EXPORTING PEOPLE AND RECRUITING REMITTANCES: A DEVELOPMENT STRATEGY FOR EL SALVADOR

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ABSTRACT

This article explores migration as an emerging development strategy embraced by the state in Central America, concentrating on the case of El Salvador. As primary export prices decline, and non-traditional agricultural exports and assembly production fail to fulfill their promise of compensating for reduced export volumes and sales, exporting people has become an increasingly viable strategy to recruit foreign exchange, reduce poverty and inject new capital into the financial sector. The article contributes to the broader analysis of migration by examining the current state-led strategies to enhance and capitalize upon these human and financial flows. Using quantitative and qualitative data from a variety of sources the article concludes that the Salvadoran state and elites that benefit from migration and remittances are seeking to manage and facilitate these flows. Furthermore, these state-led strategies are being actively encouraged by multilateral and bilateral institutions which are keen to incorporate and promote a discourse on migration and development that sees remittances as windfall income without acknowledging the enormous human, social and economic costs of migration.

Key words: remittances, migration, dollarization, structural change, transit economy

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BACKGROUND

El Salvador is the smallest, most densely populated, and arguably the most environmentally degraded country in Central America. With a population of a little over 6.7 million, it is estimated that more than 25 percent have migrated or fled the civil war—with approximately 1.5 million people living and working in the United States.[1] As coffee, cotton and sugar prices have declined, traditional exports have shrunk. Increasingly, El Salvador's most important export is people, primarily to the United States. Remittances are now a critical source of national income and make up over half of all export earnings and more than 16 percent of GDP. Household survey data reveal that more than 40 percent of households in rural areas and 20 percent in urban areas have at least one family member overseas (EHPM, 2000). With more than 50 flights per day and an increment of almost 600 percent in the number of airline passengers arriving at San Salvador's national airport between 1980 and 2000 (BCR data), Salvadorans have become transnationals: ferrying goods, couriering money, and making purchases and investments that span national borders.

Recognizing the important role that migrants and remittances play in the Salvadoran economy, the Salvadoran state[2] is increasingly trying to channel and augment remittances to leverage development: encouraging their investment in collective projects that can generate employment and provide basic infrastructure. Government sponsored programs are being developed and refined to capture these remittances and focus their expenditure through co-financing. Agencies such as the Social Investment Fund for Local Development (FISDL) offer co-financing to Salvadoran communities and Home Town Associations (HTAs) seeking to invest their collective remittances. The government of El Salvador is also actively reaching out to communities of Salvadorans in the United States through their embassies and consular services to stimulate interest in investing individual and collective remittances and recruit economic and philanthropic projects.

In tandem with these developments, the IDB and the World Bank are encouraging government programs to channel individual and collective remittances, as well as convening conferences and meetings to generate knowledge about the use of individual and collective remittances throughout Latin America. Across Latin America efforts are being made to formalize remittance networks and displace informal couriers, increase the capture of remittances flows by large banks and financial services, and stimulate the "productive use" of individual and collective remittances (Iglesias, 2001). This interest is not surprising, since in 2004 remittances to Latin America reached a little over US$ 40 billion. This amount exceeded the combined flows of all Foreign Direct Investment (FDI) and net Official Development Assistance (ODA) to the Region. Without a doubt, Latin American is now the fastest growing and highest volume remittance market in the world. These financial flows dwarf tourism income, typically exceed the largest export, and account for more than 10 percent of GDP in six countries: Dominican Republic, El Salvador, Haiti, Honduras, Nicaragua, and Jamaica.[3]

HISTORY OF MIGRATION FROM EL SALVADOR TO THE UNITED STATES

Salvadoran migration to the United States has had a relatively short history; one marked primarily by the civil war that took place between 1979 and 1992. Although a small number of Salvadorans were resident in the United States in the 1950s and 60s, the population was markedly polarized, consisting of a privileged few from the wealthy land-holding classes, studying and working abroad, and a number of domestic servants, gardeners and laborers, who had been brought primarily by the privileged for domestic service (Repak, 1995). The population of Salvadorans increased dramatically during the late 1970s and 80s in response to the repression and violence associated with the onset of civil war (Stanley, 1987; Mahler, 1995). Vastly unequal land holdings and a growing surplus labor force prompted a struggle for land rights and resources that quickly spread throughout the country (Durham, 1979; Stanley, 1987; Wood, 2003). The trickle of migrants northwards and to neighboring countries became a torrent during the civil war—enabling families to flee conflict and escape the widespread violence and repression.

Yet, the cessation of war and the onset of peace have not stemmed the flow of migrants to more hospitable economies. Networks that were developed during the civil war to enable households and individuals to flee from conflict continue to serve to meet the needs of economic migrants searching for opportunities in the North. For many rural and urban households in El Salvador the relevant labor market is the low-skilled service and construction sector in the United States (Gammage and Schmitt, 2004; Funkhouser 1997; Mahler 1995).[4] Migration peaked during the war, with an estimated 129,000 individuals recorded crossing a land border or leaving from the international airport in 1982 (BCR data). Although migration rates have declined subsequently, official figures estimate that 4.7 people per 1000, or upwards of 25,000 people, emigrate each year (BCR 2002).

Data from the US Public Use Micro Sample, a one percent sub-sample of the United States Census from 2000 confirm that the numbers of Salvadoran's reporting that they entered the country during the 70s and 80s increased substantially from previous levels (see Figure 1.) Between 1970 and 1974, approximately 20,000 men and 25,000 women entered the country. This number increased steadily, peaking between 1985 and 1990 when 155,000 women and 179,000 men report entering the United States. Although the numbers leaving El Salvador have declined subsequently, peace has not staunched the flow of workers northwards. Indeed, the profile of education and earnings in the United States reveal that increasingly those who leave El Salvador come from poor, probably rural communities (Gammage and Schmitt, 2004). Table 1, reports data from the Current Population Survey of the United States for Salvadorans resident in the United States between 1998 and 2002. The data reveal that the proportion of Salvadorans with less than high school qualifications has risen from 1950, when approximately 26 percent of all Salvadorans had less than high school qualifications to 59 percent in the 1990s. The compositional change in migrants is consistent with a population that is increasingly composed of poor, rural migrants.

The mounting exodus of rural populations is confirmed by other data sources. A rural household survey conducted by the World Bank in the mid-1990s revealed that an average of 40 percent of farming families and 34 percent of rural families reported that at least one family member had left El Salvador between 1985 and 1994 (FUSADES, 1996). Approximately 73 percent of farming families nationally and 56 percent of all rural families receive remittances (*ibid*). These aspiring migrants have little formal education and come from households with few resources and often enter the United States without documents. As undocumented workers they face limited prospects in the United States, seeking and finding employment primarily in low-wage, service sector employment, without contracts or benefits, occupying temporary positions and undertaking shift-work, combining several jobs and often earning less than the legal minimum wage (Gammage and Schmitt, 2004).

Certainly the profile of earnings and the decline of agriculture in El Salvador provide a consistent explanation for a sustained rural exodus. Between 1971 and 1988 the amount of cultivated land in El Salvador increased by only 7 percent while the population expanded by 36 percent (Chapin, 1990). Agriculture contracted steadily as a proportion of GDP as primary commodity prices declined and conflict intensified (see Table 2). In 1960 agriculture accounted for almost 32 percent of GDP, this figure had shrunk to 9 percent by 2004. The marked decline of agriculture took place between 1980 and 2000. Similarly, wages fell steadily throughout the 80s and 90s. The sharpest drop was for agricultural workers who have seen real wages fall to les than 40 percent of their 1980 level (Gammage, 2003).

Landlessness may also be seen as a factor exacerbating out-migration. A study of rural poverty in El Salvador in the early 1990s revealed that 81 percent of the rural poor in the east, and 69 percent in the west of the country, neither rented nor owned land (Velado 1992). The landless work as occasional laborers on the many coffee and sugar plantations during part of the year, while supplementing their income through the cultivation of subsistence crops on common property and vacant plots whose ownership has yet to be reestablished after the end of the civil war. As coffee and sugar prices fell, and land rents rose, the landless began to seek alternative employment. Increasingly, the relevant labor market for these workers was in the United States, in landscaping, construction, and low-end service provision in Los Angeles, Houston, Dallas, Washington DC and New York.

CRITICAL ROLE OF MIGRATION AND REMITTANCES IN EL SALVADOR

The signing of the Chapultepec Peace Accords in January 1992 marked the end of a 12 year civil war, during which time much of the nation’s infrastructure was destroyed and many of its inhabitants were displaced. While, almost 14 years later, the prospects for peace appear solid, the political and economic constraints that the country faces are significant. The budget deficit, which stood at a little over 2 percent of GDP in 1992, has risen to almost 4 percent of GDP, and continues to be financed principally by foreign aid and borrowing. Furthermore, the reconstruction costs to rebuild public infrastructure have led to a significant accumulation of debt. Gross domestic savings rates are low, currently at about 13 percent of GDP, and investment is largely supplemented by net capital inflows from abroad.

The current account deficit has risen substantially in the post-war period reflecting sharply rising imports of consumption goods and the increment in debt-service payments on loans borrowed to finance the war effort and the post-war reconstruction process. Private consumption has risen dramatically in the post-war period fuelled by the influx of remittances and encouraged by financial sector reforms and banking deregulation that has increased the availability of credit to the urban sector. Consequently, gross domestic savings rates have remained weak throughout the 1990s and early 2000s. Throughout the 1990s, gross domestic investment consistently exceeded gross domestic savings reflecting a reliance on foreign savings and net capital transfers from abroad. Despite the reliance on foreign savings and net capital transfers from abroad, overall investment rates are low when compared with similar economies that are not emerging from civil war (World Bank, 1996).

The macroeconomic reforms that were set in motion in 1986, and officially instituted by the negotiation of a stabilization agreement and an adjustment plan in 1991, are critical to the growth path pursued by the Salvadoran government. Fiscal deficits remain low by comparison with other imbalances, reflecting strict adherence to fiscal spending targets and the partial reform of revenue capture. Current expenditures by the non-financial public sector exceed capital expenditures by almost two thirds, reflecting a trend that has constrained public sector investment in social and environmental sectors as well as in critical infrastructure in an attempt to limit deficits. The external sector was affected by a series of reforms that reduced tariffs and import duties and instituted a dirty-floating exchange rate in 1990. Export taxes were eliminated and a special credit line was created for exports. Monopolies of foreign trade in coffee and sugar were eliminated and price controls on almost 200 agricultural products were lifted. An emphasis was placed on export-base diversification toward non-traditional exports such as textiles, melon and shrimp. Yet this strategy has largely failed. Non traditional exports accounted for a little more than 24 percent of gross exports in 1992 and a little over 55 percent of gross exports in 2004. This corresponds to approximately 3 percent of GDP in 1992 and 12 percent of GDP in 2004. The majority of this increment is accounted for by the textile assembly sector which adds little more than labor, importing the majority of cloth and thread. When net exports are considered, however, this sector accounts for less than 3 percent of GDP (PNUD, 2003:119).

By comparison, remittances have risen throughout the course of the 1980s and 1990s, and continue to rise. El Salvador captures the second largest volume of remittances in the hemisphere after Mexico. Estimates of the volume of remittances entering the Salvadoran economy place these flows in excess of 10 percent of GDP since the early 1990s (Andrade Eekhoff 2003). Currently, remittances account for 16 percent of GDP (see Figure 3).

Migration achieves multiple and simultaneous objectives that have underpinned state-led development strategies to reduce poverty, recruit dollars, expand the financial sector and compensate for declining export prices and volumes in El Salvador. Migration allows excess labor to flow northwards, fostering both a direct and indirect reduction in poverty. Successful migrants who obtain jobs abroad and send back remittances contribute to raising incomes and lifting households out of poverty, injecting cash into disproportionately poor and rural communities. Segovia (2002) notes in his recent volume on the Salvadoran transition from war to peace:

> "One of the principle factors that explain the reduction in poverty in El Salvador in the decade of the nineties is the influx of remittances, which for the most part accrue to poor households" (Segovia 2002:207).

Table 3 reports poverty rates for Salvadoran households in urban and rural areas using the 1998 national household survey. In urban areas 29 percent of households with remittances were poor, while 34 percent of households without remittances were poor. Correspondingly, in urban areas 7 percent of households with remittances were extremely poor, while 12 percent of households without remittances were extremely poor. The disparity in rural areas reveals a similar pattern: 71 percent of rural households with remittances had per capita incomes below the poverty line as compared to 79 percent of households without remittances. The difference in extreme poverty rates in rural areas is even more stark: approximately 35 percent of rural households with remittances were extremely poor as compared with 50 percent of households without access to remittances.[5]

Without a micro-dataset that tracks households *ex ante* and *ex post* migration, we are unable to address the concerns of endogeneity and selection bias that would allow us unequivocally to determine whether remittances mitigate poverty. However, the preponderance of evidence appears to indicate that poverty rates in El Salvador have fallen coincidentally as remittances have risen (See Figure 4). Certainly, the most rapid declines in poverty have been achieved over the course of the 1990s, in the wake of the Peace Accords, and as a series of legal measures were taken to regularize visa status for Salvadorans living in the United States.

In 1986, the United States Congress passed the Immigration Reform and Control Act. The stated goal of this act was to staunch the flow of undocumented immigrants across U.S. borders by imposing fines on employers who knowingly hired undocumented workers. Employer sanctions were imposed, increased appropriations were made for enforcement, and an amnesty provision was incorporated into the legislation. The employer sanctions provision designated penalties for employers who hire aliens not authorized to work in the United States. Under the amnesty provision, illegal aliens who lived continuously in the United States since before January 1, 1982, could have applied to the Immigration and Naturalization Service (INS) for legal resident status by May 4, 1988, the application cutoff date. IRCA provided many Salvadorans with the opportunity to regularize or legalize their immigration status. IRCA also afforded loopholes in what Mahler describes as “lucrative liminal law” which enabled a multitude of profiteers and purveyors of legal services to obtain fees for processing “deferred enforced departures” for clients—enabling them to work until such a time as they may be proven eligible or ineligible for IRCA. The net effect was a system that enabled many ineligible immigrants to prolong their residency and obtain temporary or interim work permits.

On the heels of IRCA came a series of Temporary Protected Status measures. Salvadorans were among the first group to be eligible for Temporary Protected Status in 1990 and make up the greatest proportion of TPS visa holders (Bailey, *et al* 2002).[6] TPS grants select foreign-born nationals temporary residence status and temporary access to employment for a period of between 6 and 18 months. TPS may be extended depending on the specifics of the individual case. TPS does not confer permanent rights to residency or to work in the United States. Those granted TPS receive work authorization, but they are ineligible for public cash or medical assistance. However, all TPS recipients can apply for deferred enforced departure status, which also enables them to maintain temporary residence and work privileges. TPS and DED status have been offered periodically to Salvadorans throughout the decade of the 1990s and more recently in response to a series of emergencies such as hurricane Mitch in 1998, and the earthquakes in 2001.

Finally, NACARA, the Nicaraguan Adjustment and Central American Relief Act (NACARA), signed into law on November 19, 1997, provided special rules regarding applications by certain Guatemalan, Salvadoran, and some former Soviet bloc nationals for suspension of deportation and cancellation of removal.

These laws and amendments have greatly facilitated Central American migration and residency in the United States, enabling employers to continue to recruit low-paid and flexible labor for service-sector jobs while simultaneously securing the flows of remittances to Central American economies.

MIGRATION AND STRUCTURAL TRANSFORMATION IN EL SALVADOR

Migration and the receipt of remittances have enabled a structural transformation in the Salvadoran economy: changing the character and increasing the size of the financial sector; recruiting foreign exchange; and fostering the successful transition to a dollarized economy. As borders are liberalized and agriculture declines, displaced rural workers can be exported to secondary labor markets in the United States, Canada and Australia. The shift to a service-oriented economy is underpinned by the ascendancy of the financial sector. The Salvadoran economy is now a service and transit economy, importing consumer goods and exporting people; old agricultural-based elites have shifted into construction, transportation and communications, freight services and the financial sector—activities that rely extensively on migration and remittances for capital and sales. The post-war transition has been successfully eased by exporting surplus labor, and the focus of economic activity is increasingly on services and retail.

These structural changes are occurring in tandem with the multilaterals' renewed interest in the development potential of remittances. The Multilateral Investment Fund (MIF) has drafted a series of core principles for remittance institutions that include seeking partnerships and alliances between money transfer agencies and financial institutions to leverage capabilities and promote "cash to accounts" services and other forms of financial intermediation. The MIF has an entire project cluster organized around "Remittances as a Development Tool," and hosts a series of conferences on leveraging remittances for development.[7] Other multilateral institutions such as the International Finance Corporation, International Monetary Fund and World Bank are actively engaged in supporting reforms that expand the financial architecture and increase the ability of recently privatized and de-regulated banks in El Salvador to capture remittances or providing loans to the Salvadoran state to expand their engagement with migrant populations abroad (IADB, 2001, 2002, 2005).

FINANCIAL SECTOR

Migration has re-defined the contours of the financial landscape in El Salvador. From 1989 through early 1992, the government of El Salvador allowed the colón to float from what had previously been a pegged rate. During this time, the colón depreciated rapidly from a little over 5 colones to the dollar to approximately 9 colones to the dollar. Rather than allowing the colón to continue to correct toward a lower real bilateral exchange rate with the dollar, the Banco Central de Reserva (BCR) intervened using open market operations to establish and maintain the overvalued rate of 8.75 colones to the U.S. dollar as a *de facto* fixed exchange rate. From the early 1990s onward, as the flow of dollar-denominated remittances rose dramatically, the BCR policy of maintaining a "dirty float" increasingly faced a powerful challenge, to prevent the appreciation of the colón. The BCR responded by purchasing dollars, which in turn pumped colones into the economy. To "sterilize" the resulting excess liquidity in colones, the BCR sold bonds. But in order to successfully market its bonds, the BCR was required to set very high interest rates, which in turn hiked rates throughout the financial system. The higher interest rates attracted short-term capital encouraging the banks to borrow abroad and re-lend domestically. As Schmitt and Stanley 2001:3 observe: "To the extent that banks could borrow in dollars and lend in local currency, this progressive appreciation created an opportunity for dollar lending arbitrage yielding nearly 12% above the US discount rate."

Salvadoran authorities with support from the International Monetary Fund and the World Bank moved rapidly to liberalize and deregulate the country's financial sector at the end of the war (Danby, 1995). Legislation passed in April 1990 allowed the government of El Salvador to liquidate the weakest commercial banks and merge others in an attempt to cleanse the balance sheets of bad loans. Five banks and three financieras[8] were sold to shareholders between 1991 and 1994. The combination of the liberalization and privatization of several key banks with the foreign exchange bonanza prompted the rapid expansion of the financial sector. Between 1990 and 2004 finance insurance and real estate expanded by 23 percent (see Table 3).

In mid 1995, the government announced its intention to allow a voluntary and gradual dollarization of the economy by eliminating all restrictions on financial operations in US dollars (World Bank, 1996). Dollarization officially occurred in 2001, although colones can still be found in circulation in parts of the economy. President Flores announced the Law of Monetary Integration in late November 2000. In his speech, Flores argued that the adoption of the dollar would generate economic growth, secure a decline in interest rates and increase foreign direct investment. Dollarization has certainly brought interest rates closer to international rates. It has also prompted the accelerated contraction of foreign liabilities held by Salvadoran banks and an increase in external asset holdings. The volume of external asset holdings by Salvadoran banks increased from US$ 280 million in 2000 to $976 million in 2003 (PNUD, 2003; BCR 2004).[9]

For many analysts and researchers, the choice to dollarize responded to pressure from the International Monetary Fund[10] and World Bank advisors and afforded the additional benefit that it also appeased pro-finance advocates in the Salvadoran economy who supported the Flores government. Certainly, dollarization would not have been so easily shepherded through the legislature had it not been for the abundant source of dollars entering the economy in the form of remittances.

The proliferation of remittance transfer agencies is also changing the financial landscape in El Salvador: building a complex lattice of formal and informal financial institutions that channels funds and extends loans between the North and the South and expands the array of financial instruments available to consumers in El Salvador. Commercial banks in El Salvador now offer remittance backed bonds; the Banco Agricola[11] extended its portfolio, several years prior to dollarization, to include small dollar-denominated checking accounts in the early 1990s. This prompted other banks to compete. By 1998, the Banco Cuscatlán, which reportedly handles almost one-third of the remittance-market, had offered US$50 million in remittances bonds (Orozco, 2000).

Informal and formal channels for the transfer of remittances exist side-by-side ranging from informal viajeros and viajeras (private couriers) and the formal but smaller transfer agencies such as Transexpress, Gigante Express and Urgente Express[12]—which have offices throughout California, Texas, Miami, the DC-Metro area, New Jersey, New York and Illinois—to the larger financial institutions such as Western Union, the Banco Agrícola and the Banco Cuscatlán. Western Union is the dominant transfer agency in El Salvador capturing approximately 20 percent of the market share and offering 273 points of service in El Salvador throughout the country (Orozco, 2002). Gigante Express, a courier company that provides money orders, is the next largest agency with a little under one fifth of the market share. The Banco Agrícola, the largest commercial bank in El Salvador, and the BanComercio together have about 20 percent of the total market share (*ibid*). Banco Agrícola, has about 12 percent market share. In 2003, the six Banco

Agricola Comerical outlets in the United States registered almost 370,000 separate transactions, capturing a little over US$120 million. The remainder of transfers are made through smaller exchange houses and transfer agencies, extended social and family networks and individual couriers.

Interestingly, in the last three years, smaller and more targeted alternative financial institutions have increased their participation in the transfer of remittances. It is clear that significant potential exists for channelling remittances through these alternative financial institutions and developing financial instruments for underserved segments of the population. The Central Bank attributes the increased capture of remittances by Salvadoran banks and financial institutions, from under 10 percent of total flows in 2000 to almost 30 percent in 2004, to the growth of these alternative financial institutions (BCR, 2004; Santamaría, 2004). The Federation of Credit Unions in El Salvador (FEDECACES) exemplifies the impact that remittances have had on the development of innovative financial services in El Salvador. FEDECACES is a federation of small savings and loan co-operatives with 29 member institutions that operate in 13 of El Salvador's 14 departments. In 2001, FEDECACES joined forces with Vigo[13] and Rapid Money, two international remittance agencies with a presence in the United States, in order to expand existing remittance services. As a result of this alliance, FEDECACES increased the number of transactions from 754 in 2000 to 52,946 in 2002 (Andrade Eekhoff and Silva Avalos, 2003). In 2000, FEDECACES transferred a total of $175,000 in remittances; by 2002 their remittance transfers had increased to more than $22 million (*ibid*). They are currently channelling more than $60 million per year in remittances sent back primarily to rural areas.[14]

In mid 2002, FEDECACES received a $1.5 million grant from the Multilateral Investment Fund to support a project to improve access to remittance transfer and financial services for poor people in rural areas (IADB, 2002). The grant allowed FEDECACES to integrate their remittance services and automate their information and operational systems to reduce transfer costs and increase efficiency. The grant also allowed FEDECACES to define a marketing plan for their remittance services and develop new financial products for the poor and unbanked—including savings accounts, payments and transfers, insurance, and micro-loans.

Yet despite these isolated successes at capturing remittances and targeting financial services to the poor and unbanked, the majority of the remittance flows go through major banks and financial institutions and little attention has been given to the poor and underserved remitters and recipients.

A TRANSIT ECONOMY

Migration has also fuelled the rapid expansion of the transit economy. A mobile and transnational population requires a substantial infrastructure for transport and communications. Between 1990 and 2004 Transport, Communications and Storage have increased by 51 percent rising from 7.4 to 11 percent of GDP. Communications are a significant component of this sector. In 1998, France Telecom purchased 51 percent of CTE, the state-owned fixed-line telephone firm, for $275 million, and Telefónica of Spain paid $41 million for a 51 percent share of the state-owned wireless firm. The government of El Salvador sold additional shares in the state telephone companies on the Salvadoran securities exchange in 1999. In 2003, America Movil, a Mexican telecommunications conglomerate, bought France Telecom's shares in CTE and other shares owned by the Salvadoran Government. America Movil now owns 94 percent of

CTE, an enterprise which generates revenues in excess of US $360 million per year. There are currently 17 private local and foreign companies providing standard and cellular telephone service as well as beeper, cable television, Internet, and other telecommunications services. With this density of providers, it is no wonder that El Salvador hosts the largest Central American mobile telephone market with a little over 1.8 million cellular phones in 2004 (SIGET, 2004). Certainly, the growth in telecommunications has vastly outstripped other sectors. Between 1997 and 2004 there was close to a seven-fold increase in the sum of fixed and mobile telephone lines per 100 people in El Salvador, registering an increment from 6.5 to 40.3 lines per 100 people (*ibid*).[15]

Emblematic of the expansion of the transit economy, El Salvador is vigorously pursuing a development strategy that will make it the 'dry canal,' competing with the Panamá canal and linking the Pacific with the Caribbean via the Pan American highway through Honduras and Guatemala. The Port of Cutuco in the Gulf of Fonseca, La Unión, is being rebuilt and expanded with financing from the Japanese International Cooperation Agency (JICA) and the Central American Bank for Economic Integration. Cutuco will eventually comprise three different terminals: one for containers, a multipurpose terminal for freight and livestock, and one exclusively for passengers. The port will also offer customs, banks, and immigration services. If construction continues as planned, the new port will be fully operational by 2006.

The renovation of the Comalapa airport in 1995, in conjunction with the extension and modernization of the port of Acajutla in La Libertad, has led to the expansion of cargo and freight services. In 1992, 1.4 million metric tons of goods entered Salvador through the various ports. By 2004, this figure had risen to 3.2 million metric tons. Air freight has increased by 37 percent from 22.8 million kilograms to 31.2 million kilograms over the same period. At the end of the war in 1992, approximately 2092 passengers entered and exited El Salvador daily through the Comalapa international airport.[16] By 2004, this figure had risen to 4000.

Although the majority of remittances are transferred through banks, wire services and transfer agencies a substantial number are couriered by hand to remote towns and villages in El Salvador. These couriers bring both money and goods and enter and exit El Salvador by air. Informal couriers, or viajeros, make up more than 30 percent of all remittance services used (Gammage *et al* 2005). This does not mean that they courier 30 percent of the volume of remittances sent, rather that they provide 30 percent of the transaction services. Viajeros may courier as much as $240 million per year, or approximately 11 percent of all remittances entering the country (*ibid*). Furthermore, in addition to remittance services, they courier a variety of consumption articles into the country including refrigerators, electrical goods, televisions, audio equipment, stoves and computers.

The viajeros live between the United States and El Salvador and typically enter El Salvador on tourist visas. They form part of what Portes et al (1999) describe as the "manifold socio-cultural enterprises oriented towards the reinforcement of national identity abroad" and the "collective enjoyment of cultural events and goods." The viajeros are people who have managed to regularize their status, hold residency permits, or possess multiple entry tourist visas and who live aquí and allá. They may live in their communities of origin approximately 15 days to a month and return to their host community in the United States for the equivalent period of time. They come and go, accumulating air miles with international airlines, and earning privileges that allow them to take more bags, to pay less in cargo fees, and to live by bringing and taking goods.[17]

> "Me, I live 15 days here and 15 days there. My mother lives here alone in La Unión, and my children are in school there [Virginia]. So I live between places." *Viajera*, Department of La Unión.

> "Some people go even more frequently. Every 5-7 days they are in the airport, either here or there." *Viajero*, San Miguel.

> "Oh, they all have air-miles, and are able to get special offers. They are frequent flyers on several airlines and are able to get more bags through that way." Female resident, Department of La Unión.

> "For the frequent flyers, they allow us 4 bags each. We pay $113, for the three extra bags instead of $100 for each piece of excess baggage." Viajera, Department of San Miguel.

While there is no official register of the numbers of viajeros operating in the country, it is possible to make some educated guesses about the numbers operating and the amounts couriered. It is clear that a significant number of people in El Salvador work as viajeros, and that the majority provide services in rural areas in eastern El Salvador. The Ministry of Treasury estimates that there are approximately 2,000 viajeros in El Salvador.[18] The average number of trips per year appears to be about 20, and the average amount couriered is approximately $6,000.[19] This estimate may be conservative, since some viajeros report carrying as much as $15,000 in cash, and making as many as 24 trips a year. With approximately 8 bags or boxes per trip, each weighing about 50 pounds per bag, the amount of cargo and excess baggage is likely to be on the order of 16 million pounds per year. In the face of such demand, it is hardly surprising that Grupo Taca, the Central American airline decided to expand its cargo business in 2000. TACA carried approximately 193 million pounds of cargo between the United States and Central America in 1999 and was expected to carry 252 million pounds in 2000 (Giddy, 2004). The majority Salvadoran-owned airline posted record profits for 2004 and reported an increase in the number of passengers served by 20 percent—this in an era where other airlines are revising their strategies to recruit passengers and limit losses (Barerra, 2005).

THE ROLE OF THE SALVADORAN STATE: MANAGING AND CULTIVATING THE DIASPORA

As the private sector expands and deepens its dependence on the diaspora, the Salvadoran state is increasingly involved in encouraging and managing the flows of people and remittances. Migration is a policy concern that affects the design of state institutions and the political rhetoric that is documented in the press and media.

One example of the redesign of state institutions is the Directorate General of Attention for the Community Abroad, which came into being under the previous ARENA party administration and presidency of Francisco Flores. The defining platform for the Directorate is summarized in a document entitled "Towards a Strategy for the 21st Century of Integration and Linking with the Salvadoran Community Abroad" (DGACE, 2002). The platform provides a detailed statistical picture of the Salvadoran's abroad and the remittances sent home. The platform also delineates a series of activities that will "[f]ortify attention to and links with the Salvadoran communities abroad" (DGACE, 2002:5).

The document identifies Salvadoran migrants abroad as clients and refers to the need to develop a state policy that offers consular activities and assistance to the diaspora population which is informed by a "spirit of service". The principal goal of such a policy would be to "contribute to establishing an axis for development based on the potential of the Salvadoran community abroad, securing their social, economic and political ties" (DGACE, 2002:5).

In order to fulfil this promise, the Ministry of Exterior relations has modified and modernized its services. The Ministry currently maintains a web portal, as does the Embassy of El Salvador in the United States.[20] These portals provide information on the community of Salvadorans living abroad, legal assistance for immigration to the United States and other host countries, and the consular services offered abroad. Detailed information is available about the different types of visa statuses that Salvadorans are eligible for and the array of non-governmental and private organizations dedicated to facilitating migrants regularization or legalization.

As part of the ongoing campaign to renew channels of legalization, the Salvadoran government has successfully lobbied the United States government to expand and renew Temporary Protected Status. In January, 2005 the newly elected Salvadoran President, Tony Saca launched a campaign in Silver Spring, Virginia to remind Salvadorans to re-register for Temporary Protected Status (Sheridan, 2004).[21] Saca pledged to make a priority of winning immigrants a third extension of TPS since the earthquakes in 2001. He also fervently assured immigrants that the government wasn't only thinking of their money when it lobbied the Bush administration for the extension (*ibid*).

As the Salvadoran state has re-defined institutions to accommodate and manage migratory flows, new mechanisms for retrieving power from the diaspora and channeling remittances have emerged. Among these state institutions that have been modified to incorporate the diaspora is the Social Investment Fund. The Fondo de Inversión Social para el Desarrollo Local (FISDL)—began to focus on Salvadorans in the diaspora in late 1999. The FISDL program Unidos por la Solidaridad is an innovative mechanism which promotes the participation of municipalities, NGOs and Salvadoran organizations and Home Town Associations (HTAs) abroad in financing and building small infrastructure for schools, communal recreation facilities and health centers. This program is modeled on a similar mechanism operated by the Mexican government that matches funds transferred by HTAs in the United States and Canada (República de El Salvador, 2002; FISDL, 2000, 2003, 2004). To date, there have been 14 separate grant competitions through the United for Solidarity program that have been able to channel more than US $11 million to 45 projects in 27 municipalities throughout El Salvador.

The FISDL, in its current form, grew out of the social investment fund approach to mitigating adjustment costs. Established in 1990, the Fondo de Inversión Social (FIS) was originally intended to function as a temporary institution—specifically, by investing in small infrastructure development and repair. In 1992, some of the reconstruction activities in the National Reconstruction Plan, mandated by the Peace Accords, were passed over to the FIS. In 1996, the FIS was restructured and became the FISDL. Funds come from a variety of sources including the central government, as well as loans from the Inter-American Development Bank, loans and aid from European, Japanese and US donors.

As with all social investment fund frameworks, the projects respond to an overarching objective to de-center and decentralize government functions by fostering local government and community engagement, are intended to be small, focused, demand-led and responsive to local development needs.[22] Social investment funds focus almost exclusively on small infrastructure projects and public works (Grosch, 1990; Estache, 1995; Estache and Sinha, 1995). The rationale for social investment funds across the world is largely distributional—their objective is to mitigate the costs of adjustment through small scale locally-focused and locally-implemented projects. In some cases the objective has been to generate temporary employment through public works (Datt and Ravallion, 1994), in others to compensate for existing deficits in infrastructure in poor rural communities (Jack, 2000).

The bulk of funds for transnational projects with HTAs (50%) come from the FISDL and from the municipalities (38%) with lesser amounts contributed by foundations, NGOs, the private sector and other ministries (10%) and an even smaller amount by the HTAs themselves (2%). The funds available through the FISDL come primarily from loans extended by the Inter-American Development Bank as well as from central government funds. Although the total amount of diaspora funds leveraged by this initiative is minimal, the program serves an important political purpose. It creates a platform for state-led transnationalism (Guarnizo, 1998; Smith, 1997; Goldring, 2002) which represents an attempt to expand the scope of a nation-state's political, economic, social and moral regulation to include migrants living abroad. The careful and deliberate cultivation of home-town associations of migrants living abroad that invest in small social infrastructure reflects an ongoing project, which in the words of Luin Goldring 2002:68 "construct transmigrants and their organizations as one more in a series of corporate groups" that the state can "co-opt by engaging them in corporatist and clientalist relations."

Certainly, the state and the ruling ARENA party have carefully managed rhetoric about migration and the security of migrants abroad to ensure the longevity of power of the ARENA party and their policies. Immigration was a prominent issue in the March 2004 elections. As the FMLN campaigned for power, ARENA party political propaganda aired on television and in the media stoked the anxieties of families with members working abroad claiming that a socialist FMLN victory would prompt the immediate deportation of Salvadoran's living abroad and ensure the economic isolation of El Salvador. The campaign of fear and misinformation was extremely successful. The ARENA party was elected with 58 percent of the ballots, with a record turn-out of two thirds of the electorate, almost 2.2 million voters.

Yet, as the state seeks to recruit migrant dollars, propagate the myth of migrant heroes, and dangle the tantalizing possibility of migrants voting abroad, the diaspora begins to organize, respond, and engage with the state. Salvadorans in the United States have begun efforts to replicate the Cuban lobby in Miami and although the coalition is loose and contested, it brings together a variety of diaspora organizations seeking to advocate for immigrant rights in the United States and lobby both the Salvadoran and US governments. One expression of this emerging coalition is the Salvadoran conference: "Salvadoreños en el Mundo." To date, two conferences have been held in Los Angeles and Washington, bringing together Salvadoran diaspora organizations to develop a common bi-national or transnational political platform.

The most recent conference was held in Washington DC in October 2004. An estimated 500 Salvadoran community leaders, HTA members and affiliates, activists and representatives of Salvadoran ministries participated in the two day conference at George Washington University. Delegates and panelists came from California, El Salvador, New York, Massachusetts and Germany (Sheridan, 2004). The agenda was diverse and chaotic: spanning the right to vote abroad, immigration status in the United States, the continued prosecution of war crimes and war criminals, violence and organized gangs in El Salvador and the United States.

Tony Saca, the newly elected president of El Salvador was among the keynote speakers who attended the inauguration ceremony, underscored the importance of this transnational event by telling Salvadorans that: "Everything we do in El Salvador includes you. You are an essential point of reference." Saca also reported in an interview with the Washington Post: "[Migration] is a really important theme. One fourth of our population lives abroad, 80 percent [of them] in the United States...". He emphasized that his presence at the inauguration was because he wished "to hear their concerns, to hear about their desires and tell them about my work." (Sheridan, 2004: B1).

CONCLUSION

Out-migration has undoubtedly facilitated structural change in El Salvador, reducing poverty, both directly and indirectly, draining displaced workers from the rural economy, and fuelling the expansion of a transnational, transit economy. The strategy dovetails neatly with the adoption and continued application a series of adjustment policies and reforms that liberalize the agriculture sector exposing it to competition from abroad, privatize and de-regulate the national banks—facilitating the expansion of remittance services and remittance-backed instruments—and engage and recruit the diaspora in development initiatives.

These practices and policy responses are not new, although they have been reinvented and modified to respond to the specificities of the Salvadoran context. Similar policies and approaches to exporting people and have been creatively deployed by governments around the word to mitigate poverty, capture remittances and re-engineer economies. The Philippines and Sri Lanka have developed training programs to certify migrant skills and facilitate their migration and absorption into host country economies. Governments and banks in countries around the world have investigated in remittance-financed bonds and created remittance-backed instruments as new source of debt marketing. Spain and Portugal's thriving credit unions were largely built on remittances sent home by migrants working in European countries in the 1960s and 70s. Investment bankers have encouraged Turkey, the Philippines, and Brazil to develop creative measures to capture and capitalize upon remittances. In August 2001, the Banco do Brasil issued $300 million in five-year bonds using forecasts of future remittances in yen from Brazil's 1 million expatriates living in Japan as collateral. Pakistan and India have also adopted this strategy: both have issued remittance bonds to boost foreign-currency reserves (Sengupta, 1998; Orozco, 2000) and to recruit diaspora investment (Lakshmi, 2003). In Pakistan, migrant workers have been encouraged to use the Non-Repatriable Investment Scheme, which allows the diaspora to import machinery and equipment at concessional rates of duty to establish manufacturing enterprises in Pakistan. Similarly, in India, migrant workers returning to their home countries are given preferential access to capital goods and raw material imports.

Migration provides a safety-valve, releasing pressure on economies throughout the world, as they adhere to the dictates of liberalization and adjustment. Simultaneously, host countries that import or receive migrant labor are given an opportunity to recruit a contingent and flexible workforce—which in the worst case scenario can be deported and sent home.

Worldwide, remittances totaled over US $75 billion in 2004. These flows mitigate poverty and create opportunities for financial market expansion that have benefited the wealthy as well as the poor. These same flows were lauded by multilateral institutions for engendering novel mechanisms for leveraging development and affording new opportunities for dynamizing savings and investment in home economies—particularly in rural areas. Unfortunately, the analysis propagated by these institutions typically fails to explore the push- and pull-factors that lead to mass out-migration and which respond to the failure of neo-liberal policies to promote lasting and sustainable growth. As such, the migration safety-valve functions to ameliorate the costs of adjustment and liberalization and obscure the impacts of adherence to these policies and strictures.

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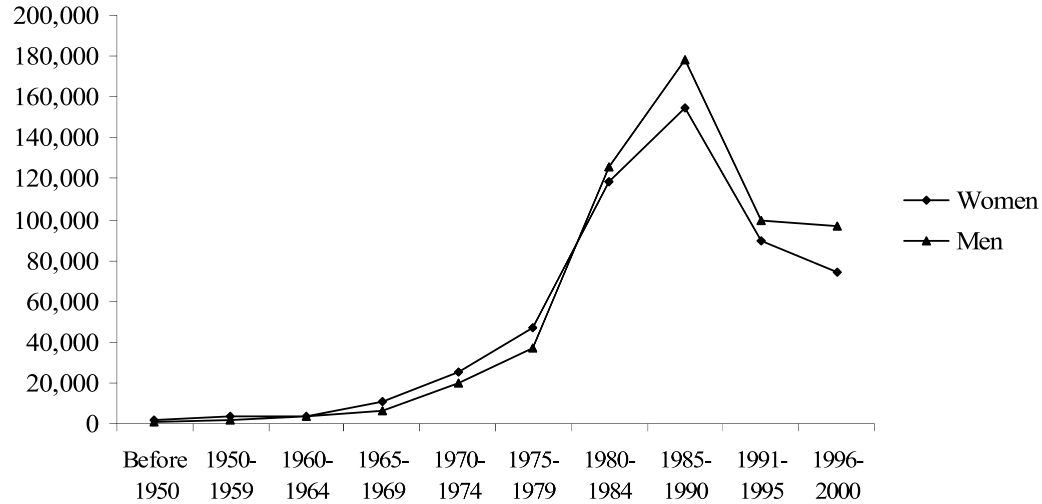
Figure 1. Estimated Year of Arrival, Salvadorans Resident in the United States



Source: Public Use Micro-Sample (1%) of the United States Census, 2000
Note: Applies Mumford corrections for Hispanic population to Latin American immigrants who do to report their country of origin.

Table 1.Salvadorans, Education by Year of Arrival, Age 16-64, (percent)

	LTHS	HS	Some college	College	Advanced	Total
1950-69	25.6	33.2	26.3	6.1	8.8	100.0
1970-79	47.8	26.1	18.4	5.8	1.9	100.0
1980-89	52.3	28.2	14.5	4.1	1.0	100.0
1990-	59.2	26.5	10.9	2.2	1.2	100.0

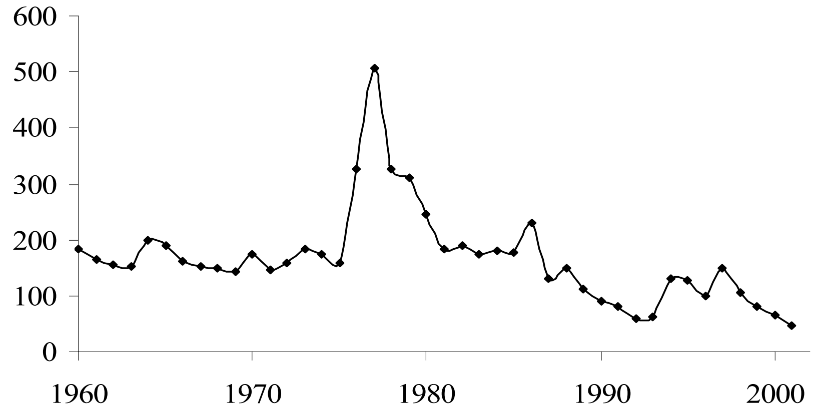
Source: Current Population Survey Outgoing Rotation Group; CEPR extract.
Notes: Data are pooled for 1998-2002

Table 2. Sectoral Composition of GDP

	1960	1970	1980	1990	2000	2004
Agriculture	31.8	28.6	27.9	17.5	10.2	9.0
Manufacturing	19.0	23.2	20.6	26.4	29.2	29.6
Electricity, gas, water	1.2	1.5	2.1	1.2	0.6	0.6
Construction	3.2	2.8	3.4	3.5	3.6	4.2
Services	49.2	48.2	51.4	56.0	60.7	61.4
Transport, storage, communications	4.7	5.0	3.5	7.3	8.5	11.0
Commerce	22.4	21.1	22.8	18.2	19.4	19.7
FIRE	7.2	5.9	7.7	7.4	8.7	9.1
Total	**99.9**	**99.9**	**99.9**	**99.9**	**100.1**	**100.0**

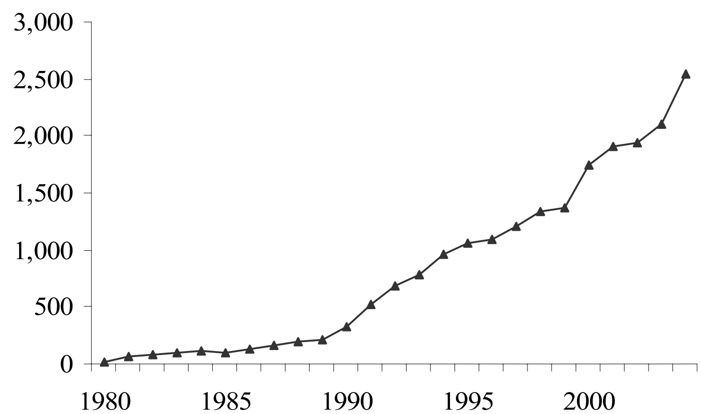
Source: Banco Central de Reserva, Informe Trimestral, 1965-2005

Figure 2. Coffee Prices, Prices of Other Milds, US Cents per Pound, Constant 1990 prices



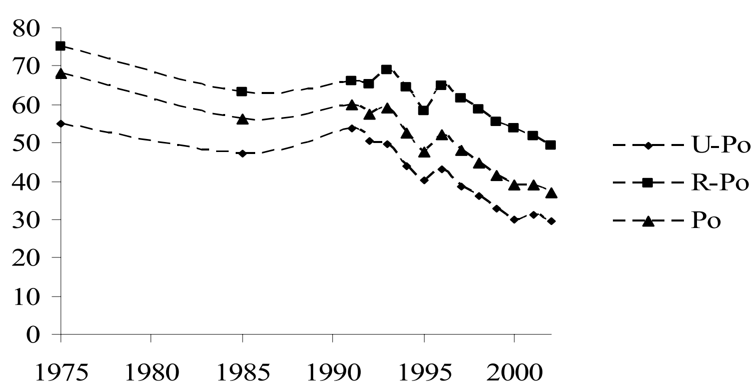
Source:USDA (2003) Tropical Products: World Markets and Trade

Figure 3. Remittances to El Salvador, Millions of US$



Source: Banco Central de Reserva

Figure 4. Poverty Rates, 1975-2002



Source: Author's calculations from the Encuesta de Hogares de Propósitos Múltiples 1990-2002; data for 1975 are from Deere and Diskin, 1985; data for 1985 are from FUSADES.

Table 3. Poverty Rates Among Salvadoran Households (Percent)[a,b]

	Urban			Rural		
	With Remittances	Without Remittances	Significance[c]	With Remittances	Without Remittances	Significance[c]
Poverty	29.3	33.5	***	71.3	79.3	***
Extreme Poverty	7.3	11.9	***	35.1	50.3	***

[a] Averages are population weighted to reflect the total population in rural and urban areas.
[b] Households are defined as poor if per capita income is less than $2 purchasing power parity, per person per day. Households are defined as extremely poor is per capita income is less than $1 purchasing power parity, per person per day.
[c] *** Significant at p=0.000
Source: Authors' calculations using data from Encuesta de Hogares de Propósitos Múltiples, 1998.

Table 4. Key Economic Indicators

	1980	1990	1995	2000	2002
GDP (billions constant 1995 US$)	7.3	7.0	9.5	11.0	11.5
Total External Debt (Millions of 1995 US$)	1,607.2	2,446.4	2,609.6	3,582.7	4,973.8
GDP growth % (year-on-year)	-11.8	4.8	6.4	2.2	2.1
Exports (% GDP)	34.2	18.6	21.6	27.4	26.7
Imports (% GDP)	33.2	32.2	37.8	42.4	42.2
Gross National Savings Rates (% of GDP)	13.3	11.4	17.8	13.6	13.9

Source: BCR data 1985-2004; World Development Indicators CD-ROM, 2004; United States Council of Economic Advisors, Chained US-CPI

[1] This figure for 2004 is based on estimates using the United States Census data from 2000 and the corrections by Mumford. http://www.albany.edu/mumford/census/index.html.

[2] The state comprises the apparatus of local and national governance and institutions including bodies such as the Ministry of Exterior Relations, the Ministry of Public Works, the Social Investment Fund, the Ministry of Education and other government agencies that engage with diaspora communities.

[3] See the Multilateral Investment Fund web page: http://www.iadb.org/mif/v2/.

[4] This flow of migrants northwards is met by an increasingly voluble business lobby in the United States arguing for greater access to immigrant labor. Among those representing the business sector is the Essential Worker Immigration Coalition a collection of "businesses, trade associations, and other organizations from across the industry spectrum concerned with the shortage of both skilled and lesser skilled ("essential worker") labor. http://www.ewic.org/Index.asp

[5] Although migration has the potential to alleviate poverty among sending households that receive remittances, the cost of undocumented passage to the United States is currently between US$5,000 and $8,000, a sum that few households can muster without the sale of assets or resorting to informal credit markets and borrowing from friends, relatives and money-lenders. Consequently, recent migrants and their families assume debts that must be repaid to a wide variety of creditors in El Salvador and the United States (Gammage et al, 2005).

[6] The U.S. Immigration and Naturalization Service estimates that approximately 290,000 Salvadorans are currently eligible for TPS extension of the total 299,015 individuals from El Salvador, Burundi, Sierra Leone, Sudan, Liberia and Somalia eligible for TPS (U.S. Department of Homeland Security 2003).

[7] See for example: http://www.iadb.org/mif/v2/remittances.html

[8] The *financieras* previously functioned as savings and loans institutions. Post-war de-regulation allowed these institutions to lend to a wider range of borrowers.

[9] These are gross external assets held by the consolidated financial sector (BCR, 2002, 2004, Table 1.5)

[10] The IMF waxed lyrical in its praise of El Salvador noting: "El Salvador has implemented a wide range of structural reforms over the last decade. Impressive reforms—including trade opening, privatization, and tax policy, civil service, and pension reform—have been supported by a broad national consensus. The reform effort was capped with official dollarization in 2001, which helped reduce interest rates and consolidated low

inflation. This strategy has contributed to considerable improvements in per capita income and social conditions." IMF (Public Information Notice) No. 05/21, February 14, 2005.

[11] The Banco Agricola was also the first Salvadoran national bank to open service points in the United States in the mid 1980s.

[12] These transfer agencies are not considered part of the financial architecture and are not, therefore, included in the Central Bank's Financial, Insurance and Real Estate calculations.

[13] Vigo has operations in 38 states in the US and 36 countries in Latin America, Asia, Africa and Europe.

[14] Interview with Berta Silvia de Morán, FEDECACES, December 2003.

[15] Between 1999 and 2002 alone incoming calls increased from 398.3 million minutes to 769.5 million minutes (PNUD, 2003).

[16] This is entries plus exits per day.

[17] As a phenomenon, viajeros were explored in a recent article in Enfoques, the Sunday Magazine of the Prensa Gráfica of El Salvador (Abarca, 2004).

[18] This calculation is based on figures from the Ministry of the Treasury and data provided by the National Association of Couriers of Goods and Culture (ANGEC) about their membership.

[19] Amounts reported in interviews with viajeras and their clients vary between $2,000 and $15,000.

[20] See http://www.elsalvador.org/

[21] This campaign continued previous initiatives by Francisco Flores in 2001 to lobby the United States government for an extension of TPS (Giralt, 2001).

[22] See Jack (2000) for a fuller analysis of the general characteristics of Social Investment Funds.