Government

Benjamin Rempell

Public Administration, The Maxwell School of Syracuse University

Remittances have become one of the largest revenue sources for many developing countries. Mexico, with its large migrant population working and living in the United States, leads the trend by many countries to view these significant revenue flows as potential sources of development. This paper analyses the potential role that remittances can and do play in international development. Using the case of Mexico, the paper assesses the growing relationships between local government in Mexico and Home Town Associations (HTAs) of migrants living in the United States. While the potential may be limited, there are significant opportunities for growth in a relationship that can work towards development growth and improved accountability of local government leaders in Mexico.

Introduction

Remittances, the portion of international migrant workers' earnings sent back from the country of employment to the country of origin, play a central role in the economies of many labor-sending countries. The value of U.S. remittances to Mexico is large and growing. Mexico's central bank reports that family remittances sent in 2003 totaled \$13.266 billion dollars. This is an amount equal to 79% of Mexico's oil exports, 71% of the *maquiladora* sector surplus, 140% of foreign direct investment (FDI), and 2.2% of the country's gross domestic product (GDP). Similar statistics in the rest of Latin America and the Caribbean have led national governments around the region to view remittances as an answer to fiscal imbalances that have stunted growth. Naturally, this growing mentality has led many countries to attempt to facilitate and maximize the flow of remittances into their country for use in economic development and job creation. Mexico has been the leader of this trend, and therefore is the focus of this paper.

Increasing focus on remittances runs parallel with moves to decentralize state institutions by – at least in theory – increasing autonomy and decision-making at the local level. Both remittance flows and decentralization are believed to increase economic and social development; the former to increase sources of revenue that are re-distributed from wealthy to poor nations and the latter to improve public sector decision making on how revenues should be spent to best target the needs of the population. In Mexico, some of the initial attempts to coordinate migrant remittance flows were initiated by local government, demonstrating the potential positive intersection between these two trends.

The case of how Mexican migrants in the United States have increased the social productivity of their migra-dollars is a useful one. The growth of Home Town Associations (HTAs) in the United States and the subsequent partnership schemes with national and sub-national government provide valuable lessons on the potential and dangers of public sector involvement

in remittance flows. The analysis will show that increased cooperation between HTAs and sub-national governments in Mexico demonstrate potential for a new, if limited, source for improved fiscal performance under the new decentralized system. Increased use of formal financial transfer systems and the heightened role for migrant workers on improving local government accountability provide an optimistic outlook on the role of remittances in increasing community development and sound governance. To be sure, the partnerships are donor-driven, and increased pressure from the public sector risks building disincentives for collective participation that could reverse the positive trends that have risen from HTAs.

To explain these links, the paper is divided into three parts. First, an overview is provided of the current debate on the role that remittances play in development. To give this debate the justice it deserves, the paper summarizes both the causes and effects of remittances as argued in the literature. This debate explains the competing perspectives on why developing country governments should or should not use resources to leverage the flows of remittances entering their country. After outlining the debate, the paper turns to the Mexican case and how the growth of HTAs have been approached by the Mexican government on the national and sub-national level. This section discusses the changing fiscal performance in sub-national governments in Mexico and impacts of emigration on local government performance. It also looks at the appropriateness of local government intervention in what has previously been understood as a private transfer of income from one member of a family to his or her household. The paper concludes by providing an assessment of where this partnership should go in the future, and what limitations exist for government to channel remittances for social productivity and job creation.

The Impact of Remittances on Development

From a policy perspective, remittance flows must be analyzed on both sides of the border – from the characteristics and motivations of the remitter to the uses by the receiver and the impacts of those uses – to appreciate what is required in creating a government policy to work with them. This section dissects the three stages of a remittance flow: the migrant sender, the process of sending, and the reception and use by the receiver. The differing interpretations of why a migrant sends money home and what outputs result in the household paints the background for the discussion on recent trends in Mexico. There is extensive literature that examines remittance behavior from both the microeconomic approach as well as the macroeconomic approach. Given that it is not preferred that sub-national governments play a role in macroeconomic stability and policy (Prud'homme, 1994), the focus of this analysis will stay primarily with the microeconomic approach and look at the household.

Stage I: Motivations to Remit

The most appropriate lens through which to view remittance behavior is the family. Stark and Bloom (1985) first identified this approach because the entire family of the migrant is impacted by the costs and benefits of remitting. Therefore, we can look at motivations to remit through this familial relationship, and the various forms it can take. Much of the relevant literature distinguishes between *altruism* and *self-interest* as the two main motives for a migrant to send money home. Under the altruistic model, the migrant sends money out of pure concern for the well-being of those he¹ has left behind. Improved well-being of the household in the sending country improves the utility of the migrant, and thus plays a role in motivating his behavior (Chami, Fullenkamp, & Jahjah, 2003). The altruistic model, therefore, places increased importance on the existence of a close emotional connection between the migrant and the household. Therefore, the literature assumes that as that connection fades over time, amounts of remittances relative to income will decrease as the amount of time a migrant is separated from the household increases. Furthermore, the migrant may plan to stay abroad for an extended period, subsequently bringing his family to the host country, reducing remittances even further. (Solimano, 2003).

Other theories focus on the idea that *self-interest* drives the motivations to remit more than *altruism*. These theories view the household as a business or an agent that can manage the migrant's investments at home, such as buying property, land, financial assets, etc., which may offer higher rates of return, although greater risk may accompany these investments. In this model, remittances act as other capital flows, and their stability will depend on investment opportunities, relative risk, and likely returns. Lucas and Stark (1985) found evidence of self-interested behavior in Botswana, while Agarwal and Horowitz

(2002) found evidence in favor of altruism in Guyana.

Empirical studies on what leads some immigrants to remit and others to reduce their remittances points towards *altruism* as a better explanation for remittance motivations. A study by Lowell and De La Garza (2000) found interesting demographic trends that influenced relative size of remittances by migrants. For otherwise similar immigrants, they found that each year of aging reduces the likelihood of remitting by about 3%, and for each 1% increase in the time spent in the United States, the likelihood of remitting decreases by 2%. Furthermore, respondents whose primary political focus is the United States are half as likely to remit as those whose political focus includes both countries. Finally, the report found that migrants with minor children who accompany them to the host country are about 25% less likely to remit than households with minor children in the home household. The *altruistic* model is further supported by a recent study by the Tomás Rivera Policy Institute (2004), who found support for their hypothesis that remitters were strongly motivated to remit based on family maintenance purposes such as having family members residing in the home country or having plans to return to the home country.

Implications for Altruistic Behavior

– Stable source of capital, but at what cost?

Remittance flows have been often argued and supported to be one of the most stable of foreign capital flows. From 1998 – 2004, remittances have represented a steadily increasing stream of capital to Latin America and the Caribbean (LAC). This contrasts with the extreme volatility of other capital flows like portfolio investment and bank credit, and can even be more stable than FDI during extended downturns in the home economy. The volatility of capital flows over recent decades has been regarded as a prominent cause of poor economic performance in LAC (Inter-American Dialogue Task Force on Remittances, 2004). This impacts the household in Latin America because poor economic indicators often lead to rising unemployment and migrants will not feel the brunt of this, maintaining their employment abroad and still able to send money home, providing a needed safety net at times when other family members may have lost their jobs. Also, *altruism* allows a migrant to increase his remittances when there is an economic downturn in the home country (Solimano, 2003). Earlier studies by Swamy (1981) and Straubhaar (1986) showed that “neither variations in exchange rates nor changes in the real return of investments turned out to affect the flow of remittances” (Straubhaar, 1986, p. 737-8).

Although these transfers are seen as a stable source of income, there is a significant side effect that is often overlooked, and recognized by only a few experts: the stability of the flow of money is directly dependent upon a steady flow of emigration of prime labor potential out of the home country. Wucker (2004) recognized that the safety net that remittances provide may actually create

disincentives for receiving households and governments to take the necessary steps needed to create conditions for people to want to stay. This moral hazard concern is addressed in the final sections of part I while discussing the uses and impacts of remittances after reception.

Stage II: Informal and Formal Channels to send remittances

Economically speaking, if the costs of remittances are above the marginal cost of sending money, then the amount of remittances that are being sent is below what is socially optimal (Solimano, 2003). Orozco's seminal work on remittance flows between the U.S. and Mexico highlight the two main cost components in sending remittances: the explicit fee and the exchange rate spread (Orozco, 2003, 2004). The current figures on remittance flows have been increasing significantly over the past several years, about USD 2 billion in 1984 to over USD 14 billion in 2003 (Federal Reserve Bank of Dallas, 2004). However, a factor that has likely influenced these figures is that the cost and accessibility of formal transfer mechanisms have become more user friendly for migrants working abroad, particularly in the United States – Latin America corridor. Traditionally, all migrant transfers were done 'off the books', with migrants carrying money home, sending it with friends or family traveling back, or through other informal means. In the past, there was no real market for intermediaries, and the formal sector was dominated by Money Transfer Offices (MTOs) like Western Union, where costs were high, both explicit fees as well as poor exchange rates. However, there has been a significant increase in the use of formal transfer mechanisms since the mid-1990s, particularly in the use of money orders and electronic transfers. From 1994-2004, the percentage of transfers through money orders has decreased from around 50% to less than 20%, while the rates of electronic transfers in the same period has increased from under 50% to over 80% (Hernandez-Coss, 2005). This change has been followed by decreases in the cost of sending remittances through banks. From 1999 – 2004, the cost of sending \$300 through formal banking methods from various locations in the United States to Mexico dropped from an average of \$35 to an average of under \$15. The increased size of the Mexican population in the U.S. has meant a rapid growth in the number of remitters, which has created a market for financial institutions and increased competition for business. Simultaneously, both home and host countries have used public policy to increase the efficiency of this market, making it easier for migrants (illegal and legal alike) to access bank accounts and increasing the absolute numbers of bank branches in home countries to receive the transfers (Federal Reserve Bank of Dallas, 2004).

Increasing the use of formal financial institutions has positive implications from the household perspective. Primarily, it increases the access to bank accounts and therefore credit to underprivileged populations that normally would not have either. In support of this claim, data shows that Mexican households that receive

remittances are more likely to have a bank account than households that do not receive remittances, and given that remittance flows go on average to poorer than average regions in Mexico, this data should not be discounted on reasons of wealth or class (Orozco, 2004).

Stage III: How Remittances are Used

While there is little debate that remittance flows moving increasingly through formal channels is positive for improved access to credit and savings, there is considerable debate regarding the manner in which remittances are used and its impact on growth in developing countries. Numerous papers and reports have been written on the uses of remittance funds, and there are an increasing number that directly address the economic impact of remittances. After explaining to whom remittances are sent, this section provides analysis on what receiving households spend with remittances, and the debate on what impact this could be having on economic development, with a focus on Latin America.

Who Gets them?

As stated above, one reason people emigrate is to address financial needs of the family. Therefore, it would be rational to deduce that the destination of the resources goes to immediate family members. Empirical data as seen in Table 1 support this claim. Siblings and parents are the largest beneficiaries of remittance flows to the included Latin American countries, with spouses being the smallest beneficiaries of the flows, consistently receiving the funds less than 10% of the time.

We already know that remittances are contributing to re-distribution on an international level, with flows going from relatively wealthy nations to relatively poor nations. Of additional importance is to look at intra-national distribution trends of remittance funds, to see if the flows are going to simply augment already wealthy family incomes, or if remittances are contributing to poverty reduction and economic re-distribution. In Latin America, the trend appears to take a re-distributive form for some countries and not for others. Figure 1 shows that GDP per capita for homes receiving remittances are below average GDP per capita for the receiving country about half the time in the selected Latin American countries. Within Mexico, we see trends that ten predominantly rural states account for the majority of emigration, and rural states are relatively worse off on the whole than states with more urban populations (Orozco, 2004). It should be noted, however, that remittances do not on average reach the poorest of the poor, as emigration increases once per capita income is high enough for people to afford to get out (Wucker, 2004).

How Are They Used?

Chami, Fullenkamp and Jahjah (2003) outline three stylized facts that emerge from the literature on the

uses and impacts of consumption. Firstly, a significant portion of remittances are used for daily consumption activities – basic subsistence needs – and they make up a significant portion of the income of those households (Table 2). The second stylized fact is that a generally smaller, though still significant, part of remittances goes into uses that can be classified as saving or investment. Finally, the third stylized fact is that the household saving and investment that are done using remittances do not necessarily contribute positively to the overall economy. This conclusion is drawn primarily because evidence has shown that purchases from remittances that go into housing, land, “or even jewelry” (p. 9) still count as savings and investment, but do not necessarily contribute to growth.

There is little debate on if the majority of income from remittances is used on consumption. So what is the matter with this? Economically speaking, “only when new capital goods such as equipment are purchased and put into service is the aggregate capital stock or its

productivity actually enhanced” (Chami, Fullenkamp, & Jahjah, 2003, p. 9). Similarly, consumption is seen by many economists as the least productive use of income when the goal is growth and development. The most useful social output from consumption is its multiplier effect, which can be significant.² However, the theory states that as a household’s income increases, their savings and investment should increase after primary consumption needs are provided for. Since most remittance funds are going to lower income households, it is not surprising to see that consumption is the primary output of remittance flows. However, if remittances are increasing incomes, then we should see over time an increase in savings and investment, for which there is no empirical support.

There is, however, an opposing view on the critique of consumption by remittance receivers. The International Labor Organization describes that the criticism of consumption patterns ignores the personal circumstances as well as structural conditions in which migrants make their decisions as well as the inherently private nature

Table 1

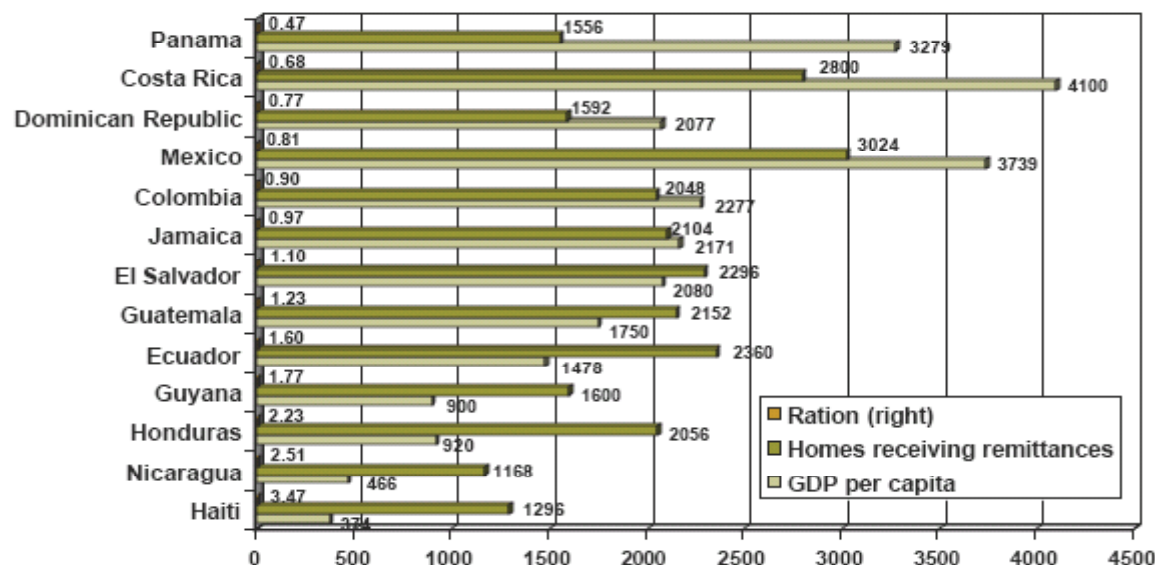
Remittance Beneficiary

	Guatemala	Honduras	El Salvador	Mexico	Ecuador
Children	12%	16%	15%	11%	14%
Sibling	42%	32%	31%	35%	28%
Spouse	9%	9%	6%	9%	13%
Parent	19%	27%	27%	19%	29%
Other	19%	16%	22%	17%	15%
Unknown/Left Blank	0%	0%	0%	10%	1%
Total	100%	100%	100%	100%	100%

(Re-printed from Orozco, 2004)

Figure 1

Remittance Income for Receiving Homes and GDP per Capita



(Re-printed from Orozco, 2004)

of the transfers and the limited opportunities for small-scale investment in the community and the social and financial capital needed for a new business. Thus, given the circumstances in the various countries, the migrants are making rational decisions about the use of their remittances. (Puri & Ritzema, 1999, p. 15)

Another critique of the impact of remittances is in regard to labor force productivity in the receiving country. Studies indicate that remittances significantly lower the labor force participation of household heads as well as other members of the family (Itzigsohn, 1995). However, it is difficult to decipher what this means, as the studies would have a difficult time finding legitimate data on what the reasons for this are. One explanation is that remittances have created a situation of dependence on the migrant worker, and other working age family members have taken the increased income from the remittances and substituted it with their own income, choosing instead for increased leisure activities (Chami, Fullenkamp, & Jahjah, 2003). However, this could also be explained by children, young siblings, and elderly parents having the opportunity to leave the workforce and to either return to school or retire and use the remittances as a type of pension, respectively.

In Mexico, it is hard to conclude that remittances have not had a positive effect on the economy. Recent research

not own their homes. This is significant from a local governance perspective, as in Mexico the Property Tax is the only significant own-source revenue for sub-national governments. The impact of the rising property values could be increased revenues, though it can also mean increased vacant land that lays undeveloped, decreasing revenue income for local governments. The next section looks at the growing partnerships with migrant associations and sub-national governments to try to create socially productive outputs from remittance flows.

Leveraging Remittances: HTAs and Sub-National Government Cooperation in Mexico

The increasing flow of remittances naturally attracts government interest in somehow leveraging the remittances to contribute in filling some of the gaps that their own financing is unable or incapable of filling. During the past two decades, various means of leveraging remittances and channeling them into government revenue sources have been attempted around the world, mostly resulting in spectacular policy blunders. Only South Korea had success in requiring migrant workers to deposit their checks in Korean banks, but this was only because they were being employed by Korean companies in the Middle East, and the companies agreed to the

Table 2

Administration of Remittances

Type of expense	Guatemala	Honduras	El Salvador	Mexico	Ecuador
Living Expenses (mortgage, rent, food, utilities)	68%	77%	84%	70%	60%
Savings	11%	4%	4%	7%	8%
Business investment	10%	4%	4%	1%	8%
Education	7%	10%	4%	6%	2%
Other items	3%	3%	2%	3%	18%
Property Purchase	1%	2%	1%	1%	4%
Unknown/Left Blank	0%	0%	2%	11%	1%
Total	100%	100%	100%	100%	100%

(Re-printed from Orozco, 2004)

presents evidence that flows in the U.S. - Mexico corridor specifically account for about one-fifth of the capital invested in Mexican micro-enterprises (Hernandez-Coss, 2005). However, anecdotal evidence suggest that there still may be some negative impacts, as senders have expressed concerns that their relatives in Mexico have become dependent upon their income and have stopped working without good reason (education or retirement) (Orozco, 2004).

Additionally, there have been some inflationary impacts on the receiving communities, with land purchases by migrant families increasing property values in anticipation that migrants can pay more than locals. This has made it difficult for families without migrants to purchase land, and they would feel the burden through increased property values and rents for those who do

policy in exchange for the government's assistance in winning foreign contracts (Buencamino & Gorbunov, 2002). One of worst failed attempts to manipulate remittances involved the U.S. - Mexico corridor and is likely an explanation for the relative hands-off, incentive-laden system currently in place and to be outlined below. During World War II, the U.S. brought 4.5 million agricultural guest workers from Mexico to deal with labor shortages. The agreement had the U.S. withholding 10% of wages until the guest workers returned to Mexico. The money disappeared, and the court battles continue to this day over \$500 million in wages and interest (Hendricks, 2004). With these past attempts in mind, we can now turn to the current situation in Mexico regarding difficulties in local revenue creation and why the growing partnerships with migrant HTAs could promise to be an improved

source of local service provision, if only on a limited level.

Recent Decentralization

and Weakened Local Fiscal Performance in Mexico

While Mexico has traditionally been a federation, in practice it has been organized in a very centralized manner; both politically and fiscally. Central tax control reached its peak after 1980, when extra public revenues from the oil boom allowed the center to engage in a fiscal reform that simplified the tax system by transferring practically all major tax responsibilities to the center. In exchange, a transfer system was written in to compensate states for the losses. This is the basic structure of the current National System of Fiscal Coordination (SNCF) (Sobarzo, 2004). The decentralization that was implemented during the 1990s was in areas like education, health, and social expenditures, but the decentralization stayed on the expenditure side, keeping the vast majority of tax collection responsibilities in the hands of the central government with various earmarked transfer programs such as *Progressa* and *Ramo 33*. The main tax that is permitted on the local level is the property tax and only 10.4% of municipal finances in 1999 were from local taxes, a share that is considerably below international standards (Moreno, 2003).

While decentralization is considered as a strategy for improving efficiency in the allocation of public expenditures, the wrong inter-governmental fiscal system can create dis-incentives in local policy-making (Prud'homme, 1995; Tanzi, 1995). A recent study by Carlos Moreno analyzes the impacts of the inter-governmental transfer system in Mexico with an increase in conditional transfers since 1998. Moreno demonstrates that increasing transfers from the center does not increase overall local government revenues, but instead substitutes local tax collection. The data is based on the theory that, given the choice, a policymaker will prefer to decrease local tax effort when federal transfers are on the way to finance local public goods (Moreno, 2003). Moreno's results from Mexico support the fiscal substitution hypothesis. Conditional grants are found to have a negative impact on local tax revenues (-.88% for each additional 1% increase in conditional grants per capita). Additionally, Moreno's model found that since the new earmarked fund was introduced in 1998, local governments cut their tax revenues per person by \$6.6 pesos on average, compared to the average of the previous five years (Moreno, 2003).

However, Moreno found that revenue-sharing transfers are not decreasing sub-national fiscal effort. Instead, the study demonstrates that revenue-sharing grants seem to encourage additional tax effort, with every 1% increase in revenue-sharing transfers resulting in an increase of .5% of tax revenues (Moreno, 2003). This can be explained in at least two different ways. The first explanation is that the center will increase revenue sharing with sub-national governments that are deemed responsible and well organized, an indicator of which is the level of local tax revenues collected. Secondly, revenue

sharing grants with the central government could lead to increased local tax effort through added local government initiative or economic stimulation. This is relevant to our discussion, as the policy decisions to encourage social remittances through local governments are structured as a revenue-sharing transfer instead of a conditional or unconditional transfer without local government contribution.

HTAs and 3X1: Mexican Revenue

Sharing Policies for social remittances

HTAs have existed in Mexican migrant communities in the United States for decades. Traditionally, they were formed as social clubs that held events like dances and beauty pageants to raise funds for small projects in their communities of origin. Normal patterns were established where the initial projects would be centered around church renovations or a religious celebration, often followed by infrastructure and service-delivery projects (potable water, health clinics, road paving) and projects focused on leisure (bullfighting rings and parks) (Goldring, 2002). At the beginning, these projects went forth without government supervision or financial support, and the money was transferred mostly through informal systems and administered by family members of the migrants. In 1992, recognizing the opportunity to expand and formalize the migrant-sending projects, the state government of Zacatecas began a formal two-for-one "matching fund" program. The program would contribute one dollar each from the state and federal government for each dollar donated by the hometown associations. Soon enough, the municipal governments joined the project and it became a three-for-one program. According to the Program for Zacatecan Communities Abroad that administers the three-for-one program, it began in 1997 with \$300,000 dollars and one year later was managing nearly \$5 million to support 93 projects in 27 municipalities (Alarcon, 2000). In 2002, there were projects under the three-for-one project working in 1,334 municipalities, and totaled USD43.5 million, 25% of which came from the HTAs (Orozco, 2003).

Compared to the roughly FY2003 \$14 billion of remittances from Mexico, these figures are extremely small, and therefore it is impossible to compare the social remittances sent through the three-for-one program and private remittance flows to determine relative impact on growth and development. However, the impact of the HTAs can be analyzed by evaluating the type of projects that were funded, the extent to which HTA members are altering their transfer strategies after being involved in an HTA, and how the increased cooperation with local government agencies may increase accountability of local elected leaders. To be sure, the increased involvement of HTAs has also created some conflict between local government and HTAs over issues of trust and decision making.

Table 3*Range of Activities Performed under the 3x1 Program*

Project	STATE				Total
	Guanajuato	Jalisco	Michoacan	Zacatecas	
Electrification	21.7%	9.2%	4.5%	12.3%	11.6%
Health Infrastructure and Equipment	3.3%	2.5%	1.5%	5.7%	4.1%
Economic Infrastructure (irrigation)		3.3%	16.7%	8.2%	7.1%
Water, Sewage treatment plants	13.3%	22.5%	9.1%	11.1%	13.9%
Social Infrastructure (parks & recreation facilities)	13.3%	10.0%	27.3%	11.5%	13.5%
Public Infrastructure (street pavement)	18.3%	45.8%	30.3%	37.3%	36.1%
Educational Infrastructure	5.0%	6.7%	6.1%	9.4%	7.8%
Church	25.0%		4.5%	4.5%	5.9%
	100.0%	100.0%	100.0%	100.0%	100.0%

(Reprinted from Orozco, 2003)

HTA-supported projects and their relative development potential

The literature and data suggest that HTAs tend to sponsor first on infrastructure development as well as on social goods such as churches or bullrings, but job-creating ventures and collective investment in micro-enterprise occurs to a lesser degree. The table below shows the range of activities performed under the three-for-one program in the most active states.

Even though the absolute sizes of HTA-funded programs are miniscule in comparison to the private flows, the donations under the three-for-one scheme provide a double benefit to the community. Orozco's research on HTAs found that when HTAs donate under the three-for-one program, the amount provided represents a new inflow that helps improve material conditions in the town while additionally benefiting municipalities as they are able to meet demands that they otherwise would not have been able to meet. As Table 4 shows, using 2002 data, the HTA contributions had varying impacts on augmenting municipal budgets allocated for public works, with significant impacts in smaller municipalities.

Public work and infrastructure projects, as appeared to have been the HTA preferred funding project, provided short term labor often provided by the local communities with high unemployment. However, this labor is for the most part short term, and the amount of job creation projects is limited. Migrant groups and government officials in Mexico have been expressing increased interest in moving their resources towards wealth generation schemes. The state of Jalisco has an investment promotion program, which provides investment feasibility studies, grants, and credit to immigrants interested in investing in their communities of origin. After the state created the initiative, they contacted HTA leaders in the U.S., who advertised about the program to their members, and members have participated in the investments (Orozco, 2003).

All HTA funded programs that hope to receive matching funds through the three-for-one program must go through formal transfer mechanisms to qualify. As

mentioned earlier, there has been a strong movement away from informal flow options, though it still is an oft-used method. Proponents of the HTAs argue that these types of associations and communal giving contribute to this shift towards the bank-to-bank transfer approach. The advantage of the traditional mechanism of sending money through the mail or with relatives is based on trust and in the constant circulation of people between Mexico and the U.S., and banks largely untrusted.

Issues of Trust and Increased Accountability of Local Government

Continued growth and success of the HTA and Local Government cooperation requires that actors on both sides meet certain standards. State and local governments play a crucial role in facilitating local projects, and HTA leaders need to trust that this financing goes towards agreeable projects. The relatively prosperous HTAs built a new sphere of accountability for sub-national governments, as organized and influential groups of constituents with voting rights began to demand accountability in exchange for external financing. Currently, the vast majority of migrants distrust government (Levitt & Nyberg-Sorensen, 2004). In many Central and South American migrant communities, migrants have left their countries for many reasons, political corruption, persecution, and economic opportunity being the most common. At the beginning of the matching funds initiatives by the Mexican government, there was skepticism that the programs were nothing more than attempts by the ruling PRI to get a hold of hard earned migrant income and use it for political gain (Burgess, 2003). However, trust was developed slowly through increased contact, visits by local government leaders to the United States to meet with HTAs, and positive feedback from migrant's families about the management of the programs (Goldring, 2002). The most organized HTAs have also been successful in impacting local government policy regarding participation in the three-for-one program and certain taxing policies, indicating that they are successfully using their resources

as leverage for policymakers.

Policy Options

The policy implications for sub-national government resulting from the increased role of remittances in development financing are immense. As stated earlier in this paper, the absolute and relative size of migrant remittances entering Mexico makes them undoubtedly a significant source of household income as well as foreign currency flows. They play an important role in poverty reduction, given that a majority of flows are directed at rural, relatively poor households. Therefore, any government program aimed at leveraging remittance flows into social development and job creation needs to be extremely careful to not create disincentives for migrants to remit at all. Additionally, the Mexican government should not sit idly by and pass remittances

Incentives for Formal Sending

In the Mexican case, the market has already contributed significantly to reducing the cost of sending for migrants. Similarly, it has become easier for migrants – legal or illegal – to obtain documentation that makes them eligible for bank accounts in the U.S. However, some of these policies are likely to change in the coming months and years as the U.S. becomes harsher with its illegal immigrant population. There are a couple of things that Mexico can do to encourage more formal transfers. One incentive scheme is to provide migrant workers the opportunity to remit their earnings into foreign-currency accounts (RFCAs) in domestic banks. As the exchange rate spread works in conjunction with the cost of sending as the two dis-incentives to remit through formal banks, this would eliminate one of the main obstacles to using

Table 4

Municipal Budgets

Population size in locality	Budget share ^a (US\$)	HTA contribution (US\$)	HTA/Budget share
Under 3,000	59,713	17,816	59%
3,000 to 4,999	128,164	5,426	7%
5,000 to 9,999	291,885	13,583	17%
10,000 to 14,999	622,018	48,331	7%
15,000 to 19,999	368,993	10,875	4%
Over 20,000	2,432,600	33,033	5%
Average	933,612	23,636	22%

(Reprinted from Orozco, 2003)

off as nothing more than a private transfer of income from the main breadwinner to his/her family. It is the governments' responsibility to create the right kind of incentives where these flows can be channeled into the type of programs that will help reverse the strong dependence upon emigration.

There are two main challenges for Mexico, and home countries as a whole: first, they need to channel remittances in such a way that they improve the quality of life at home; second, they need to figure out how to lure educated and skilled migrants back home to use their skills to help the economy at home to grow. Productively channeling remittances needs to happen on two parallel fronts: first, the home government provides incentives that not only encourages migrants to use formal banking channels to send their money, but creates an environment that makes such an act cheaper and safer than the alternative; second, they continue to encourage revenue-sharing programs such as the three-for-one program, while simultaneously creating new initiatives that will create opportunities for migrant investments that will create long-term employment. The former front should be the role of the federal government, while the latter should be initiated more vigorously by sub-national governments.

formal transfer mechanisms. While this would be an important step, it is still unlikely to reach the most rural areas of Mexico, most of which are without access to many of the larger banks. This is where the Microfinance institutions can play a larger role. They are known to increase savings and investment for rural remittance receiving households⁴, and would need to be included as eligible banks for international transfers to make such transactions possible.

Policy Measures to Influence the Use of Remittances

Given the history and that migrant remittances are essentially a private transfer, attempts to place taxes on these flows have shown to be a bad idea. The focus must stay on building incentives, not creating mandatory capture policies that will likely expand the informal sector and force migrants to inefficiently find alternative methods for sending their monies. There are a number of options available in addition to the expansion of the three-for-one program. Lessons can be learned from Asian labor exporting countries, where they have succeeded in implementing programs that have created facilities to allow migrants to import machinery and equipment at lower rates of import duties, provide business counseling

and training to returning migrants and to families or community members, or entrepreneurship programs for returning migrants (Puri & Ritzema, 1999). Local government leaders need to work harder at gaining the trust of the HTA leadership around the United States as well; this requires occasional trips to their communities, meeting with them when they return and organizing migrant delegations to observe successful projects and continuously innovating with ideas on job creation programs. Only through improved trust and cooperation between sub-national governments and migrant senders will the amount of flows to social improvement continue to increase.

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End Notes

- 1 The vast majority of migrants leaving their immediate family to the United States are men.
- 2 Adelman and Taylor (1990) construct a social accounting matrix for Mexico and find an output multiplier of 3.2 for remittances.

3 For a more detailed explanation of Progressa and Ramo 33, see Burgess, 2003

4 See Orozco, 2004 for examples on how microfinance banks have helped rural remittance-receiving households.