

THE BROOKINGS INSTITUTION

THE FUTURE OF CENTRAL AMERICA:
CHALLENGES AND OPPORTUNITIES OF MIGRATION AND REMITTANCES

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PANEL 2: REMITTANCES -- FLOWS AND IMPACTS IN CENTRAL AMERICA:

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PROCEEDINGS

MR. CASAS-ZAMORA: Now we move on, without a pause, to our second panel on Remittances.

Neil.

MR. RUIZ: Metropolitan Policy Program here at Brookings. It's my pleasure to welcome you to our second panel on Remittances - Flows and Impacts in Central America.

We just hear about the drivers, trends and the state of debate here in the United States to Central Americans here. And we also know that Central Americans in the United States make important contributions to the U.S. economy. They fill jobs that people are unwilling to work here as well as contribute to the production in the U.S. But migrants also make a double contribution to the world economy because many of them send money, what we call remittances, to their countries of origin. They send them to their households left behind contributing to everyday expenses, education and tuition for children, in moments of natural disasters, emergencies, and to building of infrastructure or philanthropic activities in their home countries. According to the World Bank, the 215 million migrants worldwide sent over \$440 billion last year, and today we're going to talk of the Central Americans' slice of that pie.

We know that remittances are much larger, double to tripe of foreign direct investment and over development assistance to these countries to the developing world. And it's also much stable. The studies have shown that during the global recession migrants' remittances were a lot more stable than foreign direct investment as well as development assistance. Migrants basically are economic ambassadors who contribute to the larger global economy not just here in the U.S. but also to the developing world abroad.

Today we have a distinguished panel of experts and practitioners in the nexus between migration and development in Central American and it's my honor to have this distinguished panel. We'll be first hearing from Professor Sonia Pellecer. She was Professor of Sociology and Migration Studies at the Rafael Landivar University in Guatemala. Second we'll hear from Dr. Manuel Orozco who is Senior Associate and Director for Remittances and Development at the Inter-American Dialogue. Third, we will hear from Professor Ricardo de Puerta, Professor of Sociology from the Catholic University of Honduras.

Lastly we have the Deputy Minister of Foreign Affairs for Salvadorans Living Abroad, Juan Jose Garcia from El Salvador. We'll start first with Professor Pellecer. If you, like myself, don't understand Spanish well, we're going to be simultaneous translation so feel free to use Chanel 1 for English or Chanel 2 for Spanish. Sonia?

MS. PELLECCER: Good morning. It's a pleasure being here and I thank Brookings for the invitation. It is a great opportunity to be here with you and to share with you the information I have on remittances in Central America. At the outset I'd say that the remittances are monitored by several organizations and institutions, among them SEACA (?), the Secretary for Integration in Central American, and they also monitor remittances and share data on a monthly basis and they keep a record of the remittances.

We see that in 2009 and 2010 remittances in Central America were a little more difficult in 2009. They went down because of the crisis in the U.S. and I would say that most of the Central American population receives more remittances from the U.S. than from Europe. Guatemala is at the top, Salvador and Honduras. Others have said this already. And we can expect that for 2011 countries are expected to have a growth compared to 2010. In Guatemala they expect an increase of 10 percent. We hope that's the case. And I have some estimates from the Bank of Guatemala. My estimates are actually a 7 percent increase.

How have remittances contributed to poverty reduction in these countries? I can say that based on the amount of remittances, our estimate is that they have contributed to the GDP in relation to what the bank says that for every point of GDP that remittances contributed to, .30 percent was reduced. Say if in Guatemala the remittances are 10.2 percent of the GDP, then are reducing poverty in 3 percent. And in the case of El Salvador it's about 5 percent and Honduras of 4 percent, Nicaragua 3.6, and in the case of Nicaragua it is not 100 percent like it is in Guatemala or other countries like Honduras of El Salvador. They come strictly from the U.S. and we know that in Nicaragua, 27 percent of remittances come from Costa Rica.

This is a comparison on the chart of the remittances that come from the Guatemalan migrants and the programs such as in the case of Guatemala to reduce poverty. We cannot compare that, and why? Because in Guatemala they have a program Families Progress and they give them about

\$37.60 per month while households that receive remittances from the U.S. receive about 283. So the basic food basket is about 1,600 quetzals and what they're being given does not cover the food basket and the remittances that come in to cover for this country the food basket. Remittances do pay taxes to come in not directly but because people pay a tax when they buy items and we don't have a policy that supports this population so they receive their remittances, they do what they need to do, but there is no incentive to make the remittances more productive or have an incentive of lower rates for microloans.

In terms of the fluctuation of the currency in Central America, in the case of Nicaragua, rather than appreciated, it has depreciated in Guatemala. It has maintained its value in Salvador and Honduras as well. How are remittances used in health and education? It is estimated that 10 to 15 percent is used in health and education. From that, 8 percent goes to health and 7 percent to education. And in the case of Guatemala, education financing goes more to middle school although there is coverage for primary education, but high school is privatized and/or a fee is required for people to complete high school.

What are some of the changes that we have seen in the structure of remittances?

Thanks to remittances, women are getting more education. Before it used to be only men and now there are changes. Women have an opportunity and they are taking advantage more than men because men are just thinking about growing up and migrating, but women are thinking about staying and getting ready for the workplace. That is an improvement or a change that we have observed. We have heard about census data, 24.9 of Central American migrants have a middle school education or degree and college graduates are 9.8 percent and about 10,000 Guatemalan professionals reside in the U.S. One of the conclusions is that remittances although they help the local and national economies, they have an impact on the microeconomy. They change the lifestyle of the population in Central America and they contribute to our raising consumption, and we could say that remittances contribute to the eradication of child labor. Most of the children in these households go to school and there is a decrease in the child mortality rate because they have access to public health. So we can say that remittances have also contributed to lower infertility rates and in some cases the studies indicate that 18 percent of the remittances are invested in the generation of employment in the agricultural sector and they also are used for emergencies such as natural disasters before governments reach to the affected population.

The recommendations that we have envisioned is that the governments have to foster the betterment of the banking system and to incorporate policies to assist the population in training and to improve the lending rates for microlending. I know the case of Guatemala. The rates are very high and people don't have access to credit. They are afraid of becoming indebted at high rates. Also remittances have a limited contribution sometimes to the pillars of development because they are contingent upon the financial policies of the country and if there is a crisis in the U.S. -- that trickles down. I would say that the remittances are a reflection of the savings of people who have been working and we are working close to people that are deported. They have told me that the fear is that when they come back, they keep thinking they have to come back to the U.S. to get their savings. They put their savings in cans, in milk cans in their apartments. They leave them behind and they have been working for 20 years. Some have more than \$35,000 saved in their apartments and so when there is a crisis, they still have money for remittances and if they are deported they leave their money behind. Then the U.S. should also give them support in terms of having a banking account so that their money is safeguarded and it's not lost when they are deported. Those are my comments. Thank you so much.

MR. RUIZ: A great presentation, and let's now move on to Manuel

MR. OROZCO: Good day everyone, and thank you for inviting me to talk. First I have a caveat to say about the presentation and it is that some of this light will be better read than others and that's because that was before and after I adjusted my glasses so I apologize.

I want to talk about three main issues. First, what are the current trends with regard to the flow of remittances, looking at the volumes themselves in relationship to the national economies but also in relationship to development in the home countries? Second, I want to pay attention in particular to the future trends of the flow of remittances and migration because I think that's an issue that matters substantially to pay attention to and is to a large extent underestimated. Finally, look at some of the issues and the opportunities and the policy approaches that we need to take into consideration. As a parenthesis before the clock begins to tick, I want to make a little bit of a comment on a comment that was made on the issue that one of the consequences of migration is the people left behind. I like debate and I like to provoke discussions, so on that line I actually disagree very much with that statement because the term itself typically refers to the notion of abandoning others and if an immigrant does it's

actually not that. You may live with hardship, you might be distant but close to your relatives and you don't abandon your relatives when you move into another country, but you leave because you want to keep the relationship stronger and try to improve the quality of life of your relatives. I'd like to problematize that term because it has been utilized a lot without thinking critically about the significance of the use of the term.

With that sermon, I want to go into the issue of the challenges and the opportunities of remittances in the region, in Central America particular. We have an interesting trend taking place in the region and one that looks this way. We have a divergent development. On the one hand we see a deceleration of migration and declining to some point. I'll show you how that reflects in relationship to deportations and the inflow of migrants in some of the Central American countries. And other hand, we see a continuity of flows that is likely to remain at about 5 to 7 percent growth for the next 5 years. One the one hand we see that, and we also see that the contribution of the flows continues to be as important as it has been. But then we see a number of trends taking place. Some of them have to do with the strength in activism that is taking place on a global scale but that is quite dense and substantive in the United States, that money faces itself in antiimmigration laws at the local level, at the state level and antiimmigrant sentiment in the population and substantial if not aggressive pattern of deportation against undocumented migrants. There are other trends that are taking place that are going to likely have an effect on the future of migration and the future of remittances transfers that we need to look into. That highlights the need to really pay serious attention, take seriously the reality of migration especially in a region where the significance of this volume is nonnegligible.

Here is when I didn't have my glasses. Kevin told you there are about 3 million, 3-1/2 million people from Central America migrating mostly to the United States but not as much as it used to be. There is a growing flow of migration that goes intraregionally that responds to conventional patterns that existed. For example, in Nicaragua, migration to Costa Rica is not new. It's been going on for at least 40 years. But when you have other flows of migration for Hondurans and Nicaraguans going to work to El Salvador or more recently going to work to Panama for the construction of the canal but also for the -- of the capital.

There is also an emerging pattern that we've been observing for the last 5 years of Guatemalans, but especially Hondurans and Nicaraguans and Salvadorans to less of an extent going to Spain and other European countries. In a project which has concluded in Nicaragua with 12,000 remittance recipients, we found out that 10 percent of those receiving remittances were receiving money from Spain. And we did a similar project in Honduras 2 years ago and we found basically the same pattern. There is a much more diverse migration, but it's also slowing down. Yet the contribution of the flows is quite substantive. We're talking about 10 to 15 percent of the national income of these economies.

The significance of it cannot be only understood in relationship to the comparison of the national economy. They are the major source of foreign savings for most of these economies. That's an important contribution. But the relationship to development is the one that those who work in economic development are more concerned about, and that is that remittances basically have an ability to as they increase income, they help to increase savings and to build assets and that is the most important contribution to development, the capacity to build assets fixed or liquid in a society, in a household. So if you are able to create the third table, you can see that as more people receive remittances, the savings stock of a particular household also increases substantially.

This is independent from remittances. Remittances that people receive are part of a pool of income that people earn and the dependence of income to remittances varies from place to place. In the case of Guatemala it's quite large. It's about 70 percent. In Nicaragua it's about 60 percent and Honduras is about 60 percent. That is, out of every dollar I earn, 60 cents comes from remittances. But that increase in income allows me to save over time and the stock of savings can be as large as \$800 to \$900 per household. So the developing approach is how to mobilize those savings, not the remittances, but the savings into the financial system and for relatively poor economies like those of Central America, the contribution is quite substantial. For example, in Nicaragua the total deposit volume of deposits of the banking system in Nicaragua is less than a billion dollars. The estimated volume of savings of remittance recipients of about 600,000 households in the country is about \$2 billion. So you can compare and contrast the significance of this. Just capturing 10 percent of savings on an annual basis from this

population that receives remittances will increase at least the national savings ratio by 20 percent and the same thing applies for El Salvador, for Guatemala and Honduras.

One of the issues that we don't pay much attention to when we talk about remittances is the profile of the sender. In this particular period it's quite substantially important to pay attention to them because Sonia mentioned the precarious condition of the vulnerable position of migrants today is quite dramatic. It's not only in terms of their legal status but their economic well-being is significantly at risk. Their employment rates are substantially high, but even within other contexts holding other things equal; the situation is even more complicated. To give you an example, this is work we've been doing with my colleague Beatrice Lotan on domestic workers in Costa Rica. Looking at domestic work, female domestic work is quite an important illustration of the pattern of international migration because anywhere you look at least 20 to 30 percent of the female migrant labor force in any host country is in domestic work and does not include childcare. These are the people who are the most vulnerable of the labor migration workforce. To give you a profile for example of the case of Nicaraguans in Costa Rica, you can see that the earnings of these people are relatively low. Monthly earnings are about \$350 and they remit more than men. This is a counterintuitive fact to the pattern. In most cases if not in the majority of cases with some exceptions and I'll show those exceptions later on, men send more money than women. But there is a reason and that's because we're more generous. We want to claim the generosity principle. But the reason is because we just make more money, yet with female domestic workers, the reality is relatively different. They send more money than men remit at least in the Costa Rican case.

But the other issue is that when you look at the labor conditions by which migrants work and this is something we have seen in the United States, the labor right provision is practically minimal if not nonexistent. People work over an 8 hour period and they don't get paid for those hours work and they are required to work over activities outside of what they were hired to do. If we look at that phenomenon in the United States with Latinos in the U.S. or Latinos in Spain, we will find similar patterns.

What is the future coming along? One of the reasons that I want to stress a little bit on the future trends on migration and remittances is because we are basically at the tail end of the migration cycle that started in the 1970s that originated in part with the feminization of labor, but also with outsourcing in the global economy that developed predominantly in Southeast Asia, then goes into the

Gulf countries with the demand for foreign workers to maintain the oil pipes, then most into North America and then the European Union and then other regional blocs. But we are getting to the end of this migration wave. Part of the deceleration of this international wave is because it's just reached its limit to a large extent and it's an issue to discuss as to why it's getting to an end. But what we see is a new pattern coming along that is shaped by dynamics relatively different although not unique to the previous waves. One of them is that we see predominantly that international migration especially Central American migration is increasingly shaped by natural disasters and that not only is influencing people leaving, but also people remitting. The second aspect that is quite important is this strengthened nativist movement that tries to pay attention to the affirmation of national identity as a homogeneous society in the host countries that eventually has implications over the antiimmigrant sentiment, that you take it upon migrants to affirm your national identity, and it's an affirmation that goes along different contexts. Some of them have to do with race and ethnicity; others have to do with demographics: there are too many people here.

But one of the effects is the pattern of deportations for example. If we look at the deportation rate of for example Salvadorans and Hondurans, that is over 20,000 people, the number of people deported is double the number of people who come into the United States. So we're actually having a fundamentally dangerous effect not only on international migration but on the well-being of people and the home countries there. Previously somebody asked if there were programs relating to looking after this population. Just cost out how much it costs to the Salvadoran government for example to receive, or just to do the welcome of 26,000 people every year. Do the math on how much it costs to handle 2,000 people that come in and you handle them, you spend at least \$100. In comparison, the Salvadoran government not only is resource scarce, but try to invest a few years ago, 5 or 6 years ago, \$2 million to leverage remittances with migrant investment and yield very important impacts. Yet now because of the deportations, you can't allocate resources to work on development because the rhetoric of security is just distracting your energies. In the aim of problematizing the issue of migration in Central American remittances, we also need to problematize the extent to which migration has to be subordinated to security.

Another pattern that is taking place is one that we also don't pay too much attention to but has an effect on migration and remittances, and that is that increasingly there is a standardization of

prices at the global scale. The example that I always use because it's the one that updates more regularly is the one of a dozen of eggs and I use it with my students. A dozen eggs in Washington, D.C. costs \$1.85. In Nicaragua its costs \$1.45, in Honduras it costs \$1.70 and in Costa Rica, Costa Rica is the most expensive place so it costs more than \$2 and in Sweden it costs \$2.20. The range between one country and the other one is less than 70 cents whether you look at it including Haiti, yet the income ranges are without comparison. The monthly income of Hondurans for example is less than \$250 a month, yet how can you afford to buy eggs on a regular basis, and that's just in the case of eggs. You can have -- and you can see that remittances basically follow not the income of the migrant but follow in relationship to the cost of living in the home country, so that's a likely driver of migration and remittances.

Of course there are other drivers of migration and remittances that we're likely to see. From the political context, Central America is entering into a series of political cycles where power vacuums are likely to occur in many of these countries. Nicaragua is one of them and Guatemala is another one. Honduras is also going to face serious power vacuums because there is an agent of the political elites and there is no replenishment of new cadres. That's going to create uncertainty in the population. Add to that the problem of homicide, violence and crime and you're going to have something that will be unsustainable in the next few years.

Another very important trend that we haven't paid too much attention to is the fact that increasingly female migration is coming in larger numbers and in relationship to their skills it also becoming higher than that of men. Women without a skilled occupation and with higher education earn increasingly more than men. The significance of this is not only that the new pattern of migration that will be coming looking more like women, a lot of it has to do with what I call the gender discrimination dividend that we started in the 1970s. But another implication is that this is the instance where women do remit more than men, skilled women, women with a tertiary education remit more than men.

There was a discussion of the brain drain. I actually disagree with the issue of brain drain especially in Central America, that even though it's a region where only 2 percent of its population, 2 percent, do the math, 45 million people, 2 percent, have a tertiary education and cannot provide adequate jobs and well-paid jobs for this population. Yet you have as many immigrants with a tertiary education in numbers -- there are in their home country. At least 40 percent of Central Americans with a tertiary

education are living abroad. The natural disasters are a phenomenon that is increasingly becoming more permanent in most of these countries. We've been collecting this data on natural disasters from 2000 to the present and the number of disasters is basically accumulating. Basically you have two natural disasters per year. Not only do you have an effect in terms of the impact of those disasters, but the other issue is the impact that it has on remittances. There is no correlation between a disaster and the global volume of remittances, but there is a relationship between remittances sent to the location where the disaster took place. If the disasters continue over time, the flow is likely to continue. This is what I explained to you before, that remittances follow the basic food basket. If the basic food basket is \$300, people will send \$300. If it's \$200, people will send those amounts. That's why Nicaraguans sent less than \$200, Salvadorans sent \$320 on average and Hondurans sent \$230 on average to their relatives because they follow the food basket even though they all earned the same amount.

Nativism is really another problem that is likely to continue and shape the future of migration and even the future of remittances. We've been looking at this data on the number of people deported and we compare it to an estimate we've been doing of the annual immigration flow of Central Americans in particular to the region, to the United States. Basically we find that the number of people deported has doubled in many cases to those of people who come in. More importantly is that there is no correlation in the criminal deportations to the number of criminally deported people. The correlation is with the countries where there is more migration, more undocumented migration. So there is an intent that is outside of the purpose or the intent alleged purpose.

Finally, what are the issues that we need to pay attention to? Just to conclude, I think to give a general sketch, there are three issues. One is that we need to problematize this issue of subordinating migration to security and think of the other linkages that migration has in the global context. One of them is development, and in this global context the reality of the digital industrial revolution where there is a greater demand for skilled labor, we need to pay attention to deterritorialized approach to development that has basically a strategy that looks at the condition of migrants and their families. And looking at that we pay attention to asset building capabilities, and particularly we need to work on the lessons learned and the best practices that exist out there because there are plenty that leverage the migration and development context in quite substantive ways, not only leveraging remittances, but also a

range of other economic activities. We have evidence that if you invest in certain areas, for example financial education, you actually yield a substantive impact in increasing savings ratios in the country. If you invest in providing incentives to invest, you get very important results at the same time. So we really need to take migration more seriously and take the risk of linking migration with development. Thank you very much.

MR. RUIZ: Thank you, Manuel. That's a very provocative problematizing a lot of the issues here. Now let's move on to Ricardo Puerta.

MR. PUERTA: I apologize. I will speak in English because it's my mother tongue. I will discuss remittances in terms of amounts and impacts and then if I have enough time I will talk about migration. I will not -- always about Honduras, I will not repeat any of the very interesting comments of my colleagues. I don't want to be repetitive.

In terms of amounts, Honduras in 2011 is expected to receive \$2.8 billion in remittances. In that sense, there is a significant change after 2007 and there are two milestones that have to do with the number of Hondurans that leave because Honduras exports its citizens unlike Panama and Costa Rica in the region. There are two milestones. One is the recession in the U.S., and the other, the killing of Tamaulipans in Mexico last year and that obviously has made a great difference. Since 1998 when the massive Honduran migration begins toward the U.S., 90 to 95 percent depending on the year, you're looking as the target country and starting in 2007 through 2011, actually 2007-2008, things do change after the coup d'état due to domestic policies. Now these are the trends that we can visualize. I don't have the table in front of me, but the numbers reported by the Central Bank for remittances show these trends. And despite recession, in 2011 the remittances go up by 15 percent compared to 2010.

There is a significant piece about what remittances mean to the economy. They are considered to be a macroeconomic stabilizing factor. This is nothing new, but if we get together exports, FDI and remittances, then remittances are higher and if we take into consideration the added value and compare it to the maquilas' output, otherwise it is not exactly the export of maquiladora jobs. The kind of remittances are three, I would say. One is cash, others in kind and then the collective or solidary remittances and that is a new trend. The bulk of those 2.8 billion have to do with the cash remittances to families through the banking system. About the in kind remittances, what do they do with the money?

The Central Bank has had two stages. Up to 2009 they added 15 percent to the family remittances and then it lowered it to 5 to 7 percent and in that sense it seems that there is a decreased deceleration. And I'd like to note something nobody talks about, that is how important the female travelers are, those who come to the U.S. More than 40 times a year they leave on Wednesday, they come back on Sunday, they come to pick up parcels and pick up papers and they come to the east of the U.S. but also to the west. And the role of female travelers is not examined but it should be because they come and go during the week. It's like a personal courier that brings news back and forth. There are about, and without exaggerating, \$500 million that don't add up, so the question is where is the money coming from and I leave that to your imagination.

About the impact of remittances, I'd say that Hondurans should be rewarded for being the people that save the most. If you look at the number of Hondurans in the U.S., the levels of savings are extraordinary if the amounts are right. And there's another source that told me that my information is limited. This person was thinking more than 1 billion a year. There is a relation between remittances and organized crime, the coyote travel, kidnaps and that these illegal activities once we investigate we see that in the community that are some households, not many, that are receiving extraordinary numbers of remittances and the source is obviously illegal.

What is the largest impact of remittances? It is in several areas, foodstuffs and apparel definitely. Food items have a large impact on the household and that improves education for children, but in the countryside people that are getting remittances say they eat better than before and they're saying that they're eating three meals a day and they didn't used to. In terms of -- housing is also very visible. You can walk around the communities and you can easily spot which house has been improved by remittances. If you look at the design and the color they use to paint the house, the immigrant wants to build homes back home that are similar to the ones he idolizes in the foreign country. There is a study in El Salvador of how the design of homes has been changing by the people who receive remittances.

In terms of health and education, the kids are bringing better food to school, they're better dressed and they have more tools. There's more health prevention and more care to the children and the elderly. The families that are working here can make contributions to the Social Security system back home. That's an important protection to the families that didn't exist before. And there are other taxes on

remittances not directly but indirectly, and there is one that is quite questionable but it's a very common practice in the banking system. If you receive a remittance, they sell you a lempida 1809, 1903 which is the currency equivalent, so basically you are buying lempidas, you're not selling dollars and that is an injustice unfortunately if you're receiving a remittance, but this is an accepted legal practice of the banking system.

Another point that I'd like to make is the role of women that works on two levels. In the Honduran Diaspora in the U.S., usually women are working in homes providing services and men outside, so women are more protected. She goes out with the family she's working for and so there is a larger proportion of men and in relation to the population, more women stay in. And the other comment for which I don't have an explanation is that it is easier for a woman to get a tourist visa to come to the U.S. I don't really know the reason, it would be interesting to find out, but that's a fact. Then it is very appealing for female heads of household to migrate and that's common. Another comment is that there are households in Honduras where because more men migrate, then the women become heads of households, something they didn't do before.

Finally, if when we study migration and remittances, there is a culture around it that says that it's absolutely wrong or absolutely right and there is nothing in between that criterion to examine migration and remittances that doesn't foster new studies and there are three schools of thought. One covers the people that leave legally. They're well-to-do or professionals. It's about 10- to 15,000 per year. And there is a study in the last 12 years by the Central Bank of Honduras; they publish a survey that is given in the airports to these families. There is also a massive migration wave that we know that is undocumented and illegal by land. Then there's a new trend that we should pay attention to and that's through the *braseros* migrant, and that is the hiring of temporary workers when 37,000 workers were supposed to go to California and that never really jelled at the end. They went to Europe mostly.

So the challenge in Honduras is that it's not the most important country in Central America, you could see this regionally, and that the source of data are there but they're not analyzed or systematized. So in that sense those who can influence research, this would be important because the primary data has been collected already. Thank you.

MR. RUIZ: Thank you, Ricardo -- one case in terms of Honduras. Now we're going to move on to another case, in El Salvador. We have the Deputy Minister, Juan Jose Garcia.

MR. GARCIA: Thank you for the invitation from Brookings and to you for allowing me to share some experiences in El Salvador.

I'd like to state from the outset that my comments are strictly about El Salvador and these are specific facts and also a new vision for remittances and how they pertain to development. I'd like to state five major comments.

The first one, I'd like to discuss the nature of family remittances. If we understand them then we can link them to development or not. I think that there is a relation that is sometimes too obvious to be mentioned and it's the link between family remittances and migration. I'd like to share some trends on the family remittances since they are a pillar for economic development and how difficult it may be to transform the economy based on the remittances. And then some hypotheses about whether it is possible to link remittances to development and to examine some new trends in El Salvador.

I think that there is a basic question, which is; what are family remittances? There are three central questions. There is a concept and the tools that are used to measure the family remittances and there are other elements included. What are the reasons people are motivated to send his or her income to support his or her family? And we have discussed poverty reduction and development. In Guatemala it is clear what impact, and in Guatemala and Mexico it is the same and we'll see what happened in El Salvador.

The more superficial analysis around remittances is that they are private transfers of resources between the country where the migrant is living back to his or her home country for current expenditures of the receiving family or invested in something else. There is very little space for the government to intervene in this system. We can only intervene in the channels of transfer regulating the cost of the transfer or formalizing the transfer, and we can also intervene in the use of the remittance, modifying the proportion between consumption, current account, current expenditure and here the financial system can play an important role. However, if we look at the experience in El Salvador, this is quite simple. It's a linear concept that includes the recipients and the financial system.

I'd like to throw in something that states that according to El Salvador, the remittances are the monetary expression of social relations between the sender and the recipient and that describes the type of actors. If most of the remittances are of family origin and they're destined to consumption, they're regulated and they have the same intended use. The remittances in this sense are similar to salaries and the only difference is that they are earned in the U.S. and part of that salary is spent in the recipient countries. So they have the same function as any salary which is to increase the purchasing capacity of the family. The difference is that the context is a bi-national one and in that sense transnational. However, the source and nature of the remittance is that it is a salary in and of itself, so the relation between consumption and productivity in terms of the remittances is a relation that is not easily modifiable or altered because the channels are permanent.

What sets the frequency or the amount of the remittances? There are several studies that complicate nature. A, is the nature of the working environment, but that's not the only reason -- the level of capital and the gender gap. Women send more remittances than men. How essential is my family or is that a priority for the migrant? The social status, the people in the middle of spectrum send less than those that are poor. A study on female migrants, El Salvadorans in the U.S., determined that there is a curve for the remittances, that women remit more in the first 5 years. After the first 5 years, the curve slows down, the levels go down and the amounts are less up to 12 to 15 years where the remittances become negligible. For remittances to continue to grow, we need new migration flows that replace the previous ones that are no longer remitting. That is being termed migration replacement. And the level and the nature of the sender regarding to his family and the receiving community, the demand of the receiving group, the initial objectives of the migration. A study has shown that from the time the migrant leaves, he has already decided that he will be sending remittances. The idea is to come to the U.S. to send remittances back home. Remittances make sense, will continue to grow or extinguish if there are enough migration groups to replenish them.

I will now elaborate on the case of El Salvador. We have seen that there is an increase of remittances in 2004 that has gone down starting in 2007. When the rates started going down in 2009, it was negative, and we are expecting that in 2011 they will go up by 4 or 5 percent. In 2009 they were 15 percent, in 2010, 16 percent of the GDP. And this goes hand in hand with the poor performance of the El

Salvadoran economy in the last few years and there is something we have said before which is the macroeconomic stability of the Salvadoran economy is the result of external funding which meets the aggregate demand through importation and that increases the trade gap. If we compare GDP and total consumption after 2004 through 2008, total consumption is higher than the GDP, so we are producing less in El Salvador and consuming more so that that has an impact on the receiving families. In Jiquilisco in the coast, 70 percent of the GDP is produced in the U.S. and only 30 percent in the communities.

So we are consuming more and producing less and this is a challenge for the Salvadoran economy because producing there is relatively expensive and that affects prices. If we look at it from the side of demand in the receiving families, more than 337,000 households receive remittances, 27 percent of remittances. For these households, remittances are about 60 percent of their total income. I won't elaborate on the impact on the poverty levels. Undoubtedly it has an impact on improving quality of life, housing, access to health services and poverty itself. If you compare a household with and without receiving remittances, the level of poverty is 26 percent for those who don't get remittances. There is a difference of 10 percent whether you or you don't get remittances in the poverty level. Remittances increase the reserve salary and that creates a drop in local employment. Those who have more reserves have a tendency to work less. If I have five children in the U.S. and they each send me \$150 per month, why do I want to get a job? That makes no sense. I'll just live off of subsidies. That is why we see that in the households with remittances, the social fabric is very weak and trade services and trade is more prominent. Therefore, today El Salvador is a society addicted to remittances and I mean addicted. When I say addicted I mean we need higher levels of remittances to continue to operate. That's why we were afflicted by the crisis of 2009 because we are addicted to remittances and if there is a decrease in the remittance that will have an impact on macroeconomic stability and the quality of life of 337,000 households.

This is the large picture. How do we link remittances and development? That's a great challenge of governments. What we have proposed is to make migrants partners in development. Remittances already have their role. Now they have a multiplier effect in the economy. For every dollar of remittance that comes in, two more dollars are mobilized to satisfy the added demand. However, that push is not being used to strengthen the internal production domestically, but it's satisfied by ways of

importing. In the U.S., Salvadorians are an expanding market. A study has concluded that every El Salvadorian family spends \$115 a week on ethnic products. That is a market of \$4 billion a year and so the local production system is not taking advantage of it. So this is a product that Cubans, Nicaraguans and others are taking advantage of, we are not really. Also the impact is on the local community and the households and we have to strengthen the production links not on the side of the remittances, but on the possibility that the Salvadorians abroad can be partners for the economic development of that country.

That means to link migrants within the Salvadorian economy we need the local policies that anchor the initiative of migrants. We need policy tools that allow these collective remittances to be used on production at the local level. We need institutional coordination and to generate opportunities for development. These are in general the greatest challenges that El Salvador has to link migration and development. Thank you.

MR. RUIZ: Thank you very much, Deputy Minister. I think we saw that we have a pretty good panel full of a lot of information. We saw a lot of -- about the migration and development problems. I think we have a lot of questions here, so I think we'll take about three questions each and then we'll go to the panel starting with the gentleman.

SPEAKER: I would prefer to speak in Spanish since I think that we all here understand Spanish. Four items quickly. The previous panel said something that relates to this one, on demographic changes, and that Central America and Mexico are different. That's not true. El Salvador and Nicaragua are under the replacement level of 2.1, Honduras is getting close to that level, Guatemala is 4.2 percent, and in 10 to 15 years we won't have this flow of young migrants as we have today because of the demographic changes. Many Central Americans are looking south. It is speculated that under 1 million in Costa Rica, Panama, is receiving skilled labor from Venezuela and Colombia and they could some from other countries in Central America in the future. If we were to give advice, don't just look north, but also south. So there is a different demographic profile and we're getting closer to a profile of lower population growth.

Remittances will continue in the midterm in substantial amounts even though migration is going down, and I'll say why, there is more flight connections and a lot of people are retired in Central America who have lived in the U.S. for 15 years who have sent money to buy homes and this is a

returning Diaspora. This will ensure if we analyze Yugoslavia, Turkey, Spain, there was a tendency of migrants to want to go back, but now because of flight accessibility, things are changing. And with remittances if we analyze by Fomine and Central Bank statistics, there are some errors. In Guatemala the methodology changed and the level of remittances doubled. It's not true as an economist that Guatemala has more remittances than El Salvador, but the numbers show that. So there are monies that are coming from other sources, illegal perhaps, and there are errors in the Central American banking system. If you have an account in dollars and make a transfer to the local currency, it is registered and recorded as a remittance and that's not true.

In terms of the cost of human capital, it is not true that there is no cost. They continue to send money but marriages are split apart. It is not the same to be in touch with your children by Skype or by phone and there is a huge cost. The fact that it has not been researched doesn't mean there is no human cost. If the research were focused on the cost, we would know that it is huge.

MR. RUIZ: Please be concise and identify yourself as well.

SPEAKER: Francisco Campbell Nicaraguan Ambassador in Washington. The first question I would like to ask the Vice Minister. What effect has the dollarization of the El Salvadoran economy had on the impact, positive or negative, of foreign remittance to El Salvador? The other question is for Orozco. I know that Mr. Orozco has done great work in terms of trying to understand how foreign remittance can be used in such a way as to help to promote development in Central America and that of course is very good. But in your presentation you mentioned something alarming. You said that there is an imminent power vacuum on the horizon in Nicaragua and in El Salvador. That is incredible. And you argue that that is probably due to the nonparticipation of young people. This is strange at least in the case of Nicaragua because 35 percent -- the majority of the people in Nicaragua are 35 percent or less in age. This is reflected in the various institutions, in the police, in the Army, in the business sector, across the board you find young people. We are having an election on November 6. It is expected that the majority of the Nicaraguan people are going to be participating in the elections. More than 80 percent has been the historic average in the past and we expect it's going to be the same. That means young people are going to be participating in great numbers in those elections. Also a number of young people in the various political parties are presenting themselves as candidates and some of them are going to be

elected. I would like you to explain a little bit more your tremendous prognosis that there is imminent danger of political vacuum in Nicaragua.

MR. RUIZ: With pleasure. We'll take one more question in the back.

SPEAKER: I'll ask the question in English. Michael -- political science student at Georgetown University -- would have been the effects on the domestic policy of migration and remittances in the countries of origin. One phenomenon that I'm interested in is how the El Salvadoran political parties launch campaigns in the U.S. including D.C. Although the Salvadorian community doesn't have the right to vote overseas, that may be the evidence of an expanded voice of the Diaspora communities vis-à-vis the election system and the political preferences of their own family back home.

SPEAKER: On Paulo's comment, my argument is the following. I disagreed with the statement that people are left behind through migration. That doesn't mean that there are costs. There are many costs and I think trying to understand the pattern is very important because that helps to clarify assumptions. For example, does the fact that you're separated things are going to be bad? That's an assumption that is moral and normative and not factual or empirical. If you look at single-headed households in a country domestically and you find both realities, terribly managed households and very well-managed households. So I think understanding very well and testing the assumptions is better than just concluding with the assumption that abandonment and separation leads to fragmentation and disarray. I think you have to be very careful because my experience with working migrants, the reality is more complex. You can't simply it.

Going to the Nicaraguan case, my argument is the following. The political process in Nicaragua has arrived as a political fact that basically is reaching an end. The leading political leaders in Nicaragua which is basically a group of political elites that have kept a very narrow circle of power in the country led by Daniel Ortega on the one hand and his party and Arnoldo Aleman on the other side have restricted the opportunities for both sides to participate. And when I say to participate I don't mean the -- population, but I mean the young professionals who want to join the party and are not happy with the way in which -- are operating. So both the political life as well as the physical life of these leaders whether you're talking about Aleman, Ortega or the other candidate, who is older than them, is nearing an end and the replenishment of new cadres is much smaller. It doesn't mean that there are young people, young

individuals, young leaders who are part of the party, but if we look at the young professionals, lawyers, engineers, et cetera, they are choosing not to join the party, they are just voting. Of course we can disagree on that that you have a political bias, but there is a pattern. You're the Ambassador of Nicaragua.

SPEAKER: No political bias. I'm just saying that your arguments have -- whatsoever.

SPEAKER: Let's see what happens after the elections and what the outcome is going to be. But the level of social protest in Nicaragua has increased in the last 5 years. The participation of young professionals in the parties has diminished. And there are other trends going on there that really may point to a potential political vacuum.

MR. RUIZ: Deputy Minister?

MR. GARCIA: I will begin by the last question that I think summarizes the topic of migration and remittances. For many years the administrations of El Salvador saw migrants and remittances as their source for macroeconomic stability. Therefore there was the policy for migration because that had huge dividends. It alleviated demographic pressure on resources and employment and huge subsidies to the economy. Starting in 2009, we started questioning this position and we began seeing migrants as people with rights and that makes them into an important social force for the country not only to restore the right to vote, but right to identity, right to participate in the affairs of the country as such, and we have designed policy instruments to reflect this shift in vision. That's why President Funes stated that in 2014, El Salvadorans overseas not only just in the U.S. will be able to vote overseas. This is a significant change. When we say that Salvadorians overseas should become partners in development, we are telling them that you can participate in building democracy and development. So this is a new vision in the way we see migrants and remittances.

This has been done strictly based on the source of remittances and dollarization is substantiated by increasing flows of money and a fiscal policy that is relatively stable and that has a huge impact on development because without a monetary policy, we cannot foster development. We also have stability in terms of the exchange rate. If you have dollars, you spend dollars. The interest rates have been staying at a low level compared to the rest of the region. However, monetary policy has to be debated more deeply. There has been diversification of immigration. El Salvadorans are flocking to

Europe right now more. That's the case of Barcelona. Simply put, the El Salvadoran population in Barcelona is growing by 10 percent on a quarterly basis and this is because there's a daily flight from Iberia to Spain, they don't need a visa to go to Europe and that opens the doors. And there's a growing population in the northern part of Italy that keeps continuing. So if the U.S. doors close, then others will open elsewhere. As to demographic changes, this is obvious if we compare the demographics with 2006 we are under the replacement rate and we are almost at the limit for development. I mean there is no population that is taking care of development in some communities and that's serious because that places a long-term structural impediment to development, and undoubtedly the return will be more massive in that you have to wait for 10 to 15 years and see the impact that it has on remittances and the ability to stabilize the country. Together with that we see great biases that are not accounted for. We are not accounting the remittances by parcel post which are 3 billion, actually \$700 million additional to the 3 billion. So we have to sharpen our measuring tools so to speak.

MR. RUIZ: I'm just going to give a few minutes for each to answer quickly. Sonia?

MS. PELLECCER: I just wanted to expand and explain to Pablo, give an explanation, and it's that I have experienced for several years in monitoring and working for the International Organization for Migration and studying remittances, he is saying that the remittances are a little bit inflated, and personally through my studies and I really know this field, I beg to differ because for Guatemalans, not even the armed conflict triggered as much migration and we saw that the greatest migration started in the 1990s, whereas Salvadorians started much earlier and the migration was the highest during the coffee crisis in 2001. At that time the indigenous population that did not migrate internationally, only some of them did, started to migrate because the domestic migration to the coffee farms was no longer possible. And the cycle was examined by the Minister of El Salvador that the studies and the curves are for 10 to 15 years and in effect Guatemala is still within that curve and it may mean that in the future it may change, but there is no other explanation right now.

There have also been studies about the amounts that are being sent to Guatemala is because their children back home are going to school, and in the case of El Salvador, many are no longer in school and they sent remittances to their parents, not to their children to go to school. That's the

explanation that I find for Guatemala and it may well be the case. This may be tied to money laundering, but not in the case where they're sending an average of \$283.

SPEAKER: The unaccounted cost of remittances is the breakup in families. It is true that remittances are salaries, but the person that works to work this salary is not using the salary, and for those that get it, it's a gift and they don't understand the cost.

For Honduras, the remittances are more than 15 to 16 percent; it's more 20 to 25 percent. The political events of June 28 caused a resurgence of the young population. The largest party in Honduras are those that don't vote -- Spain is another alternative also for Honduras. And lastly, the effect on policy. Someone from Georgetown asked there are three possibilities. The voting overseas, nobody has done that yet. Secondly, the resources of those who come to the Diaspora to campaign. And there are candidates that leave from here with money and they bring their own money. There are mayors, but they don't make it to national policies. And lastly, the incidence of the community, the presence in the media, is extraordinary on a daily basis on radio and TV. They have their own opinions from the point of view of a consolidated democracy and that is used as a tool to rectify domestic issues.

MR. RUIZ: This has been very provocative and I know we want to have more questions, but we have to move on to our next panel. You could ask them -- thank you.