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Rising Remittances No Substitute For Development Policy In Guatemala

by LADB Staff

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The amount of money Guatemalans send home from their jobs in the diaspora, mainly the US, has reached a record high, but recent reports say the way in which that money is spent provides little help for the country's development (see NotiCen, 1996-12-05). In some ways, it retards development. Recipients spend on services that should be paid for by the state, letting the government off the hook in social spending. Guatemalans have sent home, so far in 2006, more than US\$3.4 billion to some 3.7 million of Guatemala's 13 million people.

Other beneficiaries of this avalanche of dollars are the coyotes who smuggle prospective workers into the US and the companies that charge hefty fees for sending the fruits of migrant labor back home, says an Oct. 26 survey from the International Organization for Migration (OIM). These 3.7 million people represent 918,819 households, an increase of 19.3% since 2004. The OIM says that the 3.7 million Guatemalans who get a share of the US\$3.4 billion spent US\$283 million on health services, medicines, hospitalizations, doctor visits, and insurance in 2005.

They spent US\$203 million on education, including tuition, transport, school lunches, and school supplies. This amounts to only about 14.3% of the total, while a far bigger piece, 64.4% goes for consumption. What is left unsaid either in the report or in most media coverage is that, as reported by Inforpress Centroamericana, it is the state that benefits from the social spending. Guatemala spends less on social services than other countries of Central America.

An estimated 1.4 million Guatemalans are working abroad, nearly 50,000 more than last year. Of these workers, 77.2% got to the US by means of a trafficker, a coyote. Most of these people paid more than US\$5,000 for the dangerous trip, and few paid less than US\$4,000. The costs do not end with entering the US and finding a job.

The Inter-American Development Bank (IDB) reports that remitters must pay about 5% of the amount sent for the transfer service to repatriate their dollars. About 77% of the money is sent electronically. Western Union does 62% of this business, and MoneyGram about 26.1%. Most of the rest is done by King Express, a Guatemalan company owned by Ricardo Cortes, leader of the Unidad Nacional de la Esperanza (UNE), a center-left party. While these companies profit handsomely from the money flow, there is at least a suggestion that they contribute to the increase in remittances.

Their advertisements on television and elsewhere in the US bear the message that sending money to relatives is a moral obligation. "If you don't send money to your mother, you are a bad son. Remittances companies say this in their TV ads," said Sergio Bendixen, a Miami pollster who worked on the IDB report. The big question The IDB report estimates that immigrants living in the

US will send US\$45 billion home this year. That figure was just US\$2 billion in 1980. The current figure is five times as large as the total of development aid to Latin America and the Caribbean.

"We know that this is a very important poverty-alleviation program for 20 million families. The big question is can we turn this into a local economic development program," said the IDB's Multilateral Investment Fund (MIF) manager Donald Terry. The World Bank, in its October 2006 report, *Close to Home: The Development Impact of Remittances in Latin America*, seems to be answering with a qualified maybe. The bank says that, for every 1% increase in the share of remittances to a country's GDP, the fraction of the population living in poverty is reduced by about 0.4%.

"The countries that benefit the most are the countries with the better investment environment and the countries with the better educated population," said the report's co-author Humberto Lopez. It is his view that "the remittances are an engine for development, but in no case can they substitute for solid national policies."

Lacking investment opportunities

The IDB found in its survey that most of the money sent home to the region is used in ways that fit the Guatemala profile for food, medicine, and shelter. Most of those interviewed said that they would like to invest some of that money, but the majority of Latin America's financial institutions do not have programs designed for this purpose. "Poor people save. Poor people will invest if you give them the opportunity to do that," said Terry. Guatemala does not give them that opportunity. Mexico, however, does.

The Mexican government has a program that matches remittances earmarked for development and infrastructure projects in the recipients' hometowns at a rate of three-to-one. El Salvador also provides investment incentives somewhat. The Pan American Development Foundation (PADF) has a program with Banco Agrícola SA that operates similarly, though much less extensively. If events continue on their present course, Guatemalans who get remittances will continue to benefit, if not prosper, at the expense of those who do not get them, at least regarding their ability to keep the pressure off government social spending. In the short term, this course is certain to continue.

By the end of 2006, the amount of money flowing into the country should exceed the expectations of Banguat, the Central Bank, by about US\$200 million. What would happen if the money stopped coming? But, asks Rosa Posadas, "What would Guatemala do if in one month we didn't send remittances?" Posadas is director of the Union de Guatemaltecos Emigrantes en EEUU (UGE). She was speaking to Guatemalan legislators about the possibility that 30,000 Guatemalans could be deported. They have failed to secure the status of undocumented nationals in the US through the Temporary Protected Status (TPS) program.

Both El Salvador and Honduras have already obtained TPS extensions, "but we Guatemalans remain helpless, and the fingers of deportation are pointed at us," said Posadas. She brought with her from Los Angeles a petition signed by 30,000 Guatemalans at risk in the US. Posadas had approached the legislators only after her request to speak to Guatemalan President Oscar Berger had been turned down. "They don't want to listen to us, and there are 30,000 Guatemalans at this

moment who could be deported, so we came to the Congress to see if the deputies could help us. It is necessary to make a strategic alliance between authorities and migrants for the good of the country, because we know that the sending of remittances is important for the economy."

She got some positive response. Ruben Dario Morales, president-elect of the 2007 Congress, and Julio Lopez Villatoro, president of the Comision del Migrante, said they would plan trips to the US to see what they could do. Posadas also asked for passage of a law to establish a Consejo Nacional de Atencion al Migrante Guatemalteco to coordinate efforts to support Guatemalans in the US. Said Morales, "We're going to do everything we can to help the community of Guatemalans in the US. For the moment, the main thing they are asking is help to avoid deportation because of the new immigration laws." He was referring to the strong emphasis in the US Congress on immigration issues (see NotiCen, 2006-10-12, and SourceMex, 2006-08-30, 2006-10-11 and 2006-11-15).

Posadas and the immigrants can expect less from the government. Marta Altolaguirre, vice minister of foreign affairs, said authorities had been looking for solutions, but there was nothing she could do about the direction the US is taking on the issue. She explained that Guatemala was the only country excluded from TPS. "Everything depends on the will and sensibility of that country; what I can say is that it is being worked on every day," said Altolaguirre.

Most of the Guatemalans Posadas represents came to the US during the war years and live in Los Angeles, New York, Washington, and San Francisco. Many were granted political asylum, but the TPS might also benefit the estimated 60% of the 1.2 million Guatemalans in the US who are undocumented. Chilel Chiu, president of the Guatemalan association Raices Latinas expects that the outcome of US immigration measures will be a 20% reduction in remittances. If that happens in concert with the deportation of large numbers of Guatemalans from the US, the result will be devastating for the economy. As IDB president Luis Alberto Moreno put it, "The flow of remittances demonstrates that the region is far from generating good jobs."

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