

Economic Shocks and Remittances in Guatemala

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Guatemala, the fourth largest remittance receiver in Latin America, benefits greatly from emigration to the United States. Remittances are the largest source of foreign currency inflows and amounted \$4.5 billion in 2011. Located between 3 tectonic plates and 2 oceans, Guatemala is highly vulnerable to natural disasters but remittances alleviated some of its economic pains, particularly in 1998. 10% of Guatemalans live abroad and 80% of those people send remittances home. Additionally, Guatemala's position in the global market as a commodity producer leaves it susceptible to price shocks. Though remittance sending prices are quite high, competition has brought the prices down over time and should continue to do so in the future.

Economic shocks have played a large role in out-migration and the remittance flows to Guatemala. Natural disasters such as hurricanes have caused severe infrastructure losses. Also, Guatemala's dependence on the commodity market have left it vulnerable to world price changes.

- Agriculture accounts for 22.2% of Guatemala's GDP. In 1999, Hurricane Mitch damaged harvests and triggered a food crisis in the country. GDP growth dropped from 4.9% in 1998 to 3.9% in 1999.
- Guatemala is the fifth largest exporter of coffee in the world. Between October 1998 and September 1999, Guatemala's coffee crop reached 5.4 million quintals. However, the depression of world coffee prices in the early 2000s damaged the industry and drove two of the biggest producers to bankruptcy.
- In 1998, Hurricane Mitch caused terrible landslides and floods. It left more than 100,000 people homeless, 300 schools damaged, 268 dead, and produced severe damages of arable land, loss of crops, and a lot of highway damage. The hurricane left \$748 million in losses and damages. The southern provinces were the most affected.¹
- In 2005, Hurricane Stan damaged 75% of Guatemalan territory². Tourism represents a major portion of Guatemala's GDP (approximately \$27.3 billion), and the losses in these provinces were calculated around \$10 billion in 2006. The aftermath left 1500 dead, 3000 disappearances, and approximately 900,000 people displaced.
- Hurricanes have triggered massive emigration to the United States and remittances have subsequently increased greatly; emigration rose from about 500,000 in 2000 to over a million in 2007. Guatemalan Diasporas settled in Los Angeles, New York, Trenton, and Miami.

CAFTA³, signed in 2004, reduced tariffs by 80% on US exports. Foreign Direct Investment inflows increased from \$592 million in 2006 to \$753 million in 2008 creating high expectations for employment. However, trends since the world economic crisis in 2008 indicate the opposite effect.

- Studies by the University of Michigan and the World Bank indicate that the agreement could create more than 300,000 new jobs in the long run and could increase the region's GDP by \$5.3 billion. However, FDI declined 20.4% in 2009 as a result of the global economic crisis and so Latin America has not seen the growth it hoped for. President Barack Obama said that if the agreement did not succeed in reducing poverty, then it should not be expected to reduce migration.
- Studies have revealed that after eight years the amount of remittances sent home has slowed significantly compared to the past decade. The Guatemalan government's has acted to maintain emigration flows.

Evidence shows that brain drain is a somewhat considerable factor in Guatemala, even though the country is one of the top 30 most negatively selected migration nations.

- 5% of physicians in the region reside abroad and the majority go to the United States (see table below). Though Guatemalan migrants are generally negatively selected, the United States can provide nice, safe facilities and high pay for Spanish speaking doctors, encouraging them to migrate.
- In a country with 4.7 physicians per 10,000 people, the loss of doctors to the United States is not desirable. Though Guatemala does not fund a lot of tertiary education and is therefore not losing money in that regard, they would much prefer to see less doctors leave the country.
- In 2000, 8.8% of Guatemalans migrated. 5.2% of people with a low level of education migrated; 25.4% who had completed a medium level of schooling migrated; and 24.2% who had attained education at a high level migrated. These

¹ including Huehuetenango, Escuintla, Alta Verapaz, Chiquimula, and San Marcos

² Mainly the provinces of Quetzaltenango, Retalhuleu, San Marcos, and Sololá.

³ The Central American Free Trade Agreement

numbers in 1990 were 3.8%, 20.2%, and 20.4% respectively which shows that more Guatemalans with high education levels are leaving. Though most migrants are poor and uneducated, a larger portion out of the skilled worker pool choose to migrate indicating that brain drain is occurring.

The growing numbers above and the numbers in the table below indicate that brain drain is increasing over time as a greater portion of the skilled Guatemalans are choosing to leave. Table 1.

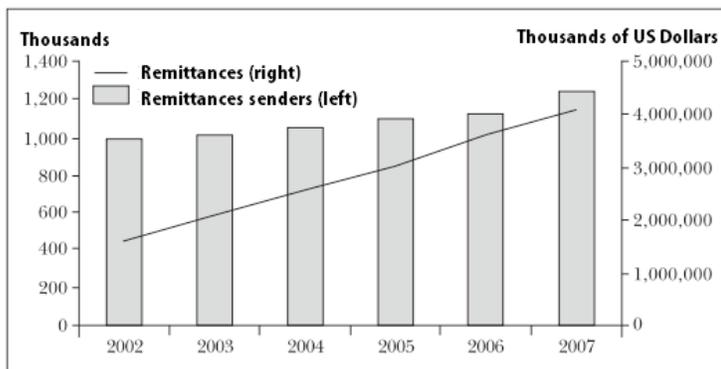
YEAR	Physicians Emigrating	Physicians Emigrating to the US
1995	522	509
2000	606	589
2004	631	613

Source: Worldbank Medical Brain Drain Database

Remittances have steadily grown over the years and have played a major role in Guatemala’s economy. However, remittance sending prices are quite high. Concerns for Guatemalans when choosing an intermediary include geographical closeness, timeliness, and security.

- Total remittance inflows in 2004 were at \$2.6 billion and grew to \$4.3 billion in 2010. In both 2005 and 2009, remittances accounted for nearly 10% of Guatemala’s GDP. The average annual growth rate of remittances was 17% from 2000-2004.
- A study done at the World Bank showed that a 10% increase in the share of remittances to GDP leads to a 1.6% decline in the share of people living in poverty in Guatemala.

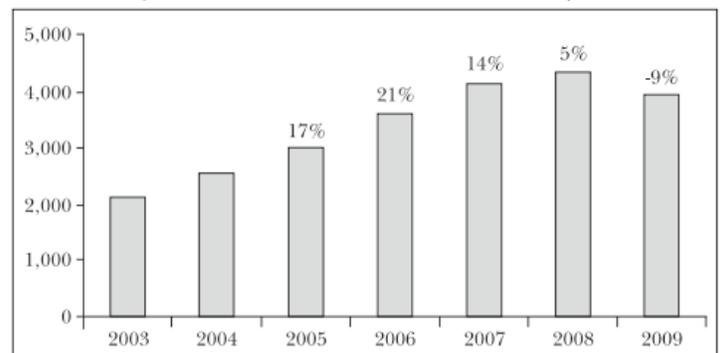
Graph 1. Remittances and Remittances senders 2000-2007



Source: Banguat (Bank of Guatemala) INE Censo 2002 and 2003-2007 projections OIM (2007)

Graph 2. Remittances flow in Guatemala, 2003-2009

(In millions of US Dollars and Rate of Annual Growth)



Source: Banguat (Bank of Guatemala)

- The average remittance is between \$280 and \$350 and 90% of transfers are less than \$1,000. The majority of transfers are sent one time per month. Guatemalans tend to send small amounts very frequently for a variety of reasons (safety, risk diversification, self-control, and to provide faster poverty relief.)
- Guatemala has shifted from the use of money orders and informal cash couriers to the use of Electronic Fund Transfers (EFTs). The money order mailing service King Express has been replaced by several large intermediaries. The most commonly used intermediaries are Western Union, Vigo, Moneygram, and Rey Mesa.
- In 2004, 76% of remittances were sent through EFTs with Western Union at 86% of the total, Moneygram at 6% and Vigo at 3%. 10% of remittances went through banks in the same year. The most commonly used banks are Banrural, which partners with Western Union, and Banco Industrial. In 2004, Western Union charged a \$12 fee along with a 6% fee to send an amount over \$200. Moneygram charged \$10 and 2% if the amount exceed \$1000.
- Today, the average cost of sending money from the US to Guatemala is 5.45% for a \$200 transfer. Costs vary depending on the speed of the transaction. The cost is 3.38% for a \$500 transfer, but Guatemalans still tend to send small amounts.

The average remitters are young males who stay for a temporary amount of time and send money back to a poor household for the purpose of consumption. They are generally target-earners.

- Remittance data accuracy in Guatemala improved in 2001 with the Law Against Money and Assets Laundering and the Law of Free Negotiation of Currencies which required people to report all foreign exchange transactions.
- Migration is generally temporary. Most Guatemalans are target earners and stay for about 5 to 10 years until they have made enough money to buy a truck, for example. The majority of remittances go to rural, low income households where they represent more than 50% of income.
- Most remitters are young, undocumented males who send money home once per month. 73% are males between the ages of 20 and 44 who leave by themselves and send money to family back home. Most remittance use goes to consumption with the main goal to support household expenditures like food, rent, maintenance, and transportation. Remittance expenditure on consumption is about 62%. Investment in health and education is far less common.
- The most common receivers of remittances are parents and children, accounting for 55% of money recipients. Brothers and sisters receive 14% and spouses follow at 13%.
- In 2005, remittances topped US\$3 billion, particularly benefiting those departments which have emigrated the most after Hurricane Mitch and Hurricane Stan. (see Table 2.)

Table 2. Distribution of Remittances by Department, 2005

Department	Percent of Total
Guatemala	21%
San Marcos	9.6%
Huehuetenango	9.1%
Alta Verapaz	5.1%
Izabal	4.5%
Jutiapa	4.3%
Quiché	4.1%
Escuintla	4.1%

Source: IOM

The Guatemalan government has attempted to defend the rights of migrants and has sought out Temporary Protection Status (TPS) for undocumented migrants due to recent natural disasters, but the US remains reluctant. Recent developments have sought to help migrants.

- Guatemalan President, Otto Perez Molina, will create the Ministry of Human and Social Development to empower small businesses, and help with the re-allocation of deported migrants. Most migrants from Guatemala are undocumented and often leave family behind. These social programs will promote family values and reunification.
- In 2011, Nobel Peace Prize Rigoberta Menchú created, through support from the European Union, schools of technical education for women and education centers for deported youths.
- Distance decay has been an important factor that encourages migrants to move to the US. President Barack Obama agreed to promote human rights for migrants and decrease violence at the border, which has increased since 2004 due to massive emigration after Hurricane Stan. Perez Molina announced a link program to prevent abuses to migrants and victims of human trafficking.
- TPS would allow 800,000 Guatemalans to temporarily live and work legally in the United States as a relief measure. The United States granted TPS in 1998 to migrants from Nicaragua and Honduras after Hurricane Mitch. Following Hurricane Stan in October 2005, the Guatemalan government tried to attain this relief measure, but were unsuccessful.
- One of the main amendments of CAFTA was requested by the US where it explicitly avoids any linking of trade provisions with temporary migration or visas to the United States.

Susceptibility to shocks has provided incentive to seek stable pay in the United States for Guatemalans. Increasing remittances through this bilateral channel have shown that the United States provides a coping mechanism for many Guatemalans facing tough economic times. When remittance sending shifted to the electronic age, firms like Western Union took a large portion of the market and charged high prices. However, competition among intermediaries and banks are causing a fall in the prices for the overall benefit of Guatemalan migrants and the remittance receivers. If the US economy stays strong and laws regarding legal, work-based migration remain unchanged, then the United States will likely continue to attract Guatemalan workers.

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