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Small Business Development in El Salvador: The Impact of Remittances

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THE COMMISSION'S Working Papers are intended to elicit comment and provoke discussion. They present results of Commission-sponsored research conducted by distinguished U.S. and foreign investigators. The objective of the research program flows from the Commission's mandate, which is:

a) to explore how unauthorized migratory flows from the Western Hemisphere are influenced by the process of economic development, and how this relationship evolves over time;

b) to identify and assess development options that would tend to modify the "push" factors behind unauthorized migration; and

c) to generate suggestions for "mutually beneficial, reciprocal trade and investment programs" between the United States and migrant-sending countries.

The views presented in these papers are those of the authors and do not necessarily reflect those of the Commission.

ABSTRACT

Our concern in this paper is the impact of remittances, defined as earnings of immigrants sent back to family and friends in their country of origin,[1] on small business development in El Salvador. This paper builds on a larger study that centered on estimating the volume of remittances in dollars from Salvadoran residents in the United States.[2] That report also calculated the relative importance of the remittances in relationship to key indicators in the economy, as well as provided an examination of the determinants of the flow of remittances.

This paper moves from the macro-level to the micro-level in order to determine the impact of the remittances on small businesses in El Salvador with an eye toward making policy recommendations that would stimulate more productive use of these remittances toward development.

I. INTRODUCTION

Literature on migration is vast, but as Swamy[3] notes in a comprehensive approach to analyzing the impacts of migration, the study of the link to remittances has been very limited. At a minimum, we know that migration and remittances are positively correlated; more migration signifies, at least for a time, more remittances. We also know that despite reforms of migration law undertaken in the United States, continued migration is a near certainty. Cornelius has studied the question from numerous angles[4] as it relates to Mexico. He persuasively[5] argues that the demand for Mexican labor has a structural component to it and therefore, "there is no evidence that any step taken by the U.S. government in the last 100 years to restrict immigration from Mexico has had any appreciable effect on the underlying structural demand for Mexican labor in the U.S. economy." Remittances, from this perspective, may be seen as a permanent component of a structural problem that will not disappear even with further migration reform.

Beyond the question of the linkage of migration to remittances is the issue of estimating the volume of remittances. Several studies, such as those carried out by Shankman[6] and Swamy[7], have attempted to do this. For the purposes of this paper, however, our concern is not directly with the volume of remittances produced by migration of Salvadorans to the United States, but with the impact of those remittances. A study by Connell,[8] concerned with the utilization of remittances, argues that the bulk of them are used for everyday household consumption rather than conspicuous consumption. This view is the prevalent one according to Russell's extensive review of the literature on the subject.[9] In that review she enumerates seven separate potential benefits of remittances, and lists a corresponding cost for each. Russell found that "the predominant view of remittances in the literature of the mid-1970s was negative."[10]

Recent research, however, has indicated a more positive evaluation of the impact of remittances. Macro-economic effects of remittances have been traced by Pastor and Rogers.[11] They argue that although, "they may be large and important as a source of foreign exchange, they remain an unused opportunity for investment." Pastor goes on to speculate that remittances may result in increased inflation and imports, but presents no data to test this hypothesis.

The Salvadoran case gives us an opportunity to study the impacts of remittances. The civil war that has been raging in El Salvador throughout this decade has resulted in the massive migration of Salvadorans to the United States. While estimates vary, no fewer than 700,000 Salvadoran citizens are believed to be residing in the United States, a figure which represents 12 percent of the entire population of the country. One of every five families in El Salvador is believed to have relatives in the United States and as the number of Salvadorans in the United States increases, a growing volume of capital is being repatriated to El Salvador in the form of remittances. These remittances initially were not a significant factor in the Salvadoran economy, but as the war continued and the number of Salvadorans living in the United States grew, they have become an increasingly important, if not vital, factor in the survival of the formal and informal economy of the country.

After enjoying several decades of growth, El Salvador's economy began to experience a protracted decline in 1979. By 1988, Gross Domestic Product (GDP) was less than two-thirds the 1978 level, and real GDP per capita had reverted to 1966 levels. In essence, over 20 years of growth have been lost in the 1980s. The civil war is certainly a major factor in the decline in the economy, one responsible for the destruction of infrastructure and also massive capital flight estimated to have totaled $800 million in the period 1979–1983 alone, but a 50 percent deterioration in the terms of trade between 1977 and 1986 and a reduction in Salvador's primary export, coffee, resulting from war damage and unsuccessful reform programs for agriculture, banking and external trade have also played a role.[12] In addition, inconsistent domestic policies have impeded required economic stabilization.[13]

Under these circumstances, it is not surprising that the hard currency supply in El Salvador is very scarce. Most estimates show that the main source of dollars has been the vast U.S. foreign aid program, currently at a level of more than $1 million a day. Between 1980 and 1987, U.S. foreign assistance totaled some $2 billion, ranking El Salvador as the most important recipient of U.S. economic assistance in Latin America.

By some accounts, however, remittances (i.e., funds earned by El Salvadorans living abroad and sent back by them to family and friends in El Salvador) exceed the foreign aid income. Official estimates place remittances at $350 million in 1986, but Montes[14] calculated a figure almost four times as high, $1.3 billion. Hence, while it is known that remittances are an important, perhaps the most important, source of foreign exchange earnings, there is wide disagreement as to their overall amount.

Our own estimates of net remittances received is more conservative than that provided by Montes. Using what we have termed a "supply approach," we estimated remittances in the range of $286–$630 million for 1986. Using a "demand approach," we estimated $256 million for 1986. The lower estimate we view as minimal because it does not include remittances used to finance smuggling and because it uses a low estimate of capital. We project these figures to 1988, the year immediately prior to the survey, and estimate remittances at a minimum of $381 million and a high of $724 million.

Adding to the problem of obtaining reasonable estimates of the volume of remittances is the difficulty one has in projecting their volume for future years. One major unknown is the impact that the Simpson-Rodino immigration law will have. Under that law, all aliens not qualifying for residence in the United States are to be expelled. Montes[15] estimates that around 48.6 percent of current Salvadoran residents living in the United States who arrived after 1981 do not qualify for admission under the law. He also estimates that if only half of those excluded are repatriated it would cause a $339 million annual loss in the balance of payments. The impact on the economy of El Salvador cannot be underestimated; the loss represents the equivalent of 64 percent of coffee exports for 1986.

Even though future trends in remittances cannot be precisely predicted, remittances clearly represent a major source of income to the economy of El Salvador. This raises the important question of their impact on economic development in El Salvador. To date, unfortunately, we know virtually nothing about their short- and medium-term impacts on the domestic economy. In this study, we examine that question.

II. STUDY DESIGN

Researchers in the Third World normally encounter more obstacles than they would in the developed countries. These problems are multiplied many times in El Salvador as a result of the protracted guerrilla war that has gripped the country. It is impossible to develop a scientific sample design of the country because of the dislocation of population caused by the war coupled with the inability of census takers to carry out their mission in a systematic fashion. As a result, researchers are faced with two options. One option is to give up any thought of carrying out studies because the conditions are so adverse. The other is to conduct the studies as carefully as possible under the circumstances and then to report the results with far wider "confidence intervals" than would be traditional.

Our interest in this study centered on the utilization of remittances by small businesses in El Salvador. Time and resource constraints confined our study to the metropolitan area of San Salvador. We were interested in small businesses in both the formal as well as the informal sectors, and wished to include establishments that had as few as one employee or as many as 19. It was difficult to select a cut-off at the upper end, but we reviewed the eight definitions currently in use in El Salvador and settled on this number as a reasonable standard.[16] Our resources enabled us to design a sample that would produce data from at least 200 respondents. Given that the most systematic work to date had been limited to 35 interviews,[17] we felt that even though 200 was a small number, it was entirely appropriate for the exploratory nature of this study.

The limitation of sample size to approximately 200 imposed certain constraints on our definition of the target population. Estimates are that one out of five residents of metropolitan San Salvador receive remittances. Of those, a smaller percentage operate their own business and invest those remittances in their business. Had we utilized a probability sample of all residents or businesses in metropolitan San Salvador, the number of respondents in our sample of 200 who both receive and invest remittances would have been quite small. Hence, we decided to define the sample as one that would produce data on small businesses in metropolitan San Salvador that receive remittances, some or all of which they invest in their business.

The approach to the sample that we took has one obvious limitation; we cannot say anything about businesses that do not both receive and invest remittances. Determination of why some businesses receive remittances but do not invest them would require another study in which a sample would be drawn targeting that group. Indeed, we can make no overall statement based on our sample about the proportion of businesses that receive remittances, invested or not. On the other hand, our sample does have the virtue of producing data on those who do receive and invest remittances so that we may study what is done with that income.

Based on the considerations outlined above, we constructed a purposive sample rather than a probability sample. In effect, we were developing what is known as a "rare element sample," and in so doing we attempted to construct it in such a way to provide the greatest representation of metropolitan San Salvador even though the sample itself was not of a probability design.

The universe consisted of the small businesses in greater San Salvador, an area comprised of 18 municipalities. Of those, a total of nine were selected for the survey. The selection was made by first eliminating a group of municipalities which, although they are officially within the metropolitan area, are in reality marginal to it (Santo Tomás, Santiago Texacuangos, San Martín, Apopa, Nejapa, Quezaltepeque and Colón). Then, the municipalities of San Salvador and Nueva San Salvador (Santa Tecla) were selected in order to guarantee that these key centers of the urban area would not be excluded owing to random selection criteria. A group of three municipalities (Ayutuxtepeque, Mejicanos and Cuscatancingo) constitute in effect a single urban area and were counted as one unit for sample purposes. The remaining four municipalities (Illopango, San Marcos, Panchimalco and the Auytuxtepeque-Mejicanos-Cuscatancingo group) were selected randomly.

Once the municipalities were selected, the next task was to select the sample areas within each municipality. Normally, one would obtain a list of all communities from the census bureau and proceed to draw the sample from that list, stratified by income. In El Salvador, however, the demarcation of municipality boundaries and communities within those boundaries is poorly specified. Moreover, communities and neighborhoods are extremely heterogenous, with slum areas existing alongside middle and even upper-class neighborhoods. In light of this limitation, it was decided to simply divide each municipality into four segments and to select at random one or more segments within each municipality for creating the sample. In the case of the municipality of San Salvador, which had the largest number of small businesses, all four segments were selected. In Nueva San Salvador, two were selected, and in the remaining municipalities, one each. A single interviewer was assigned to each segment and was told to locate all small businesses and to determine if they were receiving remittances and investing them in their business. The interviewer was to locate and interview the owner of the business or, if the owner had left an individual in charge of the business, to interview that person.

Each interviewer was responsible for obtaining approximately 20 interviews, 9 from small business owners in lower-middle class neighborhoods, 6 from poor neighborhoods and 5 from very poor neighborhoods.[18] This division was determined by Montes' previous work in which he determined that for each lower-middle class family who received remittances, 2.9 did not; for each poor family receiving, 4.8 did not; and for each very poor family, 5.5 did not. In this way, the sample was self-weighing based upon the estimated frequency of families of that social class receiving remittances from the United States.

The sample produced a total of 211 usable interviews, 11 more than specified. The survey was carried out during the month of June 1989. In order to obtain these interviews, a large number of businesses had to be visited. After each business was located, it was necessary to determine if the given establishment received remittances from the United States. Table 1 shows the number of businesses visited in the three types of neighborhoods included in the sample frame (i.e., extremely poor, poor and lower-middle class). As can be seen, approximately five businesses were visited in each type of neighborhood to locate one that admitted to receiving remittances from the United States.

To be included in this study, businesses had to invest their remittances in their own operations. As can be seen in Table 1, an average of two out of five businesses surveyed were not investing remittances in this manner. Once again, there was little difference among the three classes of neighborhoods.

Finally, once we had located business that both received remittances and invested them in the business, we had to obtain the cooperation of the respondent to do the survey. That proved to be less of a problem than we feared, and most respondents cooperated (see Table 1). An average of slightly more than one business rejected the interview for each successful

TABLE 1
SAMPLE CHARACTERISTICS

	Type of neighborhood		
	Low-middle class	Poor	Extreme poverty
Business visited with no remittances			
(Valid N)	(87)	(88)	(36)
Average	5.2	4.7	4.7
Business with remittances but not investing them in business			
(Valid N)	(87)	(88)	(36)
Average	2.1	2.0	2.2
Business with remitt. rejecting the interview			
(Valid N)	(87)	(88)	(36)
Average	1.4	1.2	1.2
Interview duration (in minutes)			
(Valid N)	(87)	(88)	(36)
Average	30.2	28.4	31.6

Source: Survey interviews, June 1989.

interview we carried out.

Once the actual interview began, we found that the average time to complete it was about one-half hour, as is also shown in Table 1. Differences among neighborhoods were insignificant.

III. CHARACTERISTICS OF THE SAMPLE

Types of Small Business Surveyed

We found a great variety of businesses in the sample. We were able to categorize these into four main types plus a catch-all category of "other." This last category includes such establishments as beauty shops, clinics, taxi drivers, food production, funeral homes, etc. Table 2 shows the distribution of businesses in the sample.

The distribution of types of businesses was not completely uniform by neighborhood type. As Table 3 shows, within the extremely poor neighborhoods, stores were less common than in the other two neighborhood types. In contrast, street vendors were far more common in these poorest neighborhoods than in the others. The other observed differences were minor.

The sample was comprised of many informal businesses and a smaller number of better, established enterprises. Several indications of this dis-

TABLE 2

TYPES OF BUSINESSES SURVEYED

Type of business	
Stores (dry goods, grocery, etc.)	
%	39.8%
(N)	(84)
Repair shops	
%	12.3%
(N)	(26)
Street vendors	
%	9.0%
(N)	(19)
Restaurants	
%	10.4%
(N)	(22)
Other	
%	28.4%
(N)	(60)
TOTAL	
%	100.0%
(N)	(211)

Source: Survey interviews, June 1989.

tribution are contained in Tables 4 and 5. Table 4 indicates that only within the restaurant category do more than half of the businesses have a location out of which business is conducted. Table 5 shows that the businesses were relatively young, averaging between two and three years. The initial investment in these businesses was not large. They averaged between 5,000 and 12,000 colones, about $1,000 to $2,000, for the established business and considerably less for the street vendors. The net worth of the businesses at the time of the interview was greater than the initial investment, generally by a factor of two to three times, but sometimes considerably more.

Demographic Characteristics of the Respondents

We were interested in the impact of remittances on small businesses in El Salvador. Our sample consisted of owners (or, in their absence, operators) of small businesses. In order to appreciate the nature of the owners whose businesses are beneficiaries of remittance income, we need first to review their major demographic characteristics and then provide some summary information on their socio-economic characteristics.

Table 6 shows the distribution of the sample by gender. As can be seen, the sample is almost evenly divided between male and female. There are no notable differences among the neighborhood types included in the

TABLE 3
DISTRIBUTION OF BUSINESSES BY NEIGHBORHOOD

	Type of neighborhood					
	Lower-middle class		Poor		Extreme poverty	
Type of business	%	(N)	%	(N)	%	(N)
Store	42.5	(37)	42.0	(37)	27.8	(10)
Repair shop	11.5	(10)	13.6	(12)	11.1	(4)
Street vendor	3.4	(3)	9.1	(8)	22.2	(8)
Restaurant	12.6	(11)	9.1	(8)	8.3	(3)
Other	29.9	(26)	26.1	(23)	30.6	(11)
TOTAL	100.0	(87)	100.0	(88)	100.0	(36)

Source: Survey interviews, June 1989.

sample.

We do note that gender differences emerge in the sample when it is subdivided by type of business. As can be seen in Table 7, females are underrepresented in repair shops and slightly overrepresented in the categories of stores, street vendors and restaurants. No doubt, this is a function of the type of labor required in the repair shops, most of which were auto or truck repair shops. Marital status of the individuals interviewed varied by type of business. Married respondents were far less frequent among the street vendors than among the other types of business. No doubt this is a function of the greater prevalence of street vendors in the very poor stratum, a group in which marital separations are quite common.

Age did not vary much by type of business. As can be seen in Table 8, street vendors and those in the restaurant business were slightly younger

TABLE 4
USE OF PERMANENT LOCALE FOR BUSINESS

	Type of business									
	Store		Repair shop		Street vendor		Rest.		Other	
Use place of business	%	(N)	%	(N)	%	(N)	%	(N)	%	(N)
Yes	31.0	(26)	46.2	(12)	15.8	(3)	59.1	(13)	43.3	(26)
No	69.0	(58)	53.8	(14)	84.2	(16)	40.9	(9)	56.7	(34)
TOTAL	100.0	(84)	100.0	(26)	100.0	(19)	100.0	(22)	100.0	(60)

Source: Survey interviews, June 1989.

TABLE 5

INDICATORS OF VALUE OF BUSINESS

	Type of business				
	Store	Repair shop	Street vendor	Rest.	Other
Years of operation					
(Valid N)	(84)	(26)	(19)	(22)	(60)
Mean	2.7	3.3	2.6	2.5	2.8
Initial investment					
(Valid N)	(58)	(19)	(17)	(20)	(40)
Mean	5,620.9	6,438.9	785.3	5,800.0	12,933.7
Business estimated value					
(Valid N)	(48)	(18)	(12)	(17)	(34)
Mean	13,325.0	13,894.4	1,622.1	20,323.5	42,128.8

Source: Survey interviews, June 1989.

than the others.

Although many of the respondents were not formally married, the overwhelming majority had children. Household size averaged around five people. This number did not vary by type of business (see Table 9).

The level of literacy varied by type of business, with the lowest literacy rates found among those who work as street vendors or in restaurants. The data are contained in Table 10. In contrast, the Inter-American Development Bank lists a national literacy rate of 67 percent in 1984.

Variation was found in the number of years of schooling among occupational categories, as shown in Table 11. As expected, street vendors had the lowest level of education, but surprisingly, restaurant owners were somewhat better educated than repair shop and store owners.

Monthly income for the head of the household was measured and reported in Salvadoran colones (see Table 12). The exchange rate at the time

TABLE 6

GENDER OF RESPONDENTS BY NEIGHBORHOOD TYPE

	Type of neighborhood					
	Lower middle class		Poor		Extreme poverty	
Gender	%	(N)	%	(N)	%	(N)
Male	54.0	(47)	48.9	(43)	52.8	(19)
Female	46.0	(40)	51.1	(45)	47.2	(17)
TOTAL	100.0	(87)	100.0	(88)	100.0	(36)

Source: Survey interviews, June 1989.

TABLE 7

GENDER AND MARITAL STATUS OF RESPONDENTS BY BUSINESS TYPE

	Type of business									
	Store		Repair shop		Street vendor		Restaurant		Other	
	%	(N)	%	(N)	%	(N)	%	(N)	%	(N)
Sex										
Male	40.5	(34)	73.1	(19)	42.1	(8)	40.9	(9)	65.0	(39)
Female	59.5	(50)	26.9	(7)	57.9	(11)	59.1	(13)	35.0	(21)
TOTAL	100.0	(84)	100.0	(26)	100.0	(19)	100.0	(22)	100.0	(60)
Marital status										
Single	10.7	(9)	15.4	(4)	10.5	(2)	9.1	(2)	6.7	(4)
Married	44.0	(37)	50.0	(13)	26.3	(5)	50.0	(11)	56.7	(34)
Widow(er)	11.9	(10)	7.7	(2)	.0	(0)	4.5	(1)	5.0	(3)
Divorced	6.0	(5)	.0	(0)	5.3	(1)	4.5	(1)	1.7	(1)
Common law union	17.9	(15)	15.4	(4)	26.3	(5)	22.7	(5)	20.0	(12)
Separated	9.5	(8)	11.5	(3)	31.6	(6)	9.1	(2)	10.0	(6)
TOTAL	100.0	(84)	100.0	(26)	100.0	(19)	100.0	(22)	100.0	(60)

Source: Survey interviews, June 1989.

TABLE 8

AGE BY TYPE OF BUSINESS

	Type of business				
Age	Store	Repair shop	Street vendor	Restaurant	Other
(Valid N)	(84)	(26)	(19)	(22)	(60)
Mean		48.2	43.5	43.1	46.4

Source: Survey interviews, June 1989.

TABLE 9

HOUSEHOLD SIZE AND TYPE OF BUSINESS

	Type of business				
Persons living in the house	Store	Repair shop	Street vendor	Restaurant	Other
(Valid N)	(84)	(26)	(19)	(22)	(60)
Mean	5.1	5.1	4.7	5.5	5.0

Source: Survey interviews, June 1989.

TABLE 10

LITERACY BY TYPE OF BUSINESS

	Type of business									
	Store		Repair shop		Street vendor		Restaurant		Other	
Literacy	%	(N)	%	(N)	%	(N)	%	(N)	%	(N)
Yes	90.5	(76)	92.3	(24)	63.2	(12)	77.3	(17)	90.0	(54)
No	9.5	(8)	7.7	(2)	36.8	(7)	22.7	(5)	10.0	(6)
TOTAL	100.0	(84)	100.0	(26)	100.0	(19)	100.0	(22)	100.0	(60)

Source: Survey interviews, June 1989.

TABLE 11

YEARS OF EDUCATION BY TYPE OF BUSINESS

	Type of business				
Education	Store	Repair shop	Street vendor	Restaurant	Other
(Valid N)	(83)	(26)	(19)	(22)	(60)
Mean	7.6	7.0	4.2	8.1	8.1

Source: Survey interviews, June 1989.

TABLE 12

MONTHLY INCOME BY NEIGHBORHOOD

	Type of neighborhood		
Monthly income, head of household	Low-middle class	Poor	Extreme poverty
(Valid N)	(80)	(80)	(28)
Mean	1,822.4	956.7	556.2

Source: Survey interviews, June 1989.

TABLE 13

HEAD OF HOUSEHOLD MONTHLY INCOME BY TYPE OF BUSINESS

	Type of business				
Monthly income	Store	Repair Shop	Street vendor	Restaurant	Other
Head of household					
(Valid N)	(74)	(25)	(18)	(20)	(51)
Mean	1,122.6	1,012.0	784.2	1,410.0	1,710.1

Source: Survey interviews, June 1989.

TABLE 14

INDICATORS OF LEVELS OF LIVING BY TYPE OF BUSINESS

	Type of business									
	Store		Repair shop		Street vendor		Restaurant		Other	
	%	(N)	%	(N)	%	(N)	%	(N)	%	(N)
Radio owner										
Yes	94.0	(79)	96.2	(25)	78.9	(15)	95.5	(21)	96.7	(58)
No	6.0	(5)	3.8	(1)	21.1	(4)	4.5	(1)	3.3	(2)
Telephone owner										
Yes	28.6	(24)	26.9	(7)	5.3	(1)	40.9	(9)	31.7	(19)
No	71.4	(60)	73.1	(19)	94.7	(18)	59.1	(13)	68.3	(41)
Refrigerator owner										
Yes	91.7	(77)	65.4	(17)	36.8	(7)	86.4	(19)	85.0	(51)
No	8.3	(7)	34.6	(9)	63.2	(12)	13.6	(3)	15.0	(9)
Indoor toilet										
Yes	88.1	(74)	96.2	(25)	73.7	(14)	81.8	(18)	90.0	(54)
No	11.9	(10)	3.8	(1)	26.3	(5)	18.2	(4)	10.0	(6)
Potable water										
In home	90.5	(76)	88.5	(23)	57.9	(11)	95.5	(21)	86.7	(52)
Public source	6.0	(5)	7.7	(2)	42.1	(8)	.0	(0)	8.3	(5)
Other	3.6	(3)	3.8	(1)	.0	(0)	4.5	(1)	5.0	(3)
Car owner										
Yes	27.4	(23)	19.2	(5)	15.8	(3)	27.3	(6)	41.7	(25)
No	71.4	(60)	80.8	(21)	84.2	(16)	72.7	(16)	58.3	(35)
DK	1.2	(1)	.0	(0)	.0	(0)	.0	(0)	.0	(0)
Cooking instrument										
Wood	6.0	(5)	7.7	(2)	26.3	(5)	18.2	(4)	10.0	(6)
Kerosene	1.2	(1)	3.8	(1)	15.8	(3)	.0	(0)	1.7	(1)
Gas	81.0	(68)	69.2	(18)	57.9	(11)	54.5	(12)	75.0	(45)
Electricity	11.9	(10)	15.4	(4)	.0	(0)	27.3	(6)	11.7	(7)
DK	.0	(0)	3.8	(1)	.0	(0)	.0	(0)	1.7	(1)
TOTAL	100.0	(84)	100.0	(26)	100.0	(19)	100.0	(22)	100.0	(60)

Source: Survey interviews, June 1989.

of the interviews was 5.6 colones to the U.S. dollar. The data show that the incomes varied by neighborhood type, with the poorest heads of household earning less than one-third of those in the more affluent group. As shown in Table 13, those in the "other" category earned the greatest income. Surprisingly, restaurant owners earned more than store owners, although the difference was not very large.

One final table portrays the respondents' living standard. Once again street vendors came out at the bottom of the list. (see Table 14).

IV. VOLUME AND IMPORTANCE OF REMITTANCES FOR SMALL BUSINESSES

Table 15 compares the volume of remittances received by small businesses to the overall income stream of the respondents. The most important calculation is shown on line five. As we can see, for each type of business, remittances represent about half of total income and are the main source of household income. This is a large figure, but not surprisingly large. In the detailed Massey study of migration from western Mexico, income from U.S. migrant labor to the households ranged from a low of 66 percent to a high of 87 percent.[19] The results of the El Salvador study differ from those of Mexico in that the remittances flowing to small businesses in El Salvador are much more likely to be invested than they are in Mexico. In Mexico, productive investment ranges from none to a high of 25 percent, depending upon the location (urban vs. rural) and age of the respondents.[20]

We know, then, that remittances play a very important role in the overall economy of these small business families. But what of the use of remittances in the businesses themselves? We also attempted to determine how much of the remittances received was invested in the businesses and how much was spent in other ways. The direct impact of remittances on small business development is shown in Table 16, which depicts the percentage of total remittance income invested in the various businesses. In each of the business types, 44 percent to 48 percent of the total was invested directly in the business. Thus, the investment would have a subsidiary role which, in most cases, probably substitutes or reduces the demand for bank credit.

Further impacts of remittances are indirect. For example, note the impact of employment generation by the small businesses included in the sample. The economic impact of employment generation can be measured by examining employee salaries. The data in Table 17 indicates that significant sums are paid to employees of the business studied. We cannot trace here how much of those salaries can be directly or indirectly attributed to remittances, but we can see that salaries for family workers are

TABLE 15

MONTHLY INCOME (IN COLONES) FROM VARIOUS SOURCES

	Type of business				
	Store	Repair shop	Street sale	Restaurant	Other
Income, head of family					
(Valid N)	(74)	(25)	(18)	(20)	(51)
Mean	1,122.64	1,012.00	784.17	1,410.00	1,710.08
Net business income					
(Valid N)	(49)	(19)	(12)	(18)	(34)
Mean	817.65	1,511.40	598.61	801.39	1,388.55
Remittance income					
(Valid N)	(84)	(26)	(19)	(22)	(60)
Mean	1,122.20	1,229.85	756.00	948.18	1,478.03
Total gross income of family head (Remittance income plus other income, i.e., 1 + 3)*					
(Valid N)	(74)	(25)	(18)	(20)	(51)
Mean	2,312.48	2,279.84	1,563.50	2,380.20	3,223.84
Remittances as percentage of gross income (3/4).					
(Valid N)	(74)	(25)	(18)	(20)	(51)
Mean	.51	.57	.52	.45	.47
Net business income as percentage of gross income (2/4)					
(Valid N)	(49)	(19)	(12)	(17)	(31)
Mean	.40	.41	.37	.42	.40

Note: *Net business income cannot be added since it is not known if family head always considers this income in his/her estimate of gross income. Our assumption is that such income is included.

Source: Survey interviews, June 1989.

lower than salaries for non-family workers in all categories. The salaries of nonfamily workers are, except for the "other" category, close to the minimum wage range of 330–450 colones per month. We are able to see that the absence of greater remittance flows is viewed as a barrier to greater investment.

We noted that nearly half of all of the respondents invested remittances in their businesses. As shown in Table 18, other uses of remittances covered many areas, the most important of which was food consumption. Expenditures for housing, often reported as the largest use of remittance income, was quite limited in the El Salvador sample. For example, one survey in Turkey showed that 49 percent of remittance income was used

TABLE 16

PERCENTAGE OF REMITTANCES INVESTED IN BUSINESS BY TYPE OF BUSINESS

	Type of business				
	Store	Repair shop	Street vendor	Restaurant	Other
Percent of remittances invested in business					
(Valid N)	(84)	(26)	(19)	(22)	(60)
Mean %	44	44	46	45	48

Source: Survey interviews, June 1989.

TABLE 17

AVERAGE MONTHLY SALARIES (IN COLONES) PAID TO EMPLOYEES BY TYPE OF BUSINESS

	Type of business				
	Store	Repair shop	Street vendor	Rest.	Other
Salary of family workers					
(Valid N)	(32)	(10)	(4)	(13)	(24)
Mean	156.3	430.0	375.0	261.5	323.3
Salary of non-family workers					
(Valid N)	(8)	(13)	(0)	(11)	(16)
Mean	243.8	508.1	—	356.8	1,261.8

Source: Survey interviews, June 1989.

for housing, while another study in Portugal found that housing absorbed 38 percent of the total income.[20]

V. THE IMPORTANCE OF REMITTANCES IN SMALL BUSINESS DEVELOPMENT

The picture that emerges from the data is that for those small businesses receiving remittances in El Salvador, the income plays a very large role in economic development. Although our sample is small and does not represent all small businesses in El Salvador, the results nevertheless show how important remittances can be.

This important finding relates directly to the controversy surrounding the economic impact of remittances. Several studies on remittances, according to the extensive review conducted by Russell,[21] demonstrate neutral or negative consequences on the domestic economy of countries re-

TABLE 18

USE OF REMITTANCES

(Monthly means, in dollars)

	Type of business				
	Store	Repair shop	Street vendor	Restaurant	Other
Food					
Mean	37.0	55.0	34.8	23.9	50.8
(%)	(18.4)	(25.3)	(25.7)	(14.1)	(19.2)
House payment					
Mean	12.8	8.1	13.2	11.8	13.0
(%)	(6.4)	(3.7)	(9.8)	(7.0)	(4.9)
Clothes and shoes					
Mean	8.1	11.9	5.5	5.7	9.9
(%)	(4.0)	(5.5)	(4.1)	(3.4)	(3.7)
Health					
Mean	9.5	12.6	6.0	8.3	15.0
(%)	(4.7)	(5.8)	(4.4)	(4.9)	(5.7)
Education					
Mean	11.2	14.6	8.9	28.4	9.4
(%)	(5.6)	(6.7)	(6.6)	(16.8)	(3.6)
Car payments					
Mean	1.8	0.0	0.0	2.3	5.8
(%)	(0.9)	(0.0)	(0.0)	(1.4)	(2.2)
Business expenses					
Mean	88.4	95.2	62.1	75.7	127.0
(%)	(44.0)	(43.7)	(46.0)	(44.7)	(48.1)
Savings					
Mean	16.8	17.4	4.5	9.2	20.6
(%)	(8.4)	(8.0)	(3.3)	(5.4)	(7.8)
Miscellaneous					
Mean	15.0	2.9	0.0	4.0	12.4
(%)	(7.5)	(1.3)	(0.0)	(2.4)	(4.7)
Total					
Mean	200.7	217.7	135.0	169.3	264.0
(%)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

Source: Survey interviews, June 1989.

ceiving remittances. Many of those studies have focused on issues such as the potential inflationary impact of remittances, or more specifically, on the stimulation of conspicuous consumption. For example, in a study conducted in Pakistan, 62 percent of remittances were found to be used for current consumption.[22] Russell concludes:

> In assessing the value of the use of remittances, most observers acknowledge that the benefits accrue largely to the individual migrant's family. The benefits to the economy and the society at large

> are viewed as being much more questionable, given the effects of remittances on increasing consumer demands, fueling inflation and increasing imports.[23]

Little attention has been placed upon the impact of remittances on economic development.[24] The limited research that has been conducted has focused on the multiplier effects of investments in housing, for example. One study conducted in Mexico, however, reports some important impacts on small business development.[25] In that study it was found that 9 percent of the businesses in one community and 16 percent of businesses in another community were established with money Mexican migrants earned in the United States.

Given the large percentage of remittance income spent on small businesses in our sample and the significant amount of remittance income as a proportion of total income, serious questions need to be raised about the economic viability of the businesses supported by remittance income. Without the remittances the enterprises might not survive, and the remittances are therefore merely subsidizing nonviable enterprises. We used our survey to provide at least a partial answer to this question, as shown in Table 19.

The first variable displayed in Table 19 shows that from one-quarter to more than one-third of the businesses in San Salvador sample were established as a result of the availability of remittances. This figure is substantially higher than that found in the Mexico survey, lending credence to the view that a significant percentage of the businesses would not have existed if the remittances had not been available. The second item in the table reinforces and magnifies the remittance-dependence thesis. From one-third to more than two-thirds of the respondents reported that their future economic situation depended upon the continuous flow of remittance income.

What is most disturbing about the results of the first two questions in the table is that even though a large percentage of the respondents believe that their economic future rests on remittance income, only a limited percentage (ranging from 9 percent to 39 percent) of the respondents believe that the remittance flow is likely to be permanent. However, approximately half of all of the respondents did not guess as to how long the remittance flow would continue.

The findings presented in Table 19 provide at least a partial indication of the nonviability of a significant proportion of the small businesses receiving remittances in El Salvador. Using strict economic criteria, one could easily argue that this evidence further supports the negative view of the role of remittances in development. However, such an interpretation has to be conditioned by five factors.

IMPORTANCE OF REMITTANCES TO SMALL BUSINESSES

	Type of business									
	Store		Repair shop		Street vendor		Rest.		Other	
	%	(N)	%	(N)	%	(N)	%	(N)	%	(N)
Business was open due to remitt.										
Yes	32.1	(27)	38.5	(10)	26.3	(5)	27.3	(6)	35.0	(21)
No	67.9	(57)	61.5	(16)	73.7	(14)	72.7	(16)	65.0	(39)
TOTAL	100.0	(84)	100.0	(26)	100.0	(19)	100.0	(22)	100.0	(60)
Future dependence on remittances										
Yes	53.6	(45)	69.2	(18)	52.6	(10)	45.5	(10)	38.3	(23)
No	46.4	(39)	30.8	(8)	47.4	(9)	54.5	(12)	60.0	(36)
DK	.0	(0)	.0	(0)	.0	(0)	.0	(0)	1.7	(1)
TOTAL	100.0	(84)	100.0	(26)	100.0	(19)	100.0	(22)	100.0	(60)
Expectation of remittances in future										
A few more months	3.6	(3)	3.8	(1)	5.3	(1)	9.1	(2)	10.0	(6)
1–2 years more	8.3	(7)	7.7	(2)	.0	(0)	9.1	(2)	.0	(0)
More than 2 years	16.7	(14)	7.7	(2)	15.8	(3)	22.7	(5)	11.7	(7)
Forever	26.2	(22)	38.5	(10)	15.8	(3)	9.1	(2)	25.0	(15)
DK	45.2	(38)	42.3	(11)	63.2	(12)	50.0	(11)	53.3	(32)
TOTAL	100.0	(84)	100.0	(26)	100.0	(19)	100.0	(22)	100.0	(60)

Source: Survey interviews, June 1989.

TABLE 20
RELATIONSHIP BETWEEN INITIAL AND FUTURE DEPENDENCE ON REMITTANCES

	Business was opened due to remittances			
	Yes		No	
	%	(N)	%	(N)
Economic future depends on remittances				
Yes	75.4	(52)	38.0	(54)
No	23.2	(16)	62.0	(88)
DK	1.4	(1)	.0	(0)
TOTAL	100.0	(69)	100.0	(142)

Note: Chi-square < .001; Tau b = .36
Source: Survey interviews, June 1989.

1. Even though many businesses seem dependent upon remittances, many clearly are not.
2. While as many as one-third of the businesses were started because of remittances, two-thirds and more were not.
3. As shown in Table 20, the businesses that are viewed by their owners as most likely to fail as a result of the termination of remittances are the ones that were started with remittances in the first place. Of the 32 percent of the businesses started with remittances, 77 percent would fail without them. On the other hand, nearly two-thirds of the business not established with remittances are viewed by the respondents as being able to survive such a withdrawal.
4. Even among the businesses established with remittances, and acknowledging that most of those would fail as a result of remittance withdrawal, one-quarter are viewed by their owners as surviving.
5. These points must be viewed in the context of the Salvadoran Civil War. Survival of small businesses in prosperous industrialized countries is the exception rather than the rule. Survival rates for developing countries are likely to be even lower. In the extremely uncertain environment of war-torn El Salvador, the finding that many businesses would fail without remittances should come as no surprise, but is not necessarily a reason for minimizing the developmental role of those remittances.

VI. STIMULATING THE PRODUCTIVE USE OF REMITTANCES

The question now becomes how to help channel these remittances to stimulate small business development. In the final section of this paper, we attempt to provide some answers to that question.

TABLE 21

PRINCIPAL REASONS FOR NON-INVESTMENT OF REMITTANCES

	Type of business									
	Store		Repair shop		Street vendor		Rest.		Other	
	%	(N)	%	(N)	%	(N)	%	(N)	%	(N)
Small amount of remittances										
Yes	52.4	(44)	50.0	(13)	68.4	(13)	59.1	(13)	41.7	(25)
No	45.2	(38)	42.3	(11)	31.6	(6)	36.4	(8)	56.7	(34)
DK	2.4	(2)	7.7	(2)	.0	(0)	4.5	(1)	1.7	(1)
TOTAL	100.0	(84)	100.0	(26)	100.0	(19)	100.0	(22)	100.0	(60)
Does not know where to invest										
Yes	16.7	(14)	11.5	(3)	5.3	(1)	4.5	(1)	13.3	(8)
No	79.8	(67)	80.8	(21)	89.5	(17)	86.4	(19)	85.0	(51)
DK	3.6	(3)	7.7	(2)	5.3	(1)	9.1	(2)	1.7	(1)
TOTAL	100.0	(84)	100.0	(26)	100.0	(19)	100.0	(22)	100.0	(60)
Irregularity of remittances										
Yes	38.1	(32)	15.4	(4)	26.3	(5)	18.2	(4)	21.7	(13)
No	59.5	(50)	76.9	(20)	68.4	(13)	72.7	(16)	76.7	(46)
DK	2.4	(2)	7.7	(2)	5.3	(1)	9.1	(2)	1.7	(1)
TOTAL	100.0	(84)	100.0	(26)	100.0	(19)	100.0	(22)	100.0	(60)
Bad climate for investment										
Yes	28.6	(24)	23.1	(6)	21.1	(4)	27.3	(6)	18.3	(11)
No	69.0	(58)	73.1	(19)	73.7	(14)	63.6	(14)	80.0	(48)
DK	2.4	(2)	3.8	(1)	5.3	(1)	9.1	(2)	1.7	(1)
TOTAL	100.0	(84)	100.0	(26)	100.0	(19)	100.0	(22)	100.0	(60)
Does not need to invest										
Yes	22.6	(19)	19.2	(5)	15.8	(3)	18.2	(4)	18.3	(11)
No	75.0	(63)	73.1	(19)	78.9	(15)	72.7	(16)	80.0	(48)
DK	2.4	(2)	7.7	(2)	5.3	(1)	9.1	(2)	1.7	(1)
TOTAL	100.0	(84)	100.0	(26)	100.0	(19)	100.0	(22)	100.0	(60)

Source: Survey interviews, June 1989.

We asked the respondents to identify their concerns about not investing more remittances in their businesses. Table 21 shows their replies. Approximately half of all of the respondents stated that the small volume of remittances was a principal problem. In contrast, a much smaller percentage of the respondents stated that they did not know where to invest the money, that remittances were irregularly received, that they did not think the business climate was favorable for investment or that they did not need to invest. One can deduce from these findings that the business owners interviewed believe that greater volumes of remittances would translate into greater investment. Stimulation of the volume of remittances may result, therefore, in an interactive effect that would increase investment beyond the increased volume of remittances. In effect, there may be a threshold level beyond which remittance investment in the small businesses would increase, but beneath which significant portions of the money would be spent in consumption or on other nonbusiness expenditures.

Table 21 demonstrates that from the point of view of the small business people interviewed for this study, the small irregular remittance flows are the primary constraints to increased business investments. This suggests that to increase investment, one must increase the volume and regularity of the remittance flow. Consequently, two policy issues arise: how to increase the flow of remittances, and how to provide for a greater regularity in that flow.

Policies to increase or keep constant the flow of total remittances must be linked to the determinants of the overall remittance level. These determinants include:

(1) The number of Salvadoran workers in the United States; (2) the premium between the black market and the official exchange rate; and (3) the average salary of Salvadorans residing in the United States.

Salvadoran authorities can only affect the second determinant and, to a very limited extent, the first one.

We have shown[26] that there will be a demographic constraint reducing Salvadoran migration rates to the United States in future years, that immigration controls in the United States have only a short-term impact, and that illegal employment opportunities and wage levels in the United States are independent from the volume of illegal Salvadoran immigration.[27]

Clearly the most important macroeconomic measure for keeping constant the overall level of remittances and for inducing remittances to go through official channels is the establishment of a realistic unitary (single) rate of exchange for El Salvador. Remittances are notably sensitive to overvaluation and multiple exchange rates, such as preferential exchange rates previously used for remittances. They are difficult to control and their capacity to attract remittances through official channels had proven to be of dubious value in the Salvadoran case.[28] From the senders' point of view, it is almost certain that a generalized and uncontrolled devaluation of the colon can only produce a decline in the overall level of remittances sent, while it is not clear that the black market for dollars will disappear. This market exists sumarily to ration hard currency for imports, a policy that will not disappear in the short term.[29]

The most important policies are those that attract remittances through official channels. We surveyed small business owners' reaction to the implementation of a new law that would forbid the changing of dollars on

TABLE 22

OPINIONS ON EXCHANGE RATES BY TYPE OF NEIGHBORHOOD

	Type of neighborhood					
	Lower-middle class		Poor		Extreme poverty	
	%	(N)	%	(N)	%	(N)
Reaction to a better exchange rate						
Yes	78.2	(68)	73.9	(65)	69.4	(25)
No	5.7	(5)	12.5	(11)	8.3	(3)
No answer	16.1	(14)	13.6	(12)	22.2	(8)
TOTAL	100.0	(87)	100.0	(88)	100.0	(36)
Reaction to dollar banking accounts						
Yes	70.1	(61)	69.3	(61)	52.8	(19)
No	16.1	(14)	15.9	(14)	19.4	(7)
No answer	13.8	(12)	14.8	(13)	27.8	(10)
TOTAL	100.0	(87)	100.0	(88)	100.0	(36)
Reaction to more credit facilities						
Yes	65.5	(57)	55.7	(49)	52.8	(19)
No	32.2	(28)	43.2	(38)	44.4	(16)
No answer	2.3	(2)	1.1	(1)	2.8	(1)
TOTAL	100.0	(87)	100.0	(88)	100.0	(36)

Source: Survey interviews, June 1989.

the street. Their reactions were divided: 37 percent said that they would stop exchanging their dollars on the street, 25 percent said that they would not stop doing it and 38 percent did not know what they would do. We also asked for their reaction to three kinds of banking incentives: a preferential exchange rate, permission for the opening of dollar accounts and credit facilities for regular receivers of remittances.

Table 22 indicates that small business owners in different neighborhoods did not differ substantially in their views on a preferential exchange rate for remittances. More than 70 percent would welcome such a measure, if the bank exchange rate were at least at the same amount as the street rate.

Reaction to the eventual opening of dollar accounts was very similar, with the exception of extremely poor entrepreneurs who received lower monthly remittances and had less access to banking services. The fact that dollar accounts are as welcome as a preferential exchange rate may point to one of their main advantages: they would permit dollar holders to keep their remittances in a safe place. No other remittance intermediary can guarantee this function.

Only 66 percent of lower middle-class entrepreneurs showed a clear interest in more credit facilities. This probably represents those who have had more credit experience in the past.

These results show a need for policy initiatives. We do not favor a law punishing dollar dealers because it would certainly increase premiums as a result of the higher risk associated with those transactions. We also do not favor compulsory remittances through official channels from Salvadorans working in the United States, such as the government of Philippines requires from their construction workers abroad,[30] because the U.S. government would hardly modify its liberal policy for transfers, unless it had reason to do so.[31] A third proposal of compulsory control was discussed in July 1989. José Manzano, vice manager of the International Department at the Central Bank, proposed that all import permits only be approved when the merchandise was already present in the customs area.[32] This would increase both the amount of dollars received by the banking system and also the level of controls placed upon authorized imports.[33] We do not know the outcome of this proposal, but even if it is accepted, we doubt its effectiveness. Luxury imports have always found their way into the country, and we have seen that the amount of imports financed with black market dollars is only a small portion of total remittances. Therefore, such a regulation would only permit the introduction of a small portion of remittances through official channels.

We do believe that bank incentives might give better results than bank controls. These could include the opening of dollar accounts, premium interest rates on dollar deposits in El Salvador relative to interest rates on comparable dollar deposits in the United States and noninterest benefits to holders of minimum dollar deposits in the banking system.

The opening of checking or savings accounts in dollars is not a new idea in El Salvador. Such accounts were authorized by the Central Bank in 1987, but were never put into effect because no interest rate was stipulated on these accounts and only the exchange rate applied to those dollars. Nevertheless, banking authorities were optimistic about the new economic measures that eliminated the exchange rate premium and increased domestic interest rates in July 1989. According to José Manzano, the elimination of the premium was a good incentive for importers to put their dollars into bank accounts, so they could finance imports at no exchange rate loss. José Riva, in charge of external operations at the Banco Cuzcatlán, did not exclude the near future possibility of opening dollar denominated bank accounts, including certificates of term-deposits that would be competitive with foreign certificates at a premium interest rate.

Premium interest rates on dollar deposits in El Salvador, or banks from El Salvador operating in the United States, relative to the interest rates on comparable maturity deposits in the United States, could become a major focus of the proposal to attract remittances through official channels. An important result of the ten-year old civil war has been the increase in profit opportunities for holders, illegal residents in the United States or domestic residents in El Salvador. These dollar deposits might be attractive if the following conditions materialize:

1) a competitive international interest rate; 2) term-deposits are tax-free; 3) dollars on these accounts are partially or totally repatriable (in dollars) to the foreign country (probably the United States) if it is required by its holder; 4) the Central Bank guarantees commercial banks against financial losses by compensating them when the colon is depreciated vis-à-vis the dollar; 5) people have confidence in the safety and liquidity of their financial assets; and 6) holders of a minimum of dollar-deposits (as well as of dollar-checking accounts) are given preference for non-interest benefits.

Non-interest benefits to holders of dollar deposits or checking accounts might be established in a variety of ways. These include:

1) the linkage of a minimum of dollar deposits to credit facilities for housing, land acquisition or small business expansion, which requires the banks to adapt lending procedures to the availability of collateral and to the viability of the projects; 2) the linkage of minimum dollar deposits to import facilities, including luxury items up to some limit; 3) priority in buying bonds from the government issued in foreign currency and with an even higher interest rate than the one applied to dollar deposits; and 4) customs relief on goods imported, provided the money is remitted from outside in hard currency or placed in an account of a bank from El Salvador operating in the United States. To avoid excessive luxury imports, a ceiling should be established for them.

Policies encouraging Salvadoran workers in the United States to put their savings into productive investment in El Salvador have the advantage of creating a solid link between Salvadoran immigrants and their country of origin. Target remitters might thus be transformed into target savers. Housing, land acquisition or small businesses should be stimulated as preferred investments by regular senders or receivers of remittances. Tax-free schemes, low-interest rates on loans, good maturity conditions and credit and technical supervision might be provided in order to promote these policies.

Pastor and Rogers' initiative[34] involves a more complex policy proposal. According to these authors, remittances could be used to increase foreign aid if Salvadoran banks were to transfer a percentage of remittances absorbed by their offices in the United States and El Salvador to a special fund that could be used as government counterpart for international development projects.

We believe that Pastor and Rogers' scheme might be combined with specific projects for the development of particular communities whose populations have almost entirely migrated to the United States. Such is the case with Intipucá, a town in the Department of La Unión whose population has migrated to Washington, D.C., and with Casitas, a town located in the Department of Santa Ana whose population has migrated to Los Angeles. The former inhabitants of Intipucá or Casitas would be more likely to cooperate if their remittances were used to develop their home community. A similar scheme could be used to create a special fund for the development of small businesses that satisfy minimum requirements for profit, employment, debt, etc. Salvadoran workers who send dollars to relatives in El Salvador who own small businesses should be encouraged to participate.

Other migration for development policies should be used to lure skilled Salvadoran workers or small entrepreneurs (target savers) back to El Salvador. Duty exemptions, information about employment opportunities, permits to maintain dollar accounts, credit facilities, repatriation assistance and other return incentives might favor this policy. The lack of good skilled workers was officially recognized as a problem by the new government in July 1989. The repatriation of target savers is a direct way to invest remittances in productive purposes.

The success of any policy depends on both a major change of the functioning of the Salvadoran banking system vis-à-vis remittances and on the government's priorities. The banking system must spread its services not only in urban areas, but also in rural ones, and reorganize its operations to aggressively compete with private agencies to become effective as remittance intermediaries.

The government must give top priority to its final policy package. President Seaga in Jamaica has been the first Latin American president to invite overseas Jamaicans to participate in the reconstruction of his country by investing in a home or in a foreign exchange account.[35] His example can and should be emulated.

VII. CONCLUSION

After ten years of civil war, many Salvadorans have found a solution to one of their most urgent needs, employment. Today, approximately one out of five families in El Salvador has a relative in the United States who sends remittances on a regular basis. A new, privileged social sector has emerged with an extraordinary economic potential based on remittance income that official authorities and most of the academic community have largely ignored.

Efforts devoted to taking advantage of remittance inflows from Salvadorans residing in the United States are almost nonexistent compared to official measures taken to promote nontraditional and cotton export. Nevertheless, if our minimum estimates of the net amount of remittances that effectively enter the economy are correct, in 1986 the $286.3 million inflow would make remittance inflows the third largest source of foreign exchange for the Salvadoran economy. This income trails the $546.8 million provided by coffee and the $315.3 million provided by U.S. economic assistance. In 1988, with the decline of coffee prices that reduced coffee earnings to $345.7 million, the stagnation of U.S. economic aid at $319.3 million and the quick recovery of the historic levels of Salvadoran illegal migration to the United States, (after a temporary decline due to the application of the new immigration law in 1987), remittances were transformed into the main source of foreign exchange in the Salvadoran balance of payments. This unprecedented use of remittances provided a minimum amount of $380.8 million.

Remittances have drawbacks as well. There has been no import-led boom, but that was probably due to the rationing of hard currency that has prevailed during most of this decade in El Salvador. Nor has there been a demand-pull inflation, but this is likely due to the high level of idle capacity of Salvadoran industry. On the other hand, remittances have played a key role in sustaining import capacity and household incomes. They also have a small but positive impact on domestic consumption which probably is more important in the poorest sector of the population, and a seasonal anti-inflationary role related to their impact (with a negative sign) on the price of the black dollar at the end of the year when the premium reaches its lowest level.

Salvadoran remittances, despite their many important positive characteristics, are not widely absorbed in the banking system. Our estimate is that only roughly a quarter of their annual estimated volume in 1988 has been channeled through the banking system. As a result, their contribution to medium-term Salvadoran development is limited. Surprisingly, an average small business owner invests nearly one of every two dollars received as remittance. As a matter of fact, for all small business categories in our survey, average annual remittances are greater than average annual net profits.

The need to use remittances most effectively is even more important if we realize that future flows of remittances are not likely to be reduced, notwithstanding the views of those who believe that the new U.S. immigration law will dramatically cut remittance flows. Future flows of remittances will depend on Salvadoran illegal immigration to the United States. Flows of illegal immigration again flourished in 1988 and 1989, after a short drop in 1987 when the immigration law became effective. Sooner or later, a demographic constraint will likely reduce the growth rate of net emigration to the United States, but at this point, neither immigration flows nor forced repatriation (which also decreased consecutively in 1987 and 1988) seem to suggest that this rate is headed toward zero or negative levels.

We have developed four alternative scenarios to forecast the volume of remittance inflows for 1989–1993.[35] On the basis of those scenarios, we forecast $479.8 million in net remittance inflows for 1993—an amount that might well retain remittances as one of the two most important sources of hard currency in El Salvador. We are assuming that coffee prices will not remain at their current low levels and that U.S. aid will not return to its historically unprecedented levels of just a few years ago. Hence, remittances will likely count as the first or second largest source of hard currency in El Salvador for many years to come.

Small businesses surveyed showed a positive attitude vis-à-vis new initiatives that the banking system might propose regarding remittances. The importance of the volume of remittances creates an urgent need for a program that will increase their overall amount, absorb them through official channels, give them a productive use and combine them with other developmental policies. No isolated policy can be successful in fulfilling these objectives.

While it is true that the free exchange rate regime put into practice in July 1989 has eliminated the premium and in theory will entice dollar receivers to exchange them in the banking system, we express doubt this policy can reduce inflationary expectations or compete with private agencies in the quality of their transmittal services.

We argued that a real unitary rate of exchange for the colon is the optimal measure to be adopted in order to keep constant the overall level of remittances and to attract remittances through official channels. The devaluation of the colon in 1986 supports this policy. Therefore, a crawling-peg system, characterized by periodic mini-depreciations of the colon and a managed unitary exchange rate, should be preferred to the current regime in the near future.

Among other policies designed to attract remittances through official channels, the opening of dollar denominated checking or term-deposit banking accounts, premium interest rates on dollar deposits and non-interest benefits to holders of a minimum amount of dollar deposits in the banking system are only a few of the mechanisms that could be implemented.

But the channeling of remittances into the banking system by itself is not an adequate solution to medium-term development needs. Investments by dollar senders, incliding those in housing, land acquisition, small business expansion, should be given preferential treatment by banking authorities. A more elaborate policy, such as the one suggested by Pastor and Rogers' initiative, that would tie foreign economic assistance to remittances deserves serious attention by Salvadoran authorities. Furthermore, special investment programs supported by remittance funds could be prepared to promote particular communities in El Salvador, such as Casitas and Intipucá, or to promote particular interests such as small business owners. A complement to this program could be incentives designed to attract Salvadoran target savers or skilled workers from the United States. In combination, these strategies promise to assist in small business development in El Salvador.

NOTES

1. Sharon Stanton Russell, "Remittances from International Migration: A Review Perspective," *World Development* Vol. 14, June 1986, pp. 677–696. This definition is based upon Russell, p. 677. Her definition, however, is restricted to earnings of "migrant workers," whereas we would include earnings sent back to their country of origin by those who have permanently migrated to a second country.

2. José Roberto López and Mitchell A. Seligson, "Remittances and Small Business Development in El Salvador." Report prepared for The Commission for the Study of International Migration and Cooperative Economic Development. Center for Latin American Studies, University of Pittsburgh, Pittsburgh, PA, October 15, 1989. Typescript.

3. Gurushri Swamy, *Population and International Migration* (Washington D.C.: Staff Working Paper No.689, 1985).

4. Wayne Cornelius, "Immigration, Mexican Development Policy and the Future of U.S.-Mexican Relations," Working paper in U.S. Mexican Studies, University of California, San Diego, 1981.

5. Cornelius, "Mexican Migration to the United States," Program in U.S.-Mexican Studies, University of California, San Diego, 1981, p. 9.

6. P. Shankman, *Migration and Underdevelopment: The Case of Western Samoa* (Boulder, CO: Westview Press, 1976).

7. See Swamy, *International Migrant Workers Remittances: Issues and Prospects* (Washington, D.C.: World Bank Staff Working Paper No. 481, 1981).

8. See J. Connel, *Remittances and Rural Development: Migration, Dependency and Inequality in the South Pacific* (Canberra: ANU Press, 1980).

9. Russell, 1986.

10. Russell, 1986, p. 678.

11. Robert Pastor and Rosemarie Rogers, "Using Migration to Enhance Economic Development in the Caribbean: Three Set of Proposals," in *Migration and Development in the Caribbean: the Unexplored Connection*, ed. Robert Pastor (Boulder CO: Westview Press, 1985), p. 322.

12. José Roberto López, "The Nationalization of Foreign Trade in El Salvador," Occasional Paper Series, No. 16, Florida International University, 1986.

13. U.S. General Accounting Office (GAO), "Providing Effective Economic Assistance to El Salvador and Honduras: A Formidable Task." GAO/NSIAD-85-82, (Washington, D.C., 1985).

14. Segundo Montes, *Salvadoreños Refugiados en los Estados Unidos* (San Salvador: UCA Editores, 1987).

15. Montes, "La Crisis Salvadoreña y las Consecuencias de una Repatriación Masiva de refugiados en los Estados Unidos." Boletín de Ciencias Económicas de la Universidad Centroamericana, Año X, No.1, (January–February 1987).

16. These definitions are given in INCAE, *Sondea básico sobre la situación del sector informal de El Salvador* (San Salvador: FUSADES, 1987), p. 15.

17. INCAE, 1987, p. 8.

18. Based upon limited census data, we determined three neighborhood types on which to stratify: lower-middle, poor and extremely poor. Lower-middle neighborhoods were defined as those predominantly populated by individuals with monthly family incomes of between U.S. $300 and $500. In most cases these were employed individuals, with high school education and living in modest dwellings. The "poor" stratum was defined as neighbors consisting largely of families of between U.S. $200 and $300, also employed with less than high school education and living in government subsidized housing, rented housing or poor quality private housing. Finally, the "extremely poor" stratum consisted of neighborhoods of individuals with family incomes of $100 or less, a maximum of primary education and who inhabit slum neighborhoods.

19. Douglas S. Massey, Rafael Alarcón, Jorge Durand and Humberto González, *Return to Aztlan: The Social Process of International Migration from Western Mexico* (Berkeley: University of California Press, 1987), p. 211.

20. Massey, 1987, p. 212. In the Mexico study, the focus was upon the money earned in the United States by migrants and its use in Mexico upon their return. Hence, the data are not precisely comparable to the El Salvador remittance survey.

21. Russell, 1986, pp. 686–687.

22. Russell, 1986, pp. 686–687.

23. Russell, 1986, p. 687.

24. Russell, 1986, p. 688.

25. The Commission for the Study of International Migration and Cooperative Economic Development has funded a study on this subject in the Dominican Republic under the direction of Alejandro Portes. As of this writing, the results are not available.

26. Massey, Alarcón, Durand and González, pp. 231–236.

27. López and Seligson, 1989, chapter VII.

28. We assume that demand for illegal labor in the United States is inelastic as to the number of Salvadoran illegals. Compared to the supply of Mexican illegal labor, the Salvadoran supply of labor is not as important.

29. Chandavarkar says that the balance of the application of multiple exchange rates in the Middle East and North African countries receiving remittances is split.

Sudan and Turkey tried them but without any success, while Algeria and Morocco retained them successfully for a long period. See Anand Chandavarkar, "Use of Migrants' Remittances in Labor-Exporting Countries." *Finance and Development* 6 (1980), pp. 36–38.

30. A very low level of foreign reserves in the Central Bank was inherited by the new government founded in June 1989.

31. See Chandavarkar, 1980.

32. We did find one very good reason. The approval of temporary working permits could be linked to the voluntary acceptance by Salvadoran workers that a portion of their salary, an estimated average remittance, be automatically deducted and sent through Salvadoran official channels to his/her relatives in El Salvador. The U.S. government would reinforce its control on the higher number of Salvadoran illegals interested in obtaining at least temporary working permits, and would provide hard currency to the Salvadoran economy at a minimum cost, which eventually could lead to the reduction of current levels of economic assistance. Another option suggested by Pastor and Rogers would be to deduct by the U.S. government a portion of the Social Security tax paid by the emigrant and to transfer it to El Salvador by official channels, but again this would require interest from the U.S. government to help legalize, at least in a temporary form, the Salvadoran workers situation. See Pastor and Rogers, "Using Migration."

33. Actually, import permits can be approved before the departure of the merchandise from its country of origin. Since import permits are approved with some delay, importers get hard currency from the black market in order to realize the operation as soon as possible. When the import permit (or hard currency) is obtained they sell it or keep it for another operation.

34. José Manzano, "Regulaciones para los Registros de Importación," (Central Bank Memorandum, 21 July 1989).

35. Pastor and Rogers, 1985.

36. Pastor and Rogers, 1985.

37. López and Seligson, 1989.

ABOUT THE AUTHORS

José Roberto López belongs to what is recognized as the new generation of Central American economists. His publications include five books: *La economía del banano en Centroamérica*, *Política económica y crisis en Centroamérica*, *Centroamérica: la crisis en cifras* (with M.E. Gallardo), *La crisis económica de Centroamérica: una introducción* (forthcoming), and *Deuda externa y políticas de ajuste en Centroamérica*, (forthcoming). He has served as a consultant to USAID, the Ford Foundation, the European Community, The Canadian Agency for International Development (CIDA) and other international agencies. He holds a M.A. in Economics from the University of Pittsburgh and is currently a Ph.D. candidate in Economics at the Catholic University of Louvian, Belgium.

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1. Douglas S. Massey, "Economic Development and International Migration in Comparative Perspective," February 1989.

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3. Philip L. Martin, "Labor Migration and Economic Development," February 1989.

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8. Robert A. Pastor, "Migration and Development: Implications and Recommendations for Policy," November 1989.

9. Demetrios G. Papademetriou, "Migration and Development: The Unsettled Relationship," November 1989.

10. Proceedings of the Workshop on The Relationship Between Migration and Development, November 1989.

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42. Jesus Arroyo Alejandre, "Patterns of Migration from the State of Jalisco, Mexico to the United States," June 1990.

43. Frank Walton Alleyne, "Agriculture and Employment Generation in the Anglophone Caribbean," June 1990.

44. Jose Roberto Lopez and Mitchell Seligson, "Small Business Development in El Salvador: The Impact of Remittances," June 1990.

The Commission's Mandate

The Commission was established by the Congress in the Immigration Reform and Control Act (IRCA) of 1986. It is charged with reporting to the President and Congress in July 1990 on the "push" factors impelling unauthorized migration to the United States from major sending areas in the Western Hemisphere, and on possible economic development options that might reduce this migration over time.

Why is the Commission unique?

This is the first time Congress has mandated a study linking unauthorized migration to the level of economic development of sending countries.

How is it accomplishing its goals?

— CONSULTATIONS IN SENDING COUNTRIES.

Instructed to consult with the governments of Western Hemisphere sending countries, the Commission has met with the presidents and other top government officials of Mexico, Colombia, Peru, Venezuela, the Dominican Republic, Haiti, Trinidad and Tobago, and the five Central American countries. In addition, consultations have been held with private sector and public interest leaders in these countries.

— MEETINGS, SEMINARS AND HEARINGS.

The Commission is also conducting an extensive program of hearings, meetings and seminars in the United States. These activities involve government and private sector leaders, as well as academic and other experts on immigration and economic development issues. The formal hearing schedule includes San Diego, Miami, Washington, D.C., Chicago, New York, Texas and the Southwest.

— RESEARCH.

The Commission's work centers around an extensive, multifaceted research program. Eminent scholars in the United States, Mexico and some Caribbean Basin countries are involved in joint research with the Commission. The research effort focuses on the determinants of unauthorized migration and on economic development options aimed at increasing employment opportunities in sending countries. Findings will form the basis of the Commission's Final Report in July 1990.

The bipartisan Commission's twelve members, who were appointed by Congress, are scholars, public servants and professionals with experience in public policy and international relations.

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