

***Migrant remittances and microenterprises in El Salvador***

By

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While working with a microfinance institution on the outskirts of Mexico City, I spoke with Pedro and Omar, two Salvadoran migrants on route to the United States. Before leaving their wives and young children, they each raised \$3,000, enough money, they hoped, to arrive at the U.S. border and to pay a *coyote* to take them into Texas. The trip through southern Mexico had been trying. In Chiapas, they secretly boarded a cargo train, hiding in a small crawl space between wooden crates and the metal roof of the train car. The cold of night tortured them. Arriving in Puebla twenty-four hours later, both feared that frostbite had crippled their hands. Worse yet, the train left them a seventy-five kilometer walk to Mexico City. From there, the men were headed to Matamoros, the closest point to enter illegally into the United States.

Why would Pedro and Omar leave their families, risk their lives, and spend thousands of dollars to migrate to the United States? Simple, they explained: they want to create better lives for their wives and children, and they see migration to the United States – and the better pay they can earn there – as the only alternative. Both men hope to stay in the United States for three to four years, sending money to their families while saving enough to start their own businesses upon their return to El Salvador. Pedro dreams of starting a small construction company; Omar hopes to set up an auto-repair shop.

Microenterprises of 1 to 5 workers employ more than half of the non-agricultural workforce in many developing countries and are especially important to the economies of Latin America (Funkhouser 1996; Marcouiller et al 1997). Though vital as a source of employment, most microenterprises have limited access to commercial credit. These credit constraints prohibit potential entrepreneurs from pursuing profitable business opportunities, limit enterprise

growth (Evans and Jovanovic 1989), and make firms more vulnerable to negative shocks and economic downturns (Holtz-Eakin, Joulfaian and Rosen 1994). Reducing credit constraints, conversely, leads to more numerous, larger, and longer-lived firms.

This project intends to prove that remittances ease credit constraints on microentrepreneurs, allowing migrants like Pedro and Omar to start small businesses and to invest in businesses they already own. Specifically, it shows that: (1) individuals with remittances are more likely to own microenterprises than those without them; and (2) remittance-receiving microenterprises boast more invested capital than firms without remittances.

Although a handful of studies have considered the relationship between migrant earnings and small businesses [cf. Dustmann and Kirchkamp (2002); Woodruff and Zenteno (2002)], this paper is the first to use a large survey containing household-level data on both remittances and microenterprises. The data come from El Salvador. Conducted by the Salvadoran Statistical Institute (DIGESTYC) with funds from USAID, the 1999 *Multipurpose Household Survey* provides detailed information on more than 16,000 households about education, employment, and health, as well as remittances and microenterprises.

Simple statistical analysis substantiates this paper's hypotheses. Only 1 in 5 working Salvadorans without remittances is self-employed, while more than 1 in 4 remittance-receiving Salvadorans works as a microentrepreneur. Regression analysis, however, is necessary to investigate the relationship between remittances and microenterprises while controlling for other variables that influence microenterprise ownership and investment. This paper uses two econometric models – one probit, the second OLS – to estimate the probability of self-employment and the level of microenterprise investment.

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