

Chapter 10

Targeting Migrant-Sending Regions for Economic Growth

Regional development is particularly appropriate for Mexico, where considerable numbers of undocumented migrants are known to originate from specific areas in a few states.

The pattern of concentrated migratory flows from specific areas within countries, based on historical events and perpetuated through continuing social networks, suggests that it may be possible to reduce undocumented migration to the United States by targeting economic development to those areas. Yet regional economic development is difficult to achieve. Both the developing and developed world are littered with enormously expensive and often failed attempts to promote balanced regional growth. Regional efforts should not normally be targeted to resource-poor migrant-sending areas with meager development prospects. They should be oriented instead to contiguous areas with greater development potential that may offer improved economic alternatives to prospective migrants.

For regional programs to succeed, it is essential that development policies be sustained, sectoral policies be coordinated and resources be allocated carefully. It is also critical to resist the pressures of entrenched political and economic interests that stand to benefit from the continued investment of scarce resources in large cities. Development policies must be based on regional physical and human resources, and to the extent possible should seek to expand forward and backward economic linkages.

Regional development is particularly appropriate for Mexico, where considerable numbers of undocumented migrants are known to originate from specific areas in a few states. The approach is also consistent with Mexico's development goals, which place a premium on reducing the continued growth of the largest cities and on achieving a more regionally balanced pattern of economic growth. In the past, however, the development of major migrant-sending regions has been neglected by the Mexican authorities.

While Mexico's regional development programs have met with only limited success, the government has expressed continued concern over this problem. The availability from recent research of information about regional prospects should make it easier to assess the development potential of specific migrant-sending areas, among which are some of the poorest communities.

Mexico must itself take the initiative by improving the physical infrastructure of areas containing migrant-sending communities, and providing incentives for domestic and foreign investors to locate there. Specific communities could be identified in which provision of basic infrastructure, e.g., electricity and all-weather roads, combined with an ample labor supply, would constitute the foundation for community development. One potential financing option is the use of debt-for-development swap arrangements (exchanging debt on preferred terms for new investment) specifically targeted to the expansion of the productive infrastructure of such areas. While Mexico has resisted debt-equity swaps for fear of their inflationary effect, swaps geared to regional development may be more acceptable.

The international financial institutions should give priority to development projects that focus on decentralized growth in Mexico's poorer regions.

Developing Small Business

Small businesses are a major force in the economies of Mexico, Central America and the Caribbean. The small enterprise sector provides employment to about a third of the region's economically active population. Although operating under different legal frameworks, small businesses in the formal and informal sectors share many characteristics and face comparable difficulties. Both tend to be family owned and operated, hire few employees, and are generally undercapitalized and technologically backward. Their access to credit is limited, as is their choice of managerial, marketing and productive techniques. Some informal sector jobs provide only enough income to buy basic necessities, while others are more elaborate, involving small workshops. (See Box 10.1, p. 89.)

Box 10.1 -The Informal Sector

The informal sector refers to those activities carried on by individuals outside the official tax and regulatory structure of an economy. Other names are often used to describe these activities, such as underground and clandestine, but they have a pejorative ring, which may be justified in some cases, such as narcotics traffic, but not in many others. Most people active in the informal economy are simply trying to make ends meet or cope with economic decline. They include street vendors and taxi drivers unable to get licenses, persons who put up places to live without meeting building codes, operators of small workshops repairing automobiles and other machinery, and persons hawking goods when cars stop for red lights. A gardener, plumber, or electrician who provides service for a fee that is not reported is part of the informal economy.

The informal economy can be viewed as a sign of inefficient governmental authority, of a government unable to collect taxes. However, it also signals initiative by people trying to make a living who cannot afford to meet bureaucratic requirements at a time of economic hardship.

Estimates of the size of informal economies in migrant-sending countries range from about 30 to 50 percent of the recorded economy. Measurements have been most precise in Peru, where the situation has been publicized in a best-selling book by Hernando de Soto, *The Other Path*. It should be noted that the substantial size of the informal economy means that income and unemployment figures cited in official publications understate the actual situation.

Bureaucratic requirements often constrain entry into the formal sector and pose major problems for small firms already within it. One way to circumvent this problem is to remain outside the legal framework. This reduces operating costs by avoiding taxes, but increases risks and vulnerability to exploitation. The informal sector often serves as a refuge for the urban poor, and provides employment to an increasing number of women, including many heads of households. Entry into small business in the informal sector is relatively easy, involving only modest capital and, in many cases, very limited know-how. Failure, however, is frequent. The small business sector is subject to many ups and downs, depending on the fortunes of the economy.

In recognition of their income and employment potential, credit and technical assistance to the small business sector are currently the focus of many development organizations such as AID, the World Bank, and the Inter-American Development Bank. These agencies work in cooperation with local, nongovernmental groups at a grassroots level. While their programs are intended to generate additional income and employment, they are precarious because of high default rates. Many innovative programs to support the small business sector are patterned on the model of the Grameen Bank in Bangladesh. Programs sponsored by ACCION International and the Inter-American Foundation are noteworthy in this Hemisphere. (See Box 10.2, p. 90.) They provide a complete assistance package to the small entrepreneur. Such assistance may, for example, guide a master craftsman through many stages until he becomes a successful entrepreneur who understands the market and budgeting. The programs seek a melding of training and credit access with constant monitoring and professional support.

The need for small business credit and technical assistance is almost limitless. There is an enormous unmet demand for help among those in the small and microbusiness sector in every city in the region. However, local institutions are generally unable to manage large programs because they lack trained staff or other resources.

National and international agencies concerned with development should work with Western Hemisphere governments to reduce legal and bureaucratic impediments to small business development. The private business sector, local and foreign, should give increased help to small business assistance programs. Ways should be sought to increase the participation of private commercial banks in financing small businesses, including those owned by migrant households. This should include cooperation between commercial banks and providers of goods and services—including small businesses—to promote and oversee the use of such credit. The goal is to help small firms acquire the means to raise productivity while

Box 10.2 - Helping Small-Scale Enterprise

Small enterprises in sending countries are generally unable to obtain credit from traditional sources, whether commercial or development banks, either because high default rates make small businesses poor risks or loan size is so small that interest payments do not cover bookkeeping and other handling expenses. Such enterprises—many of which are in the informal sector—must either go without credit or pay usurious interest to informal money lenders. There have been numerous national and international efforts to help meet the need for very small loans.

One of the most noteworthy is the Grameen Bank in Bangladesh, which was established in 1976, and whose average loans are in the hundreds rather than thousands of dollars. The bank charges commercial rates of interest (16 percent as this is written) and has operated at a profit since 1984. Its loans go only to groups of at least five members, who are individually and collectively responsible for debt servicing. The most successful loans have been for small-scale processing or manufacturing in rural areas. The group receives two weeks of training before the loan is granted, receives visits by observers from the bank, and must meet at least once a week to discuss the business' progress and problems. The Bank operates in thousands of villages and has a repayment rate exceeding 96 percent. The income of loan recipients has risen by more than ten times the average increase in income in Bangladesh.

In the United States the Inter-American Foundation (IAF) was established in 1969 by the Congress. It was designed to fill a void in Western Hemisphere countries by making small grants directly to microenterprises or through private voluntary organizations (PVOs) set up for this purpose in the countries of the region. IAF grants average about \$70,000, which while tiny by World Bank and development bank standards, are huge in relation to needs of many small enterprises. Many IAF grants go to PVOs, which then provide smaller grants to ultimate beneficiaries.

ACCION International, established in 1961 by U.S. and Venezuelan business leaders, has been providing small-scale enterprise loans in this Hemisphere since 1973. While Grameen specializes in rural areas, ACCION's lending focus is to urban groups, particularly street vendors. As with Grameen, a large portion of the lending goes to females. Loans are small, often the equivalent of only \$100 and averaging \$162. Loan terms vary by country, but the general pattern is to charge commercial rates of interest. More than 99 percent of the loans are repaid. When credit needs reach about \$700, borrowers are graduated to the formal banking sector. ACCION's operating practices are similar to Grameen's in promoting group cooperation (they are called *grupos solidarios* in ACCION).

These institutions are pioneers in small-enterprise lending, but they are not unique. There are similar PVOs in most countries. They do not solve the credit problem of small enterprises, but they make a valuable contribution to raising incomes of the poor.

under supervision in order to reduce default rates. Marketing assistance to small businesses from private and official sources is also needed.

Remittances

In countries with significant emigration, migrant remittances not only play an important macroeconomic role and improve the living standards of otherwise poverty-stricken households, but they are important to the establishment and growth of small businesses as well. Remittances stand together with traditional commodity exports and tourism as a primary source of foreign exchange in Mexico, the Dominican Republic and the smaller English-speaking Caribbean countries. Remittances are also very important in El Salvador and Haiti. (See Figures 10.1, p. 92. and 10.2, p. 93.)

Most remittances are used to meet the costs of basic necessities and little goes to productive investment. Their effect on development is not clear. Some scholars have that they contribute little, since remittance investments usually go to sectors with poor growth potential, or they generate inflation, as when rural migrants push up land prices. Another view holds that remittances revitalize local aggregate demand. For example, housing construction, a favored migrant investment, has at least temporary multiplier effects. The expansion of social and economic infrastructure in migrant communities is frequently tied to remittances.

It is generally agreed that remittances have great potential as an investment resource, particularly in the migrant-sending communities to which they are sent. Millions of legal residents in the United States have close ties to areas where undocumented migrants originate and have a strong commitment to assisting their families and communities. If remittances are channeled into productive small business investments and these small businesses succeed in generating jobs and higher incomes, emigration pressures should eventually abate in such areas.

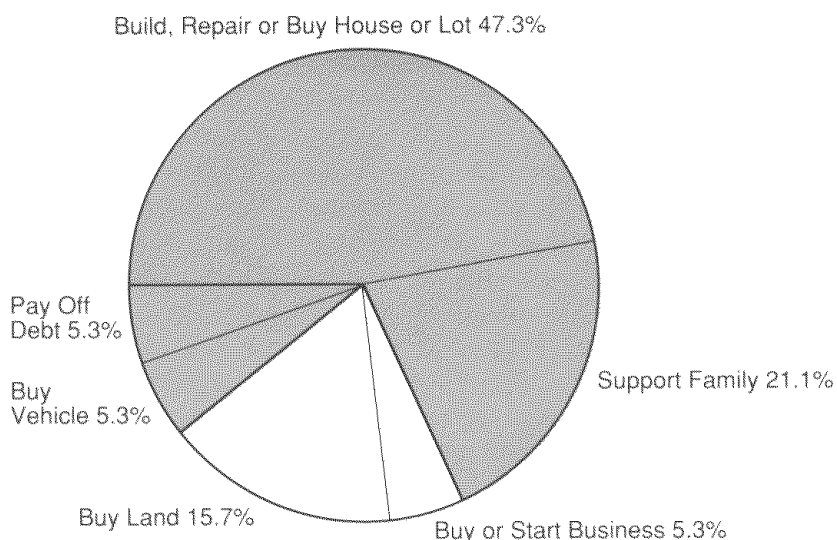
The task of mobilizing these resources is difficult, however. The volume of funds available for investment is based on the aggregation of large numbers of individual decisions. This depends, in turn, not only on the number of emigrants abroad, but on obligations, wage levels and living costs in host societies, the duration of stay, and the share assigned to consumption. The amount remitted to any particular household is generally too small to lead to appreciable investment. In addition, migrants must often contend with the absence of effective channels to guarantee that remittances reach intended beneficiaries, or they are forced to pay a high premium for this service.

Figure 10.1

*How Money Saved on
Last U.S. Trip was Spent
in a Mexican Urban
Community*

While typically defined as the money migrants send or bring back to their home countries, remittances also include goods purchased by migrants and brought home, pensions, social security payments, and forced savings such as deductions from wages earned abroad. Many of the latter programs, contingent upon bilateral agreements, are applicable only to authorized migrants. Charges levied by home countries on emigrants residing abroad, such as income taxes on foreign earnings and passport fees, may also be included under the remittance label.

Source: *Return to Ixtlan*, Douglas Massey, et al.



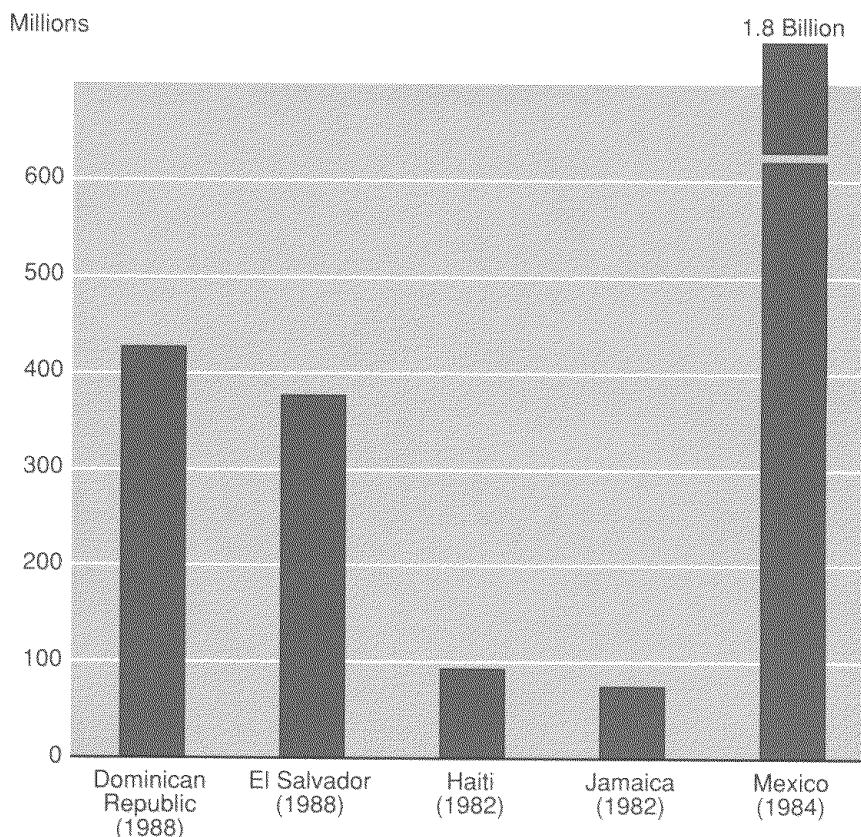
A first step in facilitating remittance flows is the establishment of mechanisms to ensure the safe and speedy transfer of funds from one country to another. In Mexico and some Caribbean Basin countries, formal channels are ineffective, often not trusted, and at times inaccessible for relatively poor and uneducated migrants. Few national banks have opened overseas branches to serve migrant communities; migrants often fall prey to fraud and excessive charges levied by poorly regulated "exchange firms," which sprout up in response to the demands of migrant communities. Official attempts to channel remittances must provide guarantees to the migrants. Transferred funds should be granted favorable exchange and interest rates and be freely convertible into dollars.

Although proposals have been made to establish specialized financial services to capture a greater portion of migrant remittances for investment purposes, there have been few solid initiatives. Many migrants are likely to mistrust such efforts, especially if they are seen as official attempts to redirect some of their hard-earned dollars to the benefit of the state. For any proposal to succeed, it is necessary that migrant-sending countries set their economic house in order. These programs are likely to fail in the face of corruption or in the absence of realistic exchange rates and internationally competitive interest rates.

National or regional development banks could be promoted in which part of the initial capital is subscribed by migrant investors. By voluntarily pooling their savings with other financial resources,

FIGURE 10.2

*Estimates of Migrant
Remittances, Most Recent
Date Available*



Source: Various.

migrants could maximize their returns and at the same time invest in the development of their homelands. Several variations of this concept have been proposed, including the creation of U.S.-based mutual funds, shares of which would be invested in migrant-sending countries. Such funds could include provisions for Keogh plans and Individual Retirement Accounts.

Individual migrant investments should be complemented by other financial resources. Migrant savings, including the financial resources accumulated by migrant small business entrepreneurs in the United States, could be used as collateral to secure additional investment capital. This option could take advantage of financing and technical support programs operating in migrant-sending countries to encourage the growth of small businesses.

Bilateral cooperative mechanisms must be established for these proposals to work. Designated U.S. agencies could provide (directly or through local PVOs) technical assistance to fashion programs that maximize the economic benefits of remittance inflows. Some of the aid funds earmarked for small business development could be assigned to investment programs partially dependent on the productive investment of remittances. The participation of the Treasury Department in the design of these programs may be required since

regulatory changes may be necessary. International financial institutions such as the World Bank and the Inter-American Development Bank should be involved.