

Central America, Migration Flows and Remittances

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Inter-American Dialogue
March 2011**

Introduction

This article reviews migration and remittance trends in Central America. Migration from Central America is predominantly a byproduct of political and economic realities shaping the modern history of the region, which include a close link to the United States. As a consequence of this migration is an increase transfer of family remittances to families in the region. The article describes and analyzes the dynamics of remittances vis a vis the region's economies families.

I. Central America: Migration and Remittances

Central America's position in the geopolitical and economic context makes it vulnerable to external dynamics and economic asymmetries that strengthen its dependency on outside forces. This situation is true in the case of migration and remittances.

a) Migration Trends

Civil war, political instability, human rights violations, and natural disasters influenced many Salvadorans, Guatemalans, Hondurans, and Nicaraguans to migrate to the United States and Canada in the onset of the 1980's. Though Central American migrants are considered a young diaspora, their labor mobility has assisted them in addressing socioeconomic problems in their native countries through their transnational ties.

The 1990s are perhaps the period where the waves of Central American migration increases substantially, characterized by a more stable and continuous flow since, with the majority of people choosing the United States as their major destination. Today, there are at least four million Central Americans living abroad, the United States is the primary destination, with a share of between 70-80 percent of migrants. The principle destination of Nicaraguans is nearly split evenly between the United States and Costa Rica. Canada, Mexico, and Spain follow as host countries and mobility within Central America is also an important phenomenon represented in these figures.

Using individual and aggregate remittance transactions from Central Banks, the author's estimates for five countries in the region, shown in Table 1, indicate four million migrants for all countries.

Table 1 Central Americans Living Abroad – Author's estimates (2008)

Country	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
Migrants	186.286	1.159.819	1.061.124	1.147.051	537.334

Source: Author's estimates from Central Bank remittance quarterly figures and quarterly average amount of remittance sent.

Compounding this situation is the fact that the region has a predominantly young population, bringing its productive force to less than 40%. Moreover, the way in which Central America kept up with the demands of the global economy has not offered opportunities to increase productivity, but rather has focused on enclave economies in tourism, non-traditional exports or maquila exports. These sectors are highly vulnerable to

external fluctuations that oftentimes exhibit lower distributive effects than other activities with greater value added components.

Natural disasters have also had an adverse effect in many of these countries, particularly in those in the Caribbean Basin. A series of events including the decline in coffee prices, drought, hurricanes, and earthquakes have severely affected the region devastating local populations and economies.

Table 2: Drought in Central America: Population affected circa 2001

Country	Population affected
Guatemala	113,596
El Salvador	412,064
Honduras	791,970
Nicaragua	187,645

Source: World Food Program, WFO, UN.

c) Remittance Flows and Characteristics

Accompanied to migration are person to person money transfers, or family remittances. The volume of remittances to this region is indicative of the transnational ties formed by Central Americans in the diaspora with their families in their countries of origin. Mainly coming from the United States, the amount of remittances has grown exponentially since 1980, when remittances amounted to over \$100 million. In 1990 these numbers reached over \$700 million, rose to \$3 billion in 2000, and in 2010 remittances to Central America surpassed \$12 billion.

Table 3: Remittances to Central America (US\$)

	1980	1990	2000	2006	2010
Belize	(N.D.)	(N.D.)	\$27.789.149	\$59.014.595	\$100.000.000
Costa Rica	\$4.000.000	\$47.703.000	\$120.383.770	\$485.263.785	\$509.000.000
El Salvador	\$10.880.000	\$322.105.088	\$1.750.700.000	\$3.315.691.990	\$3,539,500.000
Guatemala	\$26.000.000	\$106.600.000	\$563.438.700	\$3.609.813.100	\$4.127.000.000
Honduras	\$2.000.000	\$50.000.000	\$409.600.000	\$2.245.300.000	\$2.527.000.000
Nicaragua	\$11.000.000	\$73.554.000	\$320.000.000	\$655.500.000	\$966.000.000
Panama	\$65.000.000	\$110.000.000	\$160.000.000	\$126.000.000*	\$297.000.000
Central America	\$118.880.000	\$709.962.088	\$3.351.911.619	\$10.496.583.470	\$12,065,500,000

Source: Central Banks of Countries from the Balance of Payment Divisions.

These flows have become one of the most important sources of revenue for Central American economies. Transfers currently constitute an average of 11 percent of GDP, for instance, ranging in impact from 1 percent in Panama to 28 percent in Honduras. Furthermore, transfers have increased earnings for 20 percent of Central Americans: at least one in ten people receive money. Additionally, migrant remittances have also helped to reduce socioeconomic issues, such as in the reduction of poverty. Since a little less than half of Central American populations live in rural impoverished areas, the significant amount of remittances sent there is an important socioeconomic assistance. In macro terms, these

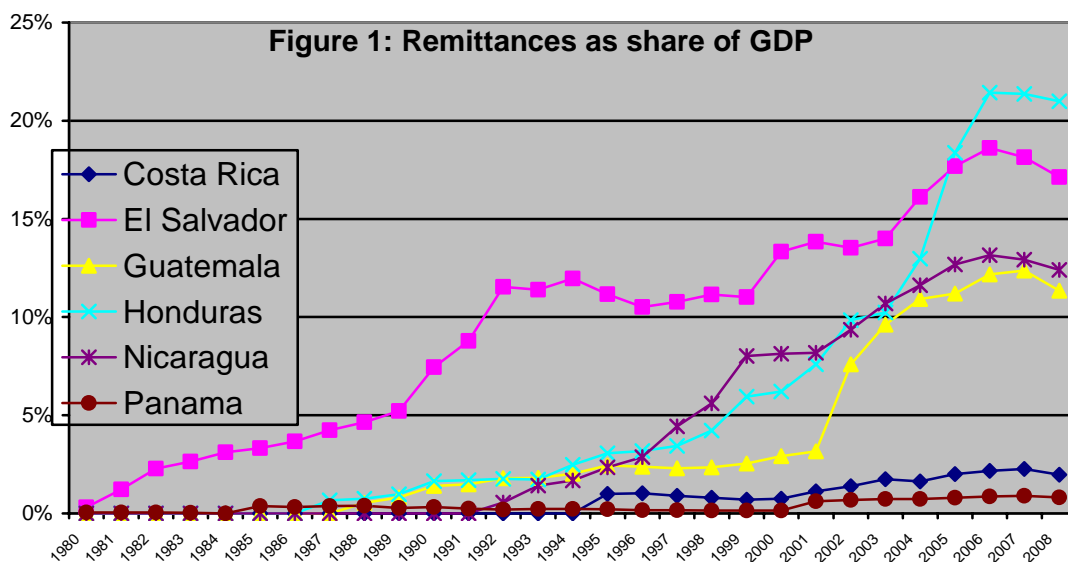
transfers ease government pressures on employment generation and raised revenue from sales taxes from increased consumption.

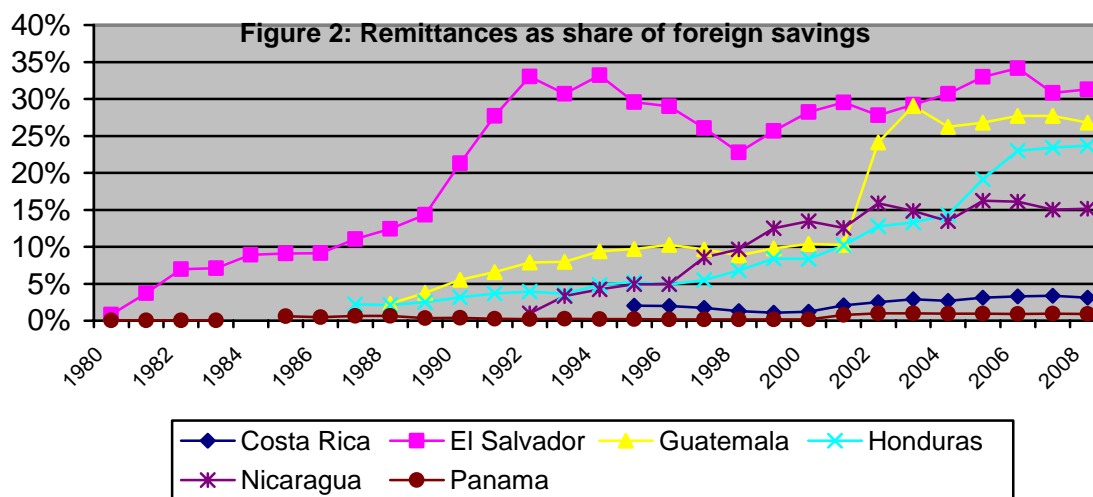
In terms of the cost of sending transfers, data shows that in countries where annual flows are lower and thus represent a smaller percentage of GDP, the cost of sending transfers is highest. This is shown in the cost to send money Belize, Panama and Costa Rica, the highest in the region. An opposite pattern is found in the other four countries, which have higher annual flows.

Remittance income often serves as an addition to current income, augmenting household consumption and savings. These transfers have also affected or influenced the socioeconomic standing of women in Central America as the majority, or 2/3 of recipients, are women. Consequently, about half of Central American recipient households spend their money on health and education. Women as the main decision-makers of these receiving households greatly affect the way money is spent, as evidenced by the prevalence of social spending.

II. Economic Growth and remittance transfers

The flows described above have a relevant position in relationship to national output and growth. With the exception of Panama, remittances to Central America have become a significant source of income as the share to GDP has increased over time. From a macroeconomic perspective the issue is whether these foreign savings have a positive effect on economic growth and do not alter key indicators such as inflation or exchange rates.





These flows, not unlike aid, trade, or investment, also have varying macroeconomic impacts. In general terms, foreign savings may affect three variables: growth, financial trends, and domestic currency and pricing. On a macroeconomic context, as a unilateral transfer remittances can influence or be influenced by economic growth, foreign exchange reserves, or other determinants such as inflation or interest rates.

b) Economic growth and remittances in Central America

Within the broader context of international political economy, Central America and the Caribbean have sought to integrate themselves into the world economy through nontraditional exports, the maquila industry,¹ immigration, and tourism. As it has diversified in these four areas, Central America has ceased to be an exclusively agro-exporting region or a so-called after-dinner economy – that is, an exporter of coffee, sugar, and rum.

Robinson, 2001 argues about *transnational accumulation* where the entrance of new activities mixes with the model of global accumulation.² Robinson's analysis coincides with Mittleman's (2000) perspective arguing that foreign labor is circumscribed within a "global division of labor and power" composed by "a spatial reorganization of production among world regions, large-scale flows of migration among and within them, complex webs of networks that connect production processes and buyers and sellers, and the emergence of transnational cultural structures that mediate among these processes."³ As a response migration emerges in developing countries with people seeking better opportunities in

¹ Establishing offshore plants (e.g. in Mexico) that carry out part or all phases of an industrial process for the parent company (e.g. located in the United States). This phenomenon often reduces the costs of production – costs of labor, energy, water, and raw materials.

² Robinson, William I. Transnational processes, development studies and changing social hierarchies in the world system: a Central American case study. *Third World Quarterly*, Vol 22, No 4, p529

³ Mittleman, James H. 2000. *The Globalization Syndrome: Transformation and Resistance* Princeton: Princeton University Press.

industrialized countries by joining labor-intensive activities or low-skill service industries. In turn, this cross-flow of migration produces economic effects in the labor exporting country.

For Robinson, the transnational model in Central America is observed through “production of export-processing factories (of clothes in particular), transnational services (especially tourism), export of non-traditional agricultural products, and remittances sent by Central Americans working in the United States”.⁴

Using quarterly data from 1999 to 2006 we proceed to test Robinson’s thesis, which in turn looks at the effect of remittances on economic growth. The analysis uses quarterly rather than annual data because fluctuations in economic trends are better captured within years than with annual aggregate flows. Moreover, the international economy has greater cyclical and short-term influence on foreign savings and therefore can help explain quarterly fluctuations on growth. The model excludes Panama because remittance flows are insignificant both in relation to national output and to foreign savings. Moreover, data on quarterly trends was not found for this country.

Unlike the other studies, we perform the data analysis separately on five countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua) and use quarterly rather than annual aggregate flows. The model employed uses OLS log values on GDP, maquila, remittances, non-traditional exports, tourism and investment. We add investment as another source of economic growth through foreign savings. Due to missing data, non-traditional exports are not included in some of the countries analyzed.

Model and Regression Results of GDP and Income factors

Model :

$$GDP = Maquila_{t-1} + Remits_{t-1} + Non-trad\ exp_{t-1} + Tourism_{t-1}$$

Where *maquila* = exports of maquila;

Remits = remittance transfers;

Non-trad exp: Nontraditional exports;

Tourism = earnings from inbound tourism

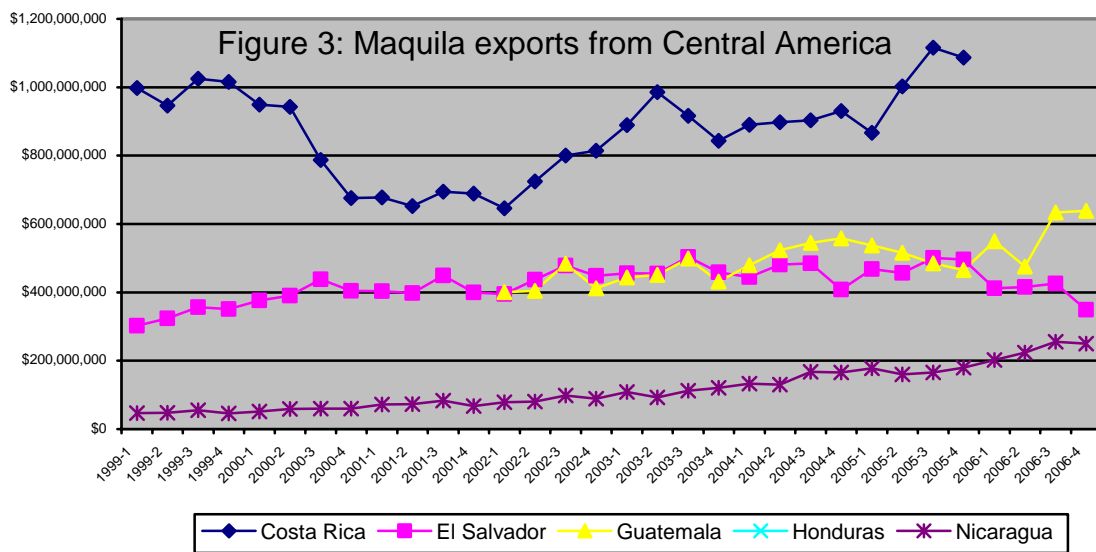
Investment = foreign direct investment

Table 3: Model results on economic growth and main sources of foreign earnings

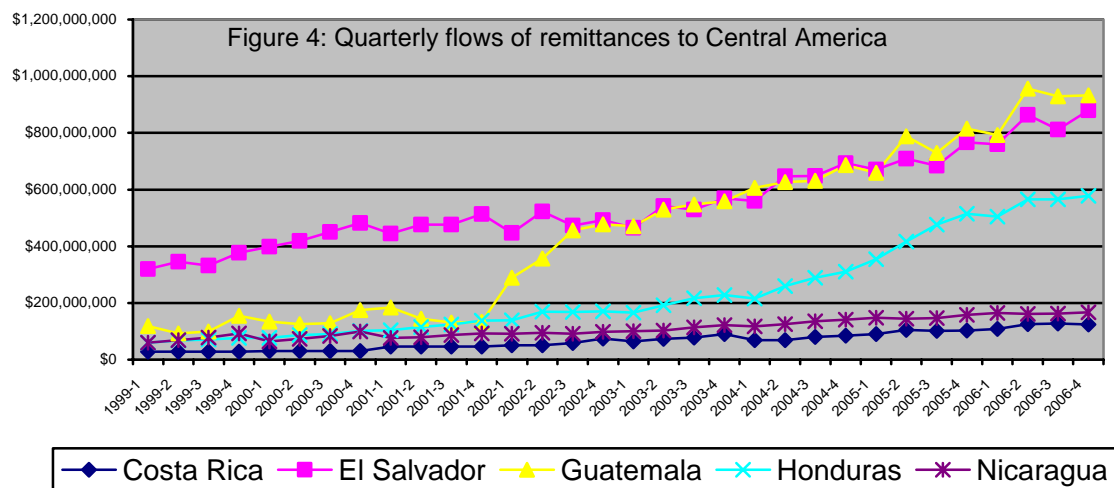
	Costa Rica		El Salvador		Guatemala		Honduras		Nicaragua	
	Beta	Std. error	Beta	Std. error	Beta	Std. error	Beta	Std. error	Beta	Std. error
Constant	14.43	0.74	13.87	0.81	4.54	2.71	16.78	1.39	10.42	1.41
Maquila	0.20	0.02***	0.04	0.05	-0.11	0.10			0.16	0.04***
Tourism	0.11	0.02***	0.08	0.02***	0.19	0.08***			0.10	0.06*
Remittances	0.25	0.02**	0.29	0.04***	0.09	0.07***	0.20	0.01***	0.12	0.06***
Investment	0.62	0.04***			0.70	0.21***	-0.03	0.04***	0.18	0.05***
Non-trad x / USM			0.01	0.06***	0.38	0.31***	0.06	0.07		
r2	0.98		0.99		0.98					

⁴ Robinson, p. 539

The regression offers mixed results. Our first finding is that the impact of these factors on growth is not even. For one, an allegedly strong sector such as maquila, it is only statistically significant in Costa Rica and Nicaragua. Costa Rica's significance of maquila arises in the salient role electronics outsourcing has been playing in the country since 1999, whereas in Nicaragua, maquila is a much recent phenomenon which is leveraging the country's growth, at least for the present time. Tourism is statistically significant in all countries and confirms Robinson's thesis that the hospitality industry is a key force in the region. Nontraditional exports are also statistically significant when the data is available. In the case of Honduras, we used instead US imports of Honduran goods as a proxy for maquila and nontraditionals because most of bulk of these activities goes to the U.S. economy.



When looking at the effects of remittances on growth the results also vary across these three countries. Despite the fact that these have similar economies and relatively similar remittance to income ratios, the effects of remittances on growth are positive in all of Central America.



A critical issue to point is that the transnational capital model holds valid for Central America and points out to a reality of enclaves' roles, another issue may be that labor exports can be successful provided that the return to the earnings benefit the whole of the society. The absence of policies in the presence of migration and remittances can have adverse effects in the long-term, after this input to the economy consolidates as a primary revenue source.

Another critical issue is that the weakness of maquila as a growth generator does not correspond with the political and economic discourse that has been accompanied in support of strengthening CAFTA. There is a need to reconsider economic policies that may include de-emphasizing some strategies and attending others such as remittances.

III. Remittances and Development: the case of asset building

Migrants and their families' financial activities demonstrate an active capacity to build assets that in turn correlates to remittances. Asset accumulation is of critical importance and directly intertwined with financial access. Finance and access to financial resources are cornerstone components of material asset accumulation. Together they provide the means with which to strengthen or enhance a person's and/or society's material base, by mobilizing existent assets in order to generate new resources and wealth.

Remittances have a direct effect in increasing disposable income which typically turns into saving accumulation. Meaning that out of all income earned, remittances included, savings are set aside and built, and they increase as disposable income increases from the amount of remittance received.

There are also various characteristics over the relationship between remittances and finance. First, there exist differences among people receiving remittances from non-recipients in their financial practices. In general, remittance senders tend to consider investment options and remit for savings or investments. Second, those who receive remittances, especially in larger

amounts, are more likely to have bank accounts, savings and investments.⁵ However, the percentages are relatively low because there is a lack of correspondence between the supply and demand of financial services. This is due to a combination of factors such as financial institutions assumptions of behavioral spending among recipients, lack of access to remittance receiving locations, financial literacy and business models geared toward high-income groups.

Here we take a closer look at the case of remittance recipients in Guatemala and Nicaragua who withdraw their money at banking institutions.⁶ In both countries over 65% of remittances are paid at bank branches, and some banks seek to offer financial services to recipients more actively than others. BanRural, one of the largest banks in Guatemala has been the leader in paying remittance transfers to families with migrants abroad and also pursued a strategy to offer financial products, savings in particular, to this population. Those receiving remittances through BanRural are predominantly families living in rural areas. In Nicaragua, BanPro, one of the largest banks in the country, has also been a leader in remittance payments and until 2010 started to offer financial products to recipients. Most of its recipients are people living in urban areas. This comparison shows increases in the amounts saved, and people's response of mobilizing their savings when businesses offer financial products.

First, over 70% of remittance recipients from both countries are women and have earnings. Among Guatemalans the main source of remittance transfers was the United States (over 90%), whereas among Nicaraguans it was the United States (50%) and Costa Rica (25%).

Second, the share of remittance dependence varies between the two nationalities. Among rural Guatemalans 75% of total income comes from remittances as opposed to 57% for Nicaraguans. These groups received US\$4,400 and 3800 respectively in a year. Part of the reason for such relates to the extent to which there exist other sources of income for the beneficiary. Two differentiating factors are rural location and gender. The data on Guatemala is collected only in rural areas to predominantly (80%) women recipients. Women in rural Guatemala are much less integrated in the country's labor force than any other group in the country.

Third, nearly half or more among both populations were saving regardless of gender, rural location, age or income. The percent of Guatemalan remittance recipients saving was higher

⁵ Orozco, M. and B. L. Lowell, "Transnational Engagement, Remittances and their Relationship to Development in Latin America and the Caribbean," Institute for the Study of International Migration, Washington: Georgetown University, 2005. Orozco, Manuel. "Migrant Foreign Savings and Asset Accumulation." *Reducing Global Poverty: The Case for Asset Accumulation*, Edited by Caroline O.N. Moser. Washington, DC: Brookings, 2007. Orozco, Manuel, and Elisabeth Burgess, Nancy Castillo and Landen Romei. "Remittances and development: Financial literacy in an international perspective." *Inter-American Dialogue*, Washington DC. Paper presented at the Inter-American Development Bank's Multilateral Investment Fund's "Remesamericas 2010, Remittances for the Future," in Mexico City, May 6, 2010.

⁶ The data analyzed here is based on intake evaluation forms performed on 12,000 and 9,000 remittance recipients in Guatemala and Nicaragua respectively. These individuals received financial advising as part of a worldwide program on financial literacy conducted in Moldova, Georgia, Azerbaijan, Paraguay, and the Dominican Republic.

than those in Nicaragua. Thus, despite that Guatemalans are more remittance dependent, they are still saving. Using data from six countries where financial education has been carried out, Nicaraguans are the group with the lower savings. The reasons are mainly that remittance recipients in Nicaragua have lower incomes, and therefore higher economic needs for basic consumption,.

Table 3: Receiving remittances and Savings

	Guatemala		Nicaragua	
	Does not save	Save	Does not save	Save
Percent who saves	27.5%	72.5%	55.2%	44.8%
Amount received	Q28,332	Q39,964	C\$49,125	C\$69,594

Source: Orozco, Manuel. Financial literacy projects in Guatemala and Nicaragua

As people receive more remittances, amounts of savings among recipients also increase:

Table 4: Remittances received and amounts saved

Annual amount received	Guatemala	Nicaragua from USA	Nicaragua from Costa Rica
Under 1500	268	509.96	310.95
1500 to 2500	336	729.63	419.65
2501 to 3500	414	570.33	366.45
Over 3500	788	1099	504.05

Source: Orozco, Manuel. Financial literacy projects in Guatemala and Nicaragua

Finally, there is a relationship between savings and account ownership related to financial intermediation. When a financial institution is more proactive in their outreach, the number of people mobilizing their savings and the amount saved increases. Banrural has been active in bringing people into their branches to deposit their savings, whereas Banpro is only recently strategizing these methods. Part of these strategies include removing barriers to entry. In Nicaragua, one key restriction is that a person wanting to open a bank account needs to provide two personal references with fixed telephone landlines, but in the entire Nicaragua there are less than 150,000 fixed lines.

One important incentive by financial institutions on remittance recipients is financial literacy. When people are provided with tools on how to budget and formally save, behavior modification changes through a formalization of financial products.