

Confronting the Challenges of Migration and Development in Central America

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Introduction

Central America is experiencing one of the most severe crises in its history. The number of deaths in the region, for example, has been higher in the past 10 years than during the Civil Wars of the 1980s. The region's economic development remains stagnant, with persistently high levels of poverty and inequality. In Honduras, for example, where the GDP per capita is \$4,392, nearly 60% of the population lives on less than \$4 a day. Meanwhile, public policies in the region are inadequate at best, or unresponsive at worst. It is in this bleak economic and social context that Central American emigration is occurring.

Today, nearly one in ten Central Americans have migrated, creating important transnational linkages as they maintain relationships, friendships, businesses, and investments across borders. Migrant transnationalism, in addition to being an expression of culture, identity and love, is an important economic phenomenon. Remittances, for example, represent over 10% of the GDP for many countries in the region and amounted to \$15 billion in 2014. When diaspora-driven investment, philanthropy, and trade are added to this, the economic impacts are tremendous.

While migration is not, nor should it be, a solution to development issues in the region, it can represent a "silver lining" in the current crisis. By leveraging existing transnational activities, countries in the region can build both human and economic capital. An asset-building perspective should take center stage to create opportunities, strengthen education, mobilize savings, and further develop the labor force.

This report begins by addressing some of the drivers of Central American migration today, including economic stagnation (Chapter 1) and violence (Chapter 2). In light of these powerful push factors, many migrants find it necessary to leave their countries by any means necessary. The report also analyzes undocumented border crossings and trends in deportations (Chapter 3).

The second half of this report considers the intersection between migration and development. There are many opportunities linked to migration, though unfortunately policymakers in the region have been slow to act on them (Chapter 4). This unmet potential is the topic of the remaining chapters of the report. Remittances can be linked to financial inclusion, for example, thereby mobilizing savings and promoting economic development for the region (Chapter 5). There are also opportunities related to diaspora-driven investment and trade (Chapter 6). Building on these opportunities, the report concludes with a policy proposal that promotes development in Honduras, Guatemala and El Salvador. The approach leverages migrant investments, trade, donations and remittances to build both human and economic capital in the region (Chapter 7), such that migration can be a choice, rather than a necessity, for future generations of Central Americans.

Chapter 1 State of the Region: Central American Economies in 2015¹

Though Central American migration is a product of a number of historical factors, for many migrants today, the decision to leave is economic.

Although Central American economies have recovered from the 2008-2009 recession, they show relatively low levels of growth. GDP growth has translated into only modest improvements in GDP per capita across the region. Moreover, persistent and long-standing issues such as poverty and inequality threaten to undermine economic and social development. For example, in Guatemala, Honduras, and Nicaragua, more than half the population lives on less than \$4 a day. Moreover, popular frustration and dissatisfaction are high. In Guatemala, Honduras, Panama and Costa, a majority of the population feels that the economy is on the wrong track, suggesting that many people are excluded from the benefits of economic growth. High levels of emigration can also be seen as a sign of dissatisfaction with the current situation.

The region's decision-makers face an important challenge in designing public policies that translate economic growth into sustainable, equitable economic development. An analysis of national development plans suggests that policymakers are struggling to address underlying economic issues in light of very pressing and immediate security concerns. Moreover, they continue to prioritize agriculture over other areas that arguably offer greater potential for economic development. Though social spending on education and health reflects some degree of commitment to equitable development in the region, issues of inefficiency unfortunately decrease the impact of these expenditures. In sum, one of the greatest challenges that the Central American region faces is ensuring that economic development is sustainable and equitable.

Economic Performance

GDP Growth

After a rapid, efficient period of recovery from the 2008-2009 economic recession, GDP growth has slowed to 2-4% for most countries in the region in what some analysts have characterized as a “solid, albeit slower growth trajectory.”²

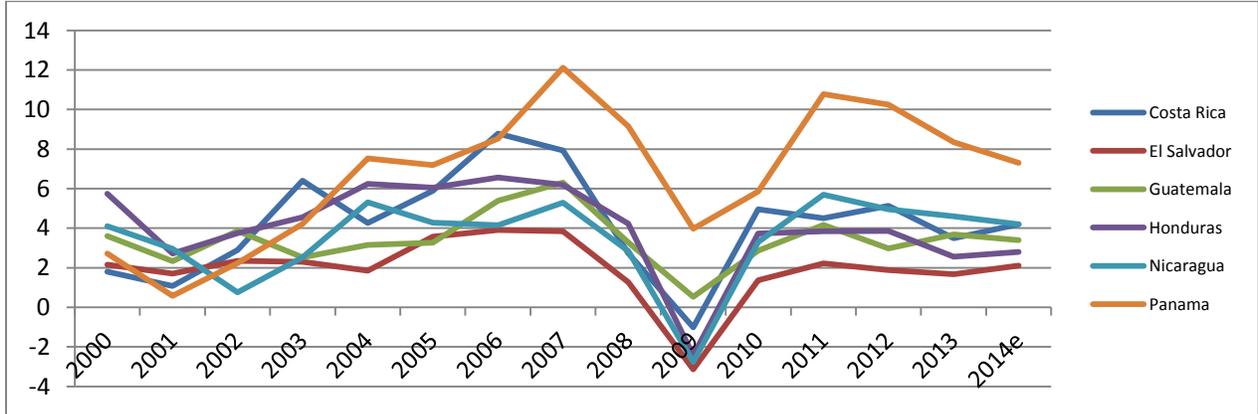
For countries like El Salvador and Honduras, growth has been particularly sluggish, as the graphic below shows. The fact that these are some of the most violent countries in the region may not be a coincidence. According to Humberto Lopez, director of the World Bank's Central America department, “beyond the effect crime and violence have on human suffering is the effect they have on profitability (...) Companies need to hire security, and there are losses associated with robbery. In some countries,

¹ Manuel Orozco and Julia Yansura, *Inter-American Dialogue*, June 2015.

² “Economic Snapshot for Central America,” Focus Economics, 20 May 2015. Available at: <http://goo.gl/YNIS6f>

particularly in El Salvador, people don't want to work when it's dark. High levels of crime and violence have a negative impact on the investment climate. So the economic costs of violence in these countries are huge.”³

Graphic 1.1: GDP Growth (Annual %) for Central American Economies

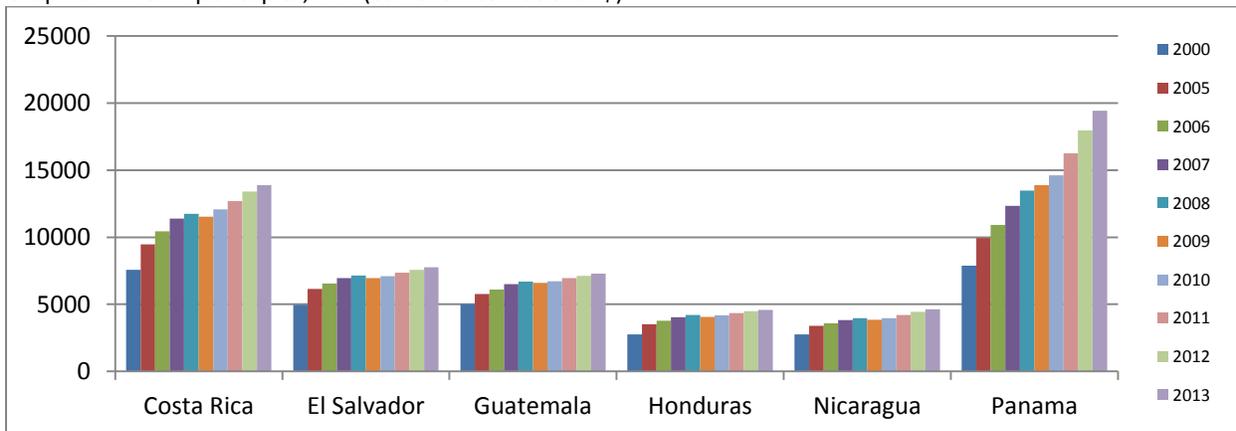


Source: World Bank Data, July 2015.

GDP Per Capita and its Limitations

This GDP growth has led to modest improvements in GDP per capita. As the graphic below suggests, Panama and Costa Rica, the countries with the highest GDP per capita to begin with, have experienced the most solid growth. Unfortunately, countries with the lowest GDP per capita, such as Honduras and Nicaragua, have experienced very little growth. With regards to GDP per capita, “we have a long way to go,” admitted Nicaraguan Central Bank President Ovidio Reyes during a recent interview.⁴

Graphic 1.2: GDP per capita, PPP (current international \$)



Source: World Bank Data, July 2015.

³ Humberto Lopez quoted by Larry Luxner, “World Bank Offers Encouraging Prognosis for Central America in 2015,” Tico Times, 15 December 2014. Available at: <http://goo.gl/q6zcTt>

⁴ Wendy Alvarez Hidalgo, “Lejos del PIB per capita del istmo,” La Prensa, 4 June 2015. Available at: <http://goo.gl/xLm8ei>

It is also important to note that GDP per capita, which is a simple measure of GDP divided by the population, is not necessarily an accurate reflection of average income. In Honduras, for example, where the GDP per capita is \$4,392, nearly 60% of the population lives on less than \$4 a day, or approximately \$1,460 per year, as the table below shows.

Table 1.1: Poverty Rates, 2013 or Most Recent Value

	Total Poverty (\$4/day)	Extreme Poverty (\$2.50/day)
Costa Rica	12.2%	4.6%
El Salvador	31.8%	12.7%
Guatemala	62.4% ⁵	40.5% ⁶
Honduras	59.4%	39.6%
Nicaragua	52.2% ⁷	29.3% ⁸
Panama	20.4%	9.9%
Central America	43.7%	24.9%

Source: World Bank, “Working to End Poverty in Latin America and the Caribbean: Workers, Jobs and Wages,” June 2015. Available at: <https://goo.gl/QLH28>

Sectors Driving Growth and Employment

GDP growth in the region has been driven by certain economic sectors such as services and industry. Services have amounted to growing portion of the GDP, ranging from 52% in Nicaragua to 75% in Panama. The broadly-defined “services” category includes sectors such as tourism, a major source of income for countries in the region, ranging from 5-10% of GDP.⁹

Agriculture, which amounts to only 5 – 15% of GDP, has been shrinking as a percentage of GDP for all countries in the region. However, it continues to be an important source of employment, as the graphics below indicate. In Guatemala, Honduras and Nicaragua, nearly one out of every three workers is employed in the agricultural sector, suggesting an important disconnect between low-labor, high-value and high-labor, low-value economic sectors that countries in the region will be forced to address in coming years. According to a recent World Bank report, “agriculture provided the primary employment of 70 percent of household heads living in extreme poverty in 2013. As a result, eradicating extreme poverty (...) requires particular attention to the needs of agricultural workers.”¹⁰

⁵ 2011 Value.

⁶ 2011 Value.

⁷ 2009 Value.

⁸ 2009 Value.

⁹ According to 2010 figures, international tourism as a percentage of GDP ranged from 9.6% in Nicaragua to 7.6% in Costa Rica and 4.3% in El Salvador. See CEPAL STAT, “International Tourism as % GDP.”

¹⁰ World Bank, “Working to End Poverty in Latin America and the Caribbean: Workers, Jobs and Wages,” 2015. Available at: <https://goo.gl/QLH28>

Graphic 1.3: Agriculture, Industry and Services: % GDP (left) and % Labor Force (right) – Value Added



Source: World Bank Data, July 2015. Services are labeled in blue, industry in grey, and agriculture in green.

In part due to this agricultural orientation, the region’s labor force remains uneducated, unskilled, underpaid and informal. The International Labor Organization (ILO) notes that “after 2009, with the advent of the worst part of the crisis, all indicators related to unemployment and underemployment suffered a general decline in the region.”¹¹ *Maquilas* are the main employment option for women, amounting to 20.4% of female employment in Guatemala, 19.6% in Honduras, and 17.9% in El Salvador. In the case of Guatemala, 28% of the labor force is uneducated, 33% unskilled and at least 50% is underpaid and informally employed. In Honduras, one third of the labor force earns salaries under the minimum established by law, even though they work full time. The link between under-employment and

¹¹ “Evolución de los principales indicadores del mercado de trabajo en Centroamérica y República Dominicana, 2006-2010,” ILO, 2011. Available at: <http://goo.gl/IDpwUU>

education is clear. In El Salvador, for example, half of the men without education are under-employed, compared to 6.7% of those with higher education.¹²

Table 1.2: Labor Force Dynamics by Country (%)

Indicator		Costa Rica (2010)	El Salvador (2009)	Guatemala (2006)	Honduras (2009)	Nicaragua (2008)	Panama (2010)
Labor force participation rate	Male	70.5	72.9	88.2	76.0	73.1	67.0
	Female	40.9	42.8	44.7	38.2	43.2	38.2
Unemployment rate	Male	6.0	8.9	1.5	2.6	5.6	3.7
	Female	9.5	4.9	2.4	4.2	6.8	6.5
Formality, by Sector	Formal	57.2	38.5	32.3	27.1	36.0	53.8
	Informal	41.9	61.5	65.7	72.9	63.8	46.0
Highest level of education attained, by % labor force	None	2.8	2.8	23.2	13.4	12.8	3.5
	Some primary	9.9	27.9	30.1	25.4	22.0	7.9
	Complete primary	19.2	22.8	11.1	20.0	22.7	22.7
	Some secondary	17.0	21.6	12.5	5.3	15.3	23.5
	Complete Secondary	28.4	12.0	16.3	28.3	14.8	17.9
	Higher Ed.	22.7	12.8	6.5	7.5	14.7	24.5

Source: "Evolución de los principales indicadores del mercado de trabajo en Centroamérica y República Dominicana, 2006-2010," ILO, 2011.

Informal workers and unskilled workers are vulnerable in a number of ways. A recent survey of 12,000 Central American workers found, for example, found that 74% of the workforce is not covered by social security. Informal and unskilled workers may also face difficult, dangerous, and even abusive labor conditions.¹³

Trade

Central American economies have traditionally been vulnerable in that they produce a relatively small number of products, and for a small number of trade partners. As the table below shows, agricultural products constitute some of the region's main exports. For all Central American countries except Panama, the United States is the main trade partner. However, intra-regional trade has become increasingly important. The Central American Common Market represents the second largest trade partner for most countries in the region, accounting for 26.2% of total exports, despite logistical challenges related to overland transportation.¹⁴

¹² *Ibid.*

¹³ Fernando Benavides, Catharina Wesseling, George Delclos, Sarah Felknor, Javier Pinilla and Fernando Rodrigo, "Working Conditions and Health in Central America: A survey of 12,024 workers in six countries," *Journal of Occupational & Environmental Medicine*, 20 March 2014. Available at <http://goo.gl/m79Nfw>

¹⁴ For a more detailed analysis, see "Central America, Expanding Trade Horizons In Order to Diversify," World Bank, 7 February 2013. Available at: <http://goo.gl/uvmTff>

Table 1.3: Top GDP Contributors, Central American Countries (2013)

	Top 10 Agro Exports as % GDP	Remittances as % GDP	Tourism as % GDP	Sum
Nicaragua	39	12	4	55
Honduras	23	16	4	43
Panama	18	2	11	31
Guatemala	14	10	3	27
El Salvador	5	16	3	24
Costa Rica	7	2	6	15

Source: World Bank Data, July 2015.

Though many Central American countries have negative trade balances, exports as a whole have grown more than 11% in the last decade, and recovery from the 2008 economic crisis was rapid.¹⁵

CAFTA-DR, which was signed by U.S. President George W. Bush in 2005, has gradually been implemented by countries in the region. The agreement entails the gradual elimination of certain tariff and non-tariff trade barriers between the United States and Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and the Dominican Republic. According to the United States Trade Commission, “total two-way goods trade between the U.S. and our six CAFTA-DR partners has increased over 71 percent since entry into force, from \$35 billion in 2005 to \$60 billion in 2013. In 2013, U.S. exports to the CAFTA-DR countries totaled \$30 billion; imports totaled \$30 billion.”¹⁶ Despite this sanguine analysis, concerns have persisted over workers’ rights, trade balances, U.S. agricultural protectionism, intellectual property rights and generic medicines.

Limitations of Economic Growth

Economic growth should not be conflated with equitable, sustainable development. For countries in the region, persistent and long-standing issues such as poverty and inequality create widespread dissatisfaction and threaten to undermine growth, particularly in the absence of effective public policies.

Human Development

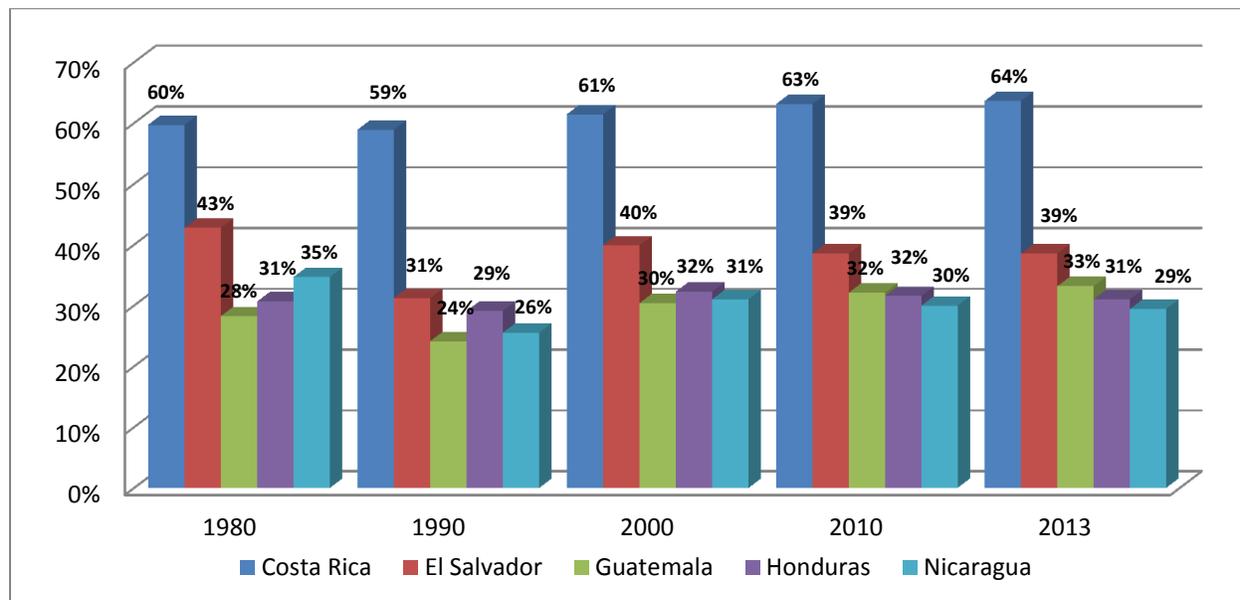
Economic growth does not automatically translate into improvements in human development. The Human Development Index, which is a composite indicator of life expectancy, education, and per capita income, is a good indicator of this. While countries such as Costa Rica and Panama have achieved high levels of human development, Honduras and Nicaragua continue to rank among the lowest levels of human development in the world.¹⁷ As the graphic below shows, since 1980 Central American countries have been in the lower tiers of human development, with little substantive improvement compared to other countries. Moreover, Nicaragua’s percentile ranking in human development has fallen more than it has increased from 1980 to present.

¹⁵ *Ibid.*

¹⁶ “CAFTA-DR,” Office of the United States Trade Representative.” Available at: <https://goo.gl/1nn1bc>

¹⁷ 129 and 132 out of a total of 187 countries according to the Human Development Index.

Graphic 1.4: Human Development Index Ranking (Percentile) for Central American Countries Compared to All Countries Worldwide



Source: Human Development Indices for each country, 1980 – 2013.

Prosperity for Some

Inequality also presents a major challenge. According to recent analysis by the World Bank, after more than a decade of steady decline, inequality has remained constant since 2010. Moreover, gains in poverty reduction have been mainly driven by growth in income levels, rather than changes in income distribution. According to the World Bank, “even when overall the decade’s gains were significant, one in five Latin Americans has not benefitted and has stayed in poverty over the last ten years. Taken in sum, these trends signal a need for policy action.”¹⁸

In Central American countries, the top quintile earns between 51 – 62% of total income. Income inequality is especially pronounced in Guatemala and Honduras. Honduras is one of the world’s most unequal societies,¹⁹ with pockets of wealth surrounded by intense poverty. From 2009-2011, “Honduras had the most rapid rise in inequality in Latin America and now stands as the country with the most unequal distribution of income in the region,” according to the Center for Economic and Policy Research.²⁰

¹⁸ World Bank, “Working to End Poverty in Latin America and the Caribbean: Workers, Jobs and Wages,” 2015. Available at: <https://goo.gl/QLFh28>

¹⁹ “Map: How the world’s countries compare on income inequality (the U.S. ranks below Nigeria),” Washington Post, 27 September 2013. Available at: <http://goo.gl/9mTZ18>

²⁰ “In post-coup Honduras, rising poverty and inequality, report says,” Los Angeles Times, 6 November 2013. Available at: <http://goo.gl/PIVxyr>

Widespread Dissatisfaction

Moreover, there is widespread dissatisfaction with economic performance, according to public opinion surveys conducted in the region. While many Central Americans point to crime as the principal problem facing their country, the economy is a close second. In many cases, the sum of economic issues, employment issues, and poverty rival delinquency and crime. In the majority of countries, respondents say that the economy is doing worse than it was a year ago, as the following table shows.

Table 1.4: Public Opinion Surveys on Select Economic Issues, 2014 (Column %)

	Honduras	El Salvador	Guatemala	Panama	Costa Rica	Nicaragua
The most important problem facing the country is....						
The economy	11.7%	15.1%	14.3%	13.5%	16.9%	37.0%
Unemployment	20.2%	11.4%	13.0%	5.0%	20.2%	31.6%
Poverty	7.4%	3.8%	6.9%	1.3%	2.5%	9.3%
Delinquency, crime	46.2%	53.4%	37.3%	24.7%	18.7%	3.5%
Compared to last year, the country's economy is doing...						
Better	7.1%	12.7%	3.3%	19.9%	4.8%	23.9%
Same	36.6%	41.9%	27.0%	54.5%	36.1%	33.4%
Worse	56.4%	45.4%	69.2%	25.5%	59.1%	42.7%
Compared to last year, my personal economic situation is....						
Better	8.9%	14.5%	9.5%	20.7%	11.0%	29.5%
Same	44.0%	48.1%	40.1%	60.1%	52.6%	37.3%
Worse	47.0%	37.4%	50.3%	19.2%	36.4%	33.2%

Source: "Latin American Public Opinion Project," Vanderbilt University, 2014.

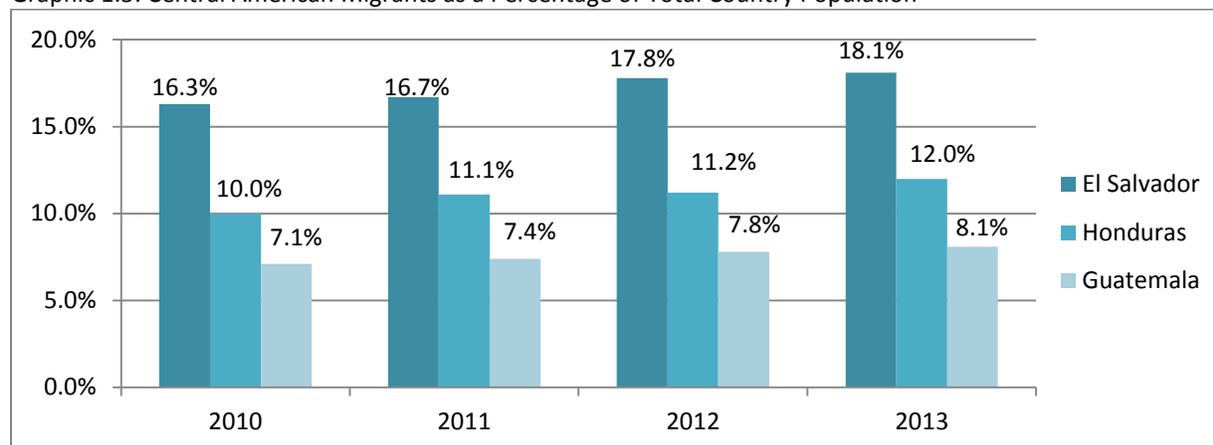
Emigration

High levels of emigration can also be seen as a sign of dissatisfaction with the current situation in their country. Today, nearly one in ten Central Americans are living abroad. Most of these migrants are a byproduct of migratory networks formed in the seventies, resulting from armed conflict, natural disasters, and family reunification. However, recent waves of insecurity and continued poor economic performance have contributed to subsequent and larger waves of emigration. For many Central American migrants today, the decision to leave is based on economic factors and family reunification.²¹ Faced with the prospect of low-paying, low-skilled, and informal jobs that offer few opportunities, many Central Americans find it necessary to leave by any means possible.²²

²¹ For example, a 2014 survey found that 25% of Salvadorans are considering emigrating, and the main reason they would emigrate is "lack of opportunities" (44% of responses).

²² "Evolución de los principales indicadores del mercado de trabajo en Centroamérica y República Dominicana, 2006-2010," ILO, 2011. Available at: <http://goo.gl/IDpwUU>

Graphic 1.5: Central American Migrants as a Percentage of Total Country Population



Source: Authors' calculations using migrant population estimates and World Bank data for total populations.

Economic Policies: Yielding Growth, But Not Development

In light of these underlying issues, it is important to consider whether economic policies are structured in such a way that they promote not only economic growth, but also economic development. This section considers policy priorities as well as monetary and fiscal policies throughout the region. Many countries are struggling to address underlying economic issues in light of very pressing and immediate security concerns. Moreover, they continue to prioritize agriculture over other areas that arguably offer greater potential. In sum, translating economic growth into sustainable, equitable economic development constitutes a major challenge for policymakers in the region.

Policy Priorities

A look at national development plans²³ provides insights as to macroeconomic priorities. A simple word frequency analysis suggests that reducing poverty, combatting insecurity, and strengthening health and education are top priorities, as evidenced by repeated references in national development plans. Moreover, an analysis of language related to method or means for achieving these development priorities suggests that countries in the region are focused on effectiveness, results, strength, and transparency – though not necessarily in that order, as the table below shows. In terms of word frequency analysis, agriculture appears to be the economic area of greatest interest in national development documents for all countries except for Costa Rica.

²³ This includes 1) Costa Rica: *Plan Nacional de Desarrollo 2014-2018*, 2) El Salvador: *Plan Quinquenal de Desarrollo 2014-2019*, "El Salvador Productivo, Educado y Seguro," 3) Guatemala: *K'atun 2013*, "Nuestra Guatemala," 4) Honduras: *Plan Estratégico de Gobierno 2014-2018*, 5) Nicaragua: *Plan Nacional de Desarrollo Humano 2012-2016*, 6) Panamá: *Plan Estratégico de Gobierno 2015 – 2019*, "Un Solo País."

Table 1.5: Word Frequency Analysis of National Development Plans

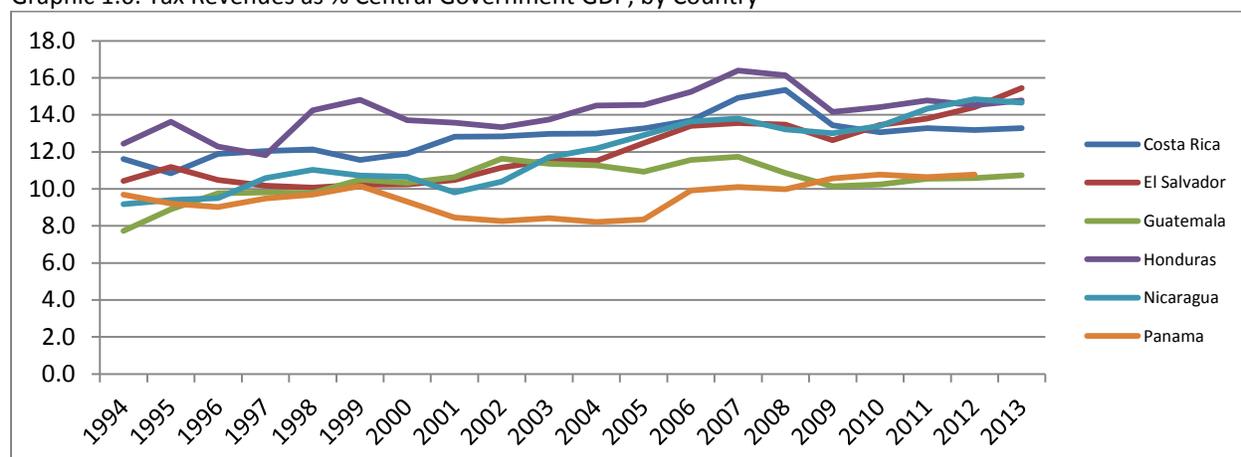
Development Plan Prioritizes...		CR	SLV	GTM	HON	NIC	PAN
Ranking (1 is most frequent)	Reducing Poverty	3	6	1	2	1	7
	Combatting Insecurity	6	1	5	1	3	4
	Strengthening Education	2	2	3	6	2	1
	Improving Health & Healthcare	4	3	2	5	5	6
	Generating Employment	1	4	6	3	4	3
	Developing Innovation & Technology	5	8	8	4	7	2
	Providing Opportunities for Youth	7	7	7	8	6	9
	Addressing Migration & Remittances	10	9	9	10	10	10
	Opportunities for Women & Girls	9	5	4	9	8	8
	Providing Decent Housing	8	10	10	7	9	5
A Development Plan Should be....		CR	SLV	GTM	HON	NIC	PAN
Ranking (1 is most frequent)	Transparent & Honest	5	5	5	3	5	5
	Effective & Results Oriented	1	3	1	1	2	1
	Equitable	4	4	4	5	4	4
	Respectful & Rights-Oriented	2	2	3	4	3	3
	Strong	3	1	2	2	1	2
Economic Priorities Include...		CR	SLV	GTM	HON	NIC	PAN
Ranking (1 is most frequent)	Agriculture	2	1	1	1	1	1
	Banking & Financial Services	7	9	11	9	9	8
	Business	1	3	3	5	4	4
	Exports	5	7	5	3	5	5
	Fishing	9	11	8	11	8	10
	Imports	10	8	12	7	12	9
	Industry	6	5	2	2	2	6
	Mining	11	12	10	12	10	7
	Remittances	12	6	9	10	11	12
	Small & Medium Enterprises	8	4	7	6	6	11
	Tourism	4	2	6	4	7	2
	Trade	3	10	4	8	3	3

Source: Word frequency analysis of national development plans for select terms and concepts. See footnote 23.

Fiscal Policy

Tax collection has long presented a challenge for Central American countries. They face a dilemma: without public support and confidence, they are in poor position to collect funds, but without government funds, they are in poor position to provide the type and quality of services that would bolster public support.

Graphic 1.6: Tax Revenues as % Central Government GDP, by Country



Source: "Tax Revenues," CEPAL STAT, July 2015.

With limited funds, governments in the region must address competing needs and priorities, some of them very pressing. Spending patterns vary by country, and can be measured either in terms of expenditures as a percentage of total government expenditures or expenditures as a percentage of the GDP.

- In Costa Rica, public social spending represents 73.1% of general government spending, which "highlights the enormous importance (fiscal priority) the government assigns to social matters."²⁴ In 2010, public social spending amounted to US\$ 1,787 per person (in current dollars), and, in total, such spending represented 20.3% of the GDP. Within social spending, the largest amounts went to education, health, and pensions.²⁵
- In El Salvador, public spending represented 22.3% of the GDP and public social spending represented 8.6% of the GDP in 2011. "That is to say, El Salvador has a small to medium sized government, when compared to other countries within and outside the region," some analysts have concluded.²⁶ Research by the Commitment to Equity Project has found, moreover, that El Salvador's fiscal policies have a small, null or even negative impact on poverty reduction, depending on the methodology used.²⁷
- In Guatemala, primary government spending was only 13.6% of the GDP in 2010, one of the lowest in Latin America. Social spending amounted to only 5.5% of GDP.²⁸ A recent fraud and corruption scandal involved tax evasion amounting to US\$350 million in annual income, or approximately 5% of the total government income,²⁹ which will likely further erode public confidence in fiscal policy.

²⁴ Pablo Sauma and Juan Diego Trejos, "Social Public Spending, Taxes, Redistribution of Income, and Poverty in Costa Rica," Commitment to Equity, Working Paper No. 18, March 2014. Available at: <http://goo.gl/Qu0CUy>

²⁵ *Ibid.*

²⁶ Margarita Beneke, Nora Lustig and Jose Andres Oliva, "El impacto de los impuestos y el gasto social en la desigualdad y la pobreza en El Salvador," Commitment to Equity, Working Paper No. 26, March 2015. Available at: <http://goo.gl/ucHEJ3>

²⁷ *Ibid.*

²⁸ Maynor Cabrera, Nora Lustig and Hilicias Moran, "Fiscal Policy, Inequity and the Ethnic Divide in Guatemala," Commitment to Equity, Working Paper No. 20, October 2014. Available at: <http://goo.gl/CRXpbD>

²⁹ Daniel Suchar Zomer, "Guat'e'mala' para economia de CA," Estrategia y Negocios, 23 May 2015. Available at: <http://goo.gl/ZbjnGH>

- In Honduras, public spending in the 2015 budget focused on education (35.9% total), health (20.0% total) and defense and security (8.7% and 6.2% respectively).³⁰
- In 2015, expected incomes for Nicaragua will be c\$55,309.4 million, 92.6% of which comes from tributary incomes. Of total spending of c\$61,000, major spending areas included health (10,838), education (10,419) debt service (3,580), justice & courts (2,441), police (2,292) and defense (1,952).³¹
- In Panama, the 2015 fiscal year budget amounts to 19.5 billion dollars. It allocates funding to the development of new infrastructure, such as the Line 2 of the Metro of Panama, the urban renewal of Colon, and health and potable water programs. \$2.3 billion will be allocated to social investment to “meet the needs of the most vulnerable sectors of society.”³²

The following table summarizes government spending according to three key areas: education, health, and defense.³³ It is important to note that health and military spending include only the amounts spent by the central government, so actual amounts may be higher due to state and local government spending.

Table 1.6: Government Spending (% Total of Central Government Expenditures)

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panama
Government Expenditures, as % Total Government Expenditures						
Education (% Total Government Expenditures)	23.4% (2009)	15.9% (2011)	20.6% (2013)	35.9% ³⁴ (2014)	22.8% (2010)	13.0% (2011)
Health (% Total Central Government Expenditures)	26.9% (2013)	18.2% (2013)	17.0% (2013)	12.2% (2013)	20.9% (2013)	12.8% (2013)
Military (% Total Central Government Expenditures)	0%	5.6% (2012)	3.4% (2012)	4.3% (2012)	4.4% (2012)	--

Source: Education, Health and Military, World Bank Data, Accessed 6/2015. Honduras Education: ICEFI, 2014.

³⁰ Hugo Noe Pino, “Un ajuste a la medida de las elites económicas: Diagnostico de las finanzas públicas hondureñas en 2014 y perspectivas para 2015,” ICEFI, 26 May 2015. Available at: <http://goo.gl/qyORft>

³¹ “Presupuesto Ciudadano 2015,” Observatorio Nuestro Presupuesto, Gobierno de Nicaragua. Available at: <http://goo.gl/wFOUnY>

³² “National Assembly Approves Budget 2016,” Ministerio de Economía y Finanzas, Gobierno de Panamá. Available at: <http://goo.gl/mLJymX>

³³ It is important to note that, while spending may reflect development priorities, it does not necessarily guarantee development results. In areas such as education and health, there are inefficiencies that may weaken the impact of public spending.

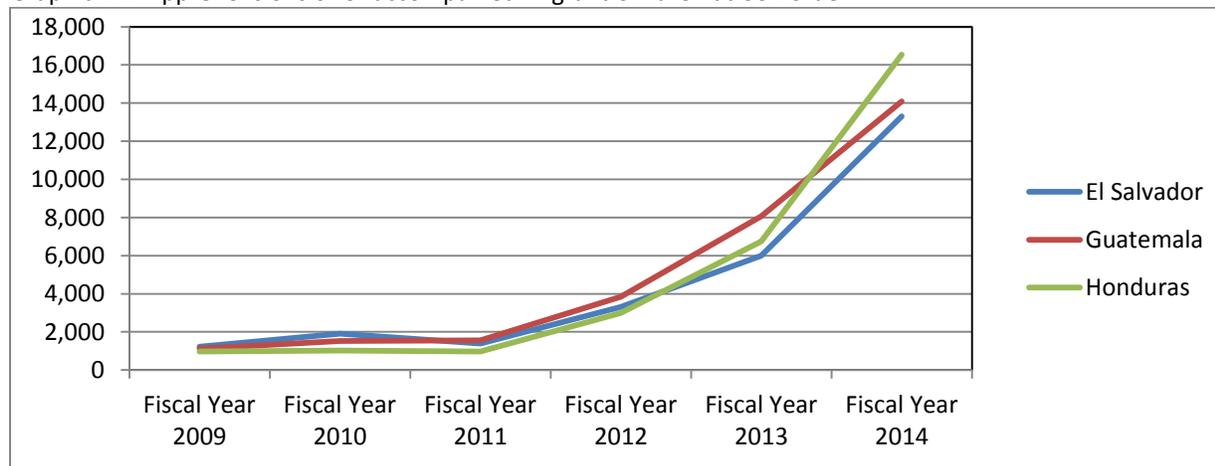
³⁴ Hugo Noe Pino, “Un ajuste a la medida de las elites económicas: Diagnostico de las finanzas públicas hondureñas en 2014 y perspectivas para 2015,” ICEFI, 26 May 2015. Available at: <http://goo.gl/qyORft>

Chapter 2 Understanding Central American Migration: The Crisis of Central American Child Migrants in Context³⁵

This chapter aims to inform the current debate surrounding the sharp increase in unaccompanied child migrants, particularly from Central America. It integrates data on issues triggering this outflow while also introducing the perspectives of the people and communities they affect.³⁶ Specifically, it draws on data from 900 municipalities to analyze migrant hometowns in relation to human development,³⁷ violence,³⁸ and education. In addition, it presents the results of a nationwide survey in El Salvador and a survey of Central American migrants residing in the Washington, DC metropolitan area.

There has been a sharp increase in the number of unaccompanied migrant children from Central America attempting to enter the United States (Graphic 2.1) in the past few years. This increase is also seen among adults, though to a lesser degree. As the United States, Mexico, and Central American countries struggle to address this crisis, debates have raged surrounding the humanitarian, legal, and political implications of any possible solution to this complex and troubling issue.

Graphic 2.1: Apprehensions of Unaccompanied Migrant Children at US Border



Source: “Unaccompanied Alien Children Encountered by Fiscal Year; Fiscal Years 2009-2013; Fiscal Year 2014 through June 30,” United States Customs and Border Patrol. Available at: <http://goo.gl/7dnVkf>

To respond to this crisis in an informed and humane manner, steps must first be taken to develop a clear, objective picture of the issues shaping it. This chapter aims to do just that, by analyzing the places that emigrants are leaving and the reasons why. Though country-level data can provide a rough approximation of root causes, the municipal data presented here allows for a much more fine-tuned

³⁵ Manuel Orozco and Julia Yansura, *Inter-American Dialogue*, August 2014. Important contributions to fieldwork and research were made by Laura Porras, Jean Coleman, and Brigid Carmichael of the *Inter-American Dialogue*.

³⁶ In addition to surveys, this includes in-depth interviews with community organizations that are engaged with the issue as well with the mother of a child that recently entered the US.

³⁷ The Human Development Index (HDI) is a composite statistic comprised of life expectancy, education, and income indices. A higher number reflects a higher HDI ranking; for example, in 2013 the highest-ranking country in the world was Norway with an HDI of 0.944. For more information, see <http://goo.gl/dFRqFu>

³⁸ For the purposes of this paper we use homicides as proxy for violence. However, we are mindful that violence, particularly in Central America, takes on many forms, including youth gang violence, extortion, kidnapping, political harassment, and sexual abuse, among others.

approach, contributing important insights to the current policy debate surrounding short and long-term solutions to the issue of child migrants.

Our research considers various factors contributing to the increase in migration from Central America and finds that violence is the most powerful, immediate driver of emigration, but that it is linked in numerous and important ways to economic and human development. We also note that the perceptions of migrants accurately reflect the harsh realities prompting emigration.

Key findings include:

- An analysis of migrant hometowns indicates that migrants are coming from some of the most populous and violent municipalities in El Salvador, Honduras, and Guatemala;
- Violence, measured in intentional homicides, emerges as a more powerful driver of international migration than human development, as measured by the Human Development Index;
- Half of Salvadorans know someone who has emigrated, and a quarter of Salvadorans say they would consider leaving home themselves, citing violence and lack of economic opportunities as key reasons;
- Most Central American migrants in the US attribute the rise in child migration to violence in their home countries, and nearly half (47%) know a recent child migrant;
- Solutions to the current problem require applying a human development lens to a longstanding reality of violence in the region.

Migration, Violence and Development in Central America

Central America's difficult history has included long periods of dictatorship and militarism characterized by structural problems such as economic and social inequality. As a result, emigration occurred primarily due to political instability in the 1970s and the 1980s, and then largely due to economic factors in the 1990s. Today, the region continues to experience large migratory movements, with over 100,000 Central Americans entering the United States each year, in many cases without legal status. These movements are related to shifting global dynamics, including a demand for low-skilled labor in agriculture and services, an increase in organized crime and violence between transnational gangs, and continued political violence.

In sum, the region has passed through at least three migratory periods from the 1970s to the present:

- Political migration: a result of repression and armed conflict (1970s-1980s)
- Economic migration: following the peace processes (1990-2000)
- Current migration: a result of transnational³⁹ dynamics (2000-present), with drivers such as violence, family reunification, labor, and economic growth.

Today, millions of Central Americans reside abroad, and of these, 80% live in the United States.

³⁹ Transnational dynamics are those that extend across borders, often including heightened social and economic interconnectivity.

Table 2.1: Central American Populations Abroad, 2010-2014

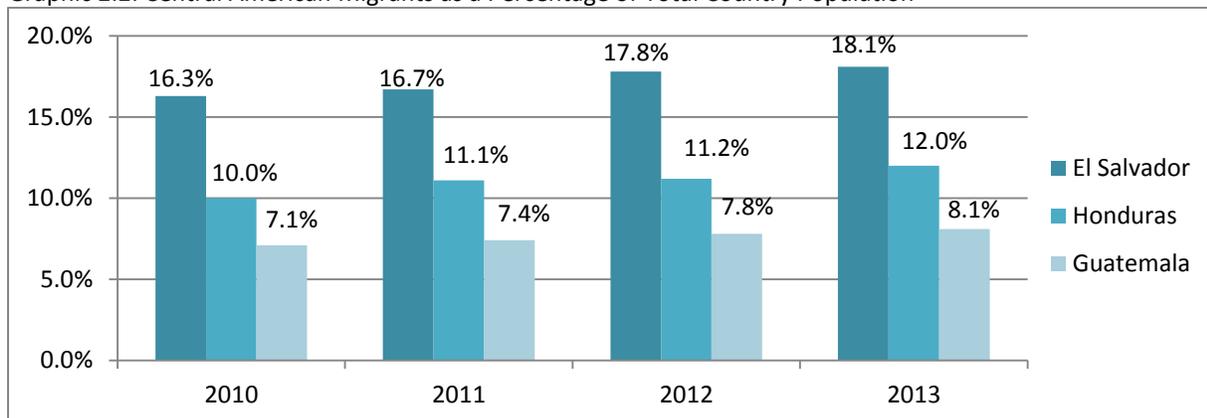
Migrant Populations (stocks)	2010	2011	2012	2013	2014
Honduras	762,669	863,091	889,629	971,053	983,676
Nicaragua	361,317	393,858	379,346	407,088	412,380
Guatemala	1,011,218	1,082,881	1,171,888	1,250,926	1,267,188
El Salvador	1,015,479	1,047,034	1,121,904	1,149,006	1,163,943
Four countries	3,150,683	3,386,864	3,562,767	3,778,073	3,827,187

Source: Authors' estimates.

The Variables that Affect Migration

The reasons for the growth in migration from Central American countries remain somewhat elusive. Some suggest that, at the country level, the numbers of migrants correlate with migration cycles of previous migrants. However, Honduras, the country with the most recent history in terms of migratory flows, and where the phenomenon of international migration exploded as recently as 1999 following Hurricane Mitch, has a greater percentage of its population living abroad than Guatemala, the country with the longest tradition of international migration.

Graphic 2.2: Central American Migrants as a Percentage of Total Country Population



Source: Authors' calculations using migrant population estimates and World Bank data for total populations.

At the macro level, it is hard to identify and generalize the impact of economic growth on migration, regardless of whether the country is an importer or exporter of its workforce. In fact, an analysis of migration and economic growth variables shows no convincing results to prove that people emigrate due to macro-economic factors,⁴⁰ though there is evidence that differences in income between two countries influence migratory movements.⁴¹ Moreover, given that migration is a phenomenon that does not occur in a homogeneous manner throughout a country, a macroeconomic analysis does not necessarily offer all of the necessary tools to identify the motivators behind migration.

⁴⁰ A regression model for 2000-2012 for the three countries using migration regressed on unemployment in the countries, unemployment in the U.S., growth rate, and inflation, showed inconsistent results.

⁴¹ Ana Mayda, "International Migration: A Panel Data Analysis of Economic and Non-Economic Determinants," IZA Discussion Paper No. 1590, 2005.

It is helpful, therefore, to see migration as a process rooted in a complexity of dynamics, in which growth and development in and of themselves do not offer sufficient explanations.⁴² There are particular dynamics that propel migration, many of which have a strong local component, that are also associated with migratory networks and/or other factors, including the disruption of ordinary life by violent events. The following sections analyze these local factors.

Local Dynamics: An Analysis of Migrant Hometowns

An analysis of migrants' communities of origin can offer important insights into the reasons they are leaving.⁴³ These insights are particularly needed because migration from Central America, while not new, has grown significantly in recent years.

Table 2.2: Migrant Border Crossings – US Southern Border, 2010-2014

	2010	2011	2012	2013	2014
Honduras	27,733	31,385	32,350	35,311	38,480
Nicaragua	4,662	5,082	4,895	5,253	5,502
Guatemala	36,772	39,377	42,614	38,759	42,264
El Salvador	34,619	35,694	38,247	42,435	44,676
Sub-region	103,786	111,539	118,106	121,758	130,922

Source: Authors' estimates.

The following tables, which draw from indicators collected for nearly 900 municipalities in El Salvador, Honduras, and Guatemala, shed light on the communities that migrants are leaving. They also provide insights into why migrants may be leaving, particularly with regards to violence and low levels of economic and human development.

The table below compares municipalities that are experiencing emigration with those that are not.⁴⁴ As it shows, the communities of emigration are those with larger populations. They are also where the vast majority of homicides occur in each country. In Honduras, for example, nearly 90% of homicides occur in municipalities that migrants are leaving.

⁴² Douglas Massey, Joaquin Arango, Graeme Hugo, Ali Kouaouci, Adela Pellegrino, and J. Edward Taylor, "Theories of International Migration: A Review and Appraisal," *Population and Development Review*, September 1993.

⁴³ This data includes the Human Development Index, homicide counts for adults and children, and the number of emigrants for each municipality. Additional data collected includes population size, school enrollment in the municipality and survey data on perceptions of violence. The database also includes payment points where remittances can be received. Our surveys confirm that, in the vast majority of cases, the migrant sends remittances to the town that he or she is from.

⁴⁴ This categorization uses remittance payout as a proxy for migration. Drawing from data provided by money transfer companies, it is possible to divide municipalities into those receiving flows of money from migrants, and those that do not and have not received flows.

Table 2.3: Migration from Central America: Indicators by Migrant Hometown

		El Salvador	Guatemala	Honduras
Municipalities with Emigration ⁴⁵	Homicides in 2013	2,025	5,086	6,073
	% National homicides occurring in these municipalities	81.6%	99.8%	89.8%
	Ave. municipal HDI	.7051	.5921	.6146
	Total population of municipalities	4,780,412	15,731,694	7,157,631
	% All country population	79.2%	99.4%	82.0%
	Ave. municipal population	40,858	48,555	47,090
Municipalities With Minimal or No Emigration ⁴⁶	Homicides in 2013	456	12	690
	% National homicides occurring in these municipalities	18.4%	0.2%	10.2%
	Ave. municipal HDI	.6677	.5531	.5886
	Total population of municipalities	1,258,361	92,750	1,567,650
	% All country population	20.8%	0.6%	18.0%
	Ave. population size	8,678	10,306	10,737

Source: Inter-American Dialogue, 2014.

A statistical analysis confirms the important role of violence in emigration. As can be seen in Table 2.4, homicide rates are statistically significant for all three countries, as is population. Local development is negative, but not significant for Guatemala and Honduras. The spread of HDI within each country is very small (a standard deviation of 0.07 for 0.62 average HDI), and thus this indicator may not be capturing all the determinant factors of development's impact on migration, and further analysis may be required.

Table 2.4: Regression Results: Migration, Homicides, Human Development, and Population

	Central America	El Salvador	Guatemala	Honduras
Indicators of Interest				
Share of homicides in municipality (% of country)	0.891***	1.543***	1.063***	0.234***
HDI by municipality	0.004	-0.034***	-0.001	-0.004
Population in municipality as share of country	0.392***	0.554***	0.095***	1.091***
Statistical Parameters				
r ²	0.8	0.64	0.84	0.938
n=	897	262	333	298
Constant	-0.004	0.019	0	-0.001***

Source: Inter-American Dialogue, 2014. * Statistically significant at the 10% level **Statistically significant at the 5% level ***Statistically significant at the 1% level

The Rise in Central American Child Migrants

Child migration is not a new phenomenon, but one that has grown exponentially in the last four years.⁴⁷

⁴⁵ *Ibid.*

⁴⁶ *Ibid.*

⁴⁷ "Unaccompanied Alien Children Encountered by Fiscal Year; Fiscal Years 2009-2013; Fiscal Year 2014 through June 30," United States Customs and Border Protection. Available at: <http://goo.gl/x05ZVC>

The recent rise in child migration from Central America should also be understood in the context of local dynamics, much like adult migration. An analysis of the hometowns of over 15,000 unaccompanied minors apprehended by the US Border Patrol from January through May, 2014 provides additional insights into the factors causing the crisis.

The data shows relatively similar patterns to adult migration, with homicides constituting a key push factor. The towns that child migrants are leaving are among the largest and most violent municipalities in each country. In Honduras, for example, these municipalities are where 70% of homicides occur. They are also towns from which sizable migrant communities have already left. In the case of Honduras, the municipalities with child emigration are also the municipalities of origin for 77% of all emigrants (adult and child).

The statistical regression also confirms the relationship. The correlation between violence, measured in the number of homicides occurring in a municipality during 2013, and child migrant home towns is stronger than the correlation between the HDI of those municipalities and the number of apprehended child migrants from those municipalities. In the case of El Salvador, the statistical results are similar to those of adults. For Guatemala, homicides and migration in remittance recipient locations are the strongest predictors. In Honduras, violence is also the strongest factor.

Table 2.5: Regression Results: Child Migration, Homicides, Human Development, and Population

	Central America	El Salvador	Guatemala	Honduras
Indicators of Interest				
Share of homicide in municipality as percent of country	1.278***	1.727***	1.035***	1.383***
HDI by municipality	.002	-.059***	.003	.015**
Migration in the municipality		0.9***	1.9***	0.2***
Population in municipality as share of country	-.077	.493***	.168	-.406**
Statistical Parameters				
r ²	0.50	0.54	0.315	0.87
n=	889	260	330	298
Constant	-.002***	.036***	-.003***	-.009***

Source: Inter-American Dialogue, 2014. * Statistically significant at the 10% level **Statistically significant at the 5% level ***Statistically significant at the 1% level

A comparison of the results of the previous tables suggests that child migration and adult migration are occurring for some of the same reasons. However, there is an even stronger relationship between violence and child emigration than between violence and overall emigration.

A Closer Look at the Case of El Salvador

In each country, unique factors are at play, shaping migratory trends for adults and children. A closer look at the case of El Salvador helps to understand the complex linkages between migration, violence, and development.

El Salvador has had a difficult trajectory in terms of economic growth and development. Since 2004, economic growth rose slightly, only to fall to -3% during the economic recession of 2009. While it has recovered modestly since then, it has yet to reach pre-recession levels and has actually seen a downward trend since 2011.⁴⁸ Moreover, the country's growth model leaves many Salvadorans economically excluded and/or vulnerable: between 2007 and 2008 the percentage of people in poverty increased from 34.6% to 40%.⁴⁹

El Salvador has also experienced some of the highest levels of violence in the Central American region. The country experienced relatively low levels of violence in the 1990s after the peace agreement in 1992.⁵⁰ In subsequent years, violence increased along with a heightened presence and activity of organized criminal groups. The homicide rate in El Salvador has decreased somewhat in recent years to levels slightly below that of Honduras, but it remains above 40 homicides per 100,000 people, and the per capita homicide rate in the capital city of San Salvador is among the highest in Latin America.⁵¹ The deportations of Salvadoran gang members from the United States to El Salvador may also be linked to the rise in violence in El Salvador.⁵² Data from the Department of Homeland Security shows high levels of deportations of Salvadorans with criminal backgrounds⁵³ at the same time that criminal organizations were emerging in El Salvador, which supports this connection.⁵⁴

As mentioned above, El Salvador is a country with a history of violence, poor economic growth and outward migration. The continuity of violence and lack of opportunities constitute important triggers for migration. As this section argues, Salvadorans feel unsafe in their own country and in many cases lack the economic opportunities they need. Half of Salvadorans know someone who has left the country, and most of those who have left have done so crossing borders without legal documentation. A quarter of Salvadorans would consider leaving their home country, citing violence as a key reason.⁵⁵

Salvadorans see violence and insecurity as the main issues facing their country, closely followed by unemployment and the cost of living. In their own families, however, Salvadorans say that the main problems they face are economic, including high cost of living and unemployment, suggesting an important interplay between economic and security concerns. Responses may vary by demographic

⁴⁸ World Bank Development Indicators, GDP Growth (annual %).

⁴⁹ "El Salvador Overview," World Bank. Available at: <http://goo.gl/QIBAIY>

⁵⁰ *Ibid.*

⁵¹ "Global Study on Homicide," United Nations Office on Drugs and Crime, 2011. Available at: <http://goo.gl/plhmkC>

⁵² Mary Helen Johnson, "National Policies and the Rise of Transnational Gangs," Migration Policy Institute, April 2006. Available at: <http://goo.gl/IT7ehY>

⁵³ "Yearbook of Immigration Statistics," United States Department of Homeland Security. Available at: <http://goo.gl/zdlI9A>

⁵⁴ For more on this, see Clare Ribando Seelke, "Gangs in Central America," Congressional Research Service, 2014. Available at: <http://goo.gl/hfpHgH>

⁵⁵ Survey of Salvadorans in El Salvador, Inter-American Dialogue, July 2014.

group. For example, respondents from the country’s capital, San Salvador, identify security as the principal problem both at the household and national level⁵⁶ at higher rates than respondents from other municipalities. Respondents from lower educational and income brackets were more concerned with the cost of living, while respondents in the upper-middle income range were much more concerned with security than their low-income, mid-income, or high-income counterparts. Among male and female respondents, the principal problems identified were very similar.

Table 2.6: Perceptions of Principal Problems Facing Country and Household (Select Problems)

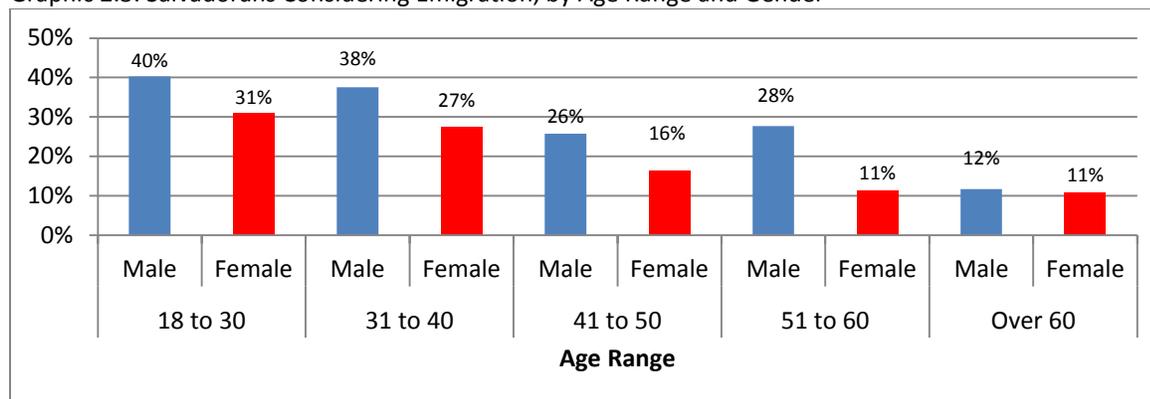
Principal Problem	Principal problems facing country (% all column responses)	Principal problems facing respondent and family at this time (% all column responses)
Security	46%	12%
Cost of Living	13%	28%
Unemployment	16%	23%

Source: Survey of Salvadorans in El Salvador, the Inter-American Dialogue, July 2014.

It is important to note that even when economic problems (cost of living, unemployment, low salaries, poverty, and general economic situation) are combined, they are still considered to be less important than security problems at the national level (41% to 46%).

In light of these problems, one out of every four Salvadorans has considered emigrating. Demographics appear to play an important role, with young and male respondents more interested in emigration, as the graphic below shows.

Graphic 2.3: Salvadorans Considering Emigration, by Age Range and Gender



Source: Survey of Salvadorans in El Salvador, the Inter-American Dialogue, July 2014.

Salvadorans who have considered emigration say that the principal reason they would leave is the lack of opportunities in their home country (47%), followed by crime and violence (28%), work opportunities in the United States (13%), and family reunification (9%).

⁵⁶ 29% and 79%, respectively.

Table 2.7: Among Salvadorans Who Consider Emigrating, Principal Reasons Why

Reasons	% All Reasons Mentioned
Lack of Opportunities	47%
Crime and Violence	28%
Work opportunity in the US	13%
Family Reunification	9%

Source: Survey of Salvadorans in El Salvador, the Inter-American Dialogue, July 2014.

The decision to emigrate may also be connected to whether these potential migrants already have family or friends abroad. Among Salvadorans in El Salvador, 50% have a family member abroad.⁵⁷ Considering some of the closest family relationships, 5% have a parent in the United States, 8% have a child in the United States, and 20% have a sibling in the United States. Of those with family abroad in the United States, 81% say they are there without legal status and 72% do not plan to return any time soon.

One third of Salvadorans know someone who has left the country in the past 12 months. In some municipalities (El Rosario, Usulután, Anamorós, San Pedro Masahuat, and Ilobasco), the majority of people know someone who has left recently. Among all departments and municipalities, the vast majority of respondents (86%) say the recent emigrant entered the US by crossing the border illegally.

Having family or social networks in the US may affect Salvadorans' decision to migrate, but it alone does not appear to be a primary driver of the current waves of emigration from the region. As the following table shows, Salvadorans with family and acquaintances in the US are considering emigration at higher rates. However, it is important to note that the majority of Salvadorans with family or acquaintances in the US have not in fact considered emigration.

Table 2.8: Family and Friends in the US in Relation to Emigration

Having family and friends in US	Have considered emigrating (row %)	Have not considered emigrating (row %)
Have family members in US	32%	67%
Do not have family members in US	19%	80%
Know recent migrant (past year)	36%	64%
Do not know recent migrant (past year)	20%	79%
Average (all respondents)	25%	74%

Source: Survey of Salvadorans in El Salvador, the Inter-American Dialogue, July 2014.

Here, Not There: Immigrant Perceptions of Migration and Violence

The issue of unaccompanied child migrants strikes a chord for many in the migrant community. Oscar Chacon, Executive Director of Alianza Americas (formerly the National Alliance of Latin American and Caribbean Communities), sees the issue as a “humanitarian crisis” that highlights problems with the current US immigration system as well as with development and security in migrants' home countries.

⁵⁷ 48% report having a family member in the United States, and 2% report having a family member in a country other than the U.S.

According to surveys, the vast majority (95%) of Central American immigrants are aware of the issue, having heard of it in the news or more directly, through the stories of people they know. Moreover, nearly half (47%) of Central American migrants know a recent migrant from their country who is a minor.

The issue is particularly resonant – and painful – among the many transnational families in the United States and Central America in which parents, children, siblings, or other family members live apart from each other, often under difficult circumstances and for extended periods of time. For example, surveys of Central Americans in the US show that 38% have at least one child living in their home country; this percentage is even higher (49%) among migrants who are undocumented.

Oscar Chacon of Alianza Americas sees the influx as caused by “not one factor, but rather, a combination of factors.” Though he sees violence as an “immediate trigger,” he notes that other factors, including poverty, insufficient opportunities in migrants’ home countries, and issues with the US immigration system have contributed to the crisis.

In surveys, Central American migrants in the US identified two primary factors behind the recent influx in child migrants: violence in their country of origin and lack of economic opportunity.⁵⁸ For Salvadorans and Hondurans, violence in their country of origin was by far the leading push factor, while for Guatemalans it was both violence and the lack of opportunities. Family reunification, though an important factor, is seen as secondary to the more immediate and pressing issues of violence and poverty.

Table 2.9: Causes of Child Migration (First Cause Mentioned) by Country of Origin and Gender

Causes Identified	First responses (Column %)				
	El Salvador	Guatemala	Honduras	Female	Male
Violence in Country of Origin	59%	38%	42%	58%	44%
Lack of Opportunities in Home Country	18%	35%	29%	16%	31%
Family Reunification	12%	14%	16%	13%	13%

Source: Survey of Central American Migrants in the US, the Inter-American Dialogue, July 2014.

Considering all causes mentioned — and not just the first cause — violence remains the leading issue (36%) followed by a lack of economic opportunity (29%). The two causes are closely linked and difficult to separate. In many cases, respondents would list them both in quick succession, rather than state one as unequivocally being the cause.

⁵⁸ Survey of Central American Migrants in the U.S., the Inter-American Dialogue, July 2014

Preliminary Conclusions

Our research has considered various factors contributing to the increase in migration from Central America and found that violence is the most powerful, immediate driver of emigration. Just as people left Central America escaping violence in the 70s and 80s, now in the 21st century youth are being persecuted by paramilitary forces, gangs, cartels, arms traffickers, and extortionists.

And yet, violence and development are linked in a number of ways. Violence is a byproduct of an ecosystem of crime networks operating underground economies based on extortion, gang violence, intimidation, political harassment, kidnaping, and trafficking. The opportunity costs of joining criminal activity are such that it becomes a viable choice. Thus, violence in the region is linked back to economic development and poor economic performance.

While poverty per se does not drive migration, lack of development does: when there are insufficient opportunities for a modern society, emigration becomes an attractive option. As Chapter 1 has shown, the region is experiencing mediocre economic performance: income below \$300 per month, education of 6 years, and low life expectancy, for example. These indicators are a reflection of greater realities, such as the obsolete nature of the agro-export model, or the existing inequalities that rule the region.

In light of these facts, solutions to the current problem require applying a humanitarian and human development lens to a longstanding reality of violence in the region. At the core, the region needs an asset-building approach that simultaneously creates opportunities and wealth while offering protection from harm. If youth and the labor force are at risk, or are seeking to move, improving their condition must be a priority.

Chapter 3 Removed, Returned and Resettled: Challenges of Central American Migrants Returning Home⁵⁹

Emigration and deportations represent major challenges for Central American countries, particularly El Salvador, Guatemala, and Honduras, which have the largest volume of people attempting to migrate and being returned.⁶⁰ This chapter aims to characterize the extent of human mobility from Central America, with a special focus on trends in return migration and what they mean for countries in the region. It considers voluntary and involuntary return, as well as policy responses related to return migration.

The magnitude of human mobility – people attempting to leave home, trying to enter the US, returning home, or being deported – cannot be overstated. To put things in perspective, in 2014, an estimated 130,000 Central Americans crossed the border into the United States, while 100,000 Central Americans were deported from the United States and roughly 150,000 from Mexico.⁶¹ Another way to interpret the scale of emigration and return is that deportations are equivalent to at least 50% of the annual increase in the labor force in Central America.

The emigration and return of hundreds of thousands of Central Americans each year, often under difficult circumstances, represents a profound challenge for the region. While efforts to receive and reintegrate returning migrants do exist, they are scarce. In many cases, countries are struggling to cope with the current scale of returns and deportations.

Among the main findings of this chapter:

- In 2014, an estimated 130,000 undocumented Central Americans crossed the border into the United States;
- With regards to apprehension and involuntary return, 190,000 Central American migrants were apprehended by US immigration authorities in Fiscal Year 2013, and deportations of Central Americans from the United States and from Mexico are on the rise;
- With regards to voluntary return, two thirds of migrants say they would choose to return to their home country at some point; of those, roughly 15% said they intended to return within a year;
- Though large numbers of migrants are returning – both by choice and by force -- public policies for coping with this influx are limited, and only one in twenty migrants who are returning involuntarily from the US may receive some form of reintegration services.

Under these circumstances, what can governments do to accommodate to the immediate needs and the longer term challenges of coping with the massive influx of returned migrants? Can governments think

⁵⁹ Manuel Orozco and Julia Yansura, *Inter-American Dialogue*, August 2015.

⁶⁰ While this report includes Nicaragua, it does not offer an in-depth analysis of migration of Nicaraguans into Costa Rica. We estimate that at least 20,000 Nicaraguans enter Costa Rica every year for employment-related reasons.

⁶¹ It is important to note that there may be some overlap in these figures if, during the course of several migration attempts, a migrant is deported from both Mexico and the United States.

outside the conventional approach currently taken? Should they be learning from immigrants about their needs if they would have to reintegrate upon return? In what ways can countries leverage the existing development opportunities of migration to cope with return?

Trends in Border Crossings, Apprehensions, and Deportations

Emigration and deportations represent major challenges for Central American countries, particularly El Salvador, Guatemala, and Honduras, which have the largest volume of people attempting to migrate and being returned. In 2014, for example, some 130,000 undocumented Central American migrants entered into the United States.

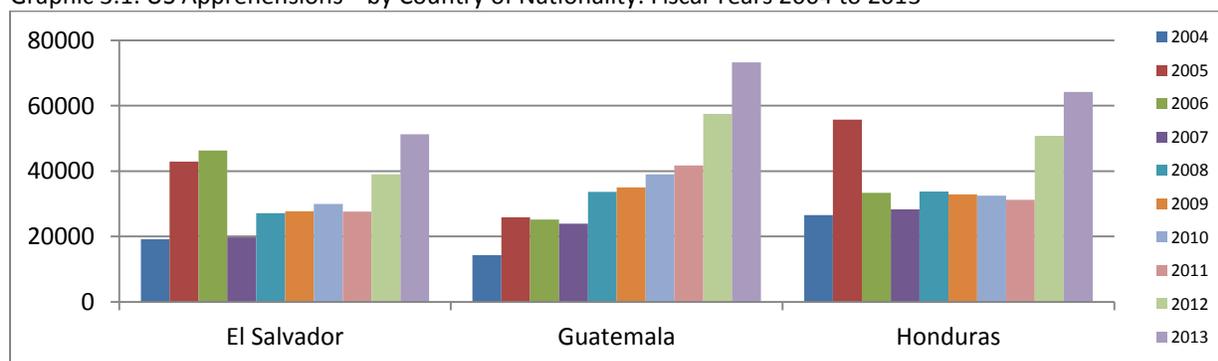
Of course, some of these migrants will manage to enter the country only to be deported later on: two thirds of those who are deported are deported from the border, and the remaining third are deported from within the interior of the U.S. Others are deported by Mexican authorities before they ever reach the United States.

There are several key issues to highlight here. First, those who come to the United States largely do so by crossing the border. Second, the number of people apprehended has increased substantially from 100,000 in fiscal year 2010 to 190,000 in fiscal year 2013. Third, because not all deportations take place at the border, the amount of deportations is higher than the number of people who enter every year. Fourth, the significance of criminal deportations is important, because the flow of return migrants is diverse and mixed.

Increases in Apprehensions

Central Americans have sought migration as a means to improve their economic condition, a trend that has only increased in the post-recession period.⁶² One way to identify the extent outflow of Central Americans is by looking at data on the ways people enter the U.S.⁶³

Graphic 3.1: US Apprehensions⁶⁴ by Country of Nationality: Fiscal Years 2004 to 2013



Source: "Enforcement Actions," United States Department of Homeland Security. Available at: <http://goo.gl/fWPg72>

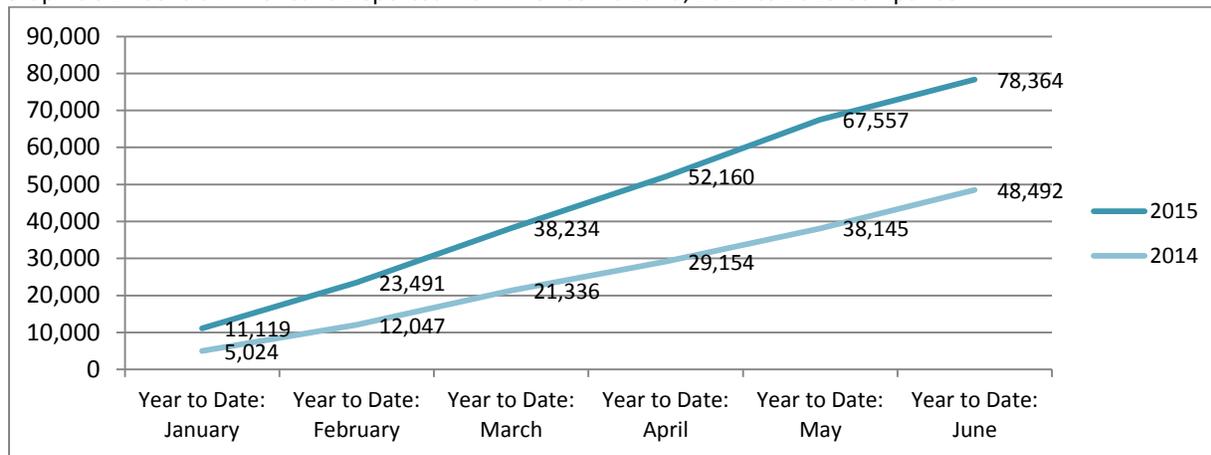
⁶² Other reasons such as violence and family reunification have also played a role in emigration from Central America.

⁶³ The U.S. is the primary destination of more than 80% of Central American migrants.

⁶⁴ An apprehension is "the arrest of a removable alien by the Department of Homeland Security. Each apprehension of the same alien in a fiscal year is counted separately." See <http://goo.gl/kGd3ky>

Large and growing numbers of Central American migrants are also apprehended and deported from Mexico before they ever reach the United States. The graphic below, which is reported by the Guatemalan government, shows an increase in Central Americans being deported from Mexico in 2015, as compared to 2014. This may reflect overall increases in migration attempts or changes in Mexican enforcement.

Graphic 3.2: Central Americans Deported from Mexico via Land, 2014 to 2015 Comparison



Source: “Estadísticas 2015,” Dirección General de Migración de Guatemala. Available at: <http://goo.gl/dJhjT2>

Entering the United States

Despite these apprehensions, many Central Americans are able to enter the U.S. without legal status. The exact numbers have been hard to come by. According to a University of Arizona study, the rate of apprehension along the southern border is 76%.⁶⁵ This rate is measured through a survey of one thousand detained migrants, many of them Mexicans, on the number of crossings that are “successful” (24%) versus “unsuccessful” or those that resulted in apprehension (76%). This measurement is helpful in that it already takes into account the fact that many people are apprehended more than once. That is to say, the calculation implies that apprehensions represent 76% of all attempts to cross.

However, another method consists of using surveys to find the percentage of migrants that arrive in the US by undocumented border crossings. The results suggest that the vast majority of Central Americans who arriving in the country each year do so via undocumented border crossings. A survey of Salvadorans in El Salvador, for example, asked whether they had a relative in the US, and if so, how they had come to the US. Over eighty-percent said the relative crossed the border without papers.⁶⁶ From the same survey, a question about non-relatives showed the same result. Moreover, in our August 2015 survey, 80% of adult migrants in the United States also said they came to the US by crossing the border.

⁶⁵ Mark Grimes, Elyse Golob, Alexandra Durcikova, and Jay Nunamaker, “Reasons and Resolve to Cross the line,” BORDERS, The University of Arizona, 2013. The report focused mostly on Mexican immigrants. Available at: <http://goo.gl/A83trM>

⁶⁶ Survey of Salvadorans in El Salvador, Inter-American Dialogue, 2014.

Using this indicator, in combination with remittance data, we estimate⁶⁷ that 130,000 Central Americans crossed the US border in 2014. Although border crossings do not account for all types of migration, more than 70% of Central American migration to the US is carried out by crossing borders, the rest being a mix of visa overstay and legal migration.

Table 3.1: Central American Migrants Entering US by Border Crossing, Estimated

Country of Origin	2010	2011	2012	2013	2014
Honduras	27,733	31,385	32,350	35,311	38,480
Nicaragua	4,662	5,082	4,895	5,253	5,502
Guatemala	36,772	39,377	42,614	38,759	42,264
El Salvador	34,619	35,694	38,247	42,435	44,676
Sub-region	103,786	111,539	118,106	121,758	130,922

Source: Authors' estimates. See footnote 67.

Deportations

Despite these massive inflows, the number of migrants being deported is also substantial. First, U.S. deportations are conducted both at the border and within the U.S. According to official figures, one third of deportations are within the U.S. territory. Second, the number of U.S. deported migrants does not include all deportations of Central Americans, since many are also deported from Mexico. Third, the rate of deportations of Central Americans in Mexico has increased since 2010.

Table 3.2: Deportations from the U.S.

Deportations from the U.S.	2010	2011	2012	2013
El Salvador	20,347	17,381	18,677	21,602
Guatemala	29,710	30,343	38,677	47,769
Honduras	25,121	22,028	31,515	37,049
Nicaragua	1,903	1,502	1,373	1,383
Four countries	77,081	71,254	90,242	107,803

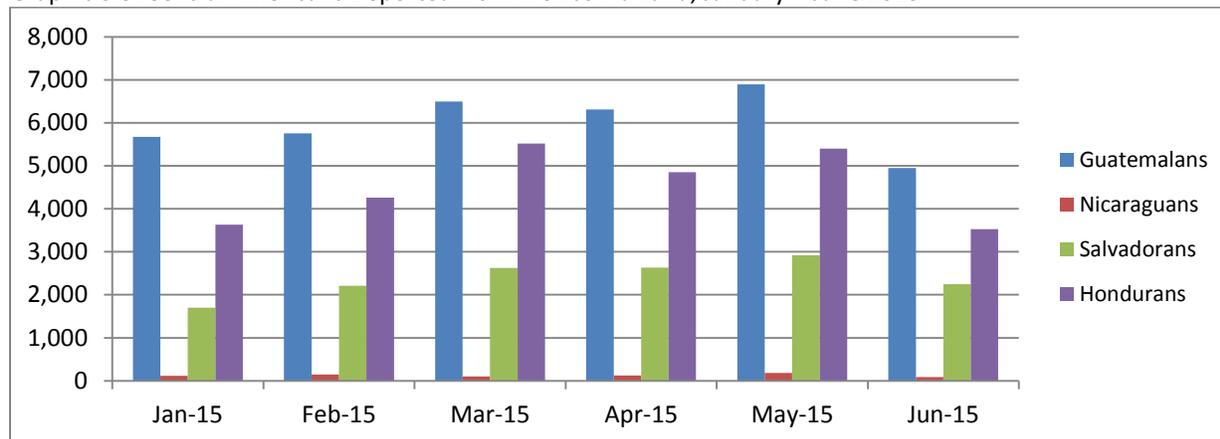
Source: "Enforcement Actions," United States Department of Homeland Security. Available at: <http://goo.gl/46c48Y>

Of course, Central American migrants are also being deported from Mexico. The following graphics show trends in Mexican deportations by country of origin. Guatemalans are the largest Central American group being deported from Mexico, followed by Hondurans and Salvadorans. In June 2015 alone, over 10,000 Central American migrants were returned from Mexico before ever reaching the US border.

⁶⁷ We use remittance transaction and survey data to determine the number of annual entries to the U.S. Our studies show that 90% of transactions from the U.S. are person-to-person transfers, carried out by 70% migrant adults (90% of the migrant population in the U.S.) who are remittance senders. Moreover, since 2008 our surveys show that between 4% and 5% of interviewed migrants say they arrived that same year of the interview. The result is the following estimate for 2014 inflows to the United States.

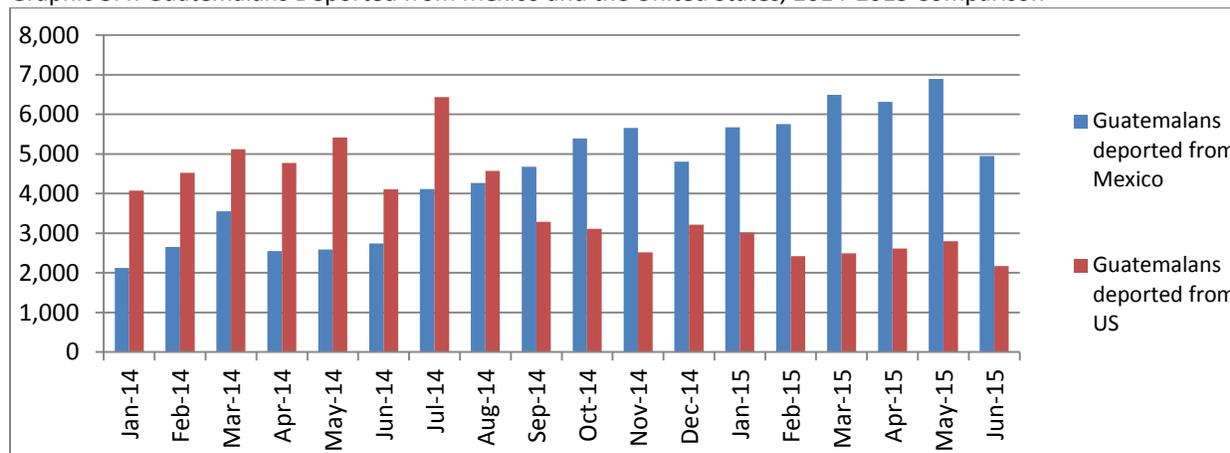
	Honduras	Nicaragua	Guatemala	El Salvador	Sub-Region
2014	45,094	6,877	52,830	59,567	164,368

Graphic 3.3: Central Americans Deported from Mexico via Land, January – June 2015



Source: “Estadísticas 2015,” Dirección General de Migración de Guatemala, June 2015. Available at: <http://goo.gl/Dax3Pf>

Graphic 3.4: Guatemalans Deported from Mexico and the United States, 2014-2015 Comparison



Source: “Estadísticas 2015,” Dirección General de Migración de Guatemala, June 2015. Available at: <http://goo.gl/Dax3Pf>

The Magnitude of Deportations

These figures point to the magnitude of people being returned to Central America. This magnitude can be observed in several ways:

- In relationship to the undocumented population that comes into the country, or
- In relationship to the annual labor force increase, for example.

In the first case, despite the fact that large numbers of people are able to cross the U.S. border; more people are deported each year than are successfully entering, according to our estimates. In Fiscal Year

2013, for example, an estimated 130,000 Central Americans entered the United States, while 108,000 Central Americans were deported from the United States and roughly 150,000 from Mexico.⁶⁸

More importantly, perhaps, is the figure that deportations are equivalent to at least 50% of the annual increase in the labor force in Central America. While every year nearly 500,000 Central Americans join the Central American labor force, at least half of that number attempts to enter the U.S., one fifth of which is able to enter, and one quarter that is returned. This raises questions as to the extent to which the region’s policymakers are aware of these numbers, which do not include voluntary return, and are taking them into consideration. As the subsequent sections of the chapter will show, there are few policies or programs in place that can handle the critical mass of voluntary and involuntary returns.

Table 3.3: Comparing Statistics, Central American Migration to the United States, 2013

	Labor force Increase in country of origin	Apprehensions	Unauthorized border crossings (US)	Deportations from United States
Honduras	94,652	64,157	35,311	37,049
Nicaragua	70,059	2,712	5,253	1,383
Guatemala	201,991	73,208	38,759	47,769
El Salvador	48,746	51,226	42,435	21,602
Sum	415,448	191,303	121,758	107,803

Source: Authors’ estimates based on annual remittance transactions and other indicators.

Criminal Deportations

For countries in the region, another important factor to consider is the profile of person removed from the U.S. and returned to Central America. Some migrants who are removed have been convicted of either violent or nonviolent crimes. According to an analysis of all US deportations from FY 2003-2013, criminal deportations amounted to a larger percentage of total deportations under the Obama Administration than under the previous Bush Administration. However, while 41% of total removals in FY 2003-2013 were of people previously convicted of a crime, only 18% were convicted of the most serious, “Level 1”⁶⁹ crimes.⁷⁰

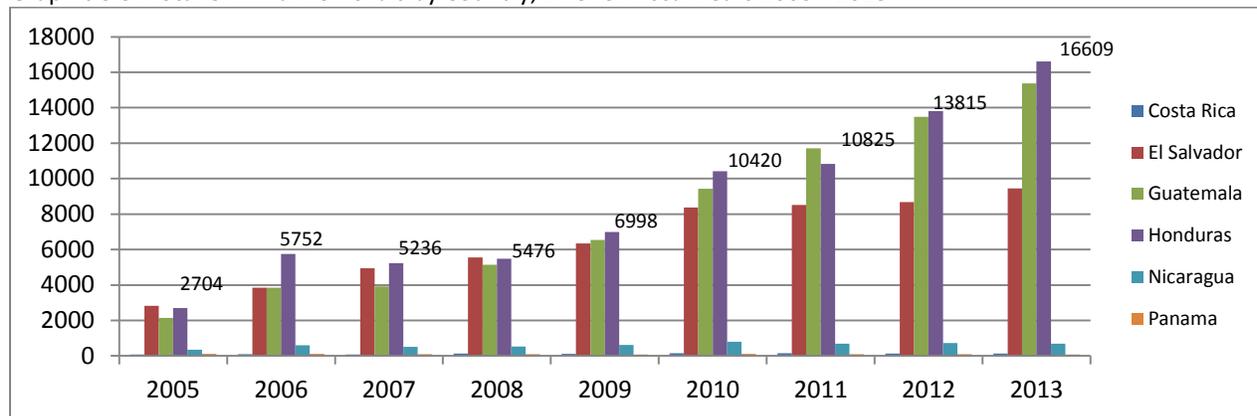
The graphic below shows criminal removals of Central American migrants. In fiscal year 2013, for example, roughly 17,000 Hondurans with criminal records were removed from the United States out of 37,000 removals and 64,000 apprehensions.

⁶⁸ It is important to note that there may be some overlap in these figures if, during the course of several migration attempts, a migrant is deported from both Mexico and the United States.

⁶⁹ A “Level 1 Offender” is a noncitizen convicted of an aggravated felony (such as murder, rape, sexual abuse, drug trafficking, smuggling, etc.) or two or more felony offenses.

⁷⁰ Marc Rosenblum and Kristen McCabe, “Deportation and Discretion: Reviewing the Record and Options for Change,” Migration Policy Institute, October 2014. Available at: <http://goo.gl/NvUVVo>

Graphic 3.5: Total Criminal Removals by Country, DHS for Fiscal Years 2005 - 2013

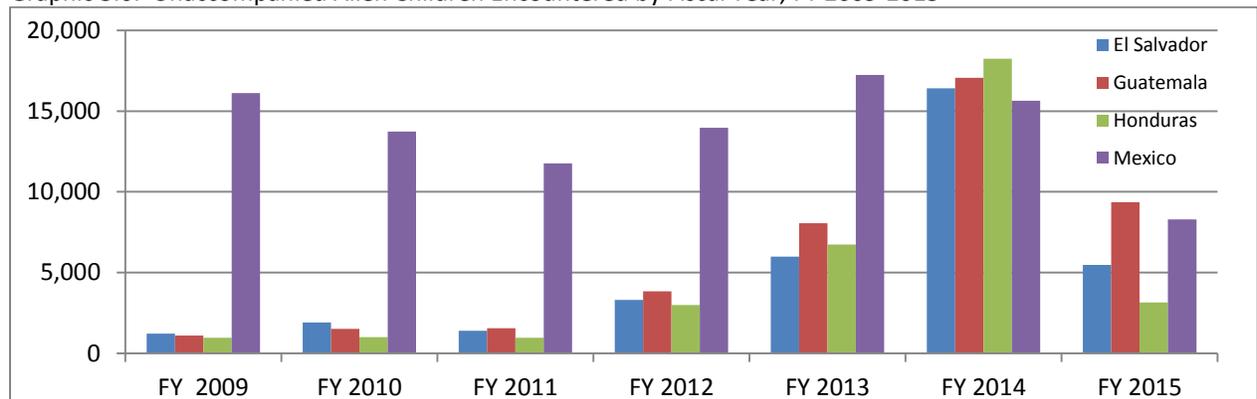


Source: Authors’ calculations with data from “Yearbook of Immigration Statistics: 2013 Enforcement Actions,” United States Department of Homeland Security. Available at: <http://goo.gl/KaPqRb>

Child Migrants

The outflow of unaccompanied child migrants fleeing from Central America is another trend shaping migration from the region. After a sharp increase in FY 2014, the number of unaccompanied child migrants crossing the border appears to have decreased in FY 2015.

Graphic 3.6: Unaccompanied Alien Children Encountered by Fiscal Year, FY 2009-2015⁷¹



Source: “Southwest Border Unaccompanied Alien Children,” United States Customs and Border Protection. Available at: <http://goo.gl/T1DBef>

The decrease in child migrants attempting to cross the U.S. border likely reflects an increase in Mexican enforcement efforts, rather than any substantive improvement in the overall humanitarian situation of this vulnerable population. The table below indicates that the number of foreign minors apprehended (or “rescued,” to use the official terminology) by Mexican authorities has more than doubled from 2013 to 2014. If current levels of apprehensions continue throughout the remaining months of 2015, they will likely have tripled from 2014 to 2015.

⁷¹ This includes the approximately 9-month period of October 1, 2014 through June 30, 2015.

Table 3.4: Foreign Minors Intercepted by Mexican Migration Officials (INM)

Year and Category		Foreign minors intercepted by INM
2013		3,496
2014		8,003
2015 to date (Jan – June)		11,893
	With family member	5,780
	Without family member	6,113
	0-11 years old	4,029
	12 – 17 years old	7,864
	Male	8,060
	Female	3,833

Source: “Boletín No. 38/15,” Instituto Nacional de Migración, June 2015. Available at <http://goo.gl/nNnxDc>

Central American Return— By Choice

Of course, not all return migration is involuntary. Some migrants may reach Mexico and the United States and realize that they need or want to return home for family obligations, different employment options, or a variety of reasons. Other migrants may migrate to the United States with the express intention of working for several years and then returning home to their country.

There is little information available on migrants who return home by choice. In a 2009 survey of Mexican and Central American migrants, 35% responded that they would eventually return to their home country. When asked when, the average was in 5 years, and 6% (or 2% of all migrants) said they would return that same year, 2009. Bear in mind that this study took place during the worst of the recession, when more than 10% of migrants had lost their jobs.⁷²

In August 2015, a survey of migrants in the Washington metropolitan area showed that more than 60% say they would want to return. Forty percent had some idea of the timing of their return. Of those, 15% said they would return the same year (5% of all migrants). Their responses may reflect their current legal status and years of separation from their families. For example, these migrants have been in the U.S. for 15 years on average, compared to those in 2009 who had been in the country for approximately 10 years.

Table 3.5: Intention of Returning Home to Live, 2015 Survey Results

Category		Response
Planning to Return to Live in Home Country		67%
By Nationality	Salvadorans	62.8%
	Guatemalans	86.7%
	Hondurans	81.0%

⁷² Manuel Orozco, “Understanding the continuing effect of the economic crisis on remittances to Latin America and the Caribbean,” Inter-American Development Bank, 12 August 2009.

By Gender	Male	71.2%
	Female	57.6%
Timing of return	No specific idea of timing	59.6%
	Has a specific idea of timing	40.4%
	# years until return (Ave.)	8.8 years
	Plan to return within a year	15.0%
Reasons for Wanting to Return (% total affirmative)	Family back home	38.2%
	My country – sense of belonging	30.9%
	Want to Retire there, Tired of Working	20.3%

Source: Survey of Migrants, Inter-American Dialogue, August 2015.

Reception and Reintegration Efforts in Central America

Faced with large and growing numbers of return migrants, many of whom have been deported under difficult circumstances, countries in the region have scrambled to respond. Despite good intentions, it has been difficult to meet the needs of this population. Existing programs for return and reintegration tend to be small and disparate, with very limited resources. In many cases, they lack the funding to provide either depth or breadth of coverage. Despite some strong efforts, countries in the region are struggling to meet the needs and challenges of returning migrants, especially at the scale that it has been occurring in the post-recession period.

Outreach to Migrants

Only one in four migrants Central American migrants in the United States have heard of programs that help migrants to return and readjust to life in their home country. This figure can be interpreted in different ways. On the one hand, migrants living in the United States are not the intended audience for programs helping deported or returning migrants. On the other hand, given the large-scale deportations and apprehensions that have affected Central American migrants and their migrant family members in recent years, it is surprising that there is not more awareness of these programs.

The low levels of awareness may point to the scarcity of existing programs. According to a 64 year old Salvadoran migrant who had crossed the border and been deported multiple times, “supposedly there are programs, on paper. But when you return, there is nothing there for you, in reality.” After being deported the last time, he returned to the US, where he has been working for the past 5 years.

Of the 25.4% of migrants who were aware of these types of programs, only 36% (or 9% of the total population) were able to name a specific example. The programs most frequently mentioned were CARECEN, Casa del Migrante, “At the embassy,” and airport reception programs such as “Bienvenido a Casa.”

Programs Helping Returning Migrants

Chapter 4 addresses government programs and policies related to migration, including return migration, in greater depth. At this point, however, it is important to briefly note that assistance for returning migrants is very limited. El Salvador and Honduras have the largest number of initiatives, many of them

very recent. In Guatemala and Nicaragua, there are fewer programs, but those that are in place are more long-standing. In general, programs operate with limited staffing, as the table below indicates.

Table 3.6: Primary Programs by Country and Characteristics

Country	Number of Programs	Ave. Years in Operation	Ave. Number of Staff
El Salvador	15-20	4 years	10 - 15
Guatemala	Less than 10	11 years	5 or fewer
Honduras	15-20	4 years	5 or fewer
Nicaragua	Less than 10	12 years	5 or fewer

Source: Mapping of Programs, Inter-American Dialogue, 2015.

Challenges Facing Programs

Many programs spoke openly about the challenges they face. “We’re trying, but it’s not an easy task,” said one representative.” “The *entire topic* of return migration is a challenge,” a government official mentioned, noting that, despite their best efforts, attention to return migrants is simply “insufficient.”

Many programs noted that a lack of resources has been a major challenge. Both government and NGO initiatives have struggled to find adequate funding. “There’s no funding,” commented another program in Guatemala. “We have had to limit our services due to lack of funding,” noted a religious organization working with deported migrants in Honduras.

Other programs have mentioned the difficulties of scaling existing initiatives to reach larger numbers of migrants. As one Salvadoran program noted, they are playing catch-up, trying to adapt to ever-larger waves of deported migrants. This may be even more problematic for Honduras and Guatemala, which have seen the most dramatic increase in apprehensions and removals over the period 2013-present (See Graphic 3.1). In many cases, governments in the region have struggled to respond to the waves of deportations that they have seen in recent years. As one program official noted, “not all of the countries in the region have the institutional structure to be prepared to handle” a situation of this magnitude. Issues of political instability and corruption may also disrupt current efforts.

Another challenge has been effectively collaborating with stakeholders. In many cases, government programs are inter-institutional. This can cause challenges in terms of communication and collaboration. As one government official explained, it is important to have clear which responsibilities fall with each institution. “We need to ensure we are functioning perfectly, it’s almost like the mechanics of an expensive Swiss watch,” she noted. Part of this, of course, includes involving the private sector, especially in terms of labor force reintegration. While many programs mentioned meetings and outreach to private sector employers, it remains more of an aspiration than a reality, and none were able to provide any concrete examples of public-private partnerships.

Finally, several programs mentioned the challenge of accessing and maintain accurate contact information. In both Guatemala and El Salvador, reintegration services depend, at least in part, on the programs’ ability to reach out to return migrants. However, contact information is incomplete and

sometimes inaccurate, either because migrants are not sure where they will be living upon their return, or because they do not feel confident sharing it with government institutions for a variety of possible reasons. According to one organization working in El Salvador, return migrants are afraid to provide accurate contact details due to the very complex security situation in the communities to which they are returning.

Challenges Facing Return Migrants

In many cases, deported migrants must try to rebuild their lives in their home country with very limited resources. However, returning migrants are quite diverse, and the specific challenges they face are unique to their situation. For example, return migrants include those who have been turned back in Mexico or attempting to cross the US border. They also include those who have spent several months working in the United States before being apprehended and deported. Finally, they may include those who have spent many years in the United States.

The challenges facing each of these population groups are unique. Migrants returned from the border, for example, often return to the same difficult situations that originally caused them to decide to migrate. However, they may also face financial issues and debt related to the costs of the unsuccessful migration attempt.⁷³

Migrants who have been in the US longer may face a different set of challenges. Those who have developed specific, high-value skills in the US – including, but not limited to English, construction, electricity and plumbing – may need help transitioning to life back in their country. They may need help obtaining or transferring a professional certification so that they can find a job in their area of expertise. In addition, return migrants may face stigma or discrimination in the communities to which they return. It may be perceived by neighbors or potential employers that they were deported because of criminal behaviors. However, according to a Salvadoran government official, “It’s important to recognize that a huge number of these people have no criminal background of any kind.”

Conclusions

As the previous chapters have shown, Central American today is driven by economic stagnation and high levels of violence in the region. In this context, many Central Americans migrate by any means possible, resulting in high levels of undocumented border crossings. While deportations and return migration constitute a challenge that the region has not yet been able to fully address, migratory trends are certainly not all negative. The following chapters will address some of the ways that migration is linked to economic development. There are a number of important opportunities that arise both from migration itself and from migrant transnationalism more broadly.

⁷³ See, for example, Rodrigo Soberanes, “Los migrantes que llevan una bomba de tiempo por equipaje,” *Ladobe*, 27 July 2015. Available at: <http://goo.gl/e2Tpm7>

Chapter 4 Migration and Development in Central America: Perceptions, Policies, and Further Opportunities⁷⁴

Although migration has been a powerful factor in Central America’s economic growth for some time, government responses—particularly to trends resulting from the migratory cycle—are relatively recent, limited, and diffuse.

This chapter offers an analysis of migration and development in Central America. Migration’s impact on development, and vice-versa, is significant. Over 100,000 people emigrate from Central America each year, and once they settle in the host country they establish links back home of different kinds. Family remittances—personal investments and private donations—are among the main transnational economic activities in which migrants and their families engage. These remittances amount to nearly 15 percent of many countries’ gross domestic product.

Migration’s economic influence goes far beyond money transfers, however. A wide range of economic⁷⁵ activities, including trade, transportation and telecommunications unfold at the intersection of migration and development.⁷⁶

The challenge now is to spur greater economic advantage from migration by increasing financial access, promoting small business ventures, providing social services that meet a wider range of demands, and offering incentives to integrate into the formal labor force. Unfortunately, public officials’ response to migration and development is not always adequate. In most cases, responses are reactive and focus on only the most visible marks of migration: money transfers and undocumented mobility.

This chapter offers recommendations for governments seeking to leverage the economic activities of migrants in a more integral manner. By prioritizing, considering overall impact, and examining whether initiatives can be replicated and grown to scale, governments can design and implement effective policies and create development opportunities.

Understanding the Links between Migration and Development

The intersection between migration and development consists of interactions linked to economic development during the three cycles of migration: prior to migration, during migration, and after migration. Foreign labor mobility is tied to political, economic, social, and security processes, all of which are associated with development. Moreover, labor mobility may be connected to government policy in multiple and complex ways at each stage of the migration process. Migration management, development, and diplomacy are pathways that link mobility and policy. Their impact varies depending

⁷⁴ Manuel Orozco with Julia Yansura, *Inter-American Dialogue*, November 2013.

⁷⁵ It is important to note that economic activities account for a portion of a wide spectrum of transnational activities through which migrants and their families shape development and social change.

⁷⁶ For a more in-depth discussion of these activities, see Orozco et al, “Transnational Engagement, Remittances, and their Relationship to Development in Latin America and the Caribbean.”

on the scope and depth of government engagement. The migration-development nexus is also affected by workers’ legal and social status, workforce skills, levels of remittances, access to financial institutions, asset-building opportunities, human capital position, circumstances for return to the home country, and means of reintegrating returning workers.

Lessons from countries around the world show that migration has the greatest development potential when it is *normalized, protected through diplomatic cooperation, integrated with development strategies, and accompanied by return and reintegration policies or incentives.*

Perceptions of Migration and Development Among Policymakers

Public officials in Central America generally perceive that there is a link between migration and development, and that remittances are one of the clearest manifestations of this link.⁷⁷ Moreover, there is general consensus that the conditions under which migration occurs affect development.

Officials in El Salvador expressed concern with how insecurity affects the migration process and how migration depopulates communities. They also feel that “migration has a very high human cost... There are no policies that enable regulated, safe migration.” They agree that migration plays a role in development strategy but deny that it constitutes development in and of itself. “Development is not equal to migration,” one government official noted. In El Salvador, this perception has led to the promotion of “belonging” or “rootedness” programs to prevent further migration, particularly among youth.

In Honduras, public officials believe the intersection between migration and development is defined by factors that are interwoven with migration: lack of opportunities in the homeland and economic resources that migrants send back to the country, particularly remittances. Some public officials think that while remittances are connected to development insofar as they increase disposable income, their impact can be enhanced through good policies. However, there is also concern that, within this migratory process, there are emerging development issues such as human rights violations and family disintegration.

Guatemalan officials see migration as connected to economics. To them, the link is evident, and remittances are the clearest example. They see their government’s role as facilitating and strengthening the existing linkages between migration and development. However, they expressed concern over the impact of migration on families and women. For example, one official stressed that, “migration offers an opportunity for many Guatemalans that do not have opportunities at home, where remittances bring in much-needed income for food, education, or housing. However, migration is extremely hard on families that are separated.” One official explained, “women [sometimes] don’t receive remittances directly, so they feel financially controlled by men in their community.”

⁷⁷ Honduran, Salvadoran, Guatemalan, and Costa Rican government officials were asked what informed their thinking about migration and development. This project made several attempts to contact and interview public officials working in Nicaragua. However, the Nicaraguan Foreign Relations Ministry, Ministry of Labor, and the Office of Immigration did not respond.

Costa Rican officials tend to have a one-way view of migration that excludes the emigration of Costa Ricans abroad. In general, public officials value immigrants’ contributions to cultural diversity and the labor force. One official said that immigrants “allow Costa Ricans to work in other jobs. The ones who best know this are employers.”

Public officials’ views of migration and development are as mixed as the perceptions within research circles. Both cases are shaped by an immediate reaction to the visible marks of migration: money and undocumented mobility.

Regional Policies on Migration and Development

Central American governments have designed policies related to migration and development, but in many cases they are limited in scope and depth. Most deal with the process prior to migration or with reception after migration but not with transnational engagements while living abroad. This chapter comprehensively reviews the extent to which the region addresses migration and development in the policy sphere and identifies how government officials see the link between the two.

Central American governments, particularly in El Salvador, Guatemala, and Honduras, have invested important resources in implementing policies that address factors at the intersection of migration and development. We find that governments where emigration occurs have adopted policies on:

1. **Prevention:** addressing prospective migrants and discouraging emigration
2. **Outreach and Communication:** providing outreach to migrant and diaspora communities
3. **Operational engagement:** promoting migrant development partnerships
4. **(Re)Insertion:** facilitating migrant reintegration or return

The following table illustrates the range of government policy initiatives in the aforementioned countries. In migrant host countries like Costa Rica and Panama, the approach is focused on migrant legal status and protection. While the list in the table seems extensive, the initiatives are limited to relatively few projects, small in scope and impact. Most of these initiatives focus on prevention or outreach; relatively few address migrant economic engagement.

Table 4.1: Principal Policy Areas Addressed by Central American Governments, 2013

Policy Area	El Salvador	Honduras	Guatemala
Prevention through economic opportunity	X	X	X
Prevention through education	X	X	X
Youth-targeted prevention	X	X	X
Diaspora outreach councils	X		X
Cultural outreach programs	X		
Political outreach	X		
Health outreach		X	
Educational outreach	X		X
Remittance matching		X	

Policy Area	El Salvador	Honduras	Guatemala
Remittance cost initiatives			
Diaspora aid projects	X	X	X
Diaspora investment promotion		X	X
Diaspora knowledge transfer	X	X	
Diaspora nostalgia trade			
Diaspora tourism promotion			
Basic services upon return	X	X	X
Legal reintegration	X	X	X
Educational reintegration	X		
Labor force reintegration	X	X	X
Youth-targeted reintegration	X		X

Source: Mapping of Programs, Inter-American Dialogue, 2013.

Prevention

When it comes to prevention, Central American governments have grown worried about emigration and its associated risks. Each year an estimated 100,000 Central Americans—or 270 people each day—leave their countries. Many head to the United States without documentation. These migrants—especially those who are unskilled and without the means to legally migrate—face great risks and challenges. Migrant women are particularly vulnerable to a range of abuses. Some governments have implemented policies to prevent mass emigration or to inform their citizens about the dangers they face, including at border crossings and as victims of crime. El Salvador, Honduras, and Guatemala support educational programs that provide prospective migrants with rudimentary knowledge of the issues they should consider when deciding to cross a border without documentation.

Diaspora Outreach and Communication

Most governments also believe that diaspora outreach is essential and, as a result, they seek to integrate policies that validate the reality of a Central American Diaspora. Some governments have also consciously sought partnerships with diaspora organizations as a means to promote development. The Salvadoran government pioneered these efforts by promoting diaspora partnerships on small agricultural projects. More recently, the government of Honduras established a diaspora partnership program for local development projects. For the most part, however, these efforts are limited in scope.

Assistance for Returning Migrants

Many programs are focused on basic reception needs. A review of 48 programs and interviews with more than 20 organizations showed that nearly half of these projects were focusing their attention on the immediate needs of people upon return.

Table 4.2: Primary Programs for Returning Migrants, 2015

Objectives	El Salvador	Guatemala	Honduras	Nicaragua	Regional	Total
Basic Reception	8	4	7	2	1	22
Labor Force Reintegration	5	1	1	2		9
Economic Development	1	1	2	2	1	7
Research and Data Analysis			2			2
Other	3		4	1		8
Grand Total	17	6	16	7	2	48

Source: Mapping of Programs, Inter-American Dialogue, 2015.

Basic reception programs, which are the most common type of program, meet migrants at bus terminals or airports and provide services such as food, transportation, emergency lodging, and help in terms of contacting family members. Government programs such as “Bienvenido a Casa” provide a certain baseline type of reception, but in many cases, NGOs provide supplementary services.

Beyond basic reception, some programs are focused on longer-term reintegration strategies. The Salvadoran government is a case in point: in recent years, it has expanded its services to return migrants to include workforce reintegration, entrepreneurship, and technical education. Multiple programs in El Salvador are providing labor force reintegration and entrepreneurship coaching. Access to startup capital will soon be available to deported migrant entrepreneurs through a Salvadoran government program. Guatemala is also offering technical education and certification programs in partnership with INTECAP that can help return migrants find better jobs. According to interviews, many return migrants are interested in studying technical courses such as cooking, call center operations, and tourism since these build on existing skills from their time in the US (English language skills, for example).

Through specific circumstances vary, assistance for returning migrants tends to consist of basic reception rather than more in-depth (re)integration. Reception services generally offer a minimal level of attention to a large number of migrants, while reintegration programs offer more in-depth attention that typically only reaches around 100 migrants a year. The tension between breadth and depth of coverage is critical, especially in light of some of the funding limitations that programs face.

A Lack of Proportionality

There is no proportionality when it comes to the magnitude of migration-related economic activities, policy implementation, or ideas surrounding migration and development. For example, although international migration from Central America is not new, few government institutions in the last 15 years have created mechanisms to address economic or development issues linked to migration.

However, these initiatives are not fully commensurable to the economic magnitude of the migration-development nexus. By way of comparison, Guatemala’s coffee-production subsidies in 2008 accounted for nearly 10 percent of all government subsidies within an agricultural budget of US\$100 million. The government makes no investment in remittance transfers.

Table 4.3: Issues of Proportionality, 2010

	Guatemala	El Salvador	Honduras	Nicaragua
Value of Coffee Exports	\$770,000,000	\$240,000,000	\$760,000,000	\$370,000,000
Value of Remittances	\$4,127,000,000	\$3,539,500,000	\$2,527,000,000	\$966,000,000
Value of Nostalgia Trade Exports	\$992,800,000	\$667,250,000	\$382,500,000	Unknown

Source: Observatory of Economic Complexity (<http://atlas.media.mit.edu/>) and central banks of each country

Clearly, there is a disconnect between policies and what occurs on the ground. This disconnect may be informed by what officials see as the most visible aspects of migration: remittances, and unsafe undocumented migration. For the most part, policies connecting migration and development are limited in both scope and depth in host countries. They do not cover all levels of engagement with the communities living abroad, and the level of effort (financial and human) is also restricted.

Seeking to fill this gap, there are more than 50 nongovernmental organizations (NGOs) working in the region on migration-related issues. In many cases, their activities are more comprehensive and financially substantive than those of the governments. A review of the work performed by Central American NGOs shows that they are more engaged in advocacy, research, and support services for both prospective and returned migrants. Interestingly, these organizations generally eschew development projects.

Table 4.4: Central American NGOs and their Approach to Migration Issues, 2013

Focus	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Total
Communication and advocacy	6%	19%	20%	12%	21%	16%
Human rights	18%	5%	8%	16%	11%	12%
Research	12%	10%	11%	8%	14%	11%
Legal support	9%	5%	11%	8%	4%	8%
General education	6%	10%	4%	8%	7%	7%
Training and research	3%	14%	22%	8%	7%	10%
Emergency assistance (shelter, etc.)	0%	5%	7%	8%	0%	4%
Health and psychological counseling	6%	5%	0%	8%	0%	3%
Reintegration and return	0%	10%	2%	4%	4%	3%
Other	39%	19%	13%	20%	32%	24%
Average year founded	1988	1981	1990	1991	1994	1988
Number of NGOs	9	6	14	5	6	40

Source: Conferencia Regional sobre Migraciones, 2013. Percentages refer to the percent of NGOs focused on a given issue in each country.

Though some programs and initiatives are promising, the overall impact has not been adequate, owing to limited resources and insufficiently ambitious goals.

Governments are not necessarily neglecting to act on the migration-development nexus, but there is a problem of proportionality when it comes to the realities, the perceptions, and the initiatives. The realities include substantial unregulated and unmanaged international labor mobility that generates

significant economic exchanges. There is a mixed perception of the importance of these exchanges, as well as a mixed view of the implications of systematic migration, given difficult circumstances and mass deportations. There is a gap in understanding the link between migration and development and a constraint when it comes to mobilizing resources.

An Issue That Matters: Migration and Central American Economies

In Central America, the relationship between migration and economic growth has systematically deepened. The more than 4 million Central American migrants working abroad have forged a network of economic relationships that directly influences growth and policy in their home countries. This reality is not going away. Rather, it is likely to grow.

Table 4.5: Geographic Distribution of Migrants from Six Central American Countries, 2013

Country of Origin	Countries/Regions of Destination						
	United States		Costa Rica		Central America		World
	(#)	(%)	(#)	(%)	(#)	(%)	(#)
Costa Rica	83,920	64.4%	-	-	23,161	17.8%	130,364
El Salvador	1,371,767	89.8%	-	-	61,177	4.0%	1,526,093
Guatemala	929,961	88.6%	-	-	79,790	7.6%	1,049,865
Honduras	550,694	83.5%	-	-	54,778	8.3%	659,606
Nicaragua	274,293	41.9%	303,523	46.3%	340,185	51.9%	655,117
Panama	112,222	74.8%	-	-	17,235	11.5%	149,952

Source: United Nations, obtained from the Development Research Centre on Migration, Globalisation and Poverty (Migration DRC).

It is important to note that among Central American migrants, 10 percent have moved within the region, mainly to Costa Rica, Panama, and El Salvador. Of particular importance are Nicaraguan migrants in Costa Rica, nearly 20 percent of whom are female domestic workers.⁷⁸

The significance of migrants' economic engagements is illustrated in the following table.

Table 4.6: Leading Indicators as % GDP, 2011

	Merchandise Exports (%)	Total Exports (%)	Foreign Direct Investment (%)	Tourism (%)	Foreign Aid (%)	Five Previous Indicators (%)	Remittances (%)
Costa Rica	25	37	5	6	0.1	50	2
El Salvador	23	28	1	3	1.3	49	16
Guatemala	22	27	2	3	0.9	43	10
Honduras	41	48	6	4	3.8	78	16
Nicaragua	54	41	8	4	7.4	72	12

⁷⁸ See Beatriz Slooten, 2012.

Panama	24	81	9	11	0.3	103 ⁷⁹	2
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Source: World Bank Data, 2011 or MRV.

Remittances reflect ongoing developments in migration and economic growth in Central America. As such, they advance the shift away from agro-exporting economies. The volume of remittances to this region is a byproduct of the transnational ties formed between Central Americans diaspora communities and family members in the countries of origin. Remittances, most of which come from the United States, have grown significantly from US\$100 million in 1980. In 2012, remittances to Central America surpassed US\$13 billion. However, it is important to note that the magnitude and effects of remittances vary among countries. For example, recent remittances to El Salvador and Guatemala surpassed US\$3 billion annually in each country while in Panama and Costa Rica they averaged US\$500 million, respectively.

These remittances help alleviate poverty and address other socioeconomic issues. However, money transfers are not the only manner in which migrants engage with their home countries. Previous research has shown that immigrant phone calls and text messages, visits to the homeland, and consumption of imported foods, for example, translate into additional income for the home country. To this, add migrants and families building assets through savings or investments, as well as migrant philanthropic activities.

Table 4.7: Key impact indicators in the U.S. – Central American Corridor, 2012

Current trend	Central America	Guatemala	El Salvador	Honduras
Central American migrants abroad	4,054,000	1,043,000	1,374,000	623,000
Number of immigrants in the U.S.	2,912,000	785,000	1,168,000	450,000
MIGRANT ECONOMIC ACTIVITIES				
Remittances sent from U.S.	\$8,254,551,000	\$3,237,696,000	\$2,373,840,000	\$1,209,600,000
Value of nostalgic trade imports	\$2,475,545,000	\$992,800,000	\$667,250,000	\$382,500,000
Telecommunications-minutes and texts	\$1,495,155,600	\$448,512,000	\$471,000,000	\$270,000,000
Value of international telecommunications	\$163,744,734	\$53,821,440	\$42,390,000	\$32,400,000
Share of calls outbound to the U.S. from Central America	54%	94%	29%	72%
Tourism: visits by migrants to home country	\$1,164,962,400	\$467,200,000	\$314,000,000	\$180,000,000
Value of transfer of capital (personal investments)	\$658,851,500	\$222,750,000	\$127,000,000	\$43,250,000
Value of philanthropic donations	\$58,248,120	\$23,360,000	\$15,700,000	\$9,000,000
RECIPIENT ECONOMIC ACTIVITIES				
Savings accumulation among recipient households	\$2,096,932,000	\$840,960,000	\$565,200,000	\$324,000,000
Investments in real estate and businesses	658,851,500	127,000,000	222,750,000	43,250,000

⁷⁹ Official data from Panama shows trade in services as exceeding reported GDP.

Income dependence on remittances	0.55			
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Source: Authors' estimates.

Households that receive remittances are able to build significant savings over time. *Remittances have a direct effect in increasing disposable income, which typically turns into saving accumulation.* This does not mean that, as a matter of planning, people set aside their remittance to save. Rather, it means that out of all income earned, including remittances, savings are set aside and accumulated. Savings increase as disposable income increases.

Of remittances to Guatemala, Honduras, and Nicaragua, more than 40 percent go into savings.⁸⁰ A substantial number of recipients save, regardless of gender, rural location, age, or income. The percent of remittance recipients saving is higher in Guatemala than in Nicaragua, even though Guatemalans are more remittance dependent. The remittance recipient population in Nicaragua has lower income overall and, therefore, a higher need for remittances to cover basic consumption, particularly among those receiving transfers from migrants living in Costa Rica. (These transfers are smaller in value than those living in the United States.) In all cases, those who save are among those receiving more remittances.

Table 4.8: Receiving Remittances and Savings

	Guatemala		Nicaragua		Honduras	
	Does not save	Saves	Does not save	Saves	Does not save	Saves
Savings Behavior	27.5%	72.5%	55.2%	44.8%	57%	43%
Annual average amount received	Q28,332	Q39,964	C\$49,125	C\$69,594	US\$2,208	US\$2,928

Source: Financial literacy projects in Guatemala and Nicaragua, Inter-American Dialogue, 2011.

These numbers suggest that increases in remittances—in amount or in frequency—lead to increases in savings. This is an important consideration for policymakers seeking to increase financial access through savings mobilization.

The trends identified here have a significant impact on development and economic growth. They translate into a force that both influences development policy and is influenced by development policy. For example, asset accumulation has an effect of reducing poverty among remittance recipients. Similarly, the presence or absence of policies that leverage these asset-building strategies can further impact economic growth in a country.

⁸⁰ The data for this information comes from two sources: first, from financial education to remittance recipients in Guatemala and Nicaragua, and second, from a household survey of Hondurans conducted in 2009.

Policy Priorities and Considerations

Countries in the region should consider adopting a multilayered approach that incorporates a more informed understanding of how migration and development interact, seeks to replicate existing good practices, leverages scalable strategies to bring about a concrete development impact, and prioritizes needs and policies.

Whether because of urgency, perceptions, or incorrect assumptions, there is a disconnect between the opportunities emerging from migration and the policy choices made in response to migration. One mechanism to bridge the gap is to better inform policymakers and the private sector about the broader dimensions of the intersection between migration and development, particularly as they apply to each country. This exercise can unfold in various ways: through in-depth research commissioned by governments, through workshops with experts in the field, and through partnership with international institutions engaged in the topic. Since development is affected by and affects migration, governments need to consider intervening in all stages of migration and investing the political capital and resources needed to integrate this into national policy.

When considering development projects, it is first important to align a project’s expected results with its goals and identify a measurable set of indicators to determine if desired outcomes are achieved. Results can be measured in two ways. The first way looks at the correspondence between expected deliverables and the actual product delivered. The second examines the impact on local development. This latter point is crucial: Delivering a product is not a *sine qua non* ensuring a positive impact on local development. A road can be paved or a school can be equipped, but the impact of such project depends on whether it changes the quality of life and improves the material circumstances of people in the community.⁸¹

With this in mind, we present an analytical framework for assessing the extent to which remittance or diaspora⁸² development projects enhance lives. Research has found that, for a development project to be successful, it must meet five criteria:⁸³ local ownership, correspondence to community needs, sustainability over time, replicability in other contexts, and accountability to stakeholders.

When partnerships are involved, there is another set of indicators to consider. These refer to the quality of the partnership and serve as a means to control for the partnership’s value-added. Partnership

⁸¹ The concept of development used here is taken from the United Nations Development Programme (UNDP), which characterizes development as “creating an environment in which people can develop their full potential and lead productive, creative lives in accord with their needs and interests” (UNDP 2006). In addition, we can consider development as a condition that enables individuals and society to enjoy a healthy quality of life, be free, have opportunities for upward mobility, and improve their material circumstances (Orozco 2007).

⁸² Jenny Robinson (2002) wrote about the relationship between diasporas and development as being three-pronged: (1) development in the diaspora, (2) development through the diaspora, and (3) development by the diaspora.

⁸³ Manuel Orozco and Kate Welle, “Hometown Associations and Development: Ownership, Correspondence, Sustainability and Replicability,” 2006. Web Anthology on Migrant Remittances and Development: Research Perspectives. March, 2009. Available at: <http://goo.gl/vmxyMu>

quality can be measured in several ways, but three critical approaches include risk sharing, resource commitment, and trust.⁸⁴

Table 4.9: Framework for measuring the development impact of diaspora projects

Ownership	<ul style="list-style-type: none"> ➤ Community members participate in decision making ➤ Community members participate in implementation ➤ Community members control project after completion
Correspondence	<ul style="list-style-type: none"> ➤ Project meets basic needs ➤ Needs met are a development priority ➤ Implementation occurs in association or coordination with other institutions
Sustainability	<ul style="list-style-type: none"> ➤ Project enables development goals ➤ Does not constitute a burden or entail added costs to beneficiaries ➤ Has a long life cycle
Replicability	<ul style="list-style-type: none"> ➤ Resources for the project are easily available in other communities ➤ Institutional environment facilitating implementation is available in other communities
Partnerships	<ul style="list-style-type: none"> ➤ Risk sharing ➤ Resource Commitment ➤ Trust
Risks	<ul style="list-style-type: none"> ➤ Investment not assessed against the reality ➤ Partners do not fully participate in the implementation ➤ Host government is not committed to supporting the initiative

Source: Manuel Orozco.

⁸⁴ See in particular, Manuel Orozco, “In search of options and solutions: Family remittances, diaspora partnerships and development opportunities in Africa,” FIIAPP, 2010.

Chapter 5 Remittances and Financial Inclusion: Opportunities for Central America⁸⁵

Central American countries received over \$15 billion in remittances in 2014, the majority of which came from the United States. Individuals and households in the region rely on remittances, along with a variety of other sources of income, to help cover daily expenses such as food, housing, education, and healthcare. That remittances enable them to cover these important areas is no doubt positive. However, it is also important to consider how remittances can build prosperity, rather than simply sustain survival, in households and communities throughout the region.

The answer lies in access to usable, reliable, and affordable financial services. Financial access can magnify and deepen the positive impacts of remittances at each stage in the remitting process, from access to reliable and affordable remittance services for the sender, to access to banking services and savings strategies for the recipients. Strategies to increase financial access for senders and recipients can have profound development impacts at both the micro and macro levels, especially given the 3.8% expected growth in remittances for 2014.

Key findings include:

- Remittances to Latin America and the Caribbean are expected to reach \$63 billion for 2014, and Central American countries are among those with the highest levels of growth, making remittances and financial inclusion a particularly timely issue.
- Enhancing the development impact of remittances goes beyond reducing transaction costs to promoting bankarization and savings.
- Reducing transaction costs to an average of 3.5% for Central American countries would generate an estimated \$48 million a year in savings.
- Increasing bank account ownership by five percentage points per country would result in an estimated \$46 million in remittances entering the Central American banking system each year through account deposits.
- Mobilizing the existing (mainly informal) savings of remittance recipients would generate an estimated \$2 billion in savings for Central America.
- Financial access and asset-building are critical for leveraging remittances for development, but they also apply to Central American development more broadly.

Trends in Remittances in 2014

Remittances to the Latin American region have grown at least 4% in 2014, marking the first significant growth since 2009. Central American countries have had especially high growth in remittances from 2013-2014. Economic, social, as well as political issues may be impacting these flows. Countries with positive and very positive growth are linked to higher migration and remittance flows from the U.S. and

⁸⁵ By Manuel Orozco and Julia Yansura, Inter-American Dialogue, February 2015.

are probably benefiting from increasing migration, improvement in labor, and economic growth in that country.

Table 5.1: Estimated Remittance Flows to Latin America and the Caribbean, 2014 (in US\$ millions)

Country	2013	2014	Growth	2014 GDP Growth forecast (%)	Remittances as % of GDP (2013)
Panama ⁸⁶	398	643	61.6%	6.5	1.1
Haiti	1,836	2,475	34.8%	3.6	21.1
Honduras	3,121	3,509	12.5%	3	16.9
Guatemala	5,105	5,567	9.0%	3.5	10.0
Dominican Republic	4,262	4,638	8.8%	5.9	7.3
Mexico	21,892	23,607	7.8%	2.1	1.8
El Salvador	3,953	4,217	6.7%	1.9	16.4
Nicaragua	1,078	1,140	5.8%	4.2	9.6
Jamaica	2,065	2,124	2.9%	0.9	15.0
Ecuador	2,450	2,482	1.3%	4	2.6
Uruguay	123	124	0.6%	2.9	0.2
Peru	2,707	2,644	-2.3%	2.4	1.3
Bolivia	1,182	1,153	-2.4%	5.3	3.9
Costa Rica	561	543	-3.2%	3.7	1.2
Colombia	4,071	3,459	-15.0%	4.7	1.1
Paraguay	519	428	-17.6%	4	2.0
Brazil ⁸⁷	1,007	667	-33.8%	0.1	0.1
Argentina	991	991	*	-1.5	0.1
Cuba	1,200	1,200	*	NA	
Guyana	405	405	*	3.6	11.0
Suriname	113	113	*	4.2	0.1
Trinidad & Tobago	129	129	*	2.1	NA
Belize	72	72	*	2.6	4.6
Venezuela	803	0	*	-3	NA
Total	60,043	62,330	3.8%	0.9	1.1

Source: Central banks of each country. Panama: National Statistics Office, and World Bank

*No data available, 2012/13 for LAC volume calculations.

The growth levels for each country above reflect the unique circumstances of migrants' home and host countries. No single factor can explain the recovery in remittances that many countries in the region are experiencing. Rather, a number of factors have interacted and contributed to higher levels of sending in

⁸⁶ High growth reported by the Panamanian authorities. The issue will be further addressed in the report.

⁸⁷ These figures highly underestimate the flows. The volume estimated is circa 7 to 8 billion remitted by 1 million Brazilians worldwide, who send over US\$7,000 a year.

2014. These factors include employment, new migration patterns, and the frequency and method of sending.⁸⁸

In light of the recovery of remittances to many countries in the region, it is important to consider their relationship to development and the policies and strategies that can be used to deepen their development impact.

Leveraging Remittances for Development

The important linkages between remittances and development have the potential to transform the material well-being of migrants, their families, and their societies, especially when good policies are in place. Remittances help receiving households to live more comfortably, increasing their expenditures on nutrition, housing, healthcare and education. As aggregate flows, remittances influence national reserves, foreign currency exchange and saving and credit ratios. From a policy perspective, remittance flows have an unparalleled effect on poverty reduction and, especially when properly leveraged, on economic development.⁸⁹

The point of departure in remittances and development is their effect on income. Remittances are typically pooled with other sources of income (salaries, rents, social support). Out of all income earned, remittances included, savings are set aside and built. Because remittances have the effect of increasing disposable income, they also increase the household's capacity to save. Thus, at the level of the household, remittances fulfill the function of contributing to build liquid and fixed assets.⁹⁰

However, it is important to differentiate between formal and informal savings. Remittance recipient households can and do save, but without access to financial institutions and services, much of their savings are kept informally.⁹¹

The Role of Financial Access

The development impact of remittances depends on a number of financial mechanisms. Graphic 5.1 details the ways in which financial access can magnify and deepen the positive impacts of remittances on development at each stage in the process.

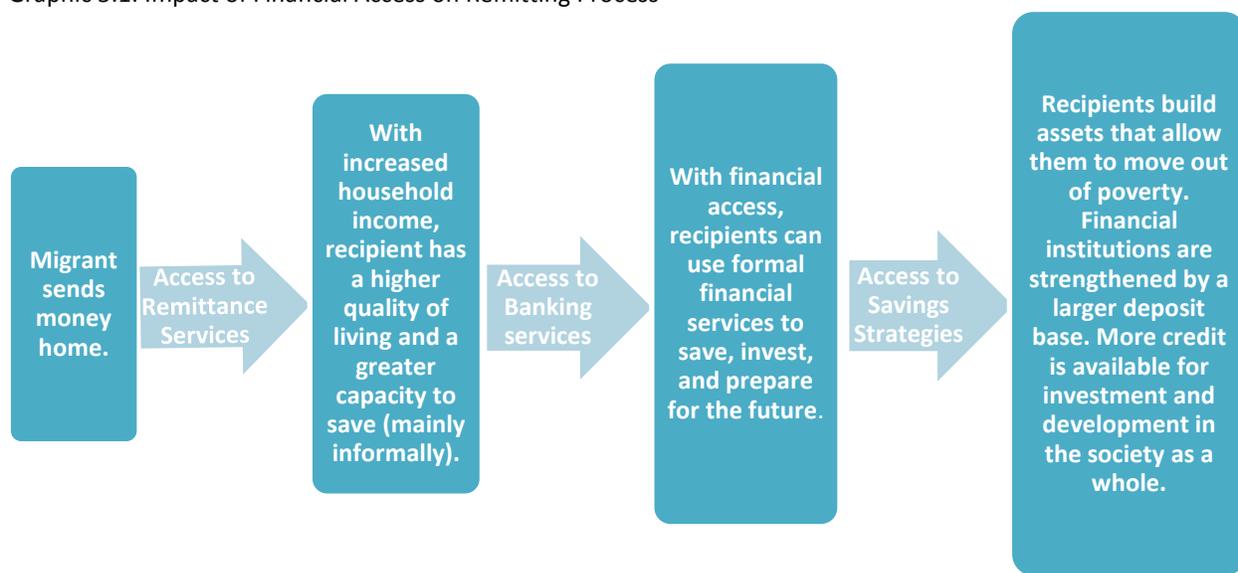
⁸⁸ For a more detailed analysis, see Manuel Orozco, Laura Porras, and Julia Yansura, "Trends in Remittances to Latin America and the Caribbean in 2014," Inter-American Dialogue, February 2015.

⁸⁹ For a more detailed discussion, see Manuel Orozco, "Remittances and Assets: conceptual, empirical and policy considerations and tools," UNCTAD, 2012. Available at: <http://goo.gl/pGYoF6>

⁹⁰ *Ibid.*

⁹¹ In some cases, remittance recipients face geographical, social, or legal barriers that make it very difficult for them access a financial institution. Even those who have access may not use financial institutions and services because they do not realize that they have access, or because they do not understand the benefits of using them. For example, many remittance recipients enter financial institutions on a monthly basis to receive their remittance, but do not hold a savings or checking account with that institution. In light of this, financial access and financial education can help to mobilize remittance recipients' informal savings into the formal financial sector.

Graphic 5.1: Impact of Financial Access on Remitting Process



First of all, migrant remitters rely on access to remittance service providers (RSPs) in order to send money home. The funds will then “move” from the RSP’s U.S.-based bank account to the account of a partner bank in the recipient country, which will pay the money directly, deposit the money in an account, or transfer it to a non-banking correspondent, such as a retail store for payout or credit.⁹² At this stage in the process, the remittance has an important impact for the household, enabling a more comfortable standard of living, at least in the short term.

When the recipient receives his or her remittance, a second financial mechanism comes into play. With this additional source of income, the recipient has an increased capacity to save.⁹³ However, whether they save informally or formally will depend on their access to banking services. Informal savings have some benefits, but they do not have the security or value-added of formal financial services.⁹⁴ In this sense, financial access can substantially expand the impact of the remittance transfer by enabling the recipient household to build assets and improve their quality of life in the longer-term.

Finally, strategies to promote formal savings and investment can help recipient households build the assets they need to significantly improve their economic wellbeing. Simply put, it is not enough for the household to have access to formal financial services; they also need to feel empowered to use them in a purposeful, informed way. At the same time, increased savings and investment can strengthen financial institutions and facilitate access to credit on a larger scale. This, in turn, has profoundly positive impacts on the economic development of the society as a whole.

⁹² RSPs depend on financial access as well. For a discussion of bank account closures and their impact on the remittance market, see Manuel Orozco, “Family Remittances and Business Intermediation,” Inter-American Dialogue, 2013.

⁹³ For a more detailed discussion, see Manuel Orozco, “Remittances and Assets: conceptual, empirical and policy considerations and tools,” UNCTAD, 2012. Available at: <http://goo.gl/pGYoF6>

⁹⁴ Informal savings can be stolen or lost. Informal savings in the form of crops or livestock can quickly be lost due to disease or natural disasters. Moreover, informal savings do not typically gain interest. They may not be considered when applying for a loan (i.e., a client’s credit history and credit score).

Leveraging Remittances for Development: Issues of Scale and Impact

As has been discussed, financial intermediation occurs at multiple stages in the remittance process (see Graphic 5.1). Policymakers, economists and the international development community have naturally expressed interest in ways to ensure that these financial mechanisms are efficient and robust so that remittances can have the greatest possible impact on development. The table below details issues to address, policy approaches, and impacts.

Table 5.2: Policy Issues, Solutions, and Impacts

	Issues to Address	Solutions	Impact
Access to Remittance Services	<ul style="list-style-type: none"> • Cost • Competition • Transparency 	<ul style="list-style-type: none"> • Provide fast, secure and low-cost payout through new technologies • Encourage competition and transparency (see Remittance Scorecard Project as one example) 	“Reducing remittance prices from 10 to 5 percent would result in leaving up to \$16 billion a year into the pockets of the migrants and their families,” according to World Bank ⁹⁵
Access to Banking Services	<ul style="list-style-type: none"> • Geographical access • Legal access • Social access 	<ul style="list-style-type: none"> • Expand financial access into rural areas through non-traditional institutions such as post offices, retail stores, MFIs, and mobile phones • Reduce excessive barriers to financial access; ensure that traditionally excluded groups have access to identity documents • Encourage financial institutions to work with clients from a variety of backgrounds 	With access to formal financial services, recipients can smooth consumption (through savings), hedge against risk (through insurance), and expand human and economic capital (through investment)
Access to Savings Strategies & Financial Education	<ul style="list-style-type: none"> • Improve personal finance • Encourage longer-term thinking on goals, priorities 	<ul style="list-style-type: none"> • Improve personal finance and change financial behaviors through financial education • Ensure that there are low-cost, easy to use savings products available to remittance recipients and other groups 	Mobilizing US\$500 in household savings among 500,000 recipients in 3 years brings US\$250,000,000 increasing the stock of savings available for credit

Source: Manuel Orozco, Inter-American Dialogue.

Improving Remittance Services and Lowering Costs

When looking at intermediation, one issue that has been raised in the international community is transaction cost. Remittance services are often considered to be expensive and inefficient.⁹⁶ Here it is important to consider two questions: Can costs reasonably be lowered? What impact would this have on development?

⁹⁵ Marco Nicoli, “5x5=US\$16 billion in the pockets of migrants sending money home,” World Bank Blogs, 27 November 2012. Available at: <http://goo.gl/KlOnc9>

⁹⁶ See, for example, Mark Anderson, “Global remittance industry choking billions out of developing world,” The Guardian, 18 August 2014. Available at: <http://goo.gl/OJXRz>

The costs of remittances vary across regions, and Africa and the Pacific appear among the most expensive places to remit the equivalent to US\$200. Latin America and Central Asia are among the cheapest destinations for remittances. As the table below highlights, these variations in cost are the function of a number of very real practical and regulatory challenges. Specifically, some of these challenges pertain to regulations, competition in the origination, extent of informal networks, economies of scale on the origin or destination, and operating costs. The table below shows transaction costs by various regions in the world and in relationship to these particular factors.⁹⁷

Table 5.3: Factors influencing transfer costs (US\$200), 2014

Region	Ave. cost ⁹⁸	% Rural Population	Regulations ⁹⁹	Competition	Economies of scale ¹⁰⁰	Operating costs ¹⁰¹
Southern Africa	9%	61%	Restrictive	Weak	Limited	Expensive
Pacific	9%	68%	Moderate	Weak	Limited	Expensive
Northern Africa	9%	40%	Moderate	Moderate	Moderate	Expensive
Eastern Europe	8%	39%	Restrictive	Weak	Moderate	Moderate
South East Asia	8%	53%	Moderate	Strong	Large	Low
Middle East	7%	32%	Moderate	Moderate	Large	Moderate
Caucasus-Balkan	7%	37%	Restrictive	Strong	Moderate	Moderate
South Asia	7%	67%	Restrictive	Strong	Large	Moderate
Caribbean	7%	41%	Open	Moderate	Large	Moderate
South America	6%	33%	Open	Strong	Large	Low
Central America & Mexico	5%	40%	Open	Strong	Large	Low
Central Asia	2%	59%	Open	Strong	Large	Low

Source: Manuel Orozco, Inter-American Dialogue.

In light of this, a viable cost reduction strategy should address not only costs, but the factors driving these costs (competition, regulatory environment, economies of scale, and infrastructure and operating costs).

With regards to the second question, it is helpful to consider what the development impact would be if costs were lowered. The World Bank, which has proposed measures to lower remittance costs to 5% in 5 years, has argued that “reducing remittance prices from 10 to 5 percent would result in leaving up to \$16 billion a year into the pockets of the migrants and their families.”¹⁰² With remittances to the

⁹⁷ For a more detailed discussion of remittances and cost, see Orozco, Manuel. “Transaction Costs: Considerations on remittances, financial access, and impact on rural areas.” 2014.

⁹⁸ These costs are not weighted by market share, therefore, the real numbers may be at least 100 bits lower.

⁹⁹ Extent of restrictions on which institutions are authorized to pay money.

¹⁰⁰ Extent of number of transactions across country corridors. The smaller the scale, the higher the costs to operate a business (Under 750,000 p/m: Limited; 75,000 to 2,500,000: Moderate; over 2,500,000: Large).

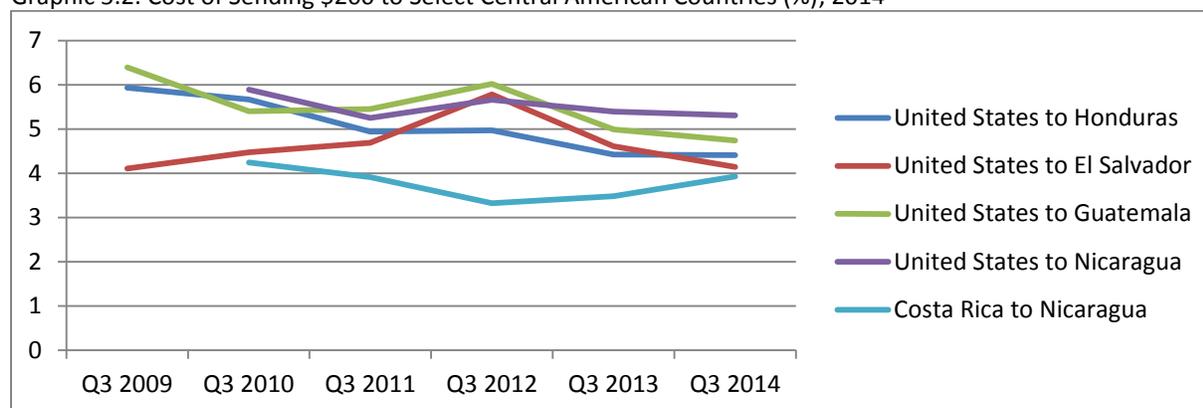
¹⁰¹ Costs of operating under difficult conditions (poor communication infrastructure, limited liquidity, unavailable compliance systems, etc.)

¹⁰² Marco Nicoli, “5x5=US\$16 billion in the pockets of migrants sending money home,” World Bank Blogs, 27 November 2012. Available at: <http://goo.gl/KlOnc9>

developing world reaching \$404 billion in 2013,¹⁰³ the 5x5 plan would, in theory, amount to approximately 4% growth in remittances worldwide.

In the case of Central America, the goal of 5% has been met, at least on average. Remittance costs to Central American countries have declined in recent years, as Graphic 5.2 shows, and the current cost of sending \$200 is approximately 4.5%, or \$9 for the major recipient countries selected below.

Graphic 5.2: Cost of Sending \$200 to Select Central American Countries (%), 2014



Source: World Bank Pricing Data.

Though remittance prices to Central American countries are already low by international standards, it is worth considering what the development impact would be if they could be further lowered – by increased competition, improved infrastructure, or new technologies, for example.

In Central America, competition in the marketplace has reached near saturation point. Businesses have lowered pricing in ways that reflect economies of scale, the number of companies participating, relatively up to date back-end technologies, and the increasing use of internet-based transfers. Transaction costs are at an average of 5% per US\$200 transaction and 4% for US\$300. The most competitive pricing, at 3.5%, which is currently is internet-based, would be a benchmark at this point. A cost reduction of 0.5 percentage points (from the average of 4% to the lowest current market price of 3.5%) would generate savings between 3 and US\$18 per year for each migrant, as the table below shows. This would total US\$48 million if the cost reduction goal is reached.¹⁰⁴

¹⁰³ "Migration and Remittances: Recent Developments and Outlook," Migration and Development Brief No. 22, World Bank, 11 April 2014. Available at: <http://goo.gl/2nNIGV>

¹⁰⁴ The question is whether, under the current model, businesses would be able to shift clients from cash to cash into account to cash or account to account with the low pricing incentive.

Table 5.4: Possible Impacts of a Cost Reduction Strategy, 2014

Country	Costa Rica	El Salvador	Guatemala	Honduras	Nicaraguan Corridors	
Corridor	U.S.-Costa Rica	U.S. – El Salvador	U.S.- Guatemala	U.S. – Honduras	Other – Nicaragua	Costa Rica - Nicaragua
Average transfer \$)	\$ 301	\$ 339	\$ 363	\$ 225	\$ 200	\$ 100
Annual transfer (\$) ¹⁰⁵	\$ 3,612	\$ 4,068	\$ 4,356	\$ 2,700	\$ 2,400	\$ 1,100
Migrants	183,195	1,131,268	1,231,657	1,217,667	337,737	412,789
Remitters	140,919	870,206	947,429	936,667	272,368	332,895
Transaction cost ¹⁰⁶	5%	4%	4%	4%	4%	3%
Volume paid per year	\$25,449,971	\$141,599,920	\$165,080,029	\$111,276,040	\$ 26,147,362	\$10,985,523
Lowered by 0.5%	\$22,904,974	\$127,439,928	\$148,572,026	\$ 100,148,436	\$ 23,532,625	\$ 9,886,971
Annual Savings per migrant	\$ 18	\$ 16	\$ 17	\$ 12	\$ 10	\$ 3
Savings	\$ 2,544,997	\$ 14,159,992	\$ 16,508,003	\$ 11,127,604	\$ 2,614,736	\$ 1,098,552
Total Savings: US\$48 Million						

Sources: Average transfer data from World Bank Pricing Data; Migrants and remitters data are authors' own estimates based on various remittance transfer data and survey data.

Cost reduction strategies are certainly part of a larger strategy to increase the development impact of remittances, but in contexts where costs are already low, strategies related to financial access and savings promotion may be more meaningful. The following sections describe those strategies in more depth.

Accessing Banking Services

Another approach consists of improving access to banking services. This entails connecting migrants and remittance recipients to formal financial services that they can use to manage their income, plan for the future, build assets, and mitigate risk.

The World Savings Bank Institute measures financial access through the usability, openness, formality, and functional capacity of financial institutions.¹⁰⁷ The question, then, is whether migrants and remittance recipients have access to financial services, and whether those services are usable, open to all members of society, secure, regulated, and responsive to user needs.

The short answer to this question is no. The need for better financial access among migrants and remittance recipients has been well documented. Among migrants in the United States, 60% have a bank account,¹⁰⁸ which represents a modest improvement over recent years, but is hardly adequate. Meanwhile, only one out of every three people has bank accounts in major remittance-receiving

¹⁰⁵ Annual transfer is 12 x the average transfer. This is a conservative estimate; on average, migrants send 13 times a year.

¹⁰⁶ Transaction cost from World Bank Pricing Data, as % cost to send US\$200.

¹⁰⁷ Stephen Peachey, "Savings Banks and the Double Bottom Line," The World Savings Banks Institute, May 2006. Available at: <http://goo.gl/RNjPuz>

¹⁰⁸ See Manuel Orozco with Mariellen Jewers, "Economic Status and Remittance Behavior among Latin American Caribbean Migrants in the Post-Recession Period," Inter-American Dialogue, April 2014. Available at: <http://goo.gl/sciTC>

countries in Latin America and the Caribbean. The figure is even lower among certain population sectors, such as low-income and rural residents.

Challenges of financial access are closely linked to some of the issues of cost that have been discussed previously. That is, the challenges are about market penetration and client inclusion into financial payment networks. Thus, the solutions include easing barriers to entry, increasing competition so consumers can have more choices, spreading the range of services available, expanding payment networks, particularly in rural areas (costs in rural areas may be higher in some corridors), and helping reduce, whenever possible, operating costs. These solutions are more successful when attached to financial access for consumers, who can have greater possibilities of managing their resources through accessible and affordable payment instruments.¹⁰⁹

The development impact of expanding financial access to remittance recipients in Central America would be significant. Increasing the number of remittance recipient bank account holders by five percentage points would result in the creation of 167,000 new bank accounts, as the table below shows.

Table 5.5: Financial Access Impact, Estimates for Select Central American Countries, 2014

	El Salvador	Guatemala	Honduras	Nicaragua- Rest	Nicaragua- CR
Ave. remittance transfer (\$)	339	363	225	200	100
Annual value of remittance transfers (\$)	4,068	4,356	2,700	2,400	1,100
International migrants	1,131,268	1,231,657	1,217,667	337,737	412,789
Remittance recipient households (Est. #)	870,206	947,429	936,667	272,368	332,895
Recipients with bank accounts (%) ¹¹⁰	38%	42%	61%	17%	17%
Recipient households with Bank Accounts (Est. #)	330,678	397,920	571,367	46,303	56,592
Impact of increasing bank account ownership by 5 percentage points (# accounts)	43,510	47,371	46,833	13,618	16,645
Impact of Increasing Bank Acct Ownership 5 pts if remittance recipient receives average remittance to account	14,749,992	17,195,836	10,537,504	2,723,680	1,664,475

Sources: Average transfer data from World Bank Pricing Data; Migrants and remitters data are authors' own estimates based on various remittance transfer data and survey data.

¹⁰⁹ One important contribution to increase financial access is the use of technology-based payment instruments on the front end. These include cards, web portals, and mobile transfers. Technologies can often play a role in easing costs provided that they meet basic criteria that benefit consumers within the framework of financial inclusion. That is to say, they should be low-cost, convenient, accessible (widespread origin and destination payment networks), flexible (can be used for a variety of financial transactions), and transparent. For more on this, see Manuel Orozco, "Transaction Cost Considerations on Remittances and Financial Access and its Impact in Rural Areas," 2014.

¹¹⁰ Recipient households with bank accounts based on 2014 sender survey data for El Salvador, Guatemala and Honduras and on financial education participant data for Nicaragua. See Orozco with Jewers, "Economic Status and Remittance Behavior among Latin American and Caribbean Migrants in the Post-Recession Period," Inter-American Dialogue, 2014.

Expanding financial access could also mean that more remittance recipients receive their transfers directly into their bank account. For example, in the case of El Salvador, 60% of remittances are paid through banks.¹¹¹ However, only a small fraction of remittance recipients report using their bank account to receive remittances.¹¹² If the percentage of remittance recipients with bank accounts could be increased five percentage points per country, and these recipients opted to receive their remittances directly into their accounts, this would result in over \$46 million entering the banking system through account deposits.

Promoting Savings

Remittance recipients, by virtue of their increased household income, have a greater capacity to save. Remittance recipients around the world, including those in low-income regions, can and do save. Their stock of savings ranges widely, from \$250 - \$2,500 by country. What is important from a development perspective, however, is that only a fraction of these savings are kept formally.

While financial access is an important precursor to savings promotion efforts, it may not be sufficient. Even those with bank accounts are not using them regularly. For example, although 27% of Mexicans have a bank account, only 7% saved formally in the past year.¹¹³ This suggests that many of those with bank accounts are not using them regularly to save. The issue may be one of the supply of products available; cost and usability are key, as the World Savings Bank Institute has suggested. It may also be an issue of demand; some remittance recipients may not see the value of using formal financial products to save.

In light of this, a savings promotion strategy can help Central American countries to ensure that financial services are not merely accessed, but actually used. Savings at an aggregate level strengthen financial institutions and may ultimately ease access to credit for investment. As the table below shows, mobilizing informal savings into the formal sector could generate nearly \$2 billion in savings for Central American countries.

¹¹¹ Central Bank Data. Available at: <http://goo.gl/qlxaKb>

¹¹² Approximately 20% of Salvadorans receive remittances, according to a survey of 1010 Salvadorans in El Salvador by the Inter-American Dialogue in the summer of 2014. Only 3% of total Salvadorans say they use a bank account to receive remittances (Global Findex, 2011).

¹¹³ "Global Findex," World Bank, 2011.

Table 5.6: Estimated Development Impacts of Savings Mobilization among Remittance Recipients

	El Salvador	Guatemala	Honduras	Nicaragua- Rest	Nicaragua-CR
Ave. remittance transfer (\$)	339	363	225	200	100
Annual value of remittance transfers (\$)	4,068	4,356	2,700	2,400	1,100
International migrants	1,131,268	1,231,657	1,217,667	337,737	412,789
Remittance recipient households (Est. #)	870,206	947,429	936,667	272,368	332,895
Recipients with bank accounts (%) ¹¹⁴	38%	42%	61%	17%	17%
Recipient Households with Bank Accounts (Est. #)	330,678	397,920	571,367	46,303	56,592
Recipient Households without Bank Accounts (Est. #)	539,528	549,509	365,300	226,065	276,303
Ave. stock of savings – formal and informal ¹¹⁵	1400	900	1200	500	500
Impact of Mobilizing Informal Savings into Formal Bank Accounts	755,338,808	494,557,938	438,360,156	113,032,720	138,151,425
Total Impact of Savings Mobilization: US\$1.94 Billion					

Sources: Average transfer data from World Bank Pricing Data; Migrants and remitters data are authors' own estimates based on various remittance transfer data and survey data.

On a household level, formal savings ensures that a family's stock of savings remains secure; it is safeguarded from natural disasters, crime, or other unexpected events. The benefits of formal savings also include earning interest and gaining access to other financial services (i.e., with a savings account, the client may be able to apply for a credit card, and with that credit card, to build a credit history that will eventually enable them to receive a home loan).

In light of this, savings promotion is one of the most effective means of leveraging remittances for development, both at the household and the aggregate level.

Analyzing Successful Savings Mobilization Initiatives

As the following section will describe in further detail, financial education programs have been successful in building the demand for financial services and mobilizing informal savings into the formal financial sector. Studies have found that “financially literate consumers help to reinforce competitive pressures on financial institutions to offer more appropriately priced and transparent services, by

¹¹⁴ Recipient households with bank accounts based on 2014 sender survey data for El Salvador, Guatemala and Honduras and on financial education participant data for Nicaragua. See Orozco and Jewers, "Economic Status and Remittance Behavior among Latin American and Caribbean Migrants in the Post-Recession Period," Inter-American Dialogue, 2014.

¹¹⁵ Stock of savings are estimates based on participant data from various financial literacy projects conducted by the Inter-American Dialogue.

comparing options, asking the right questions, and negotiating more effectively.”¹¹⁶ Financial education can also help to bridge the gap between financial institutions and previously excluded groups, such as remittance recipients.

The Inter-American Dialogue has developed a financial education model that provides individual financial counseling to migrants and remittance recipients through partnerships with local banks and credit unions. These programs have proven successful in promoting financial inclusion and savings among participants. The partnership with local financial institutions facilitates saving in the formal financial system, which offers important benefits for households, financial institutions, and communities. With the help of partner institutions, the Inter-American Dialogue has provided financial advising to over 200,000 people worldwide. On average, one out of every four participants in the program has gone on to open a bank account or acquire another financial product (certificate of deposit, insurance, loan, etc.) from the financial institution.

Table 5.7: Countries where financial literacy has been performed: Key indicators

Country	Participants	Conversion rate ¹¹⁷	Deposits (US\$)	Percent who save ¹¹⁸	Year start	Duration
Azerbaijan	18,000	28%	1,944,000	47%	2009	9 months
Georgia	21,000	13%	3,276,000	81%	2009	9 months
Guatemala	14,000	20%	1,120,000	66%	2010	9 months
Nicaragua	10,000	21%	460,000	42%	2011	4 months
Paraguay	12,000	27%	864,000	73%	2011	6 months
Moldova	7,000	5%	140,000	-	2008	3 months
Tajikistan	42,000	21%	4,500,000	31%	2011	9 months
Kyrgyzstan	32,000	22%	1,750,000	38%	2011	9 months
Uzbekistan	5,000	19%	780,000	30%	2012	4 months
Armenia	12,800	42%	4,600,000	20%	2012	9 months
Moldova	26,900	16%	8,400,000	56%	2012	9 months
Mexico	9,300	24%	350,000	50%	2013	6 months
Jamaica	9,300	24%	1,100,000	78%	2013	6 months

Source: Financial Literacy Programs, Inter-American Dialogue.

Financial education is successful to the extent that it engages clients in a discussion of personal finances and financial goals, introduces basic concepts of financial management, and matches clients’ needs and interests with available financial products, such as savings accounts, insurance policies, or credit. When financial education is tailored to the unique needs and realities of each client, it can help them make positive changes in their financial behaviors by planning for the future, mitigating risks, and building assets.

¹¹⁶ Margaret Miller, Nicholas Godfrey, Bruno Levesque, and Evelyn Stark, “The Case for Financial Literacy in Developing Countries: Promoting Access to Finance By Empowering Consumers,” *Organization for Economic and Co-operative Development*, February 2009.

¹¹⁷ This is the percentage of participants that goes on to conduct additional business with the financial institution as a result of the financial literacy training. This includes opening a bank account, making a savings deposit, purchasing insurance, or taking out a loan, among other things.

¹¹⁸ This includes both formal and informal savings.

Development Strategies for Central America

Financial access and asset-building are critical for leveraging remittances for development, but they apply to development and the Central American region more broadly. Given these circumstances, a development approach should consist of implementing projects of economies of scale in the local communities through an asset building strategy that combines partnerships with national and local governments, the private sector, civil society and U.S. development aid.

At the core, the region needs an asset-building approach that creates opportunities and wealth, strengthens the labor force and creates conditions for market development and local innovation. The approach consists of strengthening education and youth development, building assets through savings mobilization, increasing investment and entrepreneurship, and developing a more skilled labor force.

Chapter 6 Diaspora Investment and the Nostalgia Trade in Central America¹¹⁹

Migration and development have a number of important linkages that create opportunities for economic development. This chapter focuses on ways in which Central American migrant communities contribute to development in their countries of origin through entrepreneurship, investment, and trade. It presents new survey data on Salvadoran migrants to discuss trends and opportunities in migrant trade and investment. Given that this trade and investment is driven by ordinary people of modest economic means, it also explores how their contributions can be strengthened through financial access and technical assistance.

Nearly one in ten Central Americans is living abroad. Most of these migrants are the byproduct of migratory networks formed in the seventies, resulting from armed conflict, natural disasters, and family reunification. However, recent waves of insecurity and continued poor economic performance have contributed to subsequent and larger waves of emigration. For many Central American migrants today, the decision to leave is based on economic factors and family reunification.¹²⁰ Faced with the prospect of low-paying, low-skilled, and informal jobs that offer few opportunities, many Central Americans find it necessary to leave.¹²¹

Although migration is not a solution to these complex issues of economic development, given the realities of migration—with over 4 million Central American migrants living outside their countries of origin—it is important to consider the economics of migration and how they may constitute a “silver lining” in this difficult situation.

For one, migrants engage in a number of transnational activities, all of which have important economic implications. Remittances, for example, which surpassed \$15 billion in 2014, have a tremendous impact. El Salvador, a country of particular interest and focus for this report, received an estimated \$4.2 billion in family remittances in 2014, which represents a 7% growth over the previous year.¹²² These remittances benefit one million households, that is, one in three Central American households, providing important asset-building opportunities.¹²³

In addition to sending money, Central American migrants travel home, call home, and purchase products from their home country.¹²⁴ They also engage in transnational investment, trade and entrepreneurship. As the table below indicates, transnational engagement encompasses a wide range

¹¹⁹ Manuel Orozco and Julia Yansura, *Inter-American Dialogue*, March 2015.

¹²⁰ For example, a 2014 survey found that 25% of Salvadorans are considering emigrating, and the main reason they would emigrate is “lack of opportunities” (44% of responses).

¹²¹ “Evolución de los principales indicadores del mercado de trabajo en Centroamérica y República Dominicana, años 2006-2010,” ILO, 2011. Available at: <http://goo.gl/MvwVt7>

¹²² See Orozco, Porras and Yansura, “Trends in Remittances to Latin America and the Caribbean in 2014,” *Inter-American Dialogue*, 2015. Available at: <http://goo.gl/mPTGkq>

¹²³ Rapporteur’s Report, “Remittances and Financial Inclusion: Opportunities for Central America,” *Inter-American Dialogue*, December 2014.

¹²⁴ Diaspora consumption of imported, home-country products (including but not limited to food and beverages) is termed the “nostalgia trade.”

of activities. In turn, each of these forms of engagement has important economic impacts in local economies.

Table 6.1: Diaspora Engagement with Home Country, % of All Remittance Senders

Type of Engagement	% Respondents
Travels home at least once a year	32.0%
Spends more than \$1,000 during visit home	55.9%
Calls home once a week	61.0%
Spends at least 20 minutes per phone-call home	63.0%
Purchases home-country products (“nostalgia trade”)	68.4%
Sends at least \$300 per remittance	31.0%
Sends remittances for business use	8.0%
Sends remittances to help pay mortgage	12.0%

Source: Orozco, Lowell, Bump and Fedewa, “Transnational Engagement, Remittances and their Relationship to Development in Latin America and the Caribbean,” Institute for the Study of International Migration, Georgetown University, 2006.

This chapter begins by presenting a framework for understanding migration and entrepreneurship before moving on to look at the case of the nostalgia trade, with a particular focus on El Salvador. Through their daily consumption of home-country foods, beverages, and other products, migrants create important trade linkages with their countries of origin, thereby promoting economic growth and much-needed diversification. This chapter continues on to examine current trends in diaspora investment, with a special focus on the case of El Salvador. It concludes with recommendations to further facilitate diaspora investment and trade.

Key findings include:

- Nearly half of Latin American and Caribbean migrants are saving or investing in some way, and 8% say they are saving specifically to invest in a business;
- Migrants promote transnational business development both directly (through investment) and indirectly (through their consumption of home-country products);
- Approximately one in five Salvadoran migrants have invested in El Salvador, and their primary objective in doing so is helping their families;
- Central American migrants promote trade through their daily consumption of home country products, including imported foods and beverages;
- Considering survey data that suggests that 90% of Salvadorans are spending over \$130 a month on goods from their home country, the annual value of nostalgic exports may amount to over \$1.6 billion a year.

Migration and Entrepreneurship: Opportunities at Home and Abroad

Migration and entrepreneurship intersect in multiple and complex ways. Migrants contribute to entrepreneurship directly and indirectly, both in the United States and in their countries of origin. This chapter presents a general framework and context for understanding migrant entrepreneurship before delving into the specific cases of migrant investment and the nostalgia trade.

It is important to note that the reasons for migrant entrepreneurship are very diverse. In some instances, migrants may decide to open their own businesses because the traditional labor market is closed to them, either for reasons of language ability, legal status, or discrimination. In other instances, migrants choose to be entrepreneurs to maximize their unique skills in areas such as technology or communications. In other cases, migrants may see opportunities based on their own transnational experiences and open businesses such as those in the nostalgia trade. Whatever their reasons, the rates of migrant entrepreneurship are high, and have important economic and development implications.

Migrants as Entrepreneurs

A recent survey¹²⁵ found that “entrepreneur” was one of the most common occupations reported among Latin American and Caribbean migrants in the United States. Of the 8% of respondents who reported being entrepreneurs, the majority were male. Compared to the average, entrepreneurs had been living in the U.S. slightly longer (15 years compared to 9 years among all respondents), and were slightly older (43 years of age compared to 36 years among all respondents), suggesting that it may have taken some time to establish themselves in the U.S. before opening a business. The table below highlights the prevalence of entrepreneurship among different Latin American and Caribbean migrant groups.

Table 6.2: Occupations by Nationality Group (%)

	Central America			Other Latin America and Caribbean					Total
	El Salvador	Guatemala	Honduras	Mexico	Haiti	Dom- inican	Jamaica	Colombia	Total
Construction Worker	20.6	18.1	21.0	21.7	8.2	4.0	19.3	9.1	18.2
Service Worker	29.4	21.4	9.0	15.2	20.6	14.1	5.7	27.8	18.0
Salesperson	5.7	15.4	12.0	14.4	4.1	13.1	13.6	20.7	13.5
Entrepreneur	8.8	6.6	2.0	8.2	5.2	10.1	23.9	6.1	8.2
Cleaner	13.9	6.6	7.0	4.6	9.3	0.0	0.0	4.5	5.7
Cook	6.7	3.8	9.0	4.7	2.1	1.0	0.0	1.0	4.1

Source: Survey of 2,000 Latin American and Caribbean Migrants in the U.S., Inter-American Dialogue, 2014.

On average, 8% of migrants identify as being entrepreneurs. Their business involvement extends from their countries of origin to their own communities of residence in the United States, as the next sections will discuss.

Entrepreneurship in Migrants’ Host Countries

In the United States, Central American migrants contribute to entrepreneurship and business development in a variety of ways. According to the Immigration Policy Center, businesses owned by Latinos and Asians comprise 14% of all U.S. businesses.¹²⁶ In fact, the business ownership rate among

¹²⁵ See, for example, Orozco with Jewers, 2014.

¹²⁶ The nation’s 2.3 million Latino-owned businesses had sales and receipts of \$350.7 billion and employed 1.9 million people in 2007. The 1.5 million Asian-owned businesses had sales and receipts of \$506 billion and employed 2.8 million people in 2007. See <http://goo.gl/J4WGZE> This data is compiled from the US Census Bureau’s 2007 Survey of Business Owners.

foreign-born migrants is higher than that of the native-born population (10.5% to 9.3%), according to research by Robert Fairlie. Migrants not only create businesses at a higher rate than the native-born population, but they are doing so at an accelerating rate. The monthly business formation rate among migrants has steadily grown to 0.62%, while the business formation among the native born population has remained relatively flat at 0.28%.¹²⁷

Diaspora Investment

In addition to entrepreneurial activities in the U.S., migrants contribute to entrepreneurship and business formation in their home countries through direct and indirect contributions of capital, knowledge, and labor. These contributions, in turn, have important development impacts, particularly for countries with limited economic development and low levels of growth.

Nearly half of all migrants are saving or investing in some way, with an average stock of savings of around \$2,700. Moreover, 8% of migrants say they are saving specifically to invest in a business. There is variation in interest across nationality groups, with 6% of Salvadorans, 2% of Guatemalans and 14% of Hondurans reporting that they are saving to invest, as the table below shows.

Table 6.3: Diaspora Investment and Savings

	Ave.	Central America			Other Latin America and Caribbean				
	Ave.	El Salvador	Guatemala	Honduras	Mexico	Dominican Republic	Nicaragua	Colombia	Ecuador
Saves or invests in some way (%)	49.0	45.8	60.6	60.4	35.0	28.0	53.6	50.5	70.0
Saving to invest in a business (%)	8.0	6.1	1.7	14.1	2.4	0.0	16.9	18.9	2.9
Of those saving, amount saved (\$)	2,704	2,027	1,994	3,422	2,025	2,129	3,040	3,322	3,322

Source: Survey of 1,000 migrants, Inter-American Dialogue, 2014.

Entrepreneurship and investment in a migrant’s country of origin may occur at various stages of the migration cycle. For example, some migrants return to their home countries and, with the skills, capital, and social networks they have accumulated during their work abroad, start businesses.¹²⁸ In other cases, migrants invest in businesses in their home countries while they are still living abroad. According to a recent report by the International Fund for Agricultural Development, “because of the close ties felt by those living abroad towards their communities ‘back home,’ diaspora investors are not only well-informed about the opportunities existing in their countries of origin, but are also more willing to invest in fragile markets than foreign investors.”¹²⁹ Sometimes migrants also allocate a portion of their remittance to business activity.

¹²⁷ Robert W. Fairlie, “Immigrant Entrepreneurs and Small Business Owners, and their Access to Financial Capital,” report commissioned by the United States Small Business Administration, May 2012.

¹²⁸ Vivek Wadhwa, “Why Migrant Entrepreneurs are Leaving the U.S.,” Bloomberg Business Week, 27 April 2011. Available at: <http://goo.gl/a39KdE>

¹²⁹ “Diaspora Investment in Agriculture (DIA) Initiative,” International Fund for Agricultural Investment. Available at <http://goo.gl/ywWMBY>

As the table below shows, for example, most remittances are being sent for family support and basic daily needs. However, a very small share is said to be spent for business purposes. Though this percentage may be small, it is important to qualify its significance. It is also important to note that this refers to funds within family remittances, and therefore may be in addition to other transfers that are designated specifically for business or investment.

Table 6.4: Expected Purpose of Family Remittance in Income (%)

Usage	Central America			Other Latin America & Caribbean				
	El Salvador	Guatemala	Honduras	Haiti	Mexico	Dominican Republic	Jamaica	Colombia
Food	27.8%	28.3%	37.7%	26.7%	29.1%	27.8%	21.5%	41.4%
Education	13.9%	14.0%	12.9%	8.6%	12.5%	8.6%	12.9%	17.9%
Clothing	10.5%	13.8%	10.0%	24.1%	13.8%	14.7%	20.4%	13.1%
Healthcare	18.2%	20.7%	28.4%	25.4%	23.5%	20.8%	18.3%	15.6%
Housing/Rent	19.4%	10.6%	5.7%	13.1%	12.8%	7.8%	16.9%	9.4%
Business	2.8%	1.5%	1.2%	0.0%	1.2%	1.6%	3.0%	0.2%
Paying Debts	0.9%	7.8%	1.4%	1.1%	2.7%	12.2%	5.4%	0.7%
Savings	6.5%	3.2%	2.6%	1.1%	4.4%	6.5%	1.6%	1.6%

Source: Survey of 2,000 Latin American and Caribbean Migrants in the US, Inter-American Dialogue, 2014.

Note that migrants could choose more than one response.

This section delves into trends and opportunities for diaspora investment, focusing on the case of El Salvador. It draws on preliminary results from a Food for Development¹³⁰ study of Salvadoran migrants in the U.S. to analyze their interests in various sectors of investment, their motivations for investing in El Salvador, and their concerns regarding security and profitability.

Diaspora Investment in El Salvador

Survey data suggests that around one in five Salvadoran migrants in the United States invest in El Salvador in some way. According to the preliminary results of a 2015 survey, 23% of Salvadorans are currently investing in El Salvador or have invested in the past, which is consistent with other research. Moreover, some of those who have not invested in El Salvador might be interested to do so in the future, survey data suggest.

When asked about sectors of investment, Salvadoran migrants expressed interest in a variety of sectors, including business, housing, and land. Survey data suggest that migrants' investment preferences may be shifting. In 2015, interest in land and services appears to have grown relative to other areas of investment.

¹³⁰ Food for Development is a DC-based food security consulting firm. They work to align leading development, agricultural and agri-forestry research with corporate shared values and local food security needs. For more information, see <http://www.foodfordevelopment.com/>

Table 6.5: Interest in Investing in El Salvador

	Interested in Investing in El Salvador in the future (2009)	Interested in investing in El Salvador in next 5 years (2014)
Yes	19.6%	12.3%
No	80.4%	87.7%
	Sectors of Interest for Investment (2009)	Sectors of Interest for Investment (2015)
Business	23.8%	16.9%
Housing	54.5%	1.3%
Construction	-	19.5%
Services	6.4%	20.8%
Land	11.5%	35.1%

Source: Inter-American Dialogue Study 2009, Food for Development Study 2015 (preliminary results).

According to survey data, migrants’ primary motivation for investing in El Salvador is helping their families, followed by preparing for a potential return to El Salvador and making a return on their investment. From 2009-2015, there appears to be a shift in motivations for investing in El Salvador. Today, investment appears to be more oriented towards helping family than towards preparing to return or making a profit, as the table below shows. This may be related to the difficult security situation the country is currently experiencing, which lowers migrants’ expectations about their ability to make a return on investments.

Table 6.6: Motivation for Investing in El Salvador, 2009 and 2015 Responses

	2009 Responses	2015 Responses
To help family	37.7%	74.3%
To prepare for my return	31.1%	14.3%
To make a profit	27.0%	8.6%

Source: Inter-American Dialogue Study 2009, Food for Development Study 2015 (preliminary results).

It is important to note that the profile of the migrant investor (or potential investor) does not differ substantially from that of the Salvadoran diaspora as a whole. Many of those who are interested in investing in El Salvador are working class individuals with limited income. In some cases, they are in the United States without legal status, which makes traveling home to check on businesses or investments very difficult.

Obstacles to Investment in El Salvador

Despite high levels of interest in investing in El Salvador, there are also many obstacles. Low income levels, as discussed in the previous section, can be considered a substantial obstacle. For those respondents who say they would not invest in El Salvador, the main reasons identified are security, competition, and profitability. It is interesting to note the shift from 2009 to 2015 responses, with security appearing as a major concern in 2015.

Table 6.7: Reasons for Not Investing in El Salvador

Reasons for Not Investing in El Salvador, 2009	Reasons for Not Investing in El Salvador, 2015
1. High competition (21.2% responses)	1. Security problems (69.2% responses)
2. Losing control of the business (16.4% responses)	2. Not profitable (15.4% responses)
3. Not having sufficient capital (13.6% responses)	3. Costs are too high (6.2% responses)

Source: Inter-American Dialogue Study 2009, Food for Development Study 2015 (preliminary results).

As has been discussed, about one in five members of the Salvadoran diaspora have invested in El Salvador, and another sizable group would be potentially interested to invest in the future. However, their willingness and ability to invest will depend on their ability to navigate certain obstacles, including security issues and limited capital.

The following section shifts from direct involvement in business and investment to more indirect forms of support, such as consumption of home-country products and the trade that it drives.

The Nostalgia Trade

In addition to promoting business and economic growth through direct investment, migrants also contribute to economic growth through the demand and distribution of home-country products. Migrants often purchase and consume these products with little thought to their economic impact or value; they are simply normal, daily foods from the corner grocery; people like how they taste and how they remind them of home.

However, with nearly 90% of migrants consuming over \$1,000 a year in imported, home country foods, the value of this trade is significant. This section analyzes the supply and demand of nostalgic goods, with a special focus on the case of El Salvador.

Table 6.8: Percent of Migrants Consuming Nostalgic Goods

Characteristics		Consumes home-country products (US Nationwide, 2008)	Consumes home-country products (Washington DC, 2014)
Generation	1 st generation migrant	89%	88%
	2 nd or 3 rd generation migrant	N/A	92%
Gender	Female	91%	96%
	Male	88%	83%
Citizenship	U.S. Citizen	90%	95%
	Not a U.S. Citizen	89%	84%

Source: Surveys of Migrants, Inter-American Dialogue, 2008 and 2014.

Although migrants demand a wide array of nostalgic goods, the highest-demand products can be identified from survey data and store research. Among migrants from El Salvador, Honduras, Mexico, and Guatemala, at least one-third mentioned consuming cheese from their home countries. *Cuajada* was the most common specific item, but other cheeses were also popular. Fruits (mangos in particular)

were mentioned by migrants from all regions, as were rice, clothing, and spices, though specific items varied with country of origin. The table below provides additional detail on the top products consumed by country of origin.

Table 6.9: Main Products Purchased, Select Countries of Origin¹³¹

Nationality	Top products consumed, by category ¹³²	% Respondents consuming ¹³³	% All products consumed ¹³⁴	Specific products of note
Salvadoran	Cheese	27%	14%	<i>Cuajada</i> , dry cheese, other cheeses
	Beans	36%	9%	-
	Fruit	22%	8%	Mango, jocote, other fruits
	Rice	38%	8%	-
Honduran	Fruit	33%	33%	Bananas, watermelon, other melons, mangos
	Cheese	33%	15%	-
	Cream	25%	11%	-
Mexican	Clothing	38%	14%	Shirts, hats, boots, soccer jerseys
	Fruit	25%	14%	Mangos, other fruits
	Spices	25%	14%	Chilies, mole
Guatemalan	Cheese	38%	14%	-
	Soap	25%	10%	-

Source: Survey of Migrants, Inter-American Dialogue, 2014.

Though these products were mentioned often, they represent only a small portion of all products consumed. For example, though 38% of Salvadoran respondents reported consuming rice from El Salvador, rice was only 8% of the total number of different goods that Salvadorans reported buying. This suggests that migrants seek out a diverse array of goods from their home countries, not just a handful of staples.

The 89% of migrants who purchase nostalgic goods spend an average of \$127 a month (or \$1,524 a year) on these goods. First generation migrants and non U.S.-citizens were among those who reported spending more on nostalgic goods. Though women are slightly more likely to consume nostalgic goods, they report spending less each month on these products. Among selected nationalities, Salvadorans reported spending the most on nostalgic goods.

¹³¹ It is also important to note that demand for nostalgic goods is not limited to migrants and their families. Many stores reported that non-migrant consumers shop for specialty, imported food items. In some cases, travelers or Peace Corps volunteers may shop for products that remind them of their time abroad.

¹³² For these product categories, goods were sorted into groups based on similarity and prevalence. For example, “Bread Products” includes not only bread, but also pastries and similar items.

¹³³ Percentage of all respondents mentioning, by nationality.

¹³⁴ *Ibid.*

Table 6.10: Monthly Expenditures on Nostalgia Products and % Total Consumption

Characteristics		Amount purchased (\$/month)	Nostalgic goods as % of total consumption
Generation	1 st generation migrant	\$132	38%
	2 nd or 3 rd generation migrant	\$83	25%
Gender	Female	\$121	39%
	Male	\$132	35%
Citizenship	U.S. Citizen	\$118	35%
	Not a U.S. Citizen	\$132	38%
Country of Origin	El Salvador	\$137	42%
	Honduras	\$108	24%
	Guatemala	\$116	29%
	Mexico	\$115	37%
	All countries of origin	\$127	37%

Source: Survey of Migrants, Inter-American Dialogue, 2014.

When asked what factors were most important when purchasing goods from their home countries, migrants cited the quality of the product, followed by its origin. Cost also factored into consumers' decision-making process, but it was not as important as quality or origin.

Table 6.11: Reasons for Consuming Nostalgic Products

Most Important reasons, 2014 ¹³⁵
1. Quality of the product (53% of respondents)
2. It's from my home country (48% of respondents)
3. Cost of the product (24% of respondents)
4. It's cheaper than a product from the U.S. (8% of respondents)
5. The unique flavor (4% of respondents)

Source: Survey of Migrants, Inter-American Dialogue, 2014.

Of the 89% of migrants who consume home-country goods, 40% report having had difficulty finding certain products,¹³⁶ which suggests that there are opportunities to expand the supply of nostalgic goods and to include new products.

Development Impacts of the Nostalgia Trade

These nostalgic businesses have an economic impact in the local economies in the communities where migrants are living. Nostalgic businesses are in most cases small, family-owned businesses that generate jobs for migrant entrepreneurs and their employees. They also generate employment indirectly in areas such as shipping and trucking. Some of the 8% entrepreneurship among migrants that was previously mentioned comes from individuals working in the nostalgia trade business.

¹³⁵ Note that more than one response was possible.

¹³⁶ Some migrants in DC reported driving to Virginia to buy their favorite home-country products, which added time and cost to their shopping. Others commented that "the stores don't order enough of certain things, and then they run out." Some of the most commonly cited products that migrants had trouble finding were herbal teas and homeopathic medicines.

The nostalgia trade, which amounts to billions of dollars a year in exports, also has considerable economic impacts in migrants’ countries of origin. There is a steady, growing demand for specific, relatively high-quality products¹³⁷ that encourage economic diversification and growth. In many cases, migrant consumers demand specific, niche goods that are not among a country’s most common exports. As a result, the nostalgia trade encourages a diversification of production and exportation that can have positive economic effects, particularly for countries that are oriented around a single commodity export.

The Case of El Salvador

The economic impacts of the nostalgia trade are particularly evident in small countries with large diaspora populations, such as El Salvador. El Salvador’s export market has traditionally been vulnerable in that it produces a relatively small number of products for a handful of countries. El Salvador’s main exports are knit T-shirts and other clothing items, sugar, coffee and electrical capacitors.¹³⁸ Moreover, an estimated 40% of the value of exports is generated by only 10 firms that trade in only a handful of products.¹³⁹

Considering survey data that suggests that 90% of Salvadorans are spending over \$130 a month on goods from their home country, the annual value of nostalgic exports may amount to over \$1.6 billion.¹⁴⁰ Moreover, the top nostalgic products mentioned by migrants -- cheese, beans, fruit, and rice¹⁴¹ -- are not among the country’s traditional exports. In this sense, the nostalgia trade may serve to promote economic diversification and resilience.

Drawing from data from the U.S. International Trade Commission, it is possible to analyze specific products within this market in greater depth. In 2014, select nostalgic products (only a handful of all products consumed by the diaspora) amounted to over \$37 million, as the following table shows.

Table 6.12: Nostalgic Products from El Salvador, 2014 (\$)

Product	Declared Customs Value, 2014¹⁴²
Cheese	1,625,040
Beans	1,839,934
Candy	538,996
Soda	7,744,744
Beer	3,061,508
Bread Products & Tortillas	18,189,088
Condiments and Sauces	3,672,903

¹³⁷ These products are high-quality both in the sense that quality is the first consideration of migrant consumers, and in the sense that stringent quality controls are in place for food products entering the U.S.

¹³⁸ “Country Profile: El Salvador,” The Observatory of Economic Complexity, MIT. Available at: <http://goo.gl/atCIP7>

¹³⁹ “INT encourages countries to diversify exports,” Inter-American Development Bank. Available at: <http://goo.gl/HYGTNI>

¹⁴⁰ This estimate is based on the following calculation: (1,200,000 foreign-born Salvadorans in the U.S.) x (90% consume nostalgic goods) x (Average consumption of \$1,500 a year on these goods) = \$1,620,000,000. This estimate is conservative in that it does not factor in the nostalgic consumption of 2nd and 3rd generation Salvadoran migrants. As a point of comparison, remittances to El Salvador were approximately \$4,000,000,000 in 2014.

¹⁴¹ See table 6.10.

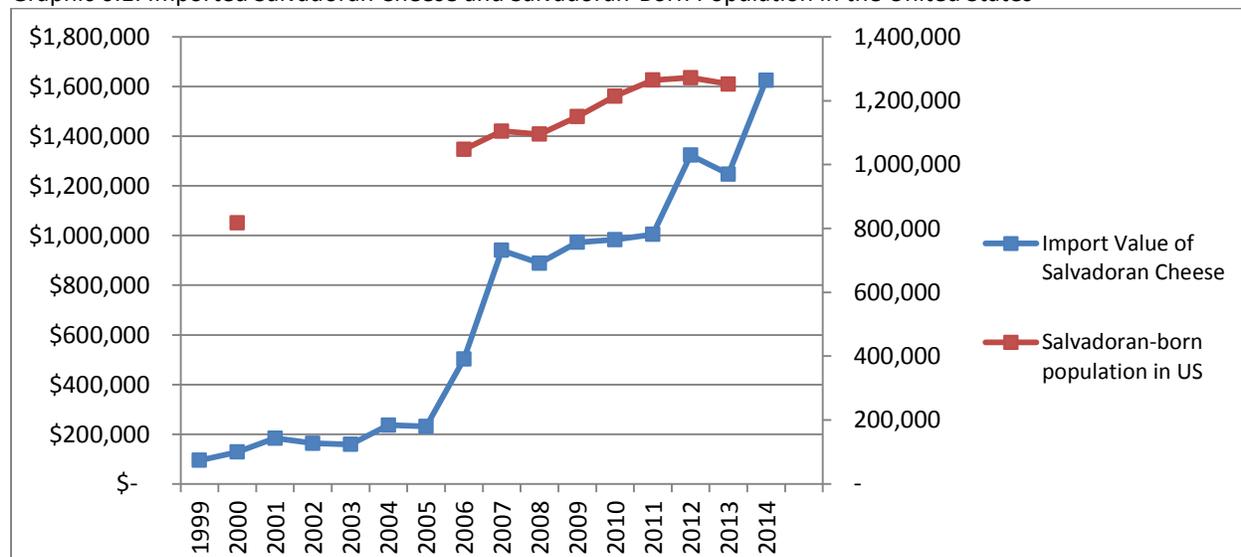
¹⁴² The retail value may be much higher.

Rice	71,932
Fruit (Bananas & Plantains)	636,968
Sum of select Salvadoran food items	\$37,381,113

Source: US ITC database, Select US Imports from El Salvador, Actual Dollars in customs declaration.

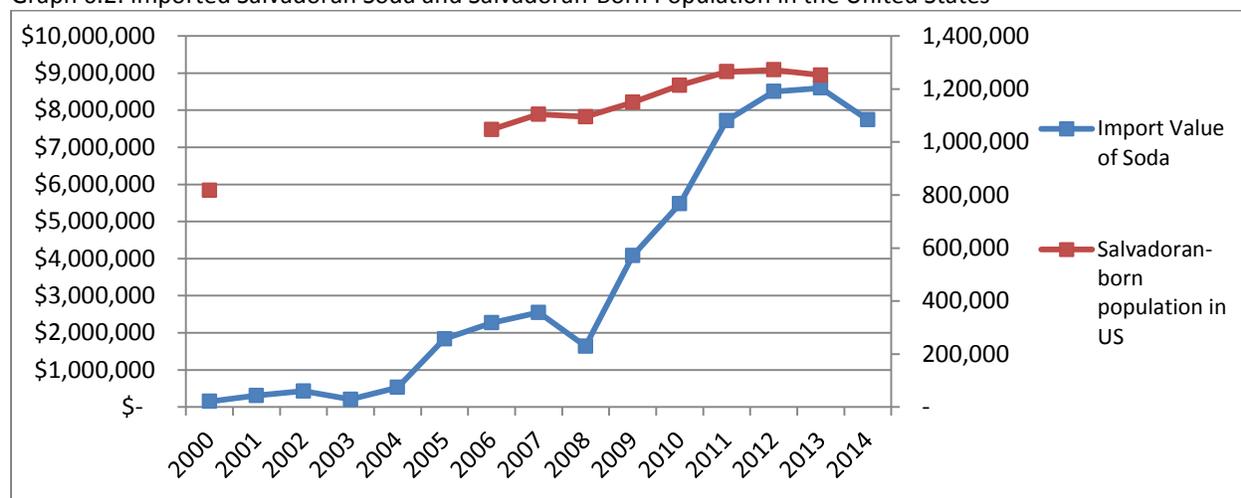
It is important to note that the growth in these exports has been closely tied to the growth in the Salvadoran diaspora in the U.S., as the graphics below suggest.

Graphic 6.1: Imported Salvadoran Cheese and Salvadoran-Born Population in the United States



Source: U.S. ITC database, Select U.S. Imports from El Salvador, Actual dollars in customs declaration. American Community Survey, Selected Population Profile, 1-year estimates.

Graph 6.2: Imported Salvadoran Soda and Salvadoran-Born Population in the United States



Source: U.S. ITC database, Select U.S. Imports from El Salvador, Actual dollars in customs declaration. American Community Survey, Selected Population Profile, 1-year estimates.

The following section discusses the policy implications of these trends in greater detail, with a focus on how migrants can become partners in development strategies. Migration is not, nor should it be, the solution to the complex economic development issues facing Central America. However, given the realities of migration, with over 4 million Central American migrants living outside their countries of origin, it is important to consider how their existing economic activities can be leveraged for a favorable development impact.

Conclusion and Policy Implications

This chapter has explored ways in which Central American migrant communities contribute to economic development through entrepreneurship, investment, and trade. Drawing from new survey data on Salvadoran migrants, it has presented current levels of engagement as well as unmet potential to broaden and deepen this engagement. Given that diaspora trade and investment are driven by ordinary people of modest economic means, it is also important to consider how their contributions can be strengthened through financial access and technical assistance.

Given the migratory dynamics presented in previous chapters, as well as the opportunities related to migration and development explored in this chapter, it is important to incorporate migration into the region's policy agenda. The final chapter of this report describes five concrete strategies that can be used to build human and economic capital in the region, creating viable opportunities at home such that migration is not the only option.

Chapter 7 Building Human and Economic Capital: A Strategy for Central America’s Northern Triangle

In the age of the knowledge economy,¹⁴³ a central development challenge in countries of emigration is to strengthen the human capital base of their youth and workforce. Education, skills attainment and workforce training are not only precarious in the majority of these countries but also disconnected from the demands of a competitive labor force in the global economy. Moreover, the labor force in these countries feels entirely demotivated to stay in their homeland when there are no means to achieve the material circumstances that can be enjoyed in the modern society.

This final chapter proposes an innovative strategy for development in Honduras, Guatemala and El Salvador by integrating migration, remittances, savings and education. The approach links migration and development through five unique and innovative components:

- Financial education for remittance recipients,
- Access to credit for small enterprises—especially those in the knowledge economy,
- Promotion of diaspora-driven trade opportunities (the so-called “nostalgia trade”),
- Diaspora funding of education using remittance platforms, and
- After-school programs in areas of high emigration.

These strategies, though independent, share a common linkage with migration and remittances, and complement one another in terms of building assets. Financial education, and the financial inclusion it provides, is a relevant goal in itself. However, the resources from the financial education program, namely savings stocks, are to be further leveraged in order to promote investment in the knowledge economy. Diaspora demand for home-country products can be leveraged to help promote production of high-quality, specialized exports. Moreover, the diaspora philanthropy can be closely linked to educational services such as the after-school programs for youth in areas of high emigration. The objective is to have a critical mass of people mobilizing savings, investing in education, and contributing to human and economic development as each country transitions to a more knowledge-based economy.

This approach is fundamentally important because it addresses various strategic needs. First, it integrates migrant capital investment and savings from remittances into the financial sector, further mobilizing these resources for local development in education and skill formation. Second, this strategy expands and complements—that is, does not replace—existing approaches to economic growth, and creates a new model for much-needed investments in services for the global economy. Making investments in savings and education as a business strategy will lead to an expansion of opportunities to work and compete in the knowledge economy.

¹⁴³ The use of knowledge to produce value depends on a range of factors. Having high-quality education and a skilled labor force are critically important. Other factors include technology, network connectivity, and access and generation of information.

Table 7.1: Proposed Strategies

Financial Education for Remittance Recipients	<ul style="list-style-type: none"> • Activity: Financial education and savings formalization • Impact: Mobilize savings into formal financial institutions
Access to Credit for SMEs in Knowledge Economy	<ul style="list-style-type: none"> • Activity: Mobilize deposits from financial advising into loans for SMEs • Impact: Broaden and deepen the knowledge economy
Nostalgia Trade	<ul style="list-style-type: none"> • Activity: Technical assistance to help small producers enter the nostalgic trade markets in the U.S. • Impact: Create jobs and opportunity linked to nostalgia trade
Diaspora Philanthropy for Education	<ul style="list-style-type: none"> • Activity: Diaspora fundraising for education through remittance platforms • Impact: Migrants support access to quality education in home countries
After-School Programs	<ul style="list-style-type: none"> • Activity: After-school academic and extra-curricular programs in areas of high emigration • Impact: Provide greater educational opportunities for children and youth

This approach does not compromise existing investments in agriculture but it expands credit to sectors—such as education and skill formation—for which no substantive financing has existed before.¹⁴⁴

The Challenge of Development in the Region

As Chapter 1 has shown, the region’s economic growth and development have historically been affected by high rates of inequality as well as by a poorly performing economic model that is based on agricultural exports. Due to their fluctuating and low yield, agricultural exports do not lay the foundations for wealth in an economy or a society. Moreover, and largely as a result of this agricultural orientation, the region’s labor force is uneducated, unskilled, underpaid and informal. *Maquilas* are the main employment option for women, 20.4% of female employment in Guatemala, 19.6% in Honduras, and 17.9% in El Salvador.

For Guatemala, for example, 28% of the labor force is uneducated, 33% unskilled and at least 50% is underpaid and informally employed. In Honduras, one third of the labor force earns salaries under the minimum established by law, even though they work full time. The link between under-employment and education is clear. In El Salvador, for example, half of men without education are under-employed, compared to 6.7% of those with higher education.¹⁴⁵

¹⁴⁴ Financing for education is typically only available for college education in private universities. However, financing education is key to economic growth and development.

¹⁴⁵ “Evolución de los principales indicadores del Mercado de trabajo en Centroamérica y República Dominicana, 2006-2010,” ILO, 2011.

Today, violence and lack of development are closely intertwined. On the one hand, lack of “legitimate” economic opportunities may make criminal activities more attractive. On the other hand, high levels of violence and extortion make it difficult for “legitimate” businesses to operate and, in addition to their human costs, carry high economic costs.

One major outcome of this has been the search among Central Americans for alternative forms of employment, including international labor migration as an employment strategy.

Asset-Building as a Development Strategy

Given the existing circumstances and the presence of an important migrant population remitting to an estimated 2 million households in the region, it is important to integrate migrants’ and families’ resources into development strategies. The linkages between remittances and development have the potential to transform the material well-being of migrants, their families, and their societies, especially when good policies are in place, as Chapter 4 has shown.

Our data and work shows that remittances help receiving households to live more comfortably, increasing their expenditures on nutrition, housing, healthcare and education. As aggregate flows, remittances influence national reserves, foreign currency exchange and saving and credit ratios. From a policy perspective, remittance flows have an unparalleled effect on poverty reduction and, especially when properly leveraged, on economic development.¹⁴⁶

The point of departure in remittances and development is their effect on income. Remittances are typically pooled with other sources of income (salaries, rents, social support). Out of all income earned, remittances included, savings are set aside and built. Because remittances have the effect of increasing disposable income, they also increase the household’s capacity to save. Thus, at the level of the household, remittances contribute to building liquid and fixed assets.¹⁴⁷

However, it is important to differentiate between formal and informal savings. Remittance recipient households can and do save, but without access to financial institutions and services, much of their savings are kept informally.¹⁴⁸ Moreover, given such informality, their resources are not well managed nor taken advantage of, even in the context of important financial demands, such as investments in education and healthcare.

¹⁴⁶ For a more detailed discussion, see Manuel Orozco, “Remittances and Assets: conceptual, empirical and policy considerations and tools.” UNCTAD, 2012. Available at: <http://goo.gl/Ly7zbi>

¹⁴⁷ *Ibid.*

¹⁴⁸ In some cases, remittance recipients face geographical, social, or legal barriers that make it very difficult for them access a financial institution. Even those who have access may not use financial institutions and services because they do not realize that they have access, or because they do not understand the benefits of using them. For example, many remittance recipients enter financial institutions on a monthly basis to receive their remittance, but do not hold a savings or checking account with that institution.

Financial Education: Asset-Building through Savings Formalization

Financial education has proven to be an efficient tool for systematically and effectively building assets in a society.¹⁴⁹ The Inter-American Dialogue’s financial education model consists of a successful and innovative strategy that promotes financial inclusion, education and savings mobilization. It forms, informs and converts transactional clients into account holders, bringing their informal savings into the formal financial system.

The expected results are to establish and modify behavior and knowledge on basic financial management. Establishing new behavior and knowledge motivates thinking about saving and budgeting, and modifying behavior and knowledge mobilizes personal resources into the formal financial system. Thus, we achieve financial access and education simultaneously.

The accumulation of savings is central to achieving financial wellbeing. With savings, individuals can make smarter long-term decisions on purchases, more easily weather sudden changes in their financial conditions, and better plan for the future. Savings accumulation provides individuals and households additional stability and can lead to other beneficial financial behaviors, including investing and using formal financial services. Part of the strategy to promote savings accumulation includes enabling financial access among traditionally marginalized populations.

Access to finance for the world’s poor has greatly expanded over the past decade. Yet as financial products become more accessible worldwide, a growing gap in financial knowledge threatens to undermine the opportunities provided by this expansion. Individuals are being empowered with the access, but not the knowledge and understanding to make smart financial decisions. Only a quarter of the world’s poor who do have access to financial products and services have actually been taught how to gain the full benefits from these products. As a result, they are left vulnerable to potentially dangerous situations and are at risk of adopting behaviors that could limit their ability to gain financial independence in the long-term.¹⁵⁰

Experience has shown that formal financial instruments, such as savings and credit, enable people to build assets and eventually attain financial independence. Moreover, we have seen that use of these financial instruments increases with financial education. Thus, people that receive tailored tools and appropriate initial exposure to the principles and concepts of budgeting, savings, investment, and insurance ultimately improve their economic condition.

This is especially the case for remittance-receiving communities, who have significant potential to leverage their income for asset-building, as Chapter 5 has shown. Typically, people build savings informally over time as a result of remittance transfers or other increases in their disposable income. The sums received from remittances often are above national average incomes, so the size of informal savings among remittance recipients is large relative to those not receiving remittances. Similarly, while

¹⁴⁹ See, for example, “Improving Financial Literacy: Analysis of Issues and Policies” OECD, 2005; “Financial Education and Awareness on Insurance and Private Pensions,” OECD, 2011; Manuel Orozco, 2010.

¹⁵⁰ Anamitra Deb and Mike Kubzansky, “Bridging the Gap: the business case for financial capability,” Monitor, March 2012.

unbanked, over 60% of migrants save informally up to US\$4,000. The propensity for informal savings and the amount of savings among remittance recipients and senders make formalizing their demand for financial services an important strategy.

Credit for the Knowledge Economy

This second and parallel initiative will engage partner financial institutions to reinvest into the local community in the form of credit. This will entail mobilizing deposits from the financial education portion of the project, as well as deposits from the bank's larger portfolio, into loans for micro and small sized businesses, particularly [though not exclusively] those in the knowledge economy.

The goal is to reach enterprises in need of financing, as well as those in the knowledge economy, in order to promote their growth and widen their impact. These enterprises might include data management services, internet cafes, education and tutoring services, and foreign language classes. This sector is extremely important to support efforts to expand activities outside an agro export-driven economy to a knowledge-driven economy, providing much needed resources for human capital development.

Access to finance constitutes a major challenge in Central America, particularly for small businesses and educational businesses:

- In the case of Guatemala, only 22% of Guatemala's adult population has an account at a formal financial institution, and this number drops to only 13% when considering the bottom 40% of the income distribution. In 2011, 14% of the adult population had received a loan from a financial institution, while 10% received one from family or friends.¹⁵¹ Access to credit is highest in the southwest of the country, near the Pacific Coast and Guatemala City. Most borrowers obtain credit through informal mechanisms, including friends, relatives, and neighbors.¹⁵²
- In El Salvador's case, of the US\$7.2 billion in loans disbursed in 2014, less than 0.1% was given to educational institutions. Major banks, cooperatives and microfinance can expand their portfolio into a wider range of financing for education in ways that are tailored to the less privileged.¹⁵³
- In Honduras, only 2% of total credits were disbursed for microcredit, while 17% - the same amount as that destined to personal consumption credit – goes to small creditors.¹⁵⁴

One innovative approach consists of mobilizing savings from remittance recipients into financial institutions, and then making some portion of these funds available to small businesses in the form of credit. Remittance recipient savings mobilization is a crucial factor, connecting remittances to an existing financial value chain that interacts with supply and demand markets for further financing. Such financing is not only needed among traditional micro and small enterprises, but also among other innovative entrepreneurial activities.

¹⁵¹ Global Financial Inclusion Database, World Bank, 2011. Available at: <http://goo.gl/INQbAO>

¹⁵² "Access to Credit in Guatemala," Growing Inclusive Markets, 2010. Available at: <http://goo.gl/Mip1yG>

¹⁵³ "Cartera de Préstamos por Sectores Económicos," Superintendencia del Sistema Financiero de El Salvador. Available at: <http://goo.gl/SZYlwo>

¹⁵⁴ Central Bank of Honduras.

One such innovation is financing for “educational entrepreneurs” or “knowledge entrepreneurs” as well as students. In the age of the knowledge economy,¹⁵⁵ a central development challenge in countries of emigration is to strengthen the human capital base of their youth and workforce. Education, skills attainment and workforce training are not only precarious in the majority of these countries (typically less than 15% have a college education, 50-70% finished primary school, and 60-90% completed high school) but also disconnected from the demands of a competitive labor force in the global economy. Moreover, the labor force in these countries feels entirely demotivated to stay in their homeland when there are no means to achieve the material circumstances that can be enjoyed in today’s modern society. People migrate as a result of this disconnect.

One key method of involvement is financing knowledge, that is, providing access to credit to *knowledge entrepreneurs* who offer services in formal education (tutoring), information (such as internet access, data management, etc.), and [practical or technical] [hard or soft] skills training that enhance and support formal education.

Promoting the Diaspora Nostalgia Trade

Migrants have a strong demand for products from their home country, with 89% consuming an average of \$125 in imported, home-country products each month. This demand is met by a wide array of migrant-owned and operated businesses providing home-country products such as cheese, fruits, vegetables, beans, and rice. At its essence, the nostalgia trade is an expression of culture, identity and migrants’ connections to their homelands. However, it is also a significant economic phenomenon that can be leverage to help economic development in migrants’ home countries.

Considering survey data that suggests that 90% of Salvadorans are spending over \$130 a month on goods from their home country, the annual value of nostalgic exports may amount to over \$1.6 billion.¹⁵⁶ Moreover, the top nostalgic products mentioned by migrants -- cheese, beans, fruit, and rice¹⁵⁷ -- are not among the country’s traditional exports. In this sense, the nostalgia trade may serve to promote economic diversification and resilience. Some specific approaches include:

- **Market Research:** According to surveys, nearly 40% of migrants would like to purchase home-country products that they cannot currently find. Market research on the types of products most in demand and the gaps in supply could be used to create income and jobs for home-country producers.
- **Business Coaching (with a Transnational Focus):** There are many examples of SME development programs, but few that connect SME development with diaspora-driven opportunities. Business

¹⁵⁵ The use of knowledge to produce value depends on a range of factors, of which better quality of education, skilled and well educated labor are critically important . Other factors include technology, network connectivity, and access and generation of information.

¹⁵⁶ This estimate is based on the following calculation: (1,200,000 foreign-born Salvadorans in the U.S.) x (90% consume nostalgic goods) x (Average consumption of \$1,500 a year on these goods) = \$1,620,000,000. This estimate is conservative in that it does not factor in the nostalgic consumption of 2nd and 3rd generation Salvadoran migrants. As a point of comparison, remittances to El Salvador were approximately \$4,000,000,000 in 2014.

¹⁵⁷ See table 6.10.

coaching for SMEs in Central America could help them to scale up, connect with U.S. nostalgia trade importers, and successfully navigate the export process.

- **Food Standards:** Many SMEs are not able to access the nostalgic goods market because they cannot meet U.S. food safety standards. Local governments could develop industrial kitchen space for rental by small producers, for example, and offer workshops on food quality standards. This innovative approach has been tried in several cities.¹⁵⁸
- **Financial Education:** Many entrepreneurs integrate personal (or family) cash flow and savings into their business, especially when they lack adequate access to formal financial services. Therefore, a focus on personal financial management is also beneficial from a business perspective.
- **Access to Financial Services:** Many entrepreneurs and investors lack access to formal financial services. The problem is two-fold. They may not be aware of existing products that would meet their needs (here, advertising, outreach, and financial education may be helpful). They may also not have access to the types of products they need (here, developing migrant-oriented products such as micro-loans and transnational saving and investment products may be helpful).

Diaspora Philanthropy for Education

This fourth initiative, which will complement the previous activities described, consists of diaspora philanthropy for education in the three countries. Research has shown that there is a critical demand among migrants and remittance recipient households to invest in education and workforce development (the typical household has at least one child enrolled in K-12 education, and one adult in the workforce), and that they are prepared to mobilize their savings toward that end.

In order to satisfy this demand, we propose a partner initiative that creates incentives for migrants to invest in education using the already-existing remittance service platform of MTOs that belong to the Remittance Industry Observatory (RIO).¹⁵⁹ The strategy consists of crafting a relatively low-cost outreach campaign that attracts migrant donations for educational services (such as existing educational programs for high school youth). The campaign and donations will use MTO networks to fund projects in communities of high emigration.¹⁶⁰

Diaspora engagement is influenced by an array of factors such as the availability of resources and migrants' relationships with their hometowns. Research shows that Guatemalan participation in Hometown Associations (HTAs) is around 3%. Seven percent of Hondurans that send remittances belong to an HTA, and so do 4% of Salvadorans. There are over 55 HTAs in the U.S. for the three groups. The percentage of money sent home for investment, savings and philanthropy from diasporas is between 5% and 10%.

¹⁵⁸ See, for example, <http://goo.gl/STxHFa>

¹⁵⁹ RIO is an initiative created by Manuel Orozco at the Inter-American Dialogue involving more than a dozen remittance service providers, including banks and MTOs, that promotes dialogue among remittance industry leaders and development practitioners. It also shares information on key trends and engagement on development issues. For more information, see <http://www.thedialogue.org/remittance-industry-observatory/>

¹⁶⁰ A money transfer company can offer customers the opportunity to donate a dollar to their city's education program when they make their remittance transfer. There would be no additional cost for the added donation. The company can promote the donation in the same way that they advertise free money transfers for humanitarian reasons.

MTOs have an important role to play in providing donation platforms, enriching their service offer to positively impact development and transnational engagement. Diaspora philanthropic work depends upon the ability to reach and involve a critical mass. The MTO platform represents a unique opportunity to do so, and the Dialogue’s Remittance Industry Observatory (RIO) an ideal mechanism to involve MTOs.¹⁶¹

Table 7.2: MTOs Sending to Guatemala, Honduras and El Salvador by % Market Share and Number of Transactions

	Guatemala		Honduras		El Salvador	
	%	#	%	#	%	#
Rio Members Total	48	364,800	68.7	391,590	48.5	471,032
All Transactions	100	760,000	100	571,875	100	971,200

Source: Authors’ Estimates.

This project’s framework is heavily based on private sector engagement. The proposal calls for consultations with a network of money transfer companies about their engagement and commitment to work toward this initiative. Another key component is identifying local think tanks, foundations, NGOs or corporate social responsibility programs that can host and support an education fund, as mentioned.

Once MTOs have been engaged and several interested partners have been identified, the design of a promotion mechanism and its subsequent rollout can take place. The diaspora donations will help fund a select group of NGOs working on education in Guatemala, Honduras and El Salvador.

After-School Programs for Youth in High-Emigration Areas

This fifth and final component of the proposal provides a strategy for building human capital among youth in high-emigration areas, specifically by expanding access to high-quality after-school programs. Working in the same communities where migration has occurred, and where the other initiatives are taking place, we propose expanding access to after-school programs while also strengthening curricular content and learning outcomes.

Taking the example of Guatemala, we can see some of the educational needs that the region is experiencing. Guatemala faces a number of challenges with regards to both educational access and quality. On average, Guatemalans between the ages of 15-24 have only 7.9 years of schooling, which indicates that few of them have finished secondary school. Even for those who stay in school, educational outcomes are low: according to reports by the Dirección General de Evaluación e Investigación Educativa (DIGEDUCA), only 27% of secondary school graduates met national standards in reading, and a mere 8% reached national standards in mathematics.¹⁶²

¹⁶¹ For more information, see www.thedialogue.org/remittance_industry_observatory

¹⁶² “Guatemala: El estado de las políticas públicas docentes,” CIEN and Inter-American Dialogue, 2015. Available at <http://goo.gl/SnwMAj>

Moreover, Guatemala experiences highly unequal educational attainment. For example, 68% of 6th graders in the capital city reached national standards in math, compared to only 30% in Baja Verapaz. Educational outcomes are also lower for rural students, indigenous students and (to a lesser degree) female students.¹⁶³

These educational realities are closely linked to issues of migration and development. First of all, families that do not see opportunities for their children in these countries may be more likely to decide those children should emigrate, with all of the risks and dangers that entails. Second, children who are not thriving in school are more likely to leave school, where they face unstructured time, less supervision, and exposure to risks on the streets. Finally, these children in many cases face limited employment options later in life, making it more difficult for them to support themselves and their families.

Table 7.3: Child Emigration and Learning Standards in Guatemala

Municipality	Child Emigration	Failure to Meet 6th Grade Reading Standards ¹⁶⁴
Guatemala City	High	47.7%
San Marcos	High	79.0%
Huehuetenango	High	89.0%
Quetzaltenango	High	80.8%

Sources: For child migration, “AUC Apprehensions Jan - May 2014;” For learning outcomes, “Guatemala: El estado de las políticas públicas docentes,” CIEN and Inter-American Dialogue, 2015.

After-school programs can play an important role by keeping children off the streets, while also helping them to build the knowledge and skills they need to succeed in school.

Within a larger framework and strategy, the programs outlined here can help countries in the region build human capital and transition to a knowledge-based economy in which emigration is not the only option.

¹⁶³ “Guatemala: El estado de las políticas públicas docentes,” CIEN and Inter-American Dialogue, 2015.

¹⁶⁴ By department.

