

THE IMPACT OF MIGRANT REMITTANCES ON THE HONDURAN ECONOMY

BY

YARA TATYANA VÁSQUEZ PUERTO

THESIS

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of the requirements

for the degree of

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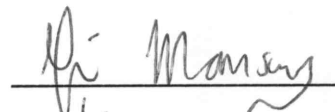
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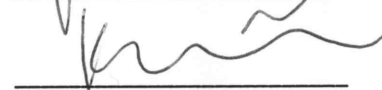
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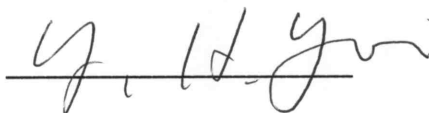
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ABSTRACT

THE IMPACT OF MIGRANT REMITTANCES ON THE HONDURAN ECONOMY

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YARA TATYANA VÁSQUEZ PUERTO

This study examines the impact of immigrant remittances on the distribution of income across households as well as on output production across sectors. I first review various aspects of Honduran migrants and their migration trajectory. Through the application of the Social Accounting Matrix model to the 1997 Honduras data, I then estimate the general equilibrium effects the remittances bring to the Honduran economy. The results show that remittances contribute remarkably to the income of households and derive a consumption pattern that is very strong among the population. Finally, I discuss policy implications towards a more productive utilization of these remittances, in particular to motivate other uses besides consumption that can help reduce poverty.

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**Dedicated to my beautiful country Honduras and to all of us Hondurans who
have not yet given up hope...**

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First of all I want to thank God, for blessing my life in every way, especially during the most difficult moments these past two years. Many people to thank eternally for their support, friendship and wisdom sharing: the KDI School for opening the doors and providing me the most intense and rewarding education I have experienced in my adult life, the School Staff for their friendship and kindness, my dear unforgettable classmates and Professors, especially Professor Yuri Mansury for his admirable knowledge and invaluable support, and last but not least to my family, who have stand by my side in this education process.

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Key to Symbols and Abbreviations

GDP	Gross Domestic Product
USA	United States of America
BCH	Banco Central de Honduras (Central Bank of Honduras)
NCDC	National Climatic Data Center
EPHPM	Encuesta Permanente de Hogares de Propósitos Múltiples (Permanent Household Survey for Multiple Purposes)
CEPAL	Comisión Económica para Latino América (Latin American Commission for Latin America)
PRAF	Programa de Asistencia Familiar (Family Assistance Program)
FUSADES	Fundación Salvadoreña para el Desarrollo Económico y Social (Salvadoran Foundation for Social and Economical Development)
IADB	Inter American Development Bank
BCIE	Banco Centroamericano de Integración Económica (Central American Bank for Economic Integration)
MIF	Multilateral Investment Fund
IMF	International Monetary Fund
FONAMIH	Foro Nacional para las Migraciones en Honduras (National Forum for Honduran Migrations)
NRC	National Research Council
HNL	Honduras Lempiras (Honduras' currency)
UNDP	United Nations Development Program

I. INTRODUCTION

In the last decades of the XX century Latin America became an official “People Exporter”, as a consequence, fundamentally, of its limited economic dynamism relative to the most advanced countries of the world, and was further aggravated by crises and political turbulences. As part of Latin America, Honduras, being part of Central America, is no exception^{1, 2}.

Migration has always been pervasive in Central America but not with the magnitude and consequences it acquired towards the end of the XX century. By the end of the 70s, migration patterns experienced notably changes associated with forced population movements escaping from armed conflicts. Besides internal movements within the region, a strong increase of extra-regional out-migration occurred and was directed mainly towards the United States of America^{3, 4}.

By 2006, an estimated 4.5 million Central Americans live outside their country of origin, and three quarters of them living in the US. More than 80% of these migrants came from Guatemala, El Salvador, Honduras and Panama, and 47% of them migrated after 1990.

¹ Becerra, Longino. Evolución Histórica de Honduras. 17th Edition, Vol. I. Tegucigalpa, Honduras. 2008.

² Marcel d’Ans, André. Honduras: Emergencia difícil de una Nación, de un Estado. First Edition. 1998.

³ Estado de la Región en Desarrollo Humano Sostenible. Un Informe desde Centro América para Centro América. Programa Estado de la Nación – Región. Primera Edición. 2008.

⁴ From this point further, United States of America will be referred to as the US

In the case of Honduras, over the two last decades the Honduran society has experienced the most remarkable emigration of its history. This emigration has two major destinations; the United States as the most important and Spain second⁵.

This population can be now considered as the new Honduran “Middle Class” that live abroad and, as investment, pay very good dividends to Honduras.

Being a developing country, Honduras has not been able to retain this fleeing population. The attraction of leaving the country intensified greatly after October 1998. In this time, Honduras was severely affected by Hurricane Mitch, causing enormous loss in the national economy. From the economic perspective, the Economic Commission for Latin America (CEPAL) estimated, in its 1999 report, the total loss of US\$ 3,800 million equivalent to 70% of the country’s GDP and around 100% of the external debt. A very important share of these losses took place in the productive sectors. The final replacement cost of everything lost reached almost US\$ 5,000 Million.⁶

The remittances sent by immigrants to their home countries has become a subject of great importance worldwide, for the recipient countries as well as for international organizations like the World Bank, who dedicated its 2006 report *Global Economic Prospects* to address the economic implications of migration and remittances⁷. The importance of Honduran remittances

⁵ Especial Éxodo a España. El Heraldo, August 18th, 2008.

⁶ Allan Lavell y Manuel Argüello Rodríguez. Gestión de Riesgo: Un enfoque prospectivo: Las Naciones Unidas y su respuesta ante el Mitch. Tegucigalpa, Honduras. 2003.

More on Mitch effects see Mayra Falk (2003). Realidad y Perspectivas del Sector Rural de Honduras.

⁷ Global Economic Prospects: Economic Implications of Remittances and Migration. The World Bank. 2006

is evident today when its annual total amounts represent more than 25% of the country's 2006 GDP⁸.

The present study aims to provide a complete presentation of the MIGRATION Phenomena and what does it mean to a country like Honduras; how migrants' REMITTANCES affect the country's economy through a comparison on income generation; and finally how these remittances contribute to Honduran households based on one particular year, 1997, data analysis; which will help to determine if the amount received can actually help reduce poverty.

⁸ El Rostro de las Remesas: Su impacto y Sostenibilidad. Banco Central de Honduras (BCH). 2007.

Chapter I

Honduras General Historic Background: A summary of main Political, Economic Events and Migration trends.

The Republic of Honduras

Honduras is located in Central America, it borders with the countries of Guatemala, El Salvador and Nicaragua, and it also borders with the Caribbean Sea at North and the Pacific Ocean at South. Its territory has an extension of 112,498 km², a population of almost eight million people living in eighteen departments (territorial division).⁹ Independent from the Spanish Monarchy since 1821, Honduras has gone through several important changes that had shaped the country's economy of today.

Since the independence, almost 300 internal rebellions have shattered the country, civil wars and government changes, more than half of them during the XX century. Traditionally, the country has lacked economic infrastructure as well as social and political integration. Its agriculture-based economy was dominated by several American fruit companies such as the *United Fruit Company*, the *Standard Fruit Company* and the *Cuyamel Fruit Company*, who established huge and extended banana plantations along the northern coast, converting the banana fruit into the main export of the country in exchange for huge concessions. This is how Honduras made its entrance to the world commerce map (during this time Honduras along with Guatemala and Costa Rica acquired the pseudonym *Banana Republics*). Foreign capital,

⁹ Pineda Portillo, Noé. *Geografía de Honduras*, Tegucigalpa, Honduras, Second Edition. 1990.

plantation life and conservative politics dominated the country from late 19th century to half 20th century¹⁰.

After a long and controlling dictatorship led by General Tiburcio Carías from 1933 to 1949, the country came back to a short but important democratic period from 1957 to 1963. It is in this year when the militia abruptly took control of the government forming military assemblies, eliminating democratic process for more than twenty years¹¹.

By late 1970s, Central America was in the verge of a political crisis, which promoted major structural changes in the political life of Honduras. After the overthrow of Anastasio Somoza in Nicaragua in 1979 and the instability in El Salvador, the Honduran military pressured by the administration of Jimmy Carter in the US, accelerated projects to return to democracy. A new constituent Assembly established by the people in 1980 opened the path towards general election celebrated in November 1981. A new constitution was approved in 1982. Honduras has been living its longest democratic period ever since¹².

Even though the country has been living in democracy for over twenty years, the governments that Honduras has seen have not yet brought prosperity or development to the country; situation that has placed Honduras, as of 2008, in the 128th position in the Corruption Perception Index according to Transparency International¹³ out of 180 countries studied by this organization.

¹⁰ Barahona, Marvin. Honduras en el siglo XX. Una Síntesis Histórica. Tegucigalpa, Honduras. 2005.

¹¹ Becerra, Longino. Evolución Histórica de Honduras. 17th Edition, Vol. I. Tegucigalpa, Honduras. 2008.

¹² Becerra, Longino. Evolución Histórica de Honduras. 17th Edition, Vol. II. Tegucigalpa, Honduras. 2008.

¹³ http://www.transparency.org/news_room/in_focus/2008/cpi2008/cpi_2008_table

Thus, unfortunately, Honduras has been a victim of corrupt governments that have hampered its economic development. An external debt is still growing – even though a considerable percentage of it have been condoned after Mitch thanks to external cooperation sympathy – taking away valuable capital that can be used for education and health.

In addition to all these historic, political and governmental factors, factor nature has not helped Honduras either; the next chapter will provide a brief focal perspective of Hurricane Mitch and its path and effects on the country, being this a remarkable factor that ignited Honduran emigration in the last two years of the XX century.

Hurricane Mitch and its devastating path through Honduras.

Hurricane Mitch (October, 1998) was the deadliest Atlantic hurricane since the Great Hurricane of 1780¹⁴, nearly eleven thousand people were confirmed dead, and almost as many reported missing. Deaths were mostly due to flooding and mudslides in Central America. These flooding and mudslides damaged or destroyed tens of thousands of homes, with total gross damage amounting to over USD5 billion (1998 USD, \$6 billion 2006 USD), most of which was in Honduras and Nicaragua. Prior to Mitch, the deadliest hurricane in Central America was Hurricane Fifi in 1974, which killed an estimated 8,000–10,000¹⁵.

In order to get a sense of the extent of the damages based on comparison, Table 1 presents the number of direct deaths and the estimate damage in USD caused by Hurricane Mitch in Central America.

¹⁴ http://en.wikipedia.org/wiki/Great_Hurricane_of_1780

¹⁵ d'Ans, André- Marcel. Honduras después del Mitch, Ecología de un desastre. Tegucigalpa, Honduras. 2008.

Table 1. Impact of Hurricane Mitch by Area

Country	Direct Deaths	Damage
Panama	3	Unknown
Costa Rica	7	US\$92 million
Jamaica	3	Unknown
Nicaragua	3,800	US \$1 billion
Honduras	7,000	US \$3.8 billion
Guatemala	268	US \$748 million
El Salvador	240	US \$400 million
Belize	11	Unknown
Mexico	9	Unknown
United States	2	US \$40 million
Offshore	31	-
Total	11,374	US\$ 6 billion

Source: Marcel d'Ans, André. Honduras después del Mitch, Ecología de un desastre. Tegucigalpa, Honduras. 2008.

Hurricane Mitch caused such massive and widespread destructions that Honduran President Carlos Roberto Flores (1998-2002) claimed it destroyed fifty years of progress in the country. An estimated 70–80% of transportation infrastructure of the entire country was wiped out, including nearly all bridges and secondary roads; the damage was so great that existing maps were rendered obsolete. About 25 small villages were reported to have been entirely destroyed and even erased by landslides caused by the storm. Damages to the transportation and communication network totaled \$529 million (1998 USD, \$619 million 2006 USD). Across the

country, the storm in terms of housing destroyed 35,000 houses and damaged 50,000 others. In addition, it destroyed numerous trees, leaving mountainsides bare and more vulnerable to mudslides¹⁶.

Mitch's rainfall resulted in severe crop losses in the country, affecting more than 300 square miles (800 km²) or 29% of the country's arable land. The NCDC¹⁷ estimated the flooding destroyed at least 70% of the country's crops. Food crops had severe impact, including destruction of 58% of the corn output, 24% of sorghum, 14% of rice, and 6% of the bean crop. Several important export crops faced similar losses, including 85% of banana, 60% of sugar cane, 29% of melons, 28% of African palms, and 18% of coffee. Crop damage alone was estimated anywhere from \$900 million (1998 USD, \$1 billion 2006 USD) to \$1.7 billion (1998 USD, \$2 billion 2006 USD). Shrimp production, which had become an important export, faced nearly complete destruction. Total animal losses, including cattle and poultry, amounted to \$300 million (1998 USD, \$351 million 2006 USD)¹⁸.

The extreme flooding and mudslides killed over 6,500 people with several thousand more missing. Many of the unidentified were buried in mass graves, resulting in great uncertainty over the final death toll. Over 20% of the country's population, possibly as many as 1.5 million people were left homeless. The severe crop shortages left many villages on the brink of starvation, while lack of sanitation led to outbreaks of malaria, dengue fever and cholera.

¹⁶ Central America after Hurricane Mitch. Inter-American Development Bank. 2004.

¹⁷ National Climatic Data Center

¹⁸ Comisión Permanente de Contingencias-COPECO. Conferencia Mitch+5. Tegucigalpa, Honduras. 2002.

The Effects of Hurricane Mitch on Poverty

Hurricane Mitch had a strong impact on the living conditions of the Honduran people, increasing poverty nationwide. According to the Permanent Multipurpose Household Survey (EPHPM), the percentage of poor households increased from 63.1% in March 1998 to 65.9% in March 1999, or 2.8 percentage points. In absolute numbers, this means an increase of approximately 165,000 poor people.

The real impact of Hurricane Mitch is probably greater than reflected by those figures, first, because the EPHPM does not fully account for the crop losses of small farmers. Second, even though many households kept their income flows from wage work, they suffered physical-asset losses, which imply a decrease in their capacities to generate future income. Third, the EPHPM does not completely account for some vulnerable population groups, such as street children and residents of illegal settlements.

The damages caused by the hurricane affected, one way or another, the entire Honduran population. Notable among the direct effects on the incidence of poverty are the loss of family dwellings and household belongings, as well as the impact on indicators that directly affect poverty such as employment, sources of income and factors of production. The increase in the incidence of poverty during 1999 was due mainly to a decline in average household income. Comparing the March 1998 household survey with March 1999, monthly income fell from 758 (USD42.00) to 693 Lempiras (to USD38.5¹⁹).

The CEPAL states that the effects of the damages affected the country heavily in the subsequent four years after the catastrophe. The Central Bank Honduras (BCH) estimated that

¹⁹ USD1.00 equivalent to HNL 18.00

damage to production caused real GDP growth to fall from 5.2% to 3% in 1998 and from 5.5% to -1.9% in 1999. The process of recovery after 10 years has been slow but present, and it resulted in GDP per capita increased to a nominal rate average of 10.9% during period 2005 - 2008.²⁰

Honduras' Economic Situation: Main Reasons that lead to modern "Exodus".

Economic theory suggests that individuals behave in ways that maximizes their well-being²¹. Therefore, potential migrants compare all feasible alternatives and choose the region or country that will provide them the best opportunities.

There are other factors that have contributed to the exponential increase in migration movements of our era: Actions by governments of countries of origin or promoting the export of migrant labor as part of formal policies or informal practices. It is also clear that the actions and inactions of governments have led to increase migrations as consequences of military actions, domestic violence, political and ethnic persecution, human rights abuse, economic stagnation even mass starvation²² and natural disasters, as it has been one of the main reasons in the case of Honduras.

Migrant flows to a chosen country depend, therefore, on a series of determinants that are relevant to the source country, host country and the characteristics of migrants themselves. From the work of Harris and Todaro (1970) it is common to hypothesize or even to reassure that a migration decision of an individual is determined by the economic differences between the source and the receiving country

²⁰ Foreign Trade Bank of Latin America, Inc.

²¹ De la Garza and Lowell. Sending Money Home. Hispanic Remittances and Community Development. 2002.

²² Brettell and Hollifield. Migration Theory. Talking across Disciplines. Second Edition.

or region in variables such as levels of income and unemployment rate. Borjas (1989) argues that these differences are relevant in the determination of aggregated flows of migration. However, he later introduces an additional possible determinant of migration that has been neglected before: the heterogeneity of individuals and the possible differences of skill distribution between the source and the host country.

In the case of Central America, the lack of employment and production opportunities is the main factor determining the migration decision. In Honduras' case, there are many factors that are considered determinants. Poverty becomes an identification element directly related to the poverty image of the Honduran nation --*a country in ruins*-- whereas wealth and wellbeing is directly associated to the image they have of the US --*the wonderland country*--. The US projects this image of a wealthy, organized and developed country; powerful, with the possibility of accessing state-of-the art technology and a lifestyle that is associated with superior status and social prestige²³. In addition to this image, the employment offer for immigrants in the US circulate everywhere, even though it is cheap labor skill required it still offers payment that in Honduras they won't get²⁴.

The US development operates as agent or attraction factor that impulses the trip. This development refers to all areas in life; economic, social and cultural, which leads them to believe that it is in this place where they have greater possibilities of success and to realize personal projects²⁵.

²³ The symbolic control the USA withholds has real fundament; this country has 50% of the world's wealth and only 6% of the world's population lives here. The US destines US\$450 billion to military budget and, according to the United Nations, 10% of this budget could ensure the essential elements for living of all human beings in the planet. (Daniel Quinn, 2003).

²⁴ http://en.wikipedia.org/wiki/H-2A_Visa
http://www.visalawyerblog.com/2008/12/h2a_visa_list_of_countries_eli.html

²⁵ Pastoral Social Cáritas. Sueños Truncados. La Migración de Hondureños hacia Estados Unidos. First Edition. 2003.

Vladimir López Recinos on his study²⁶ explains that the causes of the current Central American migration to the US are complex, being very difficult to generalize. In Honduras' case several factors can be considered. Firstly, the remarkable gap between the rich and the poor (10% of the rich population has an income of ten to twenty five times greater than the 40% of the poor population) wealth accumulation and political power in the hands of small elites²⁷. Secondly, insecurity and economic recession that have become immovable obstacles for a stable development and generation of employment sources and finally, but certainly no less important, the social and political instability; the government has not been able to maintain order during financial crisis, bad rulers and politicians and their little action to improve the country's situation²⁸. All these reasons appear to mix and become one main cause for people to flee in search of an economic welfare and hold hope for a better life abroad.

A general sketch of the situation in which Honduras and its population is submerged today might help to have an idea of why many of its nationals are abandoning the country.

The Central American people are located in a medium development context, with the exception of Costa Rica which has position 48 according to the Human Development Index of 2005²⁹, the social and economic scenario is not favorable for Hondurans; out of 177 countries Honduras occupies 115th place after El Salvador, Panamá and Nicaragua and above Guatemala. The fundamental difference regarding human development that separates Honduras from the most advanced countries is constituted by

²⁶ La Migración de los hondureños en Tránsito por México con destino a Estados Unidos. México. 2003.

²⁷ Programa Estado de la Nación – Región. Estado de la Región en Desarrollo Humano Sostenible. Un Informe desde Centro América para Centro América. Primera Edición. 2008.

²⁸ “Malos Gobernantes, Nuevo Aliado de la Emigración Catracha”. El Heraldo, august 11th, 2008. Pg 2-5.

²⁹ Human Development Index 2005

Income per Capita, life expectancy (70.2 years contrasting with 78.8 years in Costa Rica and 75.5 years in Panama)³⁰, and low education which is reflected in high levels of illiteracy and low schooling average³¹.

Poverty in Honduras has been increasing during the present decade, as shown on Table 2, the population's condition has yet to improve remarkably: most recently in 2008 still over 35% of the Honduran population live in conditions of extreme poverty.

Table 2. Poverty indicators at national level.

Year	Poor	Relative Poverty	Extreme Poverty
2001	63.7	19.5	44.2
2002	64.8	19.5	45.6
2003	65.3	18.6	46.7
2004	64.6	18.4	46.2
2005	63.7	17.7	46.0
2006	59.9	19.5	40.4
2007	58.2	20.7	37.5
2008	59.2	22.9	36.2

Source: Instituto Nacional de Estadística (INE) Encuesta Permanente de Hogares de Propósitos Múltiples- EPHPM 2007.

By May 2008, 59.2% of the Honduran Households will live in poverty conditions; since their income is under the cost of a basic monthly family produce which includes food and other goods and services.

³⁰http://en.wikipedia.org/wiki/List_of_countries_by_life_expectancy#List_by_the_CIA_World_Factbook_.282008_estimates.29

³¹ The illiteracy rate is 19.7% and the average years of schooling are five years per person according to the Human Development Report. UNDP. Honduras. 2002.

Even though poverty is more evident in rural areas (Table 3), according to INE studies, the urban cities also reach over half of the total households (55.2% urban and 63.1 rural) as shown in Chart 1.3.

Table 3. Poverty of Homes according to Estimation Domain.

Domain	Total	No. Poor	Poor		
			Total	Relative	Extreme ³²
Total National	100	40.8	59.2	22.9	36.2
Urban	100	44.8	55.2	32.4	22.8
Tegucigalpa ³³	100	51.8	48.2	31.0	17.2
San Pedro Sula	100	53.0	47.0	31.8	15.2
Urban Rest	100	38.8	61.2	33.3	27.9
Rural	100	36.9	63.1	13.6	49.5

Source: Instituto Nacional de Estadística (INE) Encuesta Permanente de Hogares de Propósitos Múltiples-EPHPM. 2007

This is a brief summary of how poverty is part of Honduras' daily life, evidencing the hard social and economic situation the population is going through. Furthermore, the need to access the best levels of wellbeing is related to the constant human mobility towards the US. In comparison to the rest of Central American countries, Honduras has the highest percentage of population living in conditions of extreme poverty (Table 4), followed by Nicaragua and Panama.

³² People living on less than USD1.00 a day.

³³ Tegucigalpa and San Pedro Sula are both urban cities.

Table 4. Central America: Poverty Incidence. CIRCA 2006
(Percentage of people under the line of poverty, respectively)

Poverty Condition	Region	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panama
Extreme Poverty	19,7	6,0	9,3	15,2	48,1	17,2	16,6
General Poverty	46,5	22,8	32,3	51,0	67,8	48,3	36,8
Extreme Poverty	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Urban	25,8	45,7	49,6	16,8	27,8	21,7	16,0
Rural	74,2	54,3	50,4	83,2	72,2	78,3	84,0
General Poverty	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Urban	37,4	53,5	51,6	28,3	42,2	35,7	32,9
Rural	62,6	46,5	48,4	71,7	57,8	64,3	67,1

Source: Rocha, 2008, based on the Household Permanent Survey of each country.

The immigrant wave towards the US is the result of the US foreign policy in these countries; in recent decades USA supported, and in some cases helped, to the installation of repressive regimes in Latin America. These regimes reinforced economic elites that resisted the reforms and perpetuated political and economic systems that were beneficial to them only. This nurtured poverty, accompanied by civil wars (Guatemala, El Salvador, Nicaragua), and economical crisis have pushed thousands to abandon the country.³⁴

³⁴ Nazaro, Sonia. Enrique's Journey. Random House Tade Paperbacks. 2006.

Chapter II.

Migration Background and Previous Studies.

Migration Background

Migration is a multidimensional phenomenon that is directly related to the reigning inequality between the source countries and the destination countries.

The migratory flow of Central Americans was typically directed to countries within the same isthmus. Before and during the sixties there was an antique migratory tradition of intraregional displacement. The movements were sporadically towards the main cities and it was generating a favorable economic growth which led to a certain level of prosperity and development characteristic of the capital cities.

This migration pattern relatively limited in volume and range started to change by the end of the 70s and early 80s as a result of the political-military conflicts and economic instability that started to flourish in Central America.³⁵

The armed conflicts that affected El Salvador, Guatemala and Nicaragua during the 80s forced over two million people to migrate towards Honduras, Belize, Costa Rica, México as well as USA and Canada, which became the recipient countries of refugees and illegal alien.

By late 80s, the peace process started in Esquipulas, Guatemala; which was crystallized with the determination of Central American Presidents to put an end to armed conflicts and political

³⁵Zolberg, A. *Escape from Violence: Conflict and the Refugee Crisis in the Developing World*, Oxford 1989, pp. Oxford University Press.

instability. The majority of refugees came back in large scale to their countries of origin and others established in refugee zones³⁶.

The migration of Central Americans to the US has been a continuous phenomenon but in smaller scale when compared to Mexicans³⁷, however, by mid 90s and early 2000 this migratory behavior starts to show a significant increase that modifies again the migration patterns within the region.

In the case of Honduras, it can be said that its previous status as a receptor country in the 1980s shifted in recent years to become a country of emigrants. Today, hundredths of Hondurans relocate daily through Mexican territory to try to reach the US illegally.

Previous Studies

Until this day there is a limited amount of studies, investigations and academic research that are able to identify and locate the impact of remittances in Honduras' economic growth. Nonetheless, according to the evolution of these flows they can be classified as having an anti-cyclic influence or less pro-cyclic in relation to the economic growth of other external capital flows, for the economic boom of these flows appear when a slow down or recession take place in the economy of a country.

³⁶ Barahona, Marvin. Honduras en el siglo XXI. Una Síntesis Histórica. Tegucigalpa, Honduras. 2005.

³⁷ Starker, Workers without Frontiers- The impact of globalization on international migration. OIT. 2000.

The majority of studies concerning the economic impact of remittances found a positive relation between the economic growth and income from this source of foreign resources³⁸; For Mexico, the multiplier effect of remittances is greater than other capital flows when these incomes are received by the poorest people, which have a higher tendency to consume domestic goods. Nonetheless, in the study made by Chami, Conner and Fullenkamp (2003), it was found that in thirteen Latin American countries a negative relationship took place between remittances flows and an increase in per capita income, due to the negative effects that remittances may have towards the willingness to work (decrease in labor supply).

Some other studies show a genuine concern of the dangerous effect the remittances phenomenon has over consumption patterns in the economy, for example; FUSADES wrote “The family remittances represent a very strong economic support source that tends to bring in many cases an artificial economy for the receiving countries, but contributes to the improvement of life conditions with respect to their consumer culture”³⁹.

Other economic theories predict ambiguous effects (direct and indirect) of remittances on labor market. The direct effects deal with the reduction of skilled/unskilled labor supply in the receiving country; the indirect effects however, refer to the stimulation these capital flows produce on the consumption of non-transaction goods, increasing the demand for labor in these sectors. Chami, Fullenkamp and Jahjah (2005) propose a model in which remittances

³⁸ Durand, Jorge; Parrado, Emilio; Massey, Douglas. Migradollars and Development: a Reconsideration of the Mexican Case. International Migration Review Vol. 30, No. 2. 1996.

³⁹ Remittance Management in El Salvador. Economic and Social Bulletin. Salvador Foundation for Social and Economic Development (FUSADES). El Salvador.2005.

bring a moral risk: the receptors use them to decrease their labor effort and the minimum stimulation towards labor can affect significantly economic growth in a negative way.

On the other hand, Garay and Rodríguez (2005) agree that the availability of permanent resources that do not result from labor, such as remittances, used to finance the repeating basic expenditure in households, have important effects on the labor market and labor participation, unemployment and underemployment. When the income provided by remittances is constant or permanent a “un-stimulation” is created towards labor; the labor participation is reduced hence the increase in unemployment.

In Honduras the BCH⁴⁰ is the government financial institution that has officially carried on and published impact studies. In order to analyze the impact of the remittances in the economy, they use regressions from autoregressive vectors (VAR) to generate then reaction impulse functions (IRF) that indicate how the variables under study respond when facing strong changes or entrance shocks produced by foreign currencies under this concept (remittance). There are no official published works from BCH using SAM Model approach, only Micro SAM official data publication.

The Inter American Development Bank (IADB) and its branch -- Multilateral Investment Fund – MIF, have published many papers concerning Remittances and its Impact in several countries in

⁴⁰ Banco Central de Honduras (Central Bank of Honduras).

Latin America. For Instance, the paper “Remittances in Central America”⁴¹ showed through a survey carried out by the MIF – applied to over 3.043 adult people in the Central American Countries (Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica) during July and September 2007 – descriptive statistics regarding main characteristics of remittance receptors in these countries. Even though the actual number of receivers in these countries is considerably higher than the number presented in this study (the study worked on a sample of 3,403 remittance receivers), it does provide a good view of how remittances are distributed according to age, gender, education, household, year comparison, quantity and frequency among other important information.

Another study by Manuel Orozco “Future Tendencies of Remittances towards Latin America”⁴² published by the IADB, presented the tendencies surrounding remittances, specifically, current position, expansion, globalization and the intermediation in the remittance market. This last topic has become a very important issue since intermediation has a major role facilitating the remittance process.

Regarding other countries’ experiences with remittances, Cox Edwards and Ureta JDE (2003), presented a complete work examining the relationships between Education, Remittances and Migration in El Salvador⁴³, which covers mainly the level of education remittance receptors have in urban and rural cities in El Salvador and how receiving remittances change the educational pattern in these households. By using the *Cox Proportional Hazard* model the paper

⁴¹ Remesas en Centro América 2007. Inter American Development Bank. November 2007.

⁴² Orozco, Manuel. Tendencias Futuras de las Remesas hacia América Latina. Inter American Development Bank. 2003.

⁴³ Cox Edwards, Ureta JDE. Educación, Remesas y Migración en El Salvador. 2003.

allows to estimate the impact in certain variables regarding the “sudden risk to abandon the schooling system in a certain grade” (hazard) underlining the difference of the results of urban and rural population.

A more accurate previous study regarding Honduran migration or better yet Remittances is the Central American study called “State of the Region⁴⁴”. The State of the Region analyses every Central American country in terms of employment, Households, income, human development, democracy, government, economic instability, migration and remittances.

Regarding migration and remittances, this report puts together official information collected from the five National Statistics Institutes belonging to each of the Central American countries (Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama). The numbers offer a detailed description of the state of migration and, moreover, the state of remittances and how and where they have impact.

The report analyzes first the condition of Honduras in a range of five years and presents the causal factors, according to the information collected, that move migration. Then, it provides reliable information regarding remittances and its impact in numbers in terms of employment, household income and the country’s economy in general.

⁴⁴ Programa Estado de la Nación – Región. Estado de la Región en Desarrollo Humano Sostenible. Un Informe desde Centro América para Centro América. Primera Edición. 2008.

Impact Studies using Social Accounting Matrix - SAM

Until this day, the BCH, who is the main authority regarding monetary policies and management of the country's budget has not been able to publish a recent official SAM, nor there has been published so far studies in Honduras using SAM to determine the remittance impact distribution among households. The single precedent in the construction of a Honduras SAM dates back to the period 1993-1996 as part of a regional project sponsored by the Ford Foundation, the "Regional Integration in Greater North America: A research training a Policy Program". The SAM was constructed by Lizardo et al (1996) for the year 1991 but it lacked a rigorous documentation of estimating procedures. This called for the elaboration of an updated SAM: the 1997 SAM by José Cuesta. The construction of this new version responded to specific requirements of an UNDP-sponsored research project: "the Export-led Growth Strategies and Distribution of Incomes", which main objective was the analysis in a general equilibrium framework of growth and welfare effects resulting from alternative trade liberalizations, both regional and worldwide⁴⁵. This new SAM follows two guidelines: first the sorting out of the 1991 specification caveats and second, the largest disaggregation of household categories and activity sectors data permits. This is the main reason why the 1997 SAM will be used in the present study to calculate the impact of remittances in the distribution of Honduran households.

In the Central American region, the study: *Multiplying Effect of Remittances on the Mexican Economy* by Vázquez, Barboza and Matus, is a very significant example of using SAM for impact

⁴⁵ Cuesta, J. & Sanchez. Export-led Growth Distribution and Poverty in Honduras: A Counterfactual Analysis. 2004.

analysis. The study was conducted to determine the effect of remittances on the Mexican economy and the path of this effect from its origin to its destination. Here the authors used the method of accounting multipliers because of its simplicity in construction and interpretation. The procedure was made through the following steps: 1) Construction of a Social Accounting Matrix-SAM; 2. Reduction of SAM size; 3) separation of endogenous from exogenous accounts; 4) calculation of accounting multiplier matrices and 5) structural path analysis. In this study, the authors concluded that: a) remittances have a multiplying effect influencing mainly the agriculture, livestock, forestry and fishing sectors and b) households transmit the effect through food, beverage and tobacco sector (poor); food, beverage, tobacco, commerce and capital accumulation (middle-income) and food, beverage, tobacco, communal and professional services and others (rich).

Taking into consideration that the majority of migration processes occur under illegal or irregular conditions, migrants typically avoid as much as they can, or reduce to the bare minimum, their contact with public institutions and tend to avoid migration control as explained in previous chapters. This implies a lack of availability and quality of information generated by official records and obliges to reach to other sources in order to know the characteristics and the magnitude of migration flows. This may be one of the strongest reasons why sources of information or published materials regarding documenting remittances, migration and consequently their impact on Honduras is so limited.

There are however, many Non-Government Organizations (NGOs) that have representation in Honduras who are currently working in this fundamental subject, including:

- World Vision Honduras
- Spanish Cooperation Agency
- Inter American Development Bank, Honduras Representation (though MIF⁴⁶s projects)
- German Agency of Technical Cooperation (GTZ)
- Scalabrini Sisterhood
- The World Bank
- International Monetary Fund
- International Organization for Migration
- CARE Honduras
- Catholic Latin American Organization

All these agencies and representation have published papers and studies regarding migration and remittances. I stress, however, that none of them have employed the model that I utilize in this study.

⁴⁶ Multilateral Investment Fund

Chapter III.

The Journey

The information presented in the previous chapters is needed to have a better understanding of the migration phenomena it does not, however, fulfill or describe the big picture yet. In order to completely understand this subject it is crucial to know how migration takes place in Central America, mainly in Honduras, and who is migrating.

This chapter discusses the main characteristics of Honduran emigrants followed by a detailed description of the journey these travelers have to go through in order to achieve their dream for a better life.

The Honduran Migrants. Main Characteristics.

According to the State of the Region report, Honduras is one of the top three net expellers of population in Central America. The National Forum for Migrations in Honduras -FONAMIH⁴⁷, in its study "Scenario Reading: for the Formulation of Policies regarding Migration"⁴⁸ revealed that the quantities of Hondurans leaving the country are ascending rapidly. This report points out that as recently as in 2007, 185 thousand Hondurans departed the country, which means that 15,416 people leave each month, or 3, 557 per week, 508 per day or 21 every hour.

The numbers are a result of descriptive statistics and can only rise awareness even though they are probably understated since some emigrants travel in anonymity and are therefore never

⁴⁷ Spanish Acronym.

⁴⁸ Lectura de Escenarios: para la Formulación de Políticas en Materia Migratoria. FONAMIH. Honduras, Oct. 2007.

“counted” by any migration authority extended all over the path to the US. The following are some characteristics that can describe a better picture of a typical Honduran emigrant:

Characteristics⁴⁹

- The majority of emigrants are between 17 and 34 years old; this represents a great percentage of the economically active people that are in their most productive age⁵⁰.
- They are single, but in most cases although they are not legally married, they live with a couple and have one or two children minimum.
- They have skills in areas such as carpentry, construction and mechanics but can't find jobs that pay well to provide for their families.
- 83% of Honduran emigrants in route to the US are men and 17% are women. There are also children⁵¹ but they are not usually registered.
- The majority has certain level of schooling; they have at least finished elementary school.
- In the specific case of Women emigrants⁵², the feminization of poverty causes many women, with dependants under their responsibility, to move for an undetermined period of time to other areas of the country, generally the urban cities or to other countries where the labor market looks promising. Most of the cases, they leave behind their offspring to the care of grandmothers, sisters or in-laws.

⁴⁹ Programa Estado de la Nación – Región. Estado de la Región en Desarrollo Humano Sostenible. Un Informe desde Centro América para Centro América. Primera Edición. 2008.

⁵⁰ Remittances and Development. Lessons from Latin America. The World Bank. Edited by Pablo Fajnzylber and J. Humberto López. 2007.

⁵¹ Nazaro, Sonia. Enrique's Journey. Random House Trade Paperbacks. 2006.

⁵² Suenos Truncados. La Migración de Hondureños hacia Estados Unidos. Pastoral Social Cáritas. First Edition. 2003.

- Migrants' couples have preceded them. They were left behind by their spouses or couples for more than a year, their couples either send for them or they move because they have lost contact with their spouse.
- Migrants have relatives living in the U.S. Many already have one or more relatives that have moved to the U.S., who contribute to pay for their travel costs as they move to join them.

Long way to travel: Description of Honduran immigrant's journey to USA.

An estimated 100,000 Hondurans or more emigrate outside the borders of their own country each year. Of these, 90% choose illegal migration procedures, using services provided by human traffickers in the majority of the cases. Without exclusion prejudice to the several traditional and nontraditional routes of Honduran emigrants, this section will present the journey to the U.S. based on the most known and most risky paths chosen by them to travel to this country.

The Death Route

Even though emigrants have diversified their destinations to other countries, the United States of America remain the preferred one of this population because it is more accessible by land, by air and by sea (Map 1), being the fastest and most "secure" the first one.

Map 1. Main maritime routes (blue lines) and insertion air points (airplane figures) for Central American transmigrants and other nationalities in México, 2001-2005.



Source: Casillas R., Rodolfo. La Ruta de los Centroamericanos por México.2008.

In economic terms, the route by land is the most expensive and subject to more migration controls, contrary to the sea route which is the less used. The land route (Map 2) offers the emigrants a variety of opportunities because it presents more route alternatives and means of transport, extended frontiers in occasions with limited vigilance, presenting however more risk in its 4,000km trajectory.

Map 2. Main land routes of Central American *transmigrants* and other nationalities in México 2001-2005.



Source: Casillas R., Rodolfo. La Ruta de los Centroamericanos por México.2008.

(Legend in order of appearance: **Main Corridor**, **Secondary Corridor**, **Insertion routes**)

The means of transport historically used is the cargo railway system that crosses the Mexican territory⁵³, since it's the fastest and has easier access; however it is also the most dangerous. This system is the main cause of accidents, mutilations and death; it is also the idyllic scenario for human rights violations (Map 3, the red zones are the zones that register the most human rights violations), exemplified through robbery, extortion, tortures, and murders to which migrants are subject, carried out by organized crime gangs that operate along the route.

⁵³ <http://www.cbc.ca/fifth/runforyourlife/journey.html> (click on **watch video**)

Map 3. Main human rights violations points for Central American transmigrants in México 2005-2006.



Source: Casillas R., Rodolfo. La Ruta de los Centroamericanos por México.2008.

The situations rendered by the abuse of power on behalf of the police and military authorities of the transit countries, the extended routes crossed through arid lands and deserts, the climate conditions and lack of food and hygiene expose migrants to diseases that might lead them to death, these are just a few risk factors linked to the land routes.

Due to the duration of the journey and the territory conditions, the migratory restrictions of the areas and the need to act immediately have made these following two routes the most used:

Map 4. Migration Main Routes: North and South



Source: National Geographic en español, February 2008.

***Porous Boundary:** A narrow path that unites the impoverished south with the large north, South Mexico concentrates Central American Immigrants and others from far places. Two main routes save the craggy land of the boundary and heads to train routes that lead to USA.

As shown in Map 4, the main routes are:

1. Mexican South Border
2. Mexican North Border

Mexican South Border⁵⁴

Each year thousands of Central Americans cross illegally to Mexico - 400,235 according to the National Migration Institute of Mexico- along the south border of the country, which has a distance of 1200km composed of rivers, volcanic hillsides and jungle, located at the north part of Central America. The first cross the migrants go through is not the cross that takes them to the U.S., is the border that takes them from Central America to Mexico: the south border of Mexico. Is in this border where the perils start: thugs, drug traffickers, uniformed extortionists, the police and border agents that beat them or take them to overcrowded cells for one or more days before they oblige them to take buses to deport them to their countries⁵⁵.

The border line of Mexico along with the neighbor countries of Guatemala and Belize, inclines from east to northeast from the Pacific Ocean to the Caribbean sea, takes a territory of 1,100km in which there are 13 points of formal intermediation: 9 in the state of Chiapas, 2 in the state of Tabasco and 2 in the state of Quintana Roo, added to these are 50 informal crossovers characterized by the lack of migratory control and easy access. The city of Tapachula is one of the main entries for Central American migrants, for many years this was the south railroad terminal traveling towards the border of the US, dispatching trains with hundredths migrants climbed on top or grabbed on the side handles. They call it "the beast", object of many warnings about the importance of staying awake (sometimes the ride can take between

⁵⁴ National Geographic en español, Febrero 2008.

⁵⁵ Nazaro, Sonia. Enrique's Journey. Random House Tade Paperbacks. 2006.

09 to 12 hours) on the roof of the moving wagons, because if not, the person will fall finding mutilation or certain death⁵⁶.

It is estimated that through this border around two million people get in annually, out of these in 2004 the ones registered as illegal aliens coming from Central America were 22% which is translated to 400,000 illegal immigrants in transit with destiny to the USA. The distribution of this mobilization shows that Chiapas is the most dangerous, hostile and yet the most used route by Hondurans, 60% of this immigrant population travel through here. The rest 40% uses an access through the state of Tabasco. This mobilization of illegal *transmigrants*⁵⁷ has converted these areas into the neural spot for the operation of organized crime gangs who are responsible of human trafficking and slavery.

The human traffickers commonly called *Coyotes*⁵⁸, whose work is considered a felony, according to the Mexican Law, charge from five to ten thousand dollars per person to cross Central Americans from the south Mexican border, take them through all Mexican territory and leave them in US territory. For recent Honduran migrants, they pay on average ten thousand dollars⁵⁹. Most of their clients make a “credit” promise to the *coyote* in order to start the trip or in other cases they pay part of the cost ahead and the rest when they start working in the US (if they are lucky to cross). The coyotes have become another important issue of human rights; they are as hated as needed since they tend to facilitate the trespassing for many migrants.

⁵⁶ <http://ngenespanol.com/2008/02/06/el-magnetismo-del-norte/>

⁵⁷ Denomination applied to those migrants that cross one or more countries to get to their final destiny.

⁵⁸ Coyote is slang for a smuggler of illegal aliens.

⁵⁹ Se paga más por emigrar (it costs more to emigrate) El Herald, sección País. December 27th, 2007.

They also submit immigrants, however, to terrible atrocities and threats to those who haven't yet paid. Most of them, when finally arriving at the US border, at the slightest sign of danger by the border patrol, they bolt and leave their customers to their fate. In other cases, if they have crossed with their clients, they call the families to ask for more money threatening to hurt their relatives.

Honduran travelers use several routes based on the accessibility of transport and the possibility to elude migration border controls. It is estimated that more than 70% of the illegal Honduran immigrants are intercepted in Mexican territory, detained and taken to the first migration police station and then taken to the nearest *migrant house*⁶⁰ or low security prisons located in the state of Chiapas where they are deported from this territory back to their country of origin.

Mexican North Border

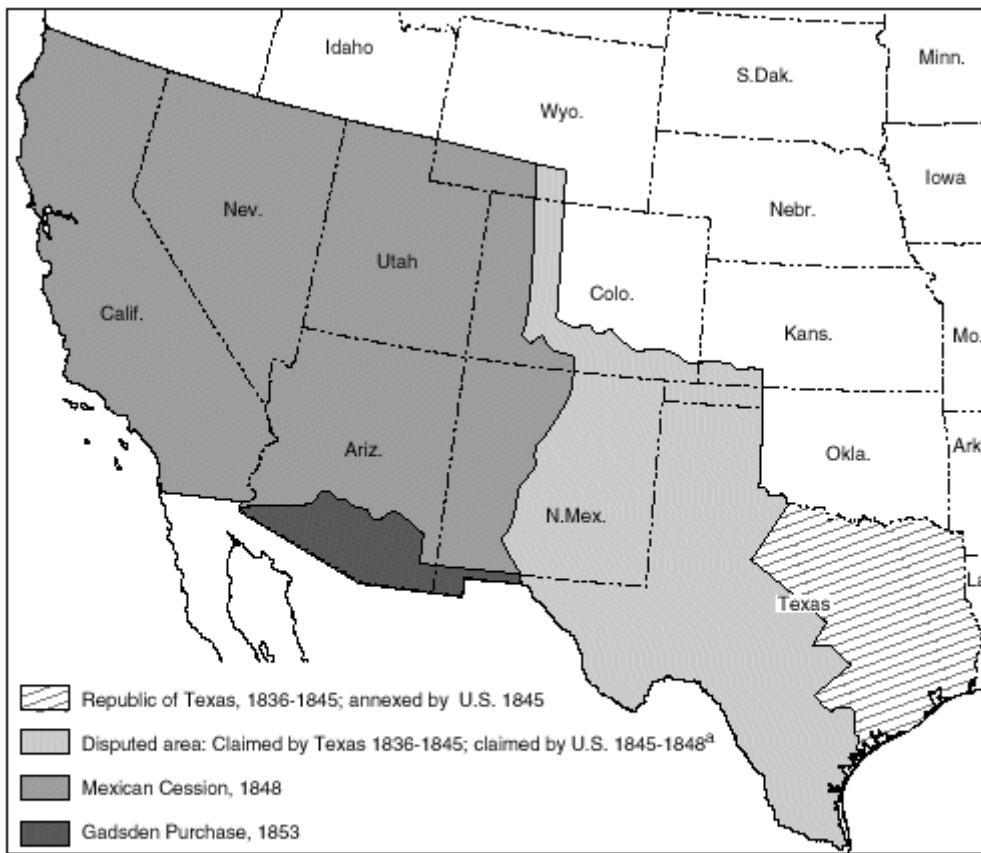
The current border between Mexico and the United States is the result of expansionist ambitions and a military invasion by the US during the XIX century. Before 1846, the Mexican territory extended to states that today belong to this country; California, Arizona, Utah, Nevada, Texas and part of Wyoming, New Mexico and Colorado. In February 1847, Mexico was invaded militarily by the US and approximately one year later, with the signing of the Treaty of Guadalupe Hidalgo⁶¹, dictated mainly by the US, Mexico lost more than half of its territory through the "purchase" made by the US for an unworthy quantity which defined officially what we know today as the border between these two countries; illustrated in Map 5 below:

⁶⁰ House of Migrants (Casa de Migrantes) are small centers where undocumented migrants are taken to; here they can call their respective consulates in order to arrange the return process.

⁶¹ The World Almanac and Book of Facts. 2006.

Map 5. Guadalupe Hidalgo Treaty Border Definition

Source: faculty.umf.maine.edu



^aWhen Texas was officially recognized as a state in 1845, it included the light-gray area, which was also claimed by México. The Treaty of Guadalupe Hidalgo resolved this dispute, with Texas claiming the disputed land. In 1850, Texas transferred part of this land to the federal government, which became the eastern portion of the territory of New Mexico.

This border extends 3,153 km wide and is characterized by its commercial, touristic and labor dynamism. Is transited by more than 500 million people annually from which 330 million are foreigners, this makes it the border with the most extensive human transit in the world (Map 6).

Map 6. USA-Mexico Border



There are currently nine vigilance sectors along the border responsible of the detection, intersection and detention of every illegal immigrant as well as human traffickers, drugs and weapons.

Since these control spots have not been enough to keep illegal aliens from crossing the border, the US Congress, after a long fight due to countless criticisms by civil society and Human Rights associations (to mention some) and budget concern, approved US\$1.2 billion to erect several separation barriers built to prevent illegal movement across the US-Mexico border.

These barriers were built as part of three large “Operations” called: Operation Gatekeeper in California, Operation Hold-the-Line in Texas, and Operation Safeguard in Arizona. The barriers, also known as “the wall,” have become what is called today the *Great Wall of America*⁶². They are strategically placed to mitigate drug trafficking and illegal immigration.

This wall however does not cover the entire borders between these two countries; it barely covers certain parts of the states of Arizona, New Mexico and California. Nonetheless, without the border patrol force that backs it, the barrier alone does not work; migrants climb over it, tunnel under it, hack through it and float around it. Texas for example, is divided by the natural division of the Rio Grande, which is one of the most dangerous ways for illegal crossing, since thousands of migrants have drowned. California also has a natural border called the New River, which is perhaps the most polluted water way in the US; a foamy, green mix of industrial waste, farm run-off and untreated human sewage. This river has been found to carry germs of TBS, encephalitis, polio, cholera, hepatitis and typhoid. The migrants will enter the US by floating along this nightmare stream with white plastic bags on their heads to blend into the hideous foam. Agents that have caught some of them floating in the river don’t even have the courage to grab them with their own bare hands to avoid contamination; they would guide them at gunpoint towards police SUVs⁶³.

The construction of the wall is greatly critiqued because is funneling migrants into life-threatening options, crossing the Sonoran dessert and the Bavoquidary Mountain in Arizona.

⁶² Time magazine, June 30, 2008.

⁶³ Sports Utility Van

Migrants have to walk more than 50 miles through inhospitable terrain to reach the nearest road⁶⁴.

In every way we look at it, the whole odyssey to get to American ground is dangerous and does not offer any guarantees that they will arrive safely or that they will get to US territory. Once they have crossed, a new journey begins: the journey of finding a job and the challenge to stay away from the police and migration authorities. Life in the US as illegal aliens is not what they think or dream about. Most of them become invisible, and kept in hiding for fear of getting caught and deported afterwards.

Where do they go? Attractive Countries, Attractive cities to Hondurans.

The Honduran population is approximately 7.8 million⁶⁵ and even though there are no exact numbers, it is estimated that almost 13% of the total population live abroad either permanently or temporarily, that is around one million Hondurans economically active that are offering their labor to other countries but their own.

United States

After finally crossing the border and have surpassed all kinds of mistreatments, the migrants have a new challenge: to insert themselves socially in the American society. There are over 36 million inhabitants in the United States that were born abroad, over one third of them live in the country in illegal condition⁶⁶.

⁶⁴ http://en.wikipedia.org/wiki/United_States%E2%80%93Mexico_barrier

⁶⁵ National Institute of Statistics -INE

⁶⁶ Migration Industry. Hablemos Claro Financiera magazine. September 2007.

In a good part of the US territory, the legitimate concerns about migration and anti-migration laws have had a secondary and destructive effect: migrants have been de-humanized and demonized. According to this perspective a migrant's presence is considered as both good and bad. Being marginalized by the average US citizen and considered as third category people, 60.5% of Honduran migrants living in USA are segmented in illegal situation, 11.8 protected under the TPS⁶⁷, 11.5% became legal residents and 1.5% were nationalized. The rest (14.7%) live with a tourist or student visa⁶⁸.

It is estimated that the major concentrations of Honduran migrants are located in Texas, Washington, California⁶⁹, Chicago, San Francisco, New York and Florida. For example, more than six out of ten Miami (Florida) citizens come from abroad and four out of ten in Los Angeles come from Latin America. These cities are chosen because they have the highest concentration of Hispanic population and migrants like to be part of a "familiar" territory where everybody speaks their language. These are also the places where they can get a false social security number, a job, and guidance on how to manage themselves in the city while they settle into their new "home".

⁶⁷ Temporal Protection Status

⁶⁸ Industria de la Migración. Hablemos Claro Financiera magazine. September 2007.

⁶⁹ It is estimated that the State of California is the home of one third of illegal immigrants.

Europe

The surveys made by the Central Bank of Honduras (BCH) indicate that 95% of Honduran residing abroad live in the US, 1.2% in Canada, 0.6% in Spain and the rest among other countries. Although it has been mentioned previously about migrants heading to the US, it is important to acknowledge that this is not the main destiny for Hondurans that have giving up hope to succeed in their own country. Much has been said about the dangers involved to get to US territory, which is why a new destiny have become more attractive these last years: Europe.

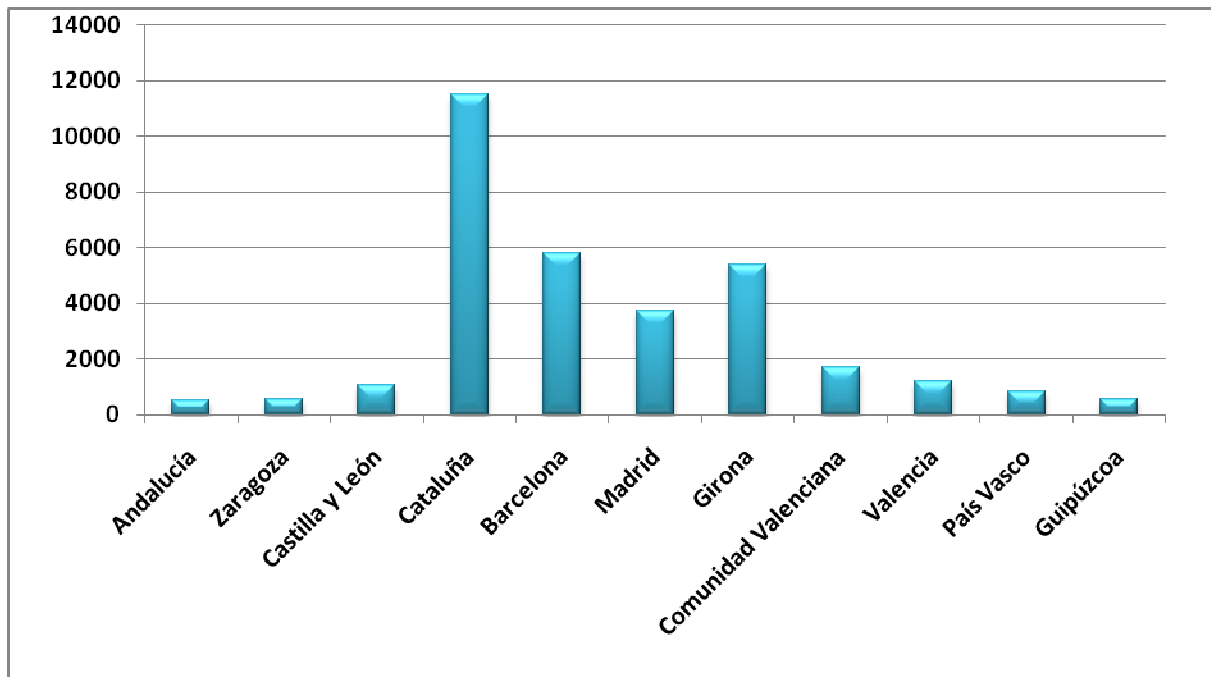
According to FONAMIH, over 150,000 Hondurans reside in the European continent, Spain is the main destination followed by Italy. More than thirty thousand Hondurans live in Spain, most of them reside illegally; they enter to the country as tourists⁷⁰ and stay there indefinitely. Out of these immigrants 2,140 have Spain citizenship, 21,372 do not have legal documents and the rest live in anonymity. Since they live in Spain illegally, most of them work receiving less salary than the legal salary paid for those jobs. The Honduran immigrants in Spain are mostly women, contrary to immigrants in the US which are mostly men.

Most people are choosing to move to Spain for many reasons; they do not want to risk their lives while crossing Central American territory to get to the US border or there are already too many migrants in the US. But the most important reason is that there is no language barrier since they already speak Spanish, and therefore they do not need to learn another language in order to work; they assume it will be easier to mix among the population.

⁷⁰ Spain is one of the countries where Hondurans can visit for a small period of time without visa.

Secondly, there is the belief that the European Euro is stronger or is worth more than the US\$, and if they earn their income in Euros their families in their country will receive more Lempiras⁷¹ when they exchange the currency of the original remittances⁷². Although most of the cities in Europe have Honduran population like Milan or Rome in Italy, the numbers stay small compared to the main cities that shelter Honduras in Spain. It is in this country where a vast community of migrants has found a new home and is becoming more and more numerous. Among those cities we can name Cataluña, Madrid, Comunidad Valenciana and Castilla y León. Table 5 illustrates the top eleven Spanish cities that shelter Honduran migrants followed by Map 7 which shows where these cities are located in Spanish territory:

Table 5. Cities in Spain with more Honduran Immigrants



⁷¹ Honduran Currency - HNL

⁷² 1 Euro = 24.39lps as opposed to 1 US\$=18.89 lps (Central Bank of Honduras, feb 2009)

Map 7. Hondurans Living in Main Cities of Spain



Source: El Heraldo, August 18th, 2008. Pg. 8

Most of these Hondurans are unskilled and have to work in different activities that do not require a school degree. Only a small proportion of Hondurans that are located in countries like France, England and Germany have higher education, and most of them work in well paid jobs that require the host country's language spoken and a specific skill or training⁷³.

⁷³ El Heraldo, Monday August 18th, 2008. Pg. 2

Common Jobs and Missed Opportunities

Jobs that pay the rent

The main reason behind leaving Honduras is mainly monetary. The high levels of unemployment, high prices and poverty are only a few powerful factors that oblige migrants to leave to other countries looking for a job that these migrants believe will help them and consequently their families left behind to have a better life.

What are then the main activities or jobs that Hondurans do in those foreign countries? Starting with the biggest Honduran host, the US offers many job opportunities to immigrants. The majority of immigrants are located in the formal sector of the economy; they pay federal taxes and contribute to the social security system as do every other citizen. The jobs they take are not necessarily “offered” but it is what is available; jobs that are commonly known as the “jobs white people won’t do on their own”⁷⁴.

Any calculation of the benefit and burden the migrants represent depends really on who makes it. For instance, the factory and commerce owners that use “cheap” migrant labor are the ones who benefit the most. They have an easy supply of obedient and low cost workers. Other beneficiaries are couples that hire immigrants to babysit their children and take them to school, as well as gardeners, house cleaners, and car washers.

⁷⁴ National Geographic en español, February 2008.

Other sectors such as labor-intensive agriculture, construction, food processing, restaurants and domestic job agencies also employ immigrants due to the low cost labor. They are in fact, the biggest immigrant-employer sectors.

In Europe, specifically Spain since it is the European country with the largest concentration of Hondurans; the main occupations that employ Hondurans are mainly domestic. The reason why women percentage is bigger is because they are hired for two main occupations: senior care and housekeeping⁷⁵.

Known for its aging population, Spain has a high demand for senior care. Since it is a somewhat well paid job and does not require much education, many Honduran female go to Spain to exercise this activity as well as domestic services such as cleaning houses and babysitting. Other activities for female Hondurans are cooks, waitresses and helpers at bars, restaurants and hospitals.

For Honduran males, the sectors that offer most opportunities include construction, agriculture and services. They also become sellers of fruits and vegetables at public markets.

Missed Opportunities

We have learned that there are in fact many job opportunities that offer immigrants a better income and, if used wisely, it can actually improve their life conditions not only for themselves but also for the people they left behind, who are the reasons why migrants relocated in the first place: husbands to support their wives and children, mothers to support their children, sons to

⁷⁵ Migración, Remesas y Género. Viajeras Invisibles. Sara Elisa Rosales. 2008.

support their mothers and siblings, etc. After few years, the main objective is either to bring them over to US or to come back to Honduras and buy a house.

If this is the main objective, why then are we still witnessing the never ending poverty that their relatives are still miring in? Why have migrants (and their families) not prospered after many years of living in the US and working sometimes more than eight hour shifts a day?

The answer is very simple, being a witness myself of my own family and numerous friends who have lived in the United States (Los Angeles, California and Miami, Florida to be precise) for more than a decade and after reading many articles and studied related literature regarding Latin American immigrants, I can mention some but very crucial obstacles that have cut off the pathway to prosperity for thousands of immigrants. These obstacles do not apply exclusively to Hondurans, they apply more generally to Latin American immigrants, and some of these obstacles are self caused:

1. They don't have a proper education to apply for better jobs⁷⁶: The majority of illegal immigrants that have abandoned Honduras, have left the country with a poor education level, most of them have only finished elementary school and few of them have started high school. Therefore, they have not had the opportunity to learn a proper skill that could translate into a success card to get a lucrative job.

⁷⁶ Estado de la Región. Un informe desde Centroamérica para Centroamérica (State of the Region, a report from Central America to Central America)

Remittances and Development. Lessons from Latin America. The World Bank. Edited by Pablo Fajnzylber and J. Humberto López. 2007.

2. They don't speak the language⁷⁷: The mother language in Honduras is Spanish. There are private bilingual schools in the main cities of Honduras, San Pedro Sula and Tegucigalpa. However this education can only be paid by middle to high class citizens. The emigrants that leave the country are mostly people living below poverty line, living with less than one US dollar per day, therefore there is no opportunity for the common Honduran to learn English without having to pay private education for it.
3. They install in Latin American neighborhoods⁷⁸. Most of the recently arrived immigrants search for their relatives or friends to set them up in their new home. These are Spanish-speaking neighborhoods where there are no challenges that will motivate them to speak the languages.
4. Rejection to American ways of life: The majority of immigrants bring their customs very rooted and since they are surrounded by Latinos they do not explore or try to get to learn or know the customs or the culture of the country that has received them.
5. They do not learn the language: By living in Latin American neighborhoods they get to work in places and factories where they do not need English, since the majority of their acquaintances work there. They accommodate themselves and don't see the need for learning a language that they consider too difficult and have little time or patience to learn. If they already have a job that pays them "enough", they do not see the reason why they should go to school and learn the language or a productive skill.

⁷⁷ Migration Industry. Hablemos Claro Financiera magazine. September 2007.

⁷⁸ Nazaro, Sonia. Enrique's Journey. Random House Tade Paperbacks. 2006.

6. They do not finish school or study a career or skill that can bring them better job opportunities: Most immigrants work twelve hour shifts or two shifts per day. They usually do not make extra time to finish school, or they just settle to what they've got.
7. They go to the US leaving a family behind, when they get there in order to avoid loneliness they start another family, have kids and have to support two families: In cities like Los Angeles, it is very common to meet people that are immigrants that have left their families in Honduras. As they come here to become the bread winners and send remittances to support their families, somehow along the way they meet a new person and establish a new home. The result of this? Beyond family disintegration, the fact that they now have to support two families; the family they left behind and the family they have established in their new home. Needless to say that with two responsibilities to bear, they work more hours, have no time to study, learn the language and find a better paid job.
8. No savings habit⁷⁹: Taking into consideration the background that precedes Hondurans living in the US, they have not developed a savings habit, and it is less likely that they get to develop it once living in the US. They earn little, they have responsibilities in both countries and most of them get to save some money to bring their relatives over. Since those relatives are also illegal, they then save money in order to pay the *coyotes* to bring them over. They do not get to save for a better home or other important needs that can help them improve their life conditions.

⁷⁹ Banco Central de Honduras (BCH). El Rostro de las Remesas: Su Impacto y Sostenibilidad. 2007.

Chapter IV.

Remittances: The unexpected benefit from Honduran immigration

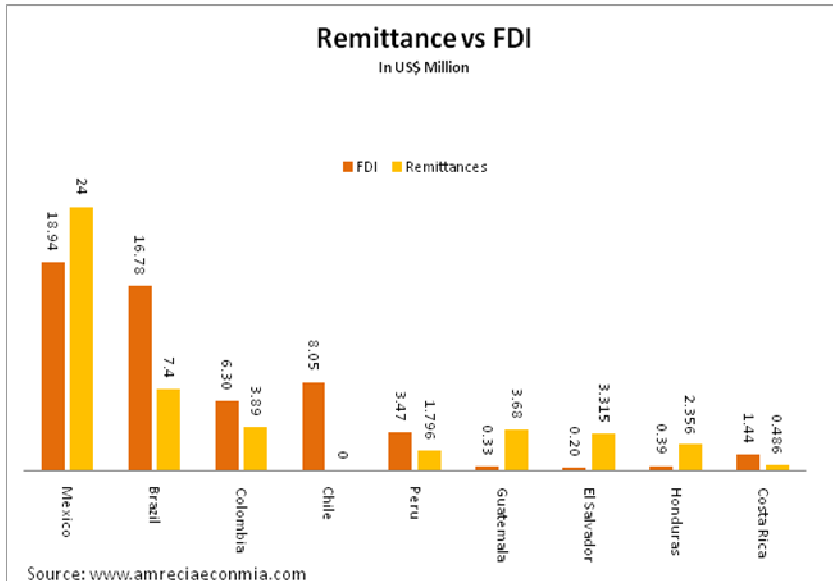
One of the main consequences of emigration is the periodical money transfers migrant send to their families left behind. These international money transfers are known as *Remittances*, and even though individually they involve a small amount of money, when examined as a whole they become financial flows of great magnitude. The main conclusion is that these flows have become a key factor in the economic dynamics in Central America; in several countries they finance the macroeconomic stability⁸⁰ for they are the main source of currency that helps wash away the deficit in the balance of trade. The impact however on economic growth and the exchange rate is more modest in general terms. Nonetheless, in countries like El Salvador, Honduras and Nicaragua the effect of remittances on growth is very important.

Remittances and their effect on the Honduran economy, how much benefit it brings?

The volume of remittances that Central American emigrants send to their countries of origin has grown exponentially since the 1980s. To Honduras and Guatemala, the year 2000 marked the beginning of a major dependency on remittances; the total amount received by these two countries soared from USD973 million in 2000 to 6,830 million in 2007; altogether remittances grew 27% annually at Central American level in this seven year period.

⁸⁰ Programa Estado de la Nación – Región. Estado de la Región en Desarrollo Humano Sostenible. Un Informe desde Centro América para Centro América. Primera Edición. 2008.

An analysis carried out in 150 countries show that Honduras, El Salvador, Nicaragua and Guatemala are amongst the 25 countries in which remittances represent a major proportion



of their GDP (Table 6, left). Honduras is located third in the world.⁸¹

In 2005, the income originated by remittances represented more than double of the total export (goods not including garment factories) in Honduras and three

times the total foreign-currency receipts from Foreign Direct Investment – FDI. Without these constant foreign income flows the economy would face serious trouble.

The traditional products -- banana, coffee and wood -- used as exports suffered a substantial fall after 1998 as well as nontraditional products -- melons, shrimp and lobsters -- and until today none of them have fully recovered the 1998 levels before Mitch. This is why remittances generate today more foreign currency income than annual exports of all these products together. Furthermore, remittances continue to surpass by year the total of FDI and external

⁸¹ Orozco, Manuel. Sending Money Home: Worldwide Remittances Flows to Developing Countries. Rome, International Fund for Agricultural Development (IFAD). 2007.

aide. The only exception is the *Maquila*⁸² sector -- after adding investments and value added generated -- is the only sector that surpasses foreign currency generation.

The EPHPM has confirmed that the majority (93.3%) of the immigrants that abandon the country leave to pursue economic improvement to support their families and only 1.7% for study purposes. It is believed that emigration is an alternative to solve poverty for countries like Honduras. However, recent studies and polls taken proven otherwise; the majority of the immigrants do not belong to the poorest households, for barely 8.3% of the immigrant population belong to 20% of poor households. Although this percentage has increased from 6.7% of the population that left the country before 1998 to 8.9% of those who left between 2004 and 2006, this evidence suggest that immigration cannot solve the problem of extreme poverty.

One possible cause that leads us to believe that immigration is not helping poverty reduction resides in the “travel expenses” each immigrant incurs, which can be extremely high for those households with low income. Therefore the decision of “investing” in a migration process would not result be “profitable” in terms of relative costs.

According to the information available from households that receive remittances, approximately 8.8% reported not having any other source of income, which states that these households survive only with the income they receive from their relative’s remittances. Out of

⁸² Maquila: is the short form of the word *maquiladora*. It was originally associated with the process of milling. In Mexico and Central America it became the word for another kind of processing -- the assembly of imported component parts for re-export specially garments.

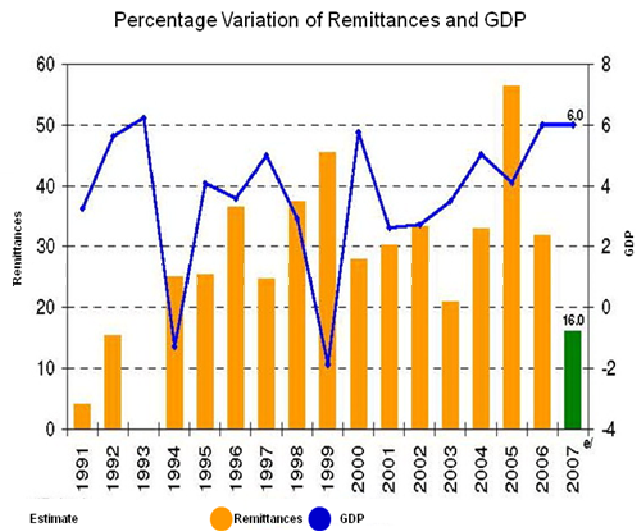
these households 4.1% (12,390 households) are located in the rural area and 4.3 % (13,805 households) in the urban sector. Those who do perceive income in addition to remittances, have as sources labor (earning minimum wages) instead of capital in comparison to urban and rich households⁸³.

The flow of remittances (Table 7) during the nineties represented 3% of nominal GDP and rose to 25.4% of 2006 GDP. This pattern indicates

that the availability of these resources flows might help promote the improvement in life condition of households as receptors of these flows. Likewise, a significant part of these funds can be channeled toward a more productive use through the creation of incentives by adequate and well-oriented

public policies, which might promote general development for the country, for example investing in real estate, starting a small business or even saving.

The family remittances have shown an accelerated growth since the tragedy caused by Mitch in 1998. In this year a total of US\$220.0 million were received, which multiplied to US\$2,359.0 million in 2006. The volume and velocity of these resources' growth have caused notable



⁸³ INE-Remesas y Desarrollo 2008.

repercussion, from the expenditure pattern in households to the behavior of the principal macroeconomic variables of the country.

Remittances by country of origin

The information given by exchange agents authorized by the BCH⁸⁴ indicates that in Honduras, from the remittance income received, 91% were originated in the US, followed by Mexico, El Salvador and Spain.

In Honduras, the estimates show that the monthly average fluctuates between US\$200.00 and US\$300.00; according to surveys made by the BCH. The transfers received from the US, besides being the most relevant, are also the most valuable, which not the case as the ones received from Spain from which the amounts reported are the lowest.

The international evidence shows that remittances are used mainly to finance current account expenditures followed by expenditures in the Health and Education Sector. According to studies from MIF based on surveys taken in Latin American countries, between 46% (Brazil) and 84% (El Salvador) of remittances are destined to finance the basic consumption of households; whereas the expenditures in education absorb between 1% and 17% of the total remittances.

⁸⁴ Banco Central de Honduras.

Who leaves?

Table 8.

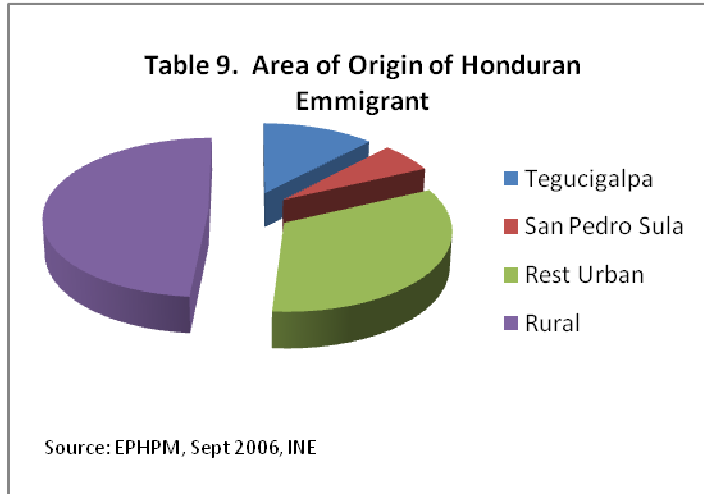
**Immigrants by year according to origin
(Percentage)**

Immigrants Origin	Until 1998	1999-2003	2004-2006	N/A	Total
Tegucigalpa	15.0	12.5	10.5	17.4	12.2
San Pedro Sula	5.6	6.7	5.7	6.9	6.0
Rest of Urban Areas	39.0	34.9	30.3	32.5	33.4
Rural Areas	40.3	45.9	53.4	43.3	48.3
Total	100.0	100.0	100.0	100.0	100.0
Total % Horizontal	20.0	28.5	48.1	3.4	100.0

Table 8 shows, according to the EPHPM, out of the 100% of the emigrant population from Honduras, 48.1% left the country between 2004 and 2006, which is consistent with the increase reported in foreign currency flows created by remittance transfer during this period. The table also shows that 28.5% of the total immigrants left between 1999 and 2003, while the rest 20% left before 1998.

Out of the total population that left before 2006, 48.3% came from rural areas, the rest 33.4% from urban areas,

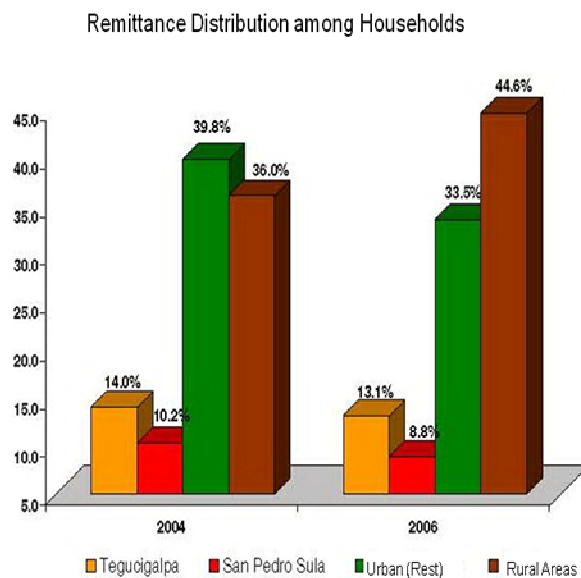
12.2% from Tegucigalpa and 6.0% from San Pedro Sula⁸⁵. This important finding refers to the change that has been observed through time, for the emigrants that come from rural areas



have incremented their importance to 13.1 percentage points in the periods analyzed, which is the same to say that for every 100 emigrants before 1998, 40 came from rural sectors; whereas subsequently in 2004 and 2006, for every 100 emigrants, 53 came from

this same sector. The emigrants from urban areas show a slower increase.

Which Households receive remittances?



The study of international migration is incomplete if the focus is concentrated only in the people that have left. Table 10 (right) shows the distribution of the remittances among households in Honduras. In Central America, one of six households in has been

⁸⁵ Tegucigalpa and San Pedro Sula are the main cities of Honduras, Tegucigalpa is the capital city and San Pedro Sula is considered the industrial city of the country, both cities are urban; for the impact analysis on Households these cities will be included in the urban areas.

affected by international migration from at least one of their members. Even though migration does not imply the rupture of family and affective ties, due to the permanency of these bonds with the family and the community, the displacement certainly supposes the interruption of home life. The permanency of these bonds not only has affective repercussions but socially and especially economically as well.

According to survey results from ENCOVI⁸⁶ and EPHPM 2006, the recipient households increased 4.2 percentage points within the total households in the country; from representing 14.6% in 2004 it went to 18.8% of the total in 2006. In this year, the area that has major household number that receives remittances is the rural area with 44.6%, followed by the urban rest 33.5%, Tegucigalpa with 13.1 and San Pedro Sula with 8.8%⁸⁷.

According to analysis made between the years 2004 and 2006, the percentage distribution of the households that receive remittances according to geographic area has changed; the participation of the recipient households located in the rest of urban areas decreased from 38.9% in 2004 to 33.5% in 2006; whereas the households located in the rural areas increased their participation by 8.6% by going from 36% in 2004 to 44.6% in 2006.

This result supports the evidence that refers to the origin of emigrants by geographic area. Nevertheless, more investigation has to be made to determine how many of the households

⁸⁶ Encuesta Nacional de Condiciones de Vida -INE.

⁸⁷ Tegucigalpa and San Pedro Sula are the main cities of Honduras, Tegucigalpa is the capital city and San Pedro Sula is considered the industrial city of the country, both cities are urban; for the impact analysis on Households these cities will be included in the urban areas.

whose family member emigrated from a rural area has moved to urban areas having increased their net income and interest to accessing better goods and services.

As said before, one out of six households in Central America is a remittance receptor and, as expected, the availability of additional income provokes changes in the domestic economies in both consumption patterns and property ownerships (house/real estate).

Remittances constitute a significant part of a household income among the region. In Honduras, they represent more than the third part of total family income (36%)⁸⁸. On average, the Central American households receive USD168.00 monthly in remittance concept. In general, Urban households receive more than rural ones. It is important to mention that those households headed by women receive an average amount over 63% greater than those households headed by men⁸⁹. The average household receptor receives remittances eight times each year, the quantity received goes from USD51 to USD100 for a 34% and a 14% receives more than USD200.00

⁸⁸ Encuesta Permanente de Hogares de Propósitos Múltiples (Permanent Multipurpose Household Survey (EPHPM)). INE - Instituto Nacional de Estadística. 1997, 2004, 2006.

⁸⁹ Estado de la Región en Desarrollo Humano Sostenible. Un Informe desde Centro América para Centro América. First Edition. 2008.

Consumption Patterns

Remittances make possible the access to benefits such as construction materials, houses, and public services such as water and electricity. Health and education services become the second consumption priority which represents almost 20% of the total income by remittances received by the Honduran families. Besides these services and owning a home, the income increase associated with remittances may be facilitating the enjoyment of goods and services that result in better levels of comfort and improvement to access information and communication⁹⁰. The proportion of households that own luxury consumption goods such as refrigerator, T.Vs, computers and cars is larger among remittance receptors. This brings us to the conclusion that consumption is the main use of remittances.

The receivers mainly assign these resources to current expenditures which is associated with the fact that these receivers are persons with low income level who use these funds to attend primary needs; it is also associated with the lack of investment opportunities, taking into consideration that in Tegucigalpa a monthly mortgage for a house can go for up to HNL20,000⁹¹ for a period of twenty years and, as we have mentioned before, some households receive USD200.00⁹² it is then not enough money to buy a house.

Certainly, the investment decision is a function of the particular preferences of the families that receive remittances income. Households have the freedom to spend that income in any way

⁹⁰ Informe de Desarrollo Humano 2005. Programa de las Naciones Unidas para el Desarrollo –PNUD.

⁹¹ USD 1,111.00

⁹² In some cases.

that is best for them. However, the percentage that is saved or invested depends not only on those personal preferences. It also depends on the business environment. So, areas where there are more investment opportunities and where the risks associated with investment is lower, we can expect that there will be a higher fraction of income that will be invested⁹³.

Table 11. Remittances Use

	El Salvador	Honduras	Guatemala	Nicaragua
Current Expenditures (Consumption)	83.9%	77.1%	68.1%	78.2%
Investment in Business	4.2%	4.0%	10.2%	3.1%
Saving	4.1%	3.8%	11.0%	2.8%
Education	3.9%	10.0%	7.0%	12.7%
Others	3.9%	5.1%	3.7%	3.2%

Source: García, Pablo from Pew Hispanic Center-MIF and Monge & Lizano.2006.

In Honduras case, rural households and most urban households use remittances to buy primary needs specially those articles part of “*la canasta básica*⁹⁴” which includes: beans, rice, milk, sugar, pasta, vegetables and in some cases (if income is enough) eggs, cheese, white and red meat⁹⁵. Compared to middle class urban households who earn minimum wage⁹⁶ and also receive remittances not only buy *la canasta básica* articles monthly but also luxury consumption goods as described earlier. Rich households however, who earn above minimum wages and do not receive remittances, show a different consumption pattern, by buying

⁹³ Remittances and Development. Lessons from Latin America. The World Bank. Edited by Pablo Fajnzylber and J. Humberto López. 2007.

⁹⁴ La canasta Básica –the Basic basket

⁹⁵ INE- Remesas y Desarrollo, 2008.

⁹⁶ Minimum wage in 1997 was HNL2,500 (USD132.34)

imported luxury goods including imported food and other articles in addition to investments and savings.

Table 12.

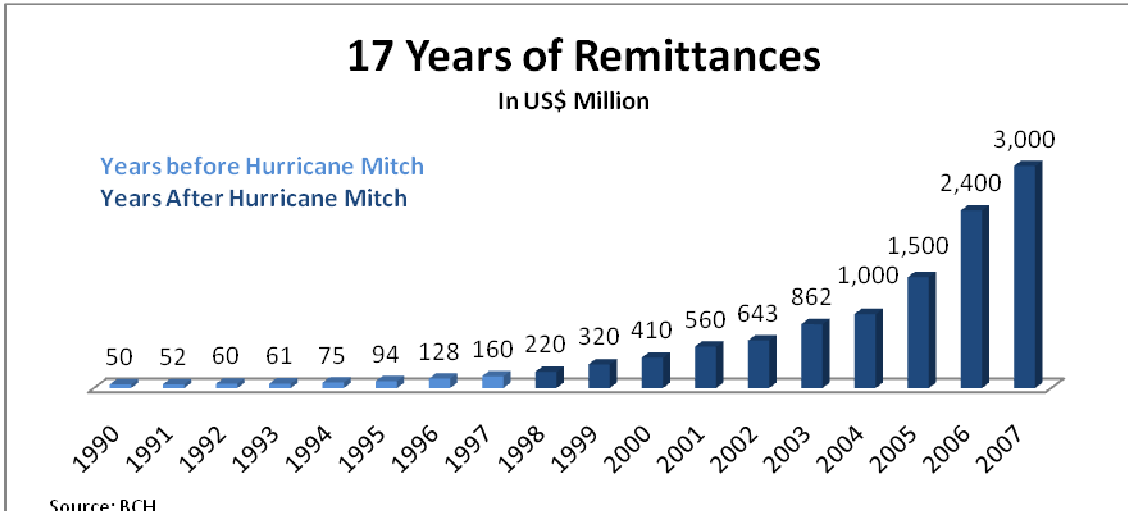


Table 12 above shows how remarkable and constant the increase has been in remittance amounts for the past two decades. Moreover, how much the amount shifted since Mitch hit the country in 1998. In this year, the quantity increased to over more than US\$ 100 Million, increase that has not been seen before not even in 1995 after the energy crisis took place the year before; this increase was only in US\$ 19 Million. Today the number of immigrants is greater and so is the amount for 2007 which it is estimate to reach US\$ 3 Billion by December.

From the data shown above, this paper investigates the impact remittances had on household distribution using the data for the last year before Mitch hit, 1997. The main interest resides in the fact of finding out how the distribution was doing before a major shift occurred caused by the natural disaster. The 1997 Honduras SAM, mentioned in chapter II, will be used to make

the calculations to determine the impact on household distribution of the amount of remittances received in this year: US\$ 160 Million.

The reason behind the use of 1997 data is also due to the fact that the Central Bank of Honduras has not been able to publish a more recent official SAM yet. Moreover, the 1997 Honduras SAM was published in 2005 and it follows two important guidelines: first, the sorting out of 1991 SAM which was not complete and accurate and second, it contains the largest disaggregation of household categories and activity sectors the data permits, which is mainly the prime interest in this investigation; to determine the impact of remittance on income distribution among Honduran households.

Data

The data used in this study from SAM 1997, has been made available and documented by the authors and IFPRI⁹⁷ under the sponsorship of the World Bank. As mentioned before and even though it was published in 2005, the SAM 1997 is the only SAM available for Honduras so far, thus the use of this data for this study.

The 1997 SAM largely disaggregates activities, labor and households. It draws from the BCH estimates in disaggregating both intermediate and final demand system in Honduras. It includes the sectors of agriculture, fishing, mining, livestock, traditional and nontraditional exports,

⁹⁷ International Food Policy Research Institute. <http://www.ifpri.org/data/honduras02.asp>

manufacturers, construction, energy, commerce, and services. Other accounts are the government, transaction costs, taxes, capital account and rest of the world.

Labor factors are disaggregated into statistically meaningful categories as much as data permit.

Labor (L) is classified according to skill occupation and gender, but for the purpose of this study it is aggregated to three final sectors; Skilled (SK), Semiskilled (SSK) and Unskilled labor (LUSK).

So is the case of Household accounts, which are disaggregated according to skill occupation and gender but they will follow the same aggregation of Labor for this study.

	Agricultur	NonAg	Hot & rest	Per& soc serv	LUSK	LSSK	LSK	CAP	HHUUSK	HHUSSK	HHUSK	HHR	Gvmt	ROW	TOTAL
Agriculture	4,303.74								239.65	46.98	117.92	671.90		9,371.14	10,284.12
NonAg		25,222.89	50.61	30.00					3,505.39	900.50	2,028.97	6,233.25	16.83	508.67	54,117.56
Hot & rest	50.13	0.00	5,057.55	27.40					998.97	316.06	1,082.50	551.99	253.93	2,423.51	11,746.82
Pers & Soc serv	138.37	53.14	0.00	1,442.65					591.68	160.99	669.18	498.27	0.00		3,487.25
LUSK	500.30	14,599.68	3.51	112.34									3.00		20,218.32
LSSK	14.76	7,226.37	1,088.52	3.08									353.86		16,302.54
LSK	6.99	387.95	1.73	422.50									1,207.49		6,874.14
CAP	403.39	788.52	587.15	204.99									1,522.78		17,927.00
HHUUSK					2,637.64	3,897.75	123.21						1,574.57	517.44	8,750.62
HHUSSK					112.12	2,412.18	294.86						2.66	554.40	3,376.21
HHUSK					1.50	109.47	5,620.73						284.98	476.76	6,493.44
HHR					18,429.15	7,983.41	966.11						1,394.32	531.28	29,304.26
Gvmt								17,951.87	592.65	211.60	1,396.77	457.46	9,537.69	3,144.53	42,826.35
ROW	31.12	1,719.73	766.34	101.35	-962.10	1,899.74	-130.77	-24.87					17,360.07		49,907.11
TOTAL	14,587.87	79,340.44	16,804.37	4,929.90	20,218.32	16,302.54	6,874.14	17,927.00	8,750.62	3,376.21	6,493.44	29,304.26	52,364.04	49,907.11	

Table 13. SAM categories.

Table 13 shows the following categories studied: Agriculture products, Non agriculture Products (Non Ag), Hotel and Restaurants (Hot&rest), Personal and Social Services (Pers & Soc serv), Unskilled Labor (LUSK), Semi Skilled Labor (LSSK), Skilled Labor (LSK), Capital (Cap), Urban Unskilled Household (HHUUSK), Urban Semiskilled Household (HHUSSK), Urban Skilled Household (HHUSK), Rural Household (HHR), Government (Gvmt) and Rest of the World (ROW).

The sectors studied will be Household distribution, how impact affects them and also how it affects sectors like Agriculture, Non Agriculture products and Hotels and Restaurants.

Methodology

As mentioned before, the present study used the Honduras SAM 1997. The Social Accounting Matrix (SAM) is based on the principles of double entry book-keeping: revenues for ROW account (incomings) simultaneously also represent costs for column account (outgoings). In comparison to the input-output (I-O) model, SAM maintains many of the I-O model limitations:

1. Prices are assumed constant.
2. Static framework.
3. Fixed proportion production function.
4. It is purely demand driven which means it ignores supply constraints.
5. It aggregates firms into broad sectors.

An I-O model also neglects two important sources of feedbacks, through the consumption channel and through the income channel because I-O treats both consumption and income exogenously. The consequences of neglecting these feedbacks are first the underestimation of the general-equilibrium impact (the multipliers) and it leaves unknown how the impact is distributed across households. In other words, I-O models cannot identify who are the winners and losers, which the Social Accounting Matrix can help estimate. SAM can address the issues of change in consumption pattern, trade-offs between growth and equity, and impacts such as the impact of immigrants' remittances on income and income distribution which is the main

reason why this model was chosen to perform this study, for it also emphasizes income distribution among households differentiated by occupation, income levels, gender and ethnicity. SAM determines final consumption and household income endogenously; finally it can also examine poverty implications.

Procedure

In order to transform the original transaction data to a SAM model, first I construct the matrix of SAM coefficients (a_{ij}) from the Honduras SAM. Each element a_{ij} of the matrix A is calculated with the following formula:

$$a_{ij} = z_{ij} / x_j$$

Where z_{ij} is the sale of input i to sector j , and x_j is the total output of j in US\$ Million.

By construction, $0 \leq a_{ij} \leq 1$, because in the case of a production sector, for example, the cost of an input cannot exceed the total costs of producing the sector's entire output. Similarly for households, the cost of a consumption item cannot be greater than that household's total budget.

The resulting matrix of SAM coefficients will be then subtracted from the identity matrix (I) which consists of number zeros except the principal diagonal from upper left corner to lower right corner where each element is a number one (1).

The result of this calculation will be the matrix $I-A$ which can now be inverted to yield the equilibrium matrix $(I-A)^{-1}$. This is the matrix of multipliers which will be used to calculate the total impact of an economic shock.

In order to find the impact of a shock having in hand the matrix of multipliers, the dollar value of the shock will be multiplied by the column of the sector affected. The exogenous final demand vector represents the source of the direct impact.

The total amount of remittances received in 1997 was US\$160 Million. Hence, this will be considered then as the main scenario of (positive) economic shock studied in this paper.

According to INE, there were 1,100,474 households that received remittances in 1997, from which 577,725 (52%) were Rural and 522,749 (48%) were Urban.

The households in the Honduras SAM are disaggregated into the following categories:

1. Urban Households (HHU)
 - 1.1. Unskilled (HHUUSK),
 - 1.2. Semiskilled (HHUSSK)
 - 1.3. Skilled (HHUSK)
2. Rural Households (HHR)

From the information presented earlier, I assume the percentage distribution⁹⁸ of the remittance (positive) shock to be as follows:

⁹⁸ *The 1997 Social Accounting Matrix (SAM) for Honduras*, document, José Cuesta, data from EPH 1997, June wave.

a) Urban Areas: 48%

b) Rural Areas⁹⁹: 52%

Unskilled	18.8%
Semiskilled	18.4%
Skilled	10.8%

Then:

Total Amount of Remittances for 1997		16000000.00
Urban Population	48%	7680000.00
Rural Population	52%	8320000.00
Urban Distribution	Unskilled 18.8%	$x1 = 18.8/48 * 7680000.00$
7680000	Semiskilled 18.4%	$x2 = 18.4/48 * 7680000.00$
	Skilled 10.8%	$x3 = 10.4/48 * 7680000.00$
		$x1+x2+x3 =$
		7680000.00

Table 14. Total Amount of Remittances for 1997.

After the economic shock calculation, the distribution of the equilibrium impact can be estimated using the SAM model. In particular, since households are endogenous under the SAM model they experience not only direct impacts of remittances but also indirect impacts (through input-output channels) as well as induced impacts (through final consumption-income linkages).

⁹⁹ There is no data available regarding the distribution of rural households under “skillness” criteria, it can be assumed however, they are mainly unskilled.

The impact of Emigration on the Distribution Income among Honduran Households.

Result description and analysis.

By assumption, the US\$160 Million received as remittances in 1997 represents an important impact to the Honduran economy, especially in the income distribution of Honduran Households, who are divided in Urban and Rural areas and within Urban; divided in Unskilled, semiskilled and skilled households. The following are the results of all calculations described above:

<i>Before impact</i>	<i>After impact</i>	
Agriculture	10,284.12	5,980,978.12
NonAg	54,117.56	81,301,843.78
Mining	6,087.20	3,458,594.68
Manufacture	112,886.75	80,306,607.32
Electr	3,468.36	1,678,200.25
Constr	20,872.21	577,992.40
Hot & rest	11,746.82	18,442,676.29
Transp & Com	14,726.28	14,353,253.38
FIRE	19,787.50	71,941,345.41
Pers & Soc serv	3,487.25	12,506,291.30
LUSK	20,218.32	17,375,806.17
LSSK	16,302.54	13,187,798.12
LSK	6,874.14	3,747,522.69
CAP	17,927.00	11,090,342.98
HHUUSK	8,750.62	35,567,038.52
HHUSSK	3,376.21	31,648,408.17
HHUSK	6,493.44	20,434,056.33
HHR	29,304.26	106,022,974.32

Table 15. Before/After Results

Comparison

	Original income before Injection	Income after Injection	Total Increase
HHUUSK	8,750.62	35,567,038.52	35,558,287.90
HHUSSK	3,376.21	31,648,408.17	31,645,031.97
HHUSK	6,493.44	20,434,056.33	20,427,562.89
HHR	29,304.26	106,022,974.32	105,993,670.06

Table 16. Income Comparison before/after injection

As mentioned earlier, the main focus of this study is the income distribution among Honduran households after receiving an important shock like the one remittances have on the economy.

The original income for households was considerably lower compared with the new income generated by remittances:

- For unskilled urban households who were perceiving a total amount of US\$ 8,750.62 would have received by the end of the year a final amount of US\$ 35,567,038.52 after a shock caused by remittances. The total increase from the original income to the final income is US\$ 35,558,287.90
- For semiskilled urban households receiving an initial amount of US\$ 3,376.21 will have an increase of US\$ 31,645,031.97 The total income after this increase for this sector will be US\$ 31,648,408.17

- The urban skilled households receiving a general income of US\$ 6,493.44 will have an increase of US\$ 20,427,562.89 which will become a total income after remittance injection of US\$ 20,434,056.33.
- For the rural household sector that was receiving an income of 29,304.26 will receive more benefits from remittances because of its important percentage part regarding the distribution of the population. The total final amount will be US\$ 106,022,974.32 after having an outstanding increase of US\$ 105,993,670.06.
- From the data presented earlier, in 1997 there were 577,725 rural households and 522,749 urban households receiving remittances, we can find out then how much income each household received in terms of remittances (Table 17):

	Total Income from remittances in USD (a)	Number of households(b)	Total received per HH USD (a/b)
HHR	106,022,974.32	577,725	183.51
HHU	87,649,503.02	522,749	167.67

Table 17. Income results after remittance shock.

From the figures above, if each household either urban or rural received less than USD200.00 this brings us to the conclusion that the total income is not significant. However, if we compared the income distribution before receiving remittances (Table 18):

	Total Income in USD (a)	Number of households(b)	Total received per HH USD(a/b)
HHR	18,620.27	577,725	0.03
HHU	29,304.26	522,749	0.05

Table 18. Income before remittance shock.

We can see that in the case of rural households to go from receiving USD0.03 to receive USD183.51 it is indeed very significant. Similar case regarding urban households who went from receiving USD0.05 to USD167.67. Nevertheless, the income as we can ratify, is less equal among households since urban households (who are less compared to the number of rural households) are receiving more income than rural households.

- Other remarkable changes take place in the non agriculture and manufacture sector coming in second and third place with US\$81,301,843.78 and US\$ 80,306,607.32 respectively, after household distribution. Finally, the sector that shows the lowest increase is construction with US\$ 577,992.40; which is also remarkable comparing it to the original amount of US\$ 20,872.21.

Discussions and Conclusions

Much has been said about how remittances affect the economy of many countries that are silent witnesses of unprecedented exodus from hopeful immigrants that are willing to risk their lives and disintegrate family nucleus in order to have a possibility to have a better modus Vivendi not only for them but for their families as well. The main goal of this migration phenomenon is to find a job, which sometimes will be the same or even a lower category job than the one they had in their countries but is expected to be much better paid, which a migrant then use as source of funding to support his/her family left behind.

Migrations have contradictory effects on human development in Central America. On the short run, they constitute an escape valve for a population with inadequate labor opportunities; at the same time remittances finance macroeconomic stability, makes economic growth more dynamic and helps diminish somehow poverty and inequality. In the long run, however, migration compromises human development: especially in a time where the Central American countries are called to take advantage of the “demographic bonus”¹⁰⁰, the region is losing population in productive age and in some cases with high levels of human capital, in other words, is losing a great part of its labor. Migration also affects in a very sensitive way the social tissue by de-structuring family organization and apparently de-stimulates labor insertion. On the other hand, according to the Central American Bank for Economic Integration (BCIE),

¹⁰⁰ Programa Estado de la Nación – Región. Estado de la Región en Desarrollo Humano Sostenible. Un Informe desde Centro América para Centro América. Primera Edición. 2008.

remittances diminish the pressure on the labor market, “without them the underemployment would be unbearable”.

In principle, the paper has stated that remittances contribute significantly to the Honduran population by the distribution of that injection to the household incomes, increasing it remarkably.

The SAM estimates confirm my hypothesis: remittances indeed increase the income of Honduran households. The SAM model in particular provided the possibility to determine how much each household category will perceive after an injection of remittances in a particular year, which in this case was 1997. The results shown in this study were able to demonstrate that the income distribution is not equal, since the number of Rural Households even though is greater than Urban Households they are receiving less; this is due to the fact that urban households perceive more income in the first place before the remittances impact. Another important reason why income in rural households does not last, is mainly because they are using it to satisfy primary needs.

There are other sectors that experience a considerable increase becoming affected by this impact; the biggest shares go to the manufacture and non-agricultural products with amounts close enough to the amounts the households receive. This provides a window of opportunity to confirm what FUSADES concluded “The family remittances (...) contribute to the improvement of life conditions with respect to their consumer culture”¹⁰¹. In general, the pattern followed

¹⁰¹ Remittance Management in El Salvador / Economic and Social Bulletin (Salvador Foundation for Social and Economic Development (FUSADES)).

by people when having more income is toward consumption, and this consumption diverts toward non agriculture products since their new perceiving income allows them to consume better quality goods (Engel's Law). Regarding those sectors that receive the lowest increase such as construction, even though the increase is considerable, it is not enough to state or confirm that receivers are constructing better homes; in the contrary, it may confirm the theory that receivers are not willing to invest in home improvement, this decision however is not applicable to all receiving households; some rural and even some urban households satisfy their primary needs first.

The income each household receives from this economy is considerably low especially from the labor sector if we compare it against the income received by them from remittance flows; these flows gives households more power to consume hence the increase in other sectors (Manufacture, Non Agricultural products).

Another important finding comes from the following facts:

Households have as income sources:

- Production related which are mainly wages and capital incomes and
- Non-production related or from inter-households transfers, government subsidies, foreign aid and in this case from remittances.

The main difference between these two is that the second represent pure transfer income, they don't need to give something in return, like labor, to receive money. This is why it is believed

that remittances indeed affect factors of production by reducing the labor supply or in other words if there is money coming without having to work then there is no need to work at all.

Do these numbers fulfill the primary belief that remittances actually reduce poverty? They have shown that the income in households increase, this increase has given them consumption power. However, the receipt of remittances, whatever the primary motive behind sending them, act by lessening the receivers' production and investment constraints. This should strengthen investment and permit the accumulation of assets. Nonetheless, this has not occurred in a significant manner in Honduras. If the receivers tend to current expenditures it is mainly because of the absence of motivation or security either in investment (real estate, small businesses) or savings. In general, the poor performances of factors that determine the attraction of FDI are those leading to the existence of few employment and production opportunities, which lead to the decision to emigrate¹⁰². These same factors, in turn, are those which limit the remittances productive potential; that is the factors encouraging people to migrate also limit the productive potential of migrant remittances. It is, therefore, unrealistic to expect migration and remittances (as a consequence of migration) to promote development where business climate conditions are so unfavorable and insecure. People migrate *"because of the lack of meaningful development in the first place. In the absence of policies designed to*

¹⁰² García, Pablo M. Remittances in Central America: Reforms to Enhance Its Productive Impact. 2008.

channel migrants' savings into productive investment, it is naïve to expect migrants to behave differently”¹⁰³.

In Honduras, there is a wicked relationship between migration and development, as if the first is a warranty of the second, when it is the other way around. Migration cannot be conceived then, as an economic development strategy. The government places in hands of the migrants the responsibility that belongs to the state in the first place: social policies that restrain poverty. The state demands the migrants via “productive use” to remit part of their monthly salary¹⁰⁴ to help the country find development, which clearly has not happened in over 17 years of receiving remittances.

The study did not analyze the impact remittances cause on labor supply and private investments such as real estate, savings and entrepreneurship (creation of small businesses). The participation of these sectors in poverty reduction is essential and should be considered to policy elaboration in order to not only reduce the strong tendency to consume but also to reduce emigration. This provides good material for a further study in order to have stronger evidence that can be used to design better and applicable policies towards migration and remittances in the future.

¹⁰³ Taylor, Edward. The New Economics of Labour Migration and the Role of Remittances in the Migration Process. International Migration. Vol. 37. 1999.

¹⁰⁴ Acuña, Guillermo PhD. Conferencia América Latina y Centro América como Regiones Migratorias. Tegucigalpa, Honduras. 2008.

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