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Migration and Cities in Guatemala – the Potential of Remittances for Housing

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Acronyms

CONAVI – *Consejo Nacional de Vivienda* - National Housing Council

GNP – Gross National Product

IOM – International Organisation of Migration

LAC – Latin America and Caribbean

LIP – *Ley de Interés Preferencial* - Law of Preferential Interest

MUVI – *Módulos Urbanos de Vivienda Integrada* - Integrated Urban Housing Module

PNVAH – *Política Nacional de Vivienda y Asentamientos Humanos* - National Policy for Housing and Human Settlements

SIB – *Superintendencia de Bancos de Guatemala* - Government Agency for Banks' Oversight

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Executive Summary

Both international and internal (country to city) migration is high in Guatemala; in recent years migrants returning from Mexico and the US added further pressure on already stretched cities' infrastructure, services and housing supply. Significant remittances (corresponding to almost 14 percent of GDP) originate from international migration with remarkable impact on both the macro-economic situation and households' income. In parallel, current housing policy and programs are insufficient to reduce the country's housing deficit. Remittances should be channelled to savings and these should lead migrants' families and returning migrants to broaden access to credit and invest in housing, but for this to materialise, actions need to be taken (i) to increase the quantity and improve the quality of information on remittances, (ii) to promote the exit from informality and the financial inclusion of both senders and recipients of remittances (as at present just one quarter of them is channelled to formal banking and cooperative sector), and (iii) to strengthen the institutional capacity of the national government and especially of municipalities in urban development planning and management as the integration of remittances and housing only works as part of a broader urban agenda.

1. Introduction

This paper is the product of the first session of a Housing Laboratory on Migration and Cities in Guatemala. The session has been focused on the potential of remittances for urban development and housing provision in the country. The Laboratory took place virtually on August 27, 2020, and was co-organized by the Cities Alliance -member of the Executive Committee of the Urban Housing Practitioners Hub (UHPH)-, AVINA Foundation, the Inter-American Dialogue, the National Housing Council of Guatemala (CONAVI, as per its acronym in Spanish), the Municipality of Amatitlán, the Commonwealth of Municipalities of the Naranjo River Basin (MANCUERNA, as per its acronym in Spanish), and Propuesta Urbana; within the framework of the Global Cities and Migration Joint Work Program implemented by Cities Alliance and supported by the Swiss Agency for Development and Cooperation, in its Guatemala chapter. It was preceded by a concept note and was made up of presentations and debate with the participation of twenty-one speakers and debaters.

The Housing Laboratory has been structured according to the following key questions that had been formulated in the concept note:

- a) What are the possible mechanisms to mobilise the resources of the remittances from migrants for sustainable housing building?
- b) What type of financial product can be designed for the vulnerable households of the country who receive remittances?
- c) How can we integrate the construction of houses with resources from remittances to urban development financing and the provision of sustainable urban equipment? How can remittances contribute to urban development financing?

Section 2 of the present paper addresses two relevant dimensions of the context of Guatemala, namely migration and remittances on the one side, and housing policy on the other. In section 3 the key issues that emerged from the Housing Laboratory presentations and debate are presented and discussed under three main headings: data needs on remittances, possible financial mechanisms for channelling remittances to housing investment, and how these issues need to be framed in the policy and institutional dimensions of the urban agenda.

2. The context of Guatemala

In this section two specific dimensions of the context of Guatemala are synthetically addressed: migration dynamics in the country and the relevance of remittances, and housing needs and policy.

2.1. Migration dynamics and remittances

Dynamics of migration in Guatemala are complex, as they include internal displacement, transitory migration from other Central American countries, as well as international out-migration, mainly to US and Mexico, together with returning migration from these countries. The main drive of migration is economic in 91 percent of cases. According to the UN and the Inter-American Dialogue, approximately seven percent of Guatemala population (corresponding to 1.2 million migrants) live abroad. Additionally, five percent of domestic population have been internally displaced in the last five years (Lebeau et al 2020), usually from small agricultural communities to cities, so increasing the pressure on already stretched infrastructure, urban services and housing provision in the latter. The forecast is that in fifteen years additional seven million people will move from the countryside to cities. This pressure is further exacerbated by returning migrants, mostly from Mexico and the US whose migration policies have been hardened in the last years; returning migrants to Guatemala have been approximately 100,000/year in 2018 and 2019.

International migration is unevenly distributed in the country. According to the 2018 census, the percentage of households with at least one member who has migrated abroad since 2002 ranges between 41.7 percent and 19.1 percent in the twenty-five municipalities with the higher percentage of migrants. These municipalities are mostly concentrated in the highlands of Guatemala in and around the capital city metropolitan area. Most of these households receive remittances, in a proportion that ranges between 55 and 91 percent approximately depending on the municipality (Inter-American Dialogue based on 2018 Census data, quoted in Lebeau et al 2020).

The average value of remittances is approximately USD 4,000/year. In 2018 remittances represented 13.8 percent of Guatemala GNP, and they have been growing at a rate above ten percent a year between 2015 and 2019 (Inter-American Dialogue 2020, quoted in Lebeau et al 2020). Besides its macroeconomic impact, remittances are also critical for households' livelihood. Among households that receive remittances, these represent on average 55 percent of the household income (61 percent when women are those who receive them, 53 percent for

men) (ibid.). Often remittances are the main or only source of household's savings and investment, and as such, they are frequently used in housing construction or improvement, besides consumption for basic goods and services. This led to a peculiar architectonic style in areas of high out-migration ("remittance architecture"). Savings, however, tend to be informal, as we shall discuss in details further on.

With a short recess during the peak of COVID-19 pandemic, remittances to Guatemala have been growing steadily in the last years – they more than doubled between 2010 and 2019, when they overcame the value of USD one billion (ibid.). The continuity of this trend will depend on the recovery of US economy and employment level.

2.2. Housing needs and housing policy

More than 70 percent of households in Guatemala experience one or more dimensions of housing deficit, and this deficit increases almost 3 percent (corresponding to 50,000 units) each year. In turn, only 28 percent of households in the country have access to the formal housing market, whilst the remaining 72 percent should rely on government supply and subsidies – but an adequate legal framework and efficient programs (including for broadening access to credit and taking advantage of remittances) are necessary for that to materialise. Remittances might represent an important resource in this respect as among households which experience some dimension of housing deficit, at least 60 percent receive remittances. In the National Housing Council's (*Consejo Nacional de Vivienda* – CONAVI) model of segmentation of housing supply for the 72 percent of the population who is excluded from the formal market, remittances should form part of the basis of savings to be used for housing investment of households which earn approximately between one and two and a half minimum salaries (USD 387 to 967.50) and whose housing needs should be attended by a mix of the Sustainable Urban Housing Module (*Módulos Urbanos de Vivienda Integrada* – MUVI, 45 m² flats in five-storey buildings with services), Law of Preferential Interest (*Ley de Interés Preferencial* – LIP, which facilitates access of low income wage earners to subsidised housing credit), and public subsidy.

CONAVI has been updating, since 2018 and with the broad participation of different stakeholders, the National Policy for Housing and Human Settlements (*Política Nacional de Vivienda y Asentamientos Humanos* – PNVAH), where the goal of attending housing needs of 635,000 poor and very poor households in the country by 2032 is meant to be attained by developing five axes:

- (i) generating housing options for Guatemala households by focusing state actions and resources on housing deficit mitigation and increase in access to basic services;
- (ii) facilitating access of households to housing, by fostering the participation of social organisations in housing supply and the prioritisation of beneficiaries of subsidies based on socioeconomic, geographic and demographic criteria (this axis can include the provision of technical assistance to migrants);
- (iii) increasing housing development financing by allocating larger state resources and mobilising complementary resources from the international cooperation, private sector, financial institutions etc. (including remittances);

- (iv) improving the strategic management of territorial development of housing through better coordination of municipalities for the sustainable development of habitable areas (for instance taking advantage of unoccupied housing units, which represent 16 percent of housing stock in the country¹); and
- (v) institutional strengthening of housing sector governance by means of capacity-building of the Ministry of Communications, Infrastructure and Housing and of the alignment of institutional planning process with PNVAH implementation.

3. Key issues on remittances and housing from the presentations and debate

As previously discussed, remittances represent an important engine of growth in Guatemala with high potential for housing finance. For that, several challenges have to be addressed. These challenges can be grouped under three main headings referring respectively to (i) the lack of data for analysis and support to decision-making; (ii) the need to create or strengthen mechanisms to channel remittances from the informal sector to formal savings leading to credit for housing finance; and (iii) institutional strengthening and capacity-building especially at the municipal level so to frame housing and housing finance within the broader perspective of urban development.

3.1. Data collection and analysis on migration, remittances, finance and housing

It is known that remittances are used for housing investment but it is not known, with precision, what their origin, destination, and value; it is estimated that the amount of resources is significant but a remarkable part of them still keeps in the informality, as at present there are no channels, or they are too complex, for a median migrant to be able to access formal investment. Besides, currently there are no means to calculate the credit risk in situations of informality. As discussed further on, there have been efforts by the financial sector (banks and cooperatives) to measure the flow of remittances in order to calculate it as part of the family income and so opening access to credit.

The public sector also suffers from lack of real and accurate data on remittances to guide the design of solutions to stimulate the use of remittances for housing by expanding existing housing and employment programs and creating new ones.

One proposal that emerged from the debate is to set an Observatory of Remittances to generate precise information about where beneficiaries are and where the remittances come from, through which channels, and if the money is kept in a financial institution. The Observatory

¹ It is interesting that in some Guatemala districts the high proportion of unoccupied houses coincides with the high concentration of remittances; one example are the districts of Huehuetenango and San Marcos, which receive annually more than USD 600 million in remittances and unoccupied houses range between 23-35 percent.

would complement, by means of administrative records, survey information that is periodically generated by the International Organisation of International Migration (IOM).

Two mechanisms have been suggested in the debate to generate relevant data on remittances: (i) the report of the government agency that oversees banks (*Superintendencia de Bancos de Guatemala* - SIB) which indicates where remittances are paid in Guatemala, and (ii) records of Guatemala citizens from consulates abroad. By joining these two sources of information one can identify where remittances come from and their distribution in Guatemala municipalities and so support targeting decisions on the location of housing projects in Guatemala and of housing fairs for Guatemala migrants in the US, where housing projects are presented to migrants who, in this way, can turn into potential housing investors². Further, by accumulating these data over time financial institutions can obtain the history of a family's received remittances and their volume and so calculate the guarantee that the family can provide to financial institutions, then the size of credit, hence the size of the house to be built or purchased; this process is easier with savings and credit cooperatives which are better linked to the locality than banks, and so are better positioned to provide locally adapted solutions.

3.2. Remittances and housing finance: mechanisms and arrangements

As previously mentioned, remittances represent one potentially relevant source for housing finance, which should add on to a necessarily articulated framework to be made up of public subsidies, facilitated access to credit, and incentives to the private sector and social organisations. However, for that to materialise, remittances must flow in the formal market in the first place. It is estimated that less than 25 percent of remittances go to banking accounts in Guatemala (as compared, for instance, to 70 percent in Colombia) whilst the rest is kept informal. Hence, it is imperative to offer financial education programs to both remittance senders and beneficiaries³.

Besides, a public program is needed to incentivise not banks, which already hold the remittances' money, but beneficiaries, so that remittances turn into savings and, from this, contribute to the generation of long-term credit lines. Two actors are relevant in this financial mechanism: (i) banks, which could provide these long-term loans possibly with some type of public support; and (ii) cooperatives, raising housing finance as in the three-for-one program in Mexico (where resources are joint from remittances, local family and government). These programs would broaden the range of available options, and can be part of the diffusion activities in housing fairs in the US.

Further, in order to incentivise savings, reliable financial institutions, which can pay good interest rates and assure that the remittance resources are used to purchase a good quality

² This is especially relevant in "twinning cities" whereby migrants from a given city in Guatemala tend to concentrate in a given city in the US (e.g. thousands of migrants from Salcajá in Guatemala highlands have been concentrating in Trenton, New Jersey), so establishing a "corridor" of people and money that might facilitate channelling remittance resources from the US city into housing investments in Guatemala "twin" city. Communication is facilitated too as migrants tend to return to their cities of origin for holidays.

³ Although often houses are not even worth the cost of the building material, because they are located in areas at risk and with no services, due to failing land use planning and control, as discussed in the next sub-section.

house (instead of other uses), must be accessible to migrants, and savings must dynamize access to pre-approved credit.

New financial technologies also can guarantee that migrants can generate collateral and guarantee through remittances and so have access to credit. This is the case of the technology of directed remittance (*remesa dirigida*) which goes directly to a savings account in the financial institution (a cooperative, in this case) that the migrant chose, so that, with continuous remittances, repayment capacity is proved and the family can have access to credit. With banks instead, where guarantee procedures are more complex, from September 2020 on, it will be possible to tie digitally the beneficiary of the remittance, and for that, the sender must open a bank account where he/she sends the remittance from. Also in this case accumulated and constant remittances would work as a wage history, in order to produce credit guarantees. Similarly, bureaucratic requirements of banks have been addressed in a pilot project of ACENVI where remittances have been deposited with continuity in the master account of a developer so generating the same evidence as a wage history and opening the possibility of credit.

3.3. Urban development, institutional strengthening and capacity building

In order to advance in the use of remittances for housing provision, adequate institutional arrangements and capacity need to be in place, both at the national and at the local level.

At the national level, the Vice-Ministry of Urban Development and Housing complains about the lack of tools for policy implementation, low quality of state-provided social housing, and long delays in the release (eight-ten years) of housing subsidies to applicant beneficiaries. Additionally, the Housing Fund, notwithstanding its efficient performance, generates a housing production (7,238 housing units in 2019) that is too low compared to the housing deficit (estimated between 1.6-1.8 million units in the same year). Suggested solutions include new and improved models of housing units at low interest rates – although it is recognised that no advances are viable unless changes are promoted in the present subsidy model – as well as cooperation with the local level in the elaboration and implementation of urban development and regional plans.

Also, at the local level it is clear that issues of remittances and housing need to be addressed within a broader urban development framework. Municipalities must take on a leading role in this process due to the strong relationship between remittances and territory as previously discussed. Capacity in land use planning and control, in elaborating development plans as well as proactive planning and adaptive management needs to be strengthened at the municipal level especially because of accelerated rural-urban migration⁴. In fact, when families move from the countryside to cities and one or more of their members migrate abroad, remittances from the latter tend to be used in housing self-construction. It can be observed that while the quality of the resulting structure and construction material is often acceptable, localisation tends to be in areas at risk or without basic services. Because of that, as it has been stated previously, many houses built from remittances can hardly be considered assets worth a formal investment. For these reasons municipal land use planning and control are critical to make remittances turn into

⁴ It is important to stress here the different institutional capacity in Guatemala of the capital city compared to the rest of municipalities.

formal savings, and these into housing finance. Municipalities should be capable to supply suitable serviced land too as an incentive to migrants and their families investing in housing in appropriate areas. Municipal housing companies must be mobilised in order to linking housing demand with remittances with housing supply. Finally, municipalities with a high number of migrants should cooperate too (especially in the capital city's metropolitan area) so to upscale the use of remittances together with local resources for urban development programs⁵.

Municipalities also can collaborate with cooperatives in order to support channelling remittance resources to housing. This has been the case in Amatitlán, although the municipality warns that an Insurance Company would be necessary too in order to assure security and liquidity to cover credit, that is, a mortgage guarantee.

Finally, municipalities should develop new financial tools (as in Colombia) whereby land licensing leads to direct loans or financing associated to specific housing and urban development projects.

4. Conclusions

Key messages of the Housing Laboratory have been synthesized as follows:

- a) Remittances are a potentially important source of housing finance to add on to an articulated framework to be built up based also on public subsidies, facilitated access to credit, and incentives to private developers and social organisations.
- b) More information is needed on the origin/destination of remittances to support decision-making both of the public sector (on land use planning, service provision, urban development and housing projects' size and location) and of the private sector (for channelling remittances to formal savings, generating collateral and guarantees, and opening access to credit for housing finance).
- c) Information needs to be sufficiently disaggregated to allow designing context-specific approaches to migration, remittances and housing.
- d) Agility and innovative tools and technology are required from both cooperatives and banks to accelerate the financial inclusion of migrants and remittance recipient families and their exit from informality.
- e) It is imperative to address the relationship between remittances and housing within the framework of urban development. Again, informality – in this case, in housing production – jeopardises the possibility to generate a virtuous circle whereby savings built upon remittances flow into housing finance, as irregular houses (especially those located in hazard-prone areas) cannot represent an asset worth a formal investment.
- f) Urban planning and land use planning and control are key. Adequate location of housing has to be promoted by appropriate tools and infrastructure and services have to be provided according to established geographically identifiable social, economic and environmental

⁵ This is especially important in the case of returning migrants who go residing in different municipalities from the ones they had sent their remittances to, in order to try to spatially adjust housing demand, available resources and housing projects.

priorities. Municipalities have a key role in this process. In order to lead it effectively, municipalities need to strengthen their institutional capacity and stimulate the cooperation of different stakeholders, including at the inter-municipal level.

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