

FINAL REPORT
(CORRECTED VERSION)

**ECONOMIC ANALYSIS OF THE
EFFECT OF FAMILY REMITTANCES
ON MICRO-ENTERPRISES**

PRESENTED BY:
J.B. CONSULTORES, S.A. de C.V.

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EXECUTIVE SUMMARY

This document presents an analysis of the relationship between the family remittances and the present state and development of micro-enterprises.

The document synthesizes the Social and Economic Impact of the remittances and its relationship with the migratory phenomenon, which it is estimated around 72 thousand people per year, amount that is equivalent to the vegetative growth of the a economically active population. It also presents an estimation of the population living in the United States of America; and using the Multipurpose Household Survey, determines that there are 223,712 homes (16.2% of all homes) with member of the family group residing abroad. The department of La Unión stands out with the highest number of homes with residents abroad, in the proportion of 1 for every 3 homes in that situation. At the national level, 20% of homes receive family remittances. The homes with family income of between 400 to 999 colones a month receive the highest bulk of remittances; nevertheless, as the level of family income goes up, the amount of the remittances is higher. There are 81,269 homes with family remittances lower than 400 colones a month.

Besides, the document analysis of the Macroeconomic Effect, which establishes that the family remittances that have contributed decisively to the improvement of the macroeconomic stability, have propitiated the rise in the Net International Reserves, have contributed to bridging the commercial gap between the application of the Law of Monetary Integration and have contributed besides to the growth in the Internal growth product (PIB). The annual increase of the remittances has been continuous, observing an average rate of 11.8% as of the decade of the 80's. In the first seven months of the current year 2001, the family remittances amounted to \$1,083.9 million, which has favored the expansion of the Aggregate Demand.

In the social level, the migratory flow has contributed to alleviate the pressure on employment, besides generating a flow of remittances that have propitiated the effects on the economy mentioned above. The document also brings the use that micro entrepreneurs make of the remittances, being consumption the principal destination (80% of homes), education (9% of homes), medical expenses (4.4% of homes), saving (1.94% of homes), and only 1.5% of homes of micro-entrepreneurs destine them for investment.

In the topic of Family Remittances and Micro-entrepreneurs, an analysis of the sustainability of the micro-enterprise, where their success depends on the highest amount of the remittances received is presented. There is account of the characteristics of micro-entrepreneurs and the destination of

family remittances in other section of this document; pointing out that micro-enterprises that receive remittances, all belong to tertiary activities such as commerce and services.

At the end, the document presents some strategies suggested for the productive use of the remittances in the micro-enterprise, among them: a credit program for the micro-enterprise with resources coming from the family remittances, a program of investment for the returnees and the creation of a promotion center for the micro-enterprise with resources from those origins, such as other programs related with financial services for these entrepreneurial segment.

The necessary conditions for the saving and investment of the family remittances, those being:

Promotion of the articulation of the families that receive remittances with associations of communal and entrepreneurial nature.

Training for intermediate institutions in matters of evaluation of credits, follow-up and recuperation.

Assuring the optimal management of resources. For that purpose, technical assistance managerial nature of users is fundamental.

INTRODUCTION

The present work deals with the relationship between remittances and micro-enterprises. It is about a relationship little known but of deep importance for the national agenda. Generally, the studies carried out so far where this relationship is specifically dealt with are few and many of them are not up to date. The work, then, establishes that relationship in a more concrete and up-dated manner.

The study covers three parts: One where the impact of the remittances at the level of the global economy and the relationship between migration and remittances is analyzed, establishing the regional and departmental differences, it is concluded that the family remittances represent a key factor for the working of the economy, for the achievement of macroeconomic stability and for satisfying the needs of consumption of the receiving families. This analysis opens the ground to set out the great challenge of the country around this subject: the generation of proposals to orient these external resources towards productive investment, towards the generation and development of enterprises, and that in this way, the family remittances (FR) will become key factors to generate a strong and enduring economic growth. In like manner, it upholds the strategic importance of the subject and argues over the need to have a first rank place in the national agenda and current debate.

The second part is about the impact of the family remittances in the micro-enterprises: topic of great importance but little studied in the country. Here it is determined that the proportion of homes of micro-entrepreneurs that receive remittances, is of 20% of all the micro-enterprises, a very important figure and very similar to the receiving families in general. These micro-entrepreneurs belong to social sectors that are not poor, and are positioned among those whose income is higher than 5,000 colones a month; only the 14% are sectors positioned below the poverty line. Following a national trend, of the receiving micro-enterprises, only one very small part sets aside these resources for investment of saving. Finally, these enterprises are positioned mostly in the sector of low-level commerce.

The information gathered allows reaching conclusion about the importance of the family remittances in the economic development in general and about the impact in the micro-enterprises in particular, especially in what deals with the sectorial and territorial differences. It is clearly seen that the departments of the eastern zone and Cabañas in the mid zone comprise the biggest amount both of homes receiving family remittances and micro-enterprises that receive them. Such territorial specificity is important for the design of policies for the productive use of the family remittances in a focused manner.

The third part of the work deals with the drafting of proposals that may allow to reorient the use of the remittances towards productive ends, especially as a financing instrument for the creation of new micro-enterprises and/or the expansion and growth of those already in place. In this section, emphasis is put on the access to credit as a fundamental mechanism for the attainment of productive objectives in the use of the remittances; likewise, the obstacles for the use of the micro-enterprises as instruments of growth and development of the sector of micro-enterprises are analyzed as well.

In methodological terms, for the preparation of the present preliminary report, secondary sources both bibliographic and the 1999 Multipurpose Household Survey have been studied. Likewise, interviews to government officials have been were given and their input is included in this report.

It must be made clear that for reasons of the criteria used by the consultants, in the Multipurpose Household Survey data base, a universe of 499,246 micro-entrepreneurs was used; that amount does not include the professional sector that is currently carrying out micro-entrepreneurial activities not related with their profession. If such professionals were included, the number of micro-entrepreneurs would increase by about 12,000.

1. SOCIAL AND ECONOMIC IMPACT OF REMITTANCES

1.1 Remittances and migration

Without a doubt, the family remittances are closely linked with the dynamics, orientation, objectives, nature, and proportion of the migratory flow. However, such connection has not been set forth explicitly nor in the studies and analysis about the subject, or in the policies on the area of migrations. In fact, none of the studies known on the topic makes clear the connection between both phenomena.

According to the above mentioned, the basic premise for the amount of remittances to reach a an ever increasing behavior is for migration to be equally growing, because the amount and the frequency of the sending of family remittances (FR) depends on two conditions: the time of permanence of the migrating person in the receiving country and the degree of connection of the aspect with the families and communities of the expulsing country. This means more migrants, if the number of family remittances is to increase. In the case of the country, even though there are no precise records, some data tell of a average migration of 6,000 Salvadorans leaving for the United States; that means that on the average, every year 72,000¹ migrate; which is equivalent to the vegetative growth of the Economically Active Population. These new migrants end up replacing those that for various reasons have stopped sending resources to their families and communities. In summary, the migratory flow in constant flux is a condition for the amount of family remittances to rise constantly². The following table shows the population of Salvadorans that live in the United States and the main cities of ethnic concentration.

¹ CEPAL, 1992.

² It is normal that in times of crisis or contraction of the national economy, the migration tends to rise above the national average. The earthquakes that hit the country last January produced a considerable rise in the migration of Salvadorans to the United States. There were report on the press that the migration between January and March of the current year was of 40,000 migrants, a figure high above the monthly average.

Table 1.1
Salvadorans living in the United States

CITY	NUMBER OF SALVADORANS
Boston	61,000
Chicago	72,000
Houston	92,000
New Orleans	9,600
Miami	75,000
Santa Ana	85,000
Los Angeles	800,000
San Francisco	450,000
New York	421,000
Washington	150,000
Total	2,215,600

Source: Web page of the Ministry of Foreign Affairs. Figures are approximated.

This table gives the number of Salvadorans living in the United States, which is approximated, given the clandestine nature of such migration. The population living in the United States represents 36% of the total population of the country, which for 1999 was of 6,154,079³. Equally, the data show the main urban centers of concentration of population of Salvadorans: Los Angeles, San Francisco, New York, y Washington, in order of importance.

The trend of migration also tends to underscore that the Salvadoran community in the United States is the Hispanic community with the most growth, coming only second to the Mexican community; from that derives the importance of the political and social importance of the Salvadoran community in those cities that show the highest levels of concentration.

The Multipurpose Household Survey shows the distribution of families with member residents abroad, as can be seen in table 1.2 shown next:

³Cfr. EHPM, 1999.

Cuadro 1.2.

Homes with members abroad, by department

Department					
	Total country	% Total country	Total urban	Total rural	Total AMSS
Ahuachapán	7880	12.4	3,120	4760	
Santa Ana	20779	17	11011	9768	
Sonsonate	10220	11.9	6888	3332	
Chalatenango	8141	20	3008	5133	
La Libertad	18411	12.5	10711	7700	6345
San Salvador	64761	13.8	62550	2211	59283
Cuscatlán	5652	13.6	3572	2080	
La Paz	8983	14.9	4480	4503	
Cabañas	6840	23.9	2600	4240	
San Vicente	5102	15.4	2622	2480	
Usulután	14154	18.9	7314	6840	
San Miguel	24336	22.1	13677	10659	
Morazán	10332	28.2	3366	6966	
La Unión	18121	29.8	4081	14040	
TOTAL	223712	16.2	139000	84712	65628
% POB	16.20%		16.20%	16.20%	14%

Source: Multipurpose Household Survey, 1999. Prepared by researchers

As can be seen in the table above, the highest concentration of home with migrant is in the departments of the eastern zone of the country. In La Unión department, one out of three homes admits to have a relative living abroad. At the national level, the 16.2% of homes has migrant relatives, not existing differences among the urban and rural areas, even though in the AMSS, says to have relatives living abroad. Even though it is a generalized phenomenon, all the departments have proportions above 11%. Migration is a phenomenon that generally has affected the eastern zone and the department of Cabañas in the central zone of the country, zones that were grounds for the armed conflict in the decade of the 80s, time when massive migration begins, and where, besides, agro economy was de-articulated

Table 1.3.
Homes receiving remittances by Department

DEPARTAMENT	Cash	Goods	Both	Total Receiving homes	% of receiving homes	Do not receive
Ahuachapán	6,273	436	2,161	8,870	13.9	54837
Santa Ana	19,385	1,479	6,298	27,162	22.2	95043
Sonsonate	8,316	372	3,016	11,704	12.5	81876
Chalatenango	6,119	503	3,042	9,664	23.7	31139
La Libertad	16,148	1,032	4,760	21,940	14.9	125704
San Salvador	53,547	4,598	17,841	75,986	16.2	393261
Cucatlán	4,895	301	1,782	6,978	16.8	34618
La Paz	8,232	540	2,819	11,591	19.3	48577
Cabañas	6,080	215	1,750	8,045	28.1	20535
San Vicente	3,596	118	1,712	5,426	16.4	27750
Usulután	11,350	837	4,600	16,787	22.4	58217
San Miguel	21,171	350	8,138	29,659	27.2	80386
Morazán	9,282	132	2,644	12,058	32.9	24589
La Unión	16,966	678	5,296	22,940	37.7	37833
Total	191,360	11591	65,859	268,810	19.4	1114365
% del Total POB	14	1	5		20	80

Source: Multipurpose Household Survey, 1999. Prepared by researchers

When the receiving homes are examined, the national proportion rises to 20%, since one home may receive help not only from relatives but also from friends, “compadres”, neighbors, etc. Again, 37.7% of homes in La Unión say they receive family remittances; next in order of importance are Morazán, 32.9% and Cabañas, 28.1%. On the other side of the country, Sonsonate has the lowest proportion with 12.5%. The first departments mentioned have the fundamental characteristic of being local economies based in the family remittances. As the data shows, the collection of family remittances is a generalized phenomenon, but concentrated mostly in the departments of the eastern zone.

These data show the close connection between the number of receiving homes and the proportion of homes with members abroad, the departments having a high proportion of homes with members abroad are also those with the highest proportion of homes that receive remittances. The case of the department of La Unión illustrates this relationship clearly. Here, 29.5% of homes say they have a relative living abroad; and 37.7% mentions that they receive some kind of family support; the relationship between these remittances and migration is clearly established.

Table 1.4 shows the relationship that exists between the proportion of homes that receive remittances and the level of income of family.

Table 1.4

Homes receiving remittances by segments of remittances and family income.

Colonies by month	Ranges of remittances received						Total
	Under 400	400-999	100-1499	1500-1999	2000-2499	2500- more	
Under 400	5,995						5,995
400-999	13,619	19,979					33,598
1000-1499	8,443	15,942	7,621				32,006
1500-1999	9,848	11,107	3,607	8,142			32,704
2000-2499	8,407	10,994	3,775	2,474	2,955		28,605
2500-2999	5,637	6,939	1,905	2,083	727	4,352	21,643
3000-3999	7,764	10,285	5,044	3,833	1,723	4,325	32,974
4000-4999	7,083	6,613	1,373	2,704	996	2,956	21,725
5000-5999	2,846	5,443	1,647	1,904	1,412	3,113	16,365
6000-6999	2,069	3,251	1,090	1,112	1,171	2,154	10,847
7000- more	9,558	9,413	1,706	1,009	2,469	8,163	32,318
Total	81,269	99,966	27,768	23,261	11,453	25,063	268,780

Source: Multipurpose Household Surveys, 1999. Original preparation.

The previous table shows the relationship between remittances receiving homes by slots of family income. As it can be observed, the highest proportion of receiving homes are found in the slot of income of 1,000 to 3,999 colones; 55,04% of homes are found here, whereas those with less than 1000 colones of family income, hardly represent 12.73%. In this fashion, the highest amount of receiving homes is found in the sector of the relative poor, who are those who have the resources, assets and income necessary to make the investment and travel expenses; the structural poor remain out of the possibility to improve their quality of life and overcome their situation of poverty through migration. In the same vein, when the income of the families rises, the proportion of receiving families diminish, even though the amount of the remittances also rises.

The relationships mentioned above allow to sustain that the amount of the remittances that the families receive has a close connection with the family income. The highest proportion of families receiving remittances are located, as expressed before, in the sector of relative poor families, who can access the satisfaction of their needs of food, and possess some natural resources that allow them to pay for their travel expenses, their social and job placement of the emigrant. So, the socio-economic position of the family is a strong factor in the analysis of emigration and the securing of the family remittances, the data analyzed before questions the belief upholding that one variable of population expulsion is the situation of poverty, which is directly proportional to the decision of emigrating. As mentioned before, it is not the poorest who have the conditions and resources to decide to emigrate but those whose individuals and families who have the information, resources and social channel that allow them emigratory mobility.

1.2 The macroeconomic effect

Since the decade of the 80s, El Salvador has had flows of continuous growth of remittances that Salvadorans living abroad send to their relatives. Several studies have shown the impact of these flows of foreign currency have made on the national economic structure (García 1994, 1995, 1997; FUNDE, 1997, 1999; FUSADES, 1995). All these have concluded that the remittances have become the most important source of foreign currency in the national economy; they have served in the macroeconomic stabilization which the country has had in the last few years, allowing a sustained growth of the Net International Reserves, at the close of the Commercial Gap, which keeps widening, and to the stability of the exchange rate. They have contributed to prepare the conditions for the implementation of the Law of Monetary Integration, and have contributed greatly to the grow of the Gross Internal Product.

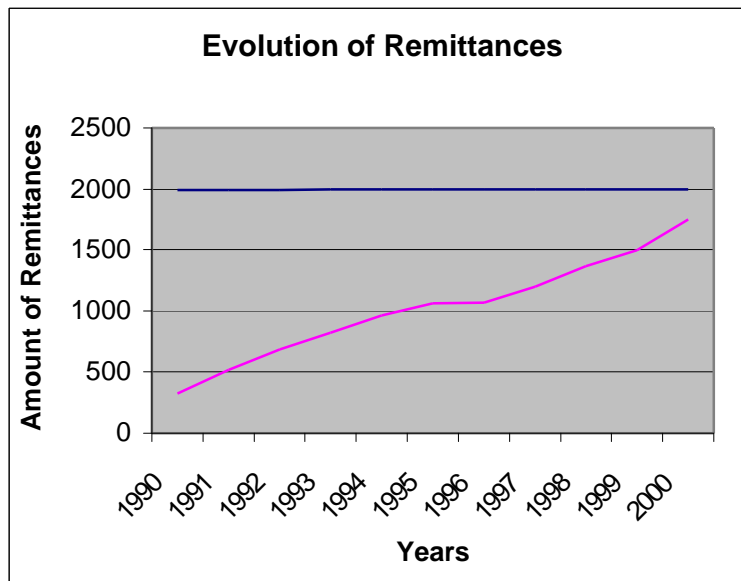
The macroeconomic impact of the family remittances is shown on Table 1.5. The first factor that shows is the family remittances, which have risen constantly and steadily since the 80s, with an annual average of 11.8%. The figure has risen from 60 million dollars to 1,750 in the year 2000 (Table 1). In the first seven months of the current year, they have reached a total of 1,083.9 millions of dollars. For the year 2000, the family remittances have taken 13.2% of the Gross Internal Product, 35.4% of the total of importations (4.2 months of importations), and 130.5% of the total of the exportations, excluding the assembly line manufacturing industry.

Table 1.5**El Salvador 1976-2000:
Family Remittances (in millions of dollars)**

Year	Remittances	Export. %*	Import. %	Gross National Product %
1976	28	3.7	3.7	1
1977	34	3.5	3.6	1
1978	45	5.7	4.4	1.3
1979	49	4.3	4.7	1.2
1980	60	5.5	6.2	1.5
1981	75	9.4	7.6	2
1982	87	12.5	10.2	2.3
1983	97	12.8	10.9	2.8
1984	121	16.7	12.4	3.3
1985	102	15	10.6	2.5
1986	135	16.5	15.2	3.2
1987	169	28.6	17	3.8
1988	194	31.9	19.3	4.2
1989	204	40.9	17.7	4.1
1990	322	55.5	25.5	5.9
1991	518	88.1	36.8	9.8
1992	686	114.7	40.4	11.5
1993	822	110.8	42.7	11.8
1994	964	117.5	42.8	12
1995	1063	105.8	37.2	11.2
1996	1068	104.2	40	10.3
1997	1200	88.3	32.1	10.5
1998	1368	108	34.5	11.5
1999	1497	128	36.7	12
2000	1750	136.4	37	13.8

Source: Banco Central de Reserva of El Salvador

Graph 1



Though It is true that the family remittances have contributed to generate the benefits mentioned above; they have also generated a series of distortions in the style of growth of the economy that they themselves have made possible.

First of all, the remittances have generated an expansion of the aggregate demand, that doesn't mean that there has been an equivalent increase in investment, especially in the real sectors of the economy, agriculture and industry. The relatively high levels of economic growth of the first years or the last decade didn't have their foothold in agriculture and industry; rather it was commerce and services the ones that generated those high rates of growth of the Gross National Product, contributing to generate a process of "tertiarization" of the productive structure. This process is still most sensible in those departments and communities with strong rates of international migration and receivers of family remittances (Garcia, 1994, 1995; FUNDE, 1997, 1999)⁴.

Second, the massive entry of foreign currency, represented in the family remittances like foreign subsidy⁵, have created the conditions to stimulate the constant increase of importations, sector that has constituted in the main supplier of the growing expansion of consumption, especially of non-perishable goods. Equally, the expansion of the importation sector has been accompanied by an equally sustained growth in exportations.

In this order, the importations have become the main generator of growth, and its sustainability will be determined by the existence and ever-growing need of foreign currency. The dependency and need is key to close the commercial

⁴ In some cases, especially in the north of the department of San Miguel, the demand of credit is practically nil.

⁵ In fact, the family remittances act like an external subsidy, since the effort of generation does not lie in the national productive system, but in the effort that is made in the economy of the United States.

gap and resist the effects of a potential crisis of the external sector of the economy.

In conclusion, El Salvador has built a model of economics based on the development of the tertiary sector and in the growth of exports, downplaying on savings and investment in the real productive sectors. It is an economy based in the remittances as the main articulator of the productive and commercial apparatus. For this reason, the country starts depending more on the remittances since the 80s, and in as much as the economy depends more and more on this subsidy, it becomes more vulnerable. It happens that in spite of the advantages in relation with the equilibrium of the balance of payments and the impact of the exchange rate mentioned before, the massive input of foreign currency, without the accompaniment of a growth in the savings and internal investment, generates the need of a higher amount of foreign currency, exacerbating the level of dependency of the economy with the country that receives the migrants.

At the social level, the family remittances and the migration that generates them, has had a double effect. In the first place, the migration has alleviated the social pressure over employment, social services and over the access to productive assets, producing a buffering effect on a potential social conflict. In the second place, migration and the sending of remittances represents a strategy to combat poverty, beyond public policies. For the migrant, it represents the possibility of improving his quality of life, and for the receiving families, an increase in their income that can permit them to satisfy their needs, not only basic, but also sumptuary ones, as will be seen later. The use of the family remittances is used mostly to satisfy the needs of immediate consumption. For the receiving families, income in the way of remittances represents 49.8% of the monthly family income, what translates into a subsidy of the family income of a very important nature, without which the needs of food, health, education and shelter could not be satisfied.

1.3. Use of the Family Remittances.

One of the basic topics in the national agenda deals with the utilization of the family remittances; the use that every receiving family gives these extraordinary resources. It has been the national tendency that almost 80% of households use the family remittances to pay for family expenses. This proportion increases up to 84% in the rural area; that means that the family remittances are resources set aside for consumption, sumptuary many times, of the receiving families.

Only 1.5% uses these resources for investment (business and products for agriculture) and an equally small proportion, 1.94%, saves them. The payment for medical expenses and education of the families have percentages in the order of 4.4% and 9% respectively, as can be observed in table 1.6. The data does not allow to notice huge differences between the areas of residence.

Table 1.6**Households and use of remittances, shown by area of residence**

Utilization	All of the country		Urban		Rural	
	N°	%	N°	%	N°	%
Consumption	247,854	79.66	151,352	77.04	96,502	84.15
Housing	7,588	2.44	6,917	3.52	671	0.59
Business	2,321	0.75	1,672	0.85	649	0.57
Medical expenses	13,808	4.44	9,709	4.94	4,099	3.57
Education expenses	28,184	9.06	19,407	9.88	8,777	7.65
Purchase of products for Agriculture	2,249	0.72	536	0.27	1,713	1.49
Savings	6,044	1.94	4,724	2.40	1,320	1.15
Others	3,106	1.00	2,154	1.10	952	0.83
Total	311,154	100	196,471	100	114,683	100

Source: Multipurpose Household Survey, 1999

As it can be observed, consumption dominates almost completely the use families give to the remittances; and even though there is no precise information, it is believed that it is sumptuary consumption. As mentioned before, sumptuary consumption satisfies needs of other nature and not so much the basic needs.

The macroeconomic impact of this kind of use of the family remittances outlines one of the most important weaknesses of the economic model, the expansion of importations and the standstill of exportations. Such characteristic has lead towards an expansion of the aggregate demand without its corresponding growth of investment in the true sectors of the economy. This process has generated a vulnerable productive structure whose reproduction depends fundamentally of the incoming of ever growing flows of foreign currency, as presented above.

Though not reflected in the data, several studies have pointed out that the use of the remittances is determined by those who send the remittances and not so much by their receivers (García, 1995; FUSADES, 1996). In fact, the migrants decide the use of the money they send to their relatives; for that reason, the receiving families have very limited margins in the administration of the resources, especially in the decision on the use of the remittances. This means that to change the final use of the remittances and orient them towards productive uses, there should be an incidence in the orientation of the behavior of the person that sends the remittance.

Above all, one of the big national challenges has been the creation of mechanisms, instruments and motivation to orient these external resources towards saving and investment. So far, many proposals have been designed but none has been implemented consistently (García, 1996; FUSADES, 1996; FUNDE, 1999). And when they have been implemented, they have shown signs of little efficacy, just like the case of a savings and loans project for receiving families that FEDECASES developed, or the line of credit for housing that the Banco Central de Reserva established.

2. FAMILY REMITTANCES AND MICRO-ENTERPRISE

Though some studies that show strategies to direct the family remittances towards productive ends have been carried out, the relationships among these and the micro-enterprise have been little studied. Three research studies are known in this area. The first one of these was carried out in the late 80s (López Cáliz y Seligson, 1990) using a sample of 211 entrepreneurial units. The study concludes that, in the first place, the remittances are a key factor for the operation of the entrepreneurial activities, without which, these cannot carry out their activities, which generates a dependency on the need of foreign subsidy. In the second place, most of micro enterprises that invest family remittances are located in the commercial sector and restaurants; the number of micro enterprises of the industrial artisans sector is extremely small. In the third place, most of the entrepreneurial units show problems of profitability, these are enterprises that are surviving with many options and opportunities for expansion.

Finally, the study includes a series of recommendations of policies and strategies somewhat oriented towards the articulation of a new financial scheme that allows the banking system to collect foreign currency and, in this manner, stimulate investment---strategies that were implemented at the beginning of the 90s.

The second research study was carried out in the mid 90s (FUNDE 1997), the big conclusion the study reaches is the sustainment of the existing relationship between international migration, especially the return, and the possibility of creation of micro and small enterprises in El Salvador. The research emphasizes on the returnees as the subjects with the best and major conditions and resources to start an enterprise. In many cases, the objective of the migration refers not much to the possibility of permanent establishment in the receiving country, but the possibility to collect savings, tools and equipment, as well as skills, abilities and knowledge that allow them the creation and development of a micro or small enterprise in the country.

In relation with the characteristics of the micro-enterprises, the research establishes that the amounts of investment are located in a very wide range of 300 and 240 thousand colones. Most are formally constituted enterprises and are located in the tertiary sector of the economy. Equally, it is concluded that even when the return means a direct transfer of financial capital to carry out the necessary investment for the creation of micro enterprises; it also means transference of human and social capital of equal importance; in fact, the migrant is already a person in productive age with an educational level above the national average. To this, the knowledge, abilities and the handling of equipment and technology higher to the one that exists at the national level must be added.

In this vein, migration has the possibility of becoming a very important source not only of the transfer of foreign currency, but also of the transfer of knowledge, skills, and abilities; that means of human and social capital accumulated during the permanence of the migrant in the receiving country.

The design of policies and projects that allow the utilization of this human and social capital for the national development is very strategic.

Finally, the study presents some doubts about the sustainability of micro enterprises created with family remittances or with funds of the returnees, some of the enterprises considered in the study had closed their operations and the micro entrepreneur had gone back to the United States, specifically because of the presence of external factors that worked as dissuasive elements of investment, such as an unfavorable climate for the small and micro-enterprise, problems with the safety of citizens or inadequacy of technology and the characteristics of enterprises with the characteristics of the national or local markets.

The third study was carried out in the late 90s (FUNDE, 1999). Again the new relationships between family remittances and micro enterprises are analyzed based not only on the transfer of financial resources for investment to start and develop micro enterprises, but also on the impact that is produced in the sector because of the transfer of human and social capital that also happens.

Nevertheless, the research was carried out through the study of two areas: the relationship between the amount of the remittances received and the possibility of establishing successful micro enterprises: that means, the higher the amount or remittances received, the higher the success of the micro enterprise established.

The second area deals with the relationship between the use of technology and the possibility of establishing micro enterprises with probabilities of being sustainable and with accumulation conditions.

The results of this research pose three interesting conclusions: First, it is stated that the remittances are not determining factors for the initiation of a business: second, that the success of business is related with the use of technology, abilities, and knowledge; and finally that technology and products of the United States contribute significantly to the development of micro-enterprises.

From the results of these research studies, here follows an analysis of the basic characteristics of micro-enterprises that invest the family remittances in a business and the design of strategies that allow to generate the conditions to strengthen the productive use of these through the generation of incentives for the creation and development.

2.1. Characteristics of micro entrepreneurs and use of family remittances

This section analyzes the impact that family remittances have had on the sector of the micro-enterprise in the country, their amount and use. It tries to examine how important these resources are and whether they are serving as a financial instrument for increasing their levels of investment, improving their economic activity and raising their levels of profitability.

A first approach of our work to the topic produces the data in table 2.1.

Table 2.1.
Micro entrepreneurs that Receive Remittances by Area, shown by Department

Department	Total country		Total Urban		Total Rural		Total AMSS	
	Yes, RR	% TOTAL MICROEN	Yes, RR	% TOTAL MICROEN	Yes, RR	% TOTAL MICROEN	Yes, RR	% TOTAL MICROEN
Ahuachapán	3273	18.1	1488	18.6	1785	17.6		
Santa Ana	9785	23	6825	23.2	2960	22.5		
Sonsonate	5324	13.4	4032	16.6	1292	8.3		
Chalatenango	3420	23.7	2115	27.6	1305	19.2		
La Libertad	8369	17.4	6169	21.1	2200	11.7	2839	18.6
San Salvador	23329	13.4	22726	13.7	603	7.1	21340	13.7
Cuscatlán	3230	17.3	2350	23.7	880	10		
La Paz	5012	20.3	2800	19.4	2212	21.7		
Cabañas	1850	27	1250	28.9	600	23.8		
San Vicente	1156	12.7	836	13.8	320	10.5		
Usulután	6645	21.5	3795	21.7	2850	21.3		
San Miguel	9145	25.4	7473	29.4	1672	15.7		
Morazán	3634	29.2	1914	30.2	1720	28.2		
La Unión	6940	29.7	2332	24.2	4608	33.6		
TOTAL	91112	18.2	66105	18.5	25007	17.7	24179	14.1

Yes RR: Yes, Receives Remittances

Source: Multipurpose Household Survey, 1999

The table above shows the proportion of micro-enterprises that receive remittances by department and area. In general, 91,112 micro-enterprises receive family remittances; this represents 18.2% of the total of micro enterprises. This proportion is slightly higher in the urban areas than in the rural areas. The differences among departments are important as well: again the micro-enterprises of the departments of the eastern zone are those representing the highest proportion. For Morazán, 29.2% and for La Unión, 29.7%. On the other side of the country, the departments of Sonsonate, San Salvador and La Libertad, with the 13.4% are those with lowest levels of micro enterprises that collect family remittances.

The figures above coincide with the data given for the families receiving remittances that we have analyzed in the preceding section. Therein 20% are families that receive remittances and the departments of La Unión and Morazán show the highest proportion. The number of micro entrepreneurs that receive remittances is far from small: 1 out of every 5, proportion that represents an important universe for the design of strategies oriented towards the productive investment of the family remittances.

This group represents the object of analysis and subjects of the interventions and strategies to create the conditions for using productively the remittances that the micro enterprises already established collect. In other words, these are economic units that receive foreign subsidy and that have the necessary condition so that the strategies formulated for the productive orientation stand a chance of being implemented. Following the economic characteristics of the micro enterprises that collect remittances are analyzed.

Table 2.2

Micro-enterprises that collect remittances by their utilization, shown by department

All of the country

Department	Destine of help (%)								Total
	Consumption	Housing	Business	Medical expenses	Education expenses	Products for agriculture	Saving	Others	
Ahuachapán	92.6	0	1.5	1.5	1.5	0	1.5	1.5	100
Santa Ana	82.4	5.2	3.5	1.6	5.6	0	1.7	0	100
Sonsonate	83.3	1	1	4.3	8.2	0	2.2	0	100
Chalatenango	80.1	4.8	1.3	1.3	8.8	2.4	1.3	0	100
La Libertad	79.8	4.3	0.4	4.2	8.2	0	1.6	1.5	100
San Salvador	75.3	1.6	2.3	7.2	7.9	0.3	2.6	2.7	100
Cuscatlán	76.2	3.2	4.5	4.5	10.5	0	0	1.2	100
La Paz	82.4	2	5.1	5.1	6.7	0	0	0	100
Cabañas	81.6	1.9	2.4	2.4	6.1	0	2.4	0	100
San Vicente	80.2	2.8	2.8	2.8	5.7	2.8	2.8	2.8	100
Usulután	83.4	1.9	0	0	9.7	0	2.8	0.5	100
San Miguel	87.2	2.9	0	0	4.2	0	0	1.4	100
Morazán	78.1	0	3.7	3.7	11.2	1.6	0.8	0.8	100
La Unión	82.9	0	2.5	2.5	7.5	0	1.8	0.7	100
TOTAL	80.7	2.3	2.1	4.3	7.4	0.3	1.7	1.2	100

Source: Multipurpose Household Survey, 1999. Table prepared by researchers.

Table 2.2 explores the final use that micro receiving entrepreneurs give the remittances. As with family groups, 80.7% of micro entrepreneurs allocate the family remittances for consumption and only 3.8% use it for investing in their business or for saving. In absolute terms, only 2058 micro enterprises allocate the family remittances for investment; 7.4%, for education; and 4.3% for health expenses. As can be concluded, the needs for consumption, more than those generated by the business, are the ones that determine the use of the remittances.

Again, the great national challenge is transform this pattern, generate incentives, policies and strategies that allow a reorientation in the use of the family remittances. If this scheme is followed, the family remittances will not constitute a factor in the sustainable future of the economy of the micro and small enterprise of the country. The potentialities can be meaningful; a study of CEPAL pointed out that 30% of the receiving families was willing to invest their remittances in a business, but that they lacked information, credits, technical assistance and incentives to establish the enterprise.

The following table shows information for the area of economic activity where micro entrepreneurs that receive remittances and invest in the business are located

Table 2.3
Micro enterprises that collect remittances by their utilization, shown by department

DEPARTMENT	Industry	Business, Hotels and Restaurants	Transportation and Communications	Financial intermediaries	Community services, health and teaching	Other	Total
Ahuachapán	0	48	0	0	0	0	48
Santa Ana	0	364	0	0	0	0	364
Sonsonate	0	56	0	0	0	0	56
Chalatenango	0	47	0	0	0	0	47
La Libertad	0	37	0	0	0	0	37
San Salvador	0	602	0	0	0	0	602
Cuscatlán	0	127	0	0	47	0	174
La Paz	0	293	0	0	0	0	293
Cabañas	0	50	0	0	0	0	50
San Vicente	0	38	0	0	0	0	38
Usulután	0	0	0	0	0	0	0
San Miguel	0	0	0	0	0	0	0
Morazán	0	152	0	0	0	0	152
La Unión	0	72	0	53	0	72	197
TOTAL	0	1886	0	53	47	72	2058
Percentage		91.6	0	2.6	2.3	3.5	100

Source: Multipurpose Household Survey, 1999. Table prepared by researchers.

The previous table shows that out of the enterprises that allocate the family remittances for investment, 2,058 micro entrepreneurs, 91.6%, are located in the sector or commerce, hotels and restaurants, none in the industrial sector, and the rest in other services. There are no enterprises in the industrial and agricultural sector. All micro enterprises are located in the tertiary sector of the

economy. In this vain, micro entrepreneurs that invest the remittances they collect, find opportunities for investment in this sector, in small business and other services. It will be necessary to make important efforts so the investments are oriented towards other sectors of the economy. On the other hand, the data are congruent with the economic dynamics of the country, where the most dynamic sectors of the economy of the last ten years have been the commercial and services sectors; the same ones that have been the spirit for the growth of the national economy.

Table 2.4 shows information about micro entrepreneurs that receive remittances by segments of family income, and by department of the country.

Table 2.4
Households of micro-entrepreneurs by family income, shown by department

DEPARTMENT	SEGMENTS OF FAMILY INCOME BY MONTH																				TOTAL		
	<400	%	400-999	%	1000-1499	%	1500-1999	%	2000-2499	%	2500-2999	%	3000-3999	%	4000-4999	%	5000-5999	%	6000-6999	%		>7000	%
Ahuachapán	85	2.6	421	12.9	303	9.3	181	5.5	399	12.2	325	9.9	676	20.7	303	9.3	303	9.3	0	0	277	8.5	3273
Santa Ana	74	0.8	677	6.9	1286	13.1	950	9.7	1007	10.3	643	6.6	2139	21.9	546	5.6	711	7.3	256	2.6	1496	15.3	9785
Sonsonate	56	1.1	0	0	516	9.7	744	14	460	8.6	428	8	708	13.3	560	10.5	676	12.7	336	6.3	840	15.8	5324
Chalatenango	47	1.4	275	8	188	5.5	402	11.8	543	15.9	308	9	456	13.3	369	10.8	329	9.6	181	5.3	322	9.4	3420
La Libertad	0	0	37	0.4	882	10.5	694	8.3	1070	12.8	348	4.2	1765	21.1	781	9.3	705	8.4	311	3.7	1776	21.2	8369
San Salvador	0	0	1439	6.2	1016	4.4	1463	6.3	2221	9.5	319	1.4	2535	10.9	3299	14.1	1859	8	2587	11.1	6591	28.3	23329
Cuscatlán	127	3.9	174	5.4	47	1.4	569	17.6	141	4.4	127	3.9	428	13.3	235	7.3	141	4.4	409	12.7	832	25.8	3230
La Paz	0	0	158	3.2	438	8.7	326	6.5	787	15.7	573	11.4	247	4.9	708	14.1	405	8.1	382	7.6	988	19.7	5012
Cabañas	25	1.4	195	10.5	105	5.7	215	11.6	115	6.2	220	11.9	165	8.9	155	8.4	230	12.4	100	5.4	325	17.6	1850
San Vicente	0	0	0	0	160	13.8	190	16.4	38	3.3	38	3.3	232	20.1	114	9.9	194	16.8	0	0	190	16.4	1156
Usulután	0	0	561	8.4	259	3.9	794	11.9	984	14.8	492	7.4	742	11.2	1329	20	535	8.1	138	20.1	811	12.2	6645
San Miguel	0	0	773	8.5	700	7.7	1478	16.2	914	10	773	8.5	846	9.3	1055	11.5	773	8.5	423	4.6	1410	15.4	9145
Morazán	205	5.6	271	7.5	218	6	377	10.4	628	17.3	317	8.7	284	7.8	284	7.8	99	2.7	337	9.3	614	16.9	3634
La Unión	0	0	485	7	553	8	932	13.4	754	10.9	644	9.3	716	10.3	534	7.7	269	3.9	481	6.9	1572	22.7	6940
TOTAL	619	0.7	5466	6	6671	7.3	9315	10.2	10061	11	5555	6.1	11939	13.2	10272	11.3	7229	7.9	5941	6.5	18044	19.8	91112

Source: Multipurpose Household Survey, 1999. Table prepared by researchers.

A first conclusion obtained is that most of this sector (20%) have an income higher than 7,000 colones a month: these are micro entrepreneurs with income of their own and that belong to the medium class sectors; whereas those that fall below the poverty line, have an income lower than 1,500 colones a month, and represent only 14%. This means that most of the micro entrepreneurs that receive remittances are not poor and a good proportion has an income higher than the national average. Most of the micro entrepreneurs that have an income higher than 7,000 colones are concentrated in the department of San Salvador and Cuscatlan, followed by the departments of the eastern zone. On the other hand, the micro entrepreneurs that have lower income are in the departments of San Vicente and Santa Ana. These characteristics are very similar to those of the homes that receive family remittances.

In summary, the information presented so far allows to conclude that a good proportion of homes of micro entrepreneurs receive family remittances (1 out of 5). These households belong to a large extent to the medium social class sector and not to the poor social groups. Only a small proportion of these households allocate those resources to productive investment, and when that happens, the micro enterprises are located in the commercial sector, hotels and restaurants, mostly. There are no big differences among the departments, but when those differences appear, they do more frequently in the eastern zone.

Table 2.5 shows data on the impact on employment of the micro enterprises that receive remittances and invest them in the business.

Table 2.5

Micro entrepreneurs that receive remittances and hired staff, shown by area

Area	Hired personnel		Total
	Male	Female	
Urban	274	2094	2368
Rural	604	700	1304
Metropolitan	78	602	680
Total country	878	2794	3672

Source: Multipurpose Household Survey, 1999. Table prepared by researchers.

As can be observed, the impact on employment is minimal. Altogether, these micro enterprises generate only 3,672 employments; every micro enterprise generates an average of 1.8 employments. These are units of very reduced production whose impact in the redistribution, measured by the amount of employments generated, does not have major importance. Again, the drafting of policies and strategies so that these resources can not only be invested productively, but also can have a major impact in the generation of employment and of income of the families related with the area of the remittances is of utmost importance.

Table 2.6 has information that completes the preceding analysis. It presents data on whether micro enterprises that allocate remittances to the business have carried out a productive investment.

Table 2.6
Micro enterprises that allocate remittances to the business and whether they carried out any investment, shown by department.

Department	Carried out investment		
	Yes	No	Total
Ahuachapán	0	48	48
Santa Ana	0	364	364
Sonsonate	0	56	56
Chalatenango	0	47	47
La Libertad	0	37	37
San Salvador	132	470	602
Cuscatlán	0	174	174
La Paz	0	293	293
Cabañas	0	50	50
San Vicente	0	38	38
Usulután	0	0	0
San Miguel	0	0	0
Morazán	0	152	152
La Unión	0	197	197
TOTAL	132	1926	1926

Source: Multipurpose Household Survey, 1999. Table prepared by researchers.

As with the impact on employment, very few micro enterprises have carried out investment in their business, only 6.8% of all micro enterprises have carried out some investment, and all of them are located in the department of San Salvador. This is possible given the fact that this department concentrates the best conditions to invest in the business. Such situation is aiming at the constitution of entrepreneurial units that require little investment and of few possibilities of expansion. We are dealing with units of production with little dynamism that only imply the possibility of survival of the micro entrepreneurs.

The following table shows an indicator of the entrepreneurial dynamics of entrepreneurs. Information is given on the possibility of saving part of the profits obtained in the business.

Table 2.7
Micro-entrepreneurs that allocate remittances to their business, and whether they save part of the profits, shown by department

Department	Saves part of the profits		
	Yes	No	Total
Ahuachapán	0	48	48
Santa Ana	273	91	364
Sonsonate	0	56	56
Chalatenango	0	47	47
La Libertad	0	37	37
San Salvador	0	602	602
Cuscatlán	0	174	174
La Paz	0	293	293
Cabañas	0	50	50
San Vicente	0	38	38
Usulután	0	0	0
San Miguel	0	0	0
Morazán	86	66	152
La Unión	0	197	197
TOTAL	359	1699	2058

Source: Multipurpose Household Survey, 1999. Table prepared by researchers.

As can be observed, only 17.4% of the micro enterprises have the possibility of saving part of the profits that they get in the business and concentrate in the departments of Santa Ana and Morazán. In the first one, the proportion is of 75%, and in the second is of 56.6% of micro enterprises. Even though there are differences among the departments, the proportion of dynamic enterprises with possibilities of expansion is low. As such, the enterprises characterize themselves for presenting processes of simple accumulation, with scarce possibilities for saving and investment. These are small units that generate little employment and income that only allows them to satisfy the needs of the family of the entrepreneur.

Following with the productive characteristics of the micro-enterprises that invest remittances in their business, the next table points out the main source of the business income.

Table 2.8
Micro enterprises that allocate remittances to their business and
their main source of income, shown by department

Department	Main source of income				Total
	This business	Other business	Remittances	Provisions by family	
Ahuachapán	0	0	0	48	48
Santa Ana	273	0	0	91	364
Sonsonate	56	0	0	0	56
Chalatenango	47	0	0	0	47
La Libertad	37	0	0	0	37
San Salvador	470	0	0	132	602
Cuscatlán	127	0	0	47	174
La Paz	214	79	0	0	293
Cabañas	25	0	25	0	50
San Vicente	38	0	0	0	38
Usulután	0	0	0	0	0
San Miguel	0	0	0	0	0
Morazán	152	0	0	0	152
La Unión	125	0	72	0	197
TOTAL	1564	79	97	318	2058

Source: Multipurpose Household Survey, 1999. Table prepared by researchers.

The data indicate three dominant characteristics of micro enterprises that collect remittances and invest them in the business. In the first place, 76 % says that the main source of income in the family is the business itself, whereas remittances only constitute the main source of income in 4.7% of the micro entrepreneurial units. In the second place, these last micro enterprises are concentrated in two departments, Cabañas, where the proportion is of 100%, and La Unión, where the percentage is 36.5%. Finally, if for the majority of micro enterprises the remittances constitute income of secondary importance, it could be understood that either the amount of the remittances is low or that the remittances constitute income so infrequent so as to become an indispensable source of income for the family groups of micro entrepreneurs.

The following table shows information on whether entrepreneurs have received some kind of entrepreneurial training.

Table 2.9
Micro entrepreneurs that allocate to their business the remittances that they receive, and whether they have received training, shown by department

Department	Have received training		Total
	Yes	No	
Ahuachapán	0	48	48
Santa Ana	0	364	364
Sonsonate	0	56	56
Chalatenango	0	47	47
La Libertad	0	37	37
San Salvador	0	602	602
Cuscatlán	0	174	174
La Paz	56	237	293
Cabañas	0	50	50
San Vicente	0	38	38
Usulután	0	0	0
San Miguel	0	0	0
Morazán	0	152	152
La Unión	0	192	197
TOTAL	56	2002	2058

Source: Multipurpose Household Survey, 1999. Table prepared by researchers.

As has been the tendency with the foregoing indicators, only 2.7% of all micro enterprises receive and invest remittances in the business and state that have received some kind of training, all of these located in the department of La Paz. As can be concluded, this sector of micro enterprises does not have the conditions of accumulation, saving, nor the level of profits necessary to become subjects of some kind of entrepreneurial training.

As it has been insisted on, these are small units of production, with few employees and few revenues where the impact of any kind of training would be very limited.

One of the important indicators to explore the entrepreneurial dynamics is the access to credit. The following table shows that information.

Table 2.10
Micro entrepreneurs that allocate remittances to their business and have applied for a loan, shown by department

DEPARTMENT	YES, AND GOT IT	YES, BUT DIDN'T GET IT	IN PROGRESS	NO	TOTAL
Ahuachapán	0	0	0	48	48
Santa Ana	91	0	0	273	364
Sonsonate	0	0	0	56	56
Chalatenango	0	0	0	47	47
La Libertad	37	0	0	0	37
San Salvador	264	0	0	338	602
Cuscatlán	0	0	0	174	174
La Paz	79	0	0	214	293
Cabañas	0	0	0	50	50
San Vicente	0	0	0	38	38
Usulután	0	0	0	0	0
San Miguel	0	0	0	0	0
Morazán	0	0	0	152	152
La Unión	72	0	0	125	197
TOTAL	543	0	0	1515	2058
	26.4	0	0	73.6	100

Source: Multipurpose Household Survey, 1999. Table prepared by researchers.

The information in the table shows that almost three fourths of the micro enterprises have not applied for some kind of loan: (73.6%). On the other hand, only 26.4% have applied and obtained some loan. The low level of access to credit responds, in great measure, to the specific characteristics that typify micro enterprises that collect and invest the remittances which, as we have analyzed, are small economic units, with few employees and simple accumulation, where credit, as a financial instrument of expansion and growth of the enterprises finds little space and use. Other studies have demonstrated that few are the micro enterprises that have access to credit, especially due to the few opportunities to gain access to this financial instrument, by lacking the necessary guarantees to support the resources at least in the formal financial sector. One of the strategies that will have to be designed would be referred to projects for credit that allow this sector to have access to financial resources for the development of productive activities.

The following table analyses the availability of materials of the sector of micro entrepreneurs that receive remittances and invest them in the business.

Table 2.11

Micro entrepreneurs that allocate remittances to their business and materials that they have available, shown by department.

Department	Materials available		Total
	Products for selling	Raw materials	
Ahuachapán	0	48	48
Santa Ana	364	182	546
Sonsonate	56	0	56
Chalatenango	47	0	47
La Libertad	37	0	37
San Salvador	602	0	602
Cuscatlán	127	0	127
La Paz	237	0	237
Cabañas	50	0	50
San Vicente	38	0	38
Usulután	0	0	0
San Miguel	0	0	0
Morazán	152	0	152
La Unión	72	53	125
TOTAL	1782	283	2065

Source: Multipurpose Household Survey, 1999. Table prepared by researchers.

As expected, according to the economic characteristics of the micro entrepreneurs and especially by their location in the branches of the economic activity, we have analyzed above that the majority are located in business, hotels and restaurants; the great majority has “products for selling” in a proportion of 86%, and only 14% says they have “raw materials”. These are mostly small economic units whose only productive resource is the product that they commercialize, without having others such as machinery and equipment, some kind of shelves or other infrastructure for the storage of the product. The level of capitalization of this sector of the micro entrepreneur is low.

Finally in the table that follows, the problems these entrepreneurs say they have are shown.

Table 2.12
Micro enterprises that invest remittances in the business and problems that they face, shown by department.

Department	Problems								Total
	Lack of customers	Lack of credits	High interests	Lack of economic resources.	Low profits	Too much competition	Customers don't pay	Problems with goods	
Ahuachapán	48	0	0	0	48	0	0	0	96
Santa Ana	91	91	0	91	182	273	0	0	728
Sonsonate	56	0	0	0	0	56	0	0	112
Chalatenango	47	47	47	47	47	47	0	0	282
La Libertad	0	37	0	0	37	37	0	0	111
San Salvador	264	0	0	0	0	78	0	0	342
Cuscatlán	174	127	0	174	0	94	0	80	649
La Paz	158	0	0	158	158	237	0	0	711
Cabañas	0	0	0	0	25	25	0	0	50
San Vicente	38	0	0	0	0	0	0	0	38
Usulután	0	0	0	0	0	0	0	0	0
San Miguel	0	0	0	0	0	0	0	0	0
Morazán	33	0	0	66	33	33	33	0	198
La Unión	53	72	72	0	53	72	53	0	375
TOTAL	962	374	119	536	583	952	86	80	3692

Source: Multipurpose Household Survey, 1999. Table prepared by researchers.

The problems that micro entrepreneurs say they have are in the area of marketing, “lack of clients” with a proportion of 26%; and the existence of “too much competition” with a percentage of 25.8%; that means that the level of micro entrepreneurs who say they have problem with the market is located above the 50% of the total amount of answers. Problems with credits, either because of their lack of access or because the interests on the loans are too high, have only a percentage of 13.3%; the rest of options have low proportions.

The foregoing means that all micro entrepreneurs that use the remittances in their business face market problems and only a relatively low percentage declares that they have credit problems, either because they have access to loans or because the interests are high.

Based on the preceding analysis and the information presented, some conclusions can be drawn on the economic characteristics of the micro entrepreneurs that collect remittances and invest them in the sector, as well as on the importance of the remittances in the sector.

- An important proportion of micro enterprises are receivers of remittances, the fifth part of all micro enterprises are receivers; territorially they are located in the departments of the eastern zone of the country. Out of the total of receiving micro enterprises, only 22.6% invest the remittances in

the business. That is, only 0.4% of the micro enterprises are receivers of remittances and invest them in their business.

- More than 90% of micro enterprises that receive remittances and invest them in their business are located in the commercial sector, hotels and restaurants; 100% are located in the tertiary sector of the economy. There are no micro enterprises in the industrial, artisans or agriculture sector. This commercial localization is conferred very particular economic characteristics to.
- Most of the micro enterprises that receive remittances have income above the line of poverty; and an equally important proportion, more than 20%, has income higher than 7,000 colones a month; for that reason they must be counted in the families with medium-high income. For these, the income coming from business represent the main source of income, the family remittances are a source of secondary nature.
- These are small productive units, with an impact very reduced in the employment; on the average, they employ 1.8 workers by micro enterprise. Besides, they possess a low level of capitalization; low proportions of micro enterprises are those that have the capacity to save part of their profits; the majority has not made investment and when they have, they have been small amounts; besides they don't have more pieces of furniture and equipment than the products they commercialize. With these elements, it can be concluded that they are small economic units of simple accumulation whose objective and economic rationality is not linked to the achievement of profitability of the enterprise, but to its survival.
- Based on the foregoing, these micro enterprises exhibit credit problems; very few have had access to loans: a little more than the fourth part of the micro enterprises. The rest has had not even the opportunity to request additional financial resources.
- The problems that these micro entrepreneurs face are located mostly in the area of marketing, and only in second place in the area of credit. The main problems have to do with an access to a market showing deficit, either because of the existence of excessive competition or the inexistence of customers for the products they commercialize.
- This sector of micro entrepreneurs shows a segmented structure and composition with little impact for redistribution through the generation of employment and income, and with few possibilities of growth and expansion, without the lack of articulation of a system of incentives for that sector to support itself. In conclusion, a support strategy for the sector that allows the use of the resources of the remittances as a financial instrument in the development of productive units of the sector is lacking. This is analyzed next.

3. Strategies for the productive use of the remittances in the micro enterprise.

Based on the information and diagnosis above, this part aims at presenting alternatives of strategies and of projects that allow to use productively the family remittances, that allow to change this into effective financial instruments, that allow the development of the micro entrepreneurial sector of the country. Till now, as clearly shown in this study, the remittances have served almost exclusively as resources to satisfy the short-term consumption needs of the receiving families. Only a very small part is used to satisfy long-term consumption needs, that can increase the human and social capital of the receiving families, or that can be invested directly in a productive activity.

As pointed out many times, the family remittances are not resources the country will count on in the long term. Their amounts, frequency and direction are in close relationship with the migratory flows, and this migration is determined by factors that escape the control of national actors; that is, if there is a reduction in the dynamics of the migratory flows, a reduction in the amount and frequency in the reception of remittances will certainly happen; bringing serious problems not only for the economy of the country, but also to its political and social stability. For that reason, the design of policies and strategies that allow to raise the value of the family remittances to transform them into sources of economic and social development is necessary.

The remittances so far have contributed strategically to secure the objectives of macro economic stability, and have balanced the budgets of the receiving households through the satisfaction of their most immediate needs, but the structuring of a system of incentives and conditions that generate a higher level of saving and investment of the family remittances is indispensable for the sustainable development of the country and the receiving families. This is the general objective of this section.

3.1. Necessary conditions for the saving and investment of the family remittances.

The decision to invest and to save any resource or income doesn't happen in a vacuum. Such decision is the complex result of multiple factors, both of subjective nature (of the orientation of the behavior of the actor), and of the external nature of individuals. That is, the subjective orientation of the behavior of the actor is determined, on the one hand, by psychosocial actors (willingness to save and invest), as well as external signs of the environment where the individuals will make the decision to save and invest the resources they may have. It is about the subjective internalization of external signs.

According to the foregoing, in the decision to save and invest the family remittances the following should be taken into account:

- a) The climate of business and the risk of the country to make the decision to save and invest less risky. This decision will depend of the signs that the economy and the country send for the channeling of financial resources towards saving and investment. In the first place, it would allow to generate technical information on the options for investment in the different sectors of the economy.
- b) The economic policies of the central government, especially on the definition of economic sectors key to the growth of the economy and the existence of sector policies that allow the planning and orientation of the investment of the remittances.
- c) The existence of options of development of the micro enterprise indicates the worth of the capacity and potentiality of development of the sector, its capacity to save and the existence of policies of attention for their development. The existence of such strategies opens the possibility for the investments to grow in the sector and that allows to become in one sector, the engine of national development, through its impact in the generation of employment and income.
- d) Generation and circulation of information on the opportunities for investment in the sector of the micro enterprise. This information should be part of an articulated strategy of promotion of investment to move the entrepreneurial sector to action. This strategy should prioritize the investment in sectors that so far have not been very dynamic but that are fundamental in the generation of a sustainable economic development: the industrial and artisans sector and the sector of the rural economy.
- e) The existence of a system of incentives as factors of attraction of investment towards the micro enterprise, such incentives would be oriented towards having a diversified offer of technical assistance, access to credits, and training to the micro enterprise.
- f) The generation of the productive infrastructure necessary to stimulate the investment of the sector.
- g) One of the problems expressed by micro entrepreneurs is the little clientele for their products and the excessive competition inside the sector. The migration has opened spaces for the market and the presentation of products. The community of Salvadorans in the big urban centers of the United States represent markets for the distribution of products. The community of Salvadorans in the big urban centers of the United States represent markets for the distribution of artisan or agro industrial products, this space is presently being used by Mexican producers and Cuban producers, more than for Salvadoran entrepreneurs⁶

⁶ Interview with the director of the Office of Assistance to Salvadoran Communities abroad of the Ministry of Foreign Relations.

- h) Exploitations of the structure of means of transference of remittances to direct the necessary financial resources to increase investment in the sector of the micro enterprise. That would require some institutions that transfer remittances become real agents of promotion of micro entrepreneurial investment and create conditions so that studies of viability and of pre-investment be made known to the Salvadoran community in the United States; these institutions would then become credit agents for the financing of such projects. The economic links must be kept and enhanced, creating a Center for the Promotion of Micro Entrepreneurial Investment in the main cities of strong Salvadoran population abroad.
- i) Given the transnational links between Salvadorans in the United States and communities in the country, the exploitation of human and social capital accumulated abroad is urgently needed. This could be done through the implementation of internships of Salvadoran technicians living in the United States that can allow the formulation of profitable projects of investment in the sector of the micro enterprise. Equally, the generation of opportunities for investment for those wanting to return to the country and remain in it for a long time would be strategic.

3.2. Proposals of strategies for the productive use of remittances.

As in any decision making, the productive investment of the remittances would require an environment and context that can favor the creation of opportunities of investment, assuming the factors on any other informal producer. For that reason, such encouragement to the investments would not require deep transformations in the institutional framework of support to the micro enterprise, but rather reorientation of programs and projects already in place whose subjects of attention are those in the United States or Canada sending remittances and the receiving families in the country.

The justification of such approach is based on the tendency found through this study of, on the one hand, a low level of productive use of the remittances, as financial instrument for the creation and/or development of micro enterprises; and on the other, of an equally important tendency, of the receiving families to want a more productive use of the remittances. Equally, it is based on the recognition that for the creation of micro enterprises using the remittances, equal conditions and instruments are necessary for the creation of any other micro enterprise and it is only recognized the specificities in knowledge, skills and abilities the migrants can have.

Following three strategies that should permit the utilization of remittances as a financial instrument to stimulate the creation and development of micro enterprises in El Salvador are proposed.

a) Credit program:

The need for credit is a known reality for the families receiving remittances as well as for those that send them to initiate a new business or to expand one already existent. Such need comes from two obstacles of structural character that present the remittances to be invested: in the first place, the average of monthly remittances for receiving family is low, the amount is of US \$110 a month per family. Such amount is insufficient for financing any productive activity, represents a family subsidy to satisfy the short term consumption needs or sumptuary needs of the receiving families, but not to turn into capital of work to begin or expand one micro enterprise. The remittances by themselves do not guarantee the necessary capital for the creation a new business; the participation of intermediary financial institutions that allow the channeling of those resources.

In second place, the receivers of remittances are segmented and dispersed not only in territory but also in the occupations and skills or abilities of the head of family. A reflection of such atomization is the little disposition to initiate productive collective actions or networks of support of economic solidarity. Such segmentation and disposition indicates that the decision on the use of the remittances is carried out individually and according to the interests and needs of the receiving individual and his family. In that sense, there is no need to wait for the receivers of remittances to be transformed automatically in small entrepreneurs. The introduction of an entrepreneurial culture is needed in the receiving families to allow a long-term vision and sustainability in the use of the additional family resources that the remittances represent. This implies the need to start a process of re-socialization for the new receiving families.

One of the crucial problems for the creation and development of micro enterprises is the low level of access to credit that the sector has. This has been presented as a basic problem in the diagnosis presented above. In general, it is believed that the credits for the sector of the micro enterprise are of high risk and low profitability due to the administrative costs that their management brings. Factors that touch on the risk of the credits for the sector are the high financial vulnerability of the sector and the low managerial capacity in the financial management of the micro entrepreneurs. These factors intervene in the operative costs and the capacity of payment of the micro entrepreneur.

Taking this into account, it has been proposed above that being the entrepreneurial experience of the person requesting the credit and the profitability of the enterprise very important as criteria for the allocation of productive resources, for the granting of any credit, there should be studies of viability and pre-investment carried out to show the profitability of the micro

entrepreneurial project and the managerial capacity of the micro entrepreneur. This minimizes the risk of the credit.

Equally important for a program of credit is the system of guarantees demanded for the granting of the loan. Again, the micro entrepreneurs have serious difficulties to support the credits that can be granted; generally the financial institutions prefer fiduciary and jointly shared ventures over the mortgaging ones. Such preference is based on the difficulties of realization in the market of the patrimonial guarantees offered by the micro entrepreneurs and self-employed workers, as well as the high degree of migration of the population.

Given the foregoing, the creation of a Guarantee Fund that covers up to 40% of the amount of the credit granted becomes a viable option so the receiving families can grant credits to the receiving families. The same remittances should serve as guarantee for the remaining 60% of the credit.

Taiwan has been a country that has created this type of guarantee to grant credits to citizens that live outside their territory. The guarantee fund is administrated by a well-known bank in the United States, which guarantees a transparent handling and good management. The granting of credit under this format to stimulate the creations of enterprises has become successful.

The creation of this line of credit for Salvadorans abroad and for families receiving remittances would require the creation of incentives to guarantee the success of the operation.

Besides, the program of credits would need the support of solid community support. For this purpose, the strong promotion of community development and organization of the families receiving the remittances and the local entrepreneurs is necessary. The following conditions are important:

- 1) Promotion of the articulation of the receiving families around associations of community and micro entrepreneurial nature.
- 2) Training for intermediary institutions in matters of credit evaluation, follow-up and recuperation.
- 3) Guaranteeing the optimal management of resources; for this, technical assistance of managerial character of users is needed.
- 4) Establishment of Guarantee Funds that back up the demand for credits.

These four conditions are key to guarantee that the fund of credit be used responsibly and optimally.

b) Micro-enterprises Investment options for possible returnees

As pointed out before, the objectives of migrations change from individual to individual. For some, migrations mean the possibility of permanent settling down in other country; for others, the objective is to improve their level of life and their families'.

For these last ones, migration means the possibility of generating savings and their investment in profitable entrepreneurial activities. For many of these, the investment is carried out in other country; their dream being returning to their country and establishing their own business.

Given the transnational characteristics of the community abroad regarding the places of origin, circulation of resources, information and values between the two extremes of flow, there is a possibility of creating opportunities for investment, of directing the savings generated in the receiving country in productive investments in the expelling country.

One way to encourage this kind of investment is the establishment of a **Center for the Promotion of Investment for the Micro enterprise** in the main cities of concentration of Salvadorans in the United States.

The activities of the Center should be: i) generating the necessary information to identify the sector and projects of investment of low risk and high levels of profitability; ii) drafting of projects of pre-investment and viability to direct resources towards those areas and strategic productive sectors, that minimize the risk in the investment. The Center should also prepare market studies that determine the necessary demand for investment, especially in the immediate market that represents the community of Salvadorans abroad; iii) technical assistance and training in technical areas and in the basic skills of management and running of enterprises that permit the creation of entrepreneurs and enterprises with a certain level of education; iv) do the necessary networking with intermediary financial institutions that can permit the potential returnee to have access to the necessary financial resources for the financing of their enterprise; v) establishing relations and contacts with other sectors of the Salvadoran community abroad with equal objectives of investment, having as long-term objective the establishment of clusters or chains of production.

For the establishment of the Center, the conjugation of different actors is necessary: consulates and embassies of the country abroad, associations of Salvadorans abroad, governmental institutions, groups of workers of the micro entrepreneurial sector, institutions of the central government and national financial institutions.

c) Other financial services for the micro enterprise

As a complement to the strategies above, the creation of new financial instruments that can allow the receiving families access to resources,

information and necessary resources for the creation of new micro enterprises and/or the expansion of those in place is proposed. These can be the following:

1. Investment funds: In partnership with financial institutions in the United States or Canada, national intermediary institutions could make available to Salvadorans abroad of to the families receiving remittances, financial resources to encourage the investment in the sector.
2. Programmed savings accounts: On the basis of generating a culture of saving and investment, the opening of programmed bank accounts, a mechanism that can be of use complementarily, as guarantee to have access to credits for investment is necessary.
3. Personal savings funds, by terms, for residents in the United States, with advantages over those existing in the USA. These services could encourage a behavior oriented towards saving in receiving families, only if the amounts and frequency of the remittances sent are of a level that can allow the generation of extraordinary income.

Finally it must be pointed out that these proposals should not be seen or analyzed partially or isolated but as a whole. The credit program should be linked with the creation of the Center for the Promotion of Investment and to the proposed financial services; nevertheless, the articulator element of the proposal should be expressed in the design and implementation of the Credit Program analyzed above.

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ANNEXES

P/economic/econopub/microfinance/conamype/ Est. Basag. Engl Remittances