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SAN MARCOS

Thriving in San Marcos (Prosperandos En San Marcos)

Implementing Partner: The Inter-American Dialogue in close cooperation with banks and credit cooperatives

Location: San Marcos, Guatemala

Duration: November 2019 – November 2021

SUMMARY

The Thriving in San Marcos (Prosperandos en San Marcos) project aims to introduce an innovative two-year strategy to leverage remittances for local economic and human development in San Marcos, Guatemala. The strategy involves building new partnerships with banks and credit cooperatives to provide formal financial services for remittance-receiving households, so that formal savings can be generated and transformed into credits for local businesses, especially in the knowledge economy. This will help create attractive jobs and increase tax revenues for the municipality.

The project in San Marcos is part of a global portfolio of nine cities that includes Amatitlán, Guatemala; Jendouba and Kairouan, Tunisia; Arua and Jinja, Uganda; Adama and Jigjiga, Ethiopia; and Kakuma-Kalobeyei in Kenya.



THE CITIES ALLIANCE GLOBAL PROGRAMME ON CITIES AND MIGRATION

The Thriving in San Marcos (Prosperandos en San Marcos) project is part of the Cities Alliance Global Programme on Cities and Migration, which focuses on migration management in secondary cities in low income countries and is supported by the Swiss Agency for Development and Cooperation.

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CONTEXT

Guatemala's economic development has been affected by high rates of inequality and a poorly performing economic model that is based on agricultural exports. Many Guatemalans, particularly in the San Marcos region, seek alternative forms of employment, including through internal and international labor migration. At least one in three Guatemalans has a relative abroad.

Internal migrants leave agricultural jobs to seek a better life in larger towns such as San Marcos, but they are often disillusioned by the inability to access jobs and services. If left unmanaged, these influxes of migrants can intensify existing municipal-level problems such as social tensions, the creation of slums, and insecurity. If managed, however, migration can contribute to economic development and dynamic, growing cities.

The Thriving in San Marcos project targets three main challenges in the city: How to harness remittances for investment, how to use the knowledge economy for revenue and job creation, and how to keep youth in school. These challenges are not unique to San Marcos and are shared by cities across Guatemala, giving the project strong potential for replicability.

- 1. Harnessing remittances for investment.** Guatemalans received USD 9.3 billion in remittances in 2018, representing 12 percent of Guatemala's GDP. In 2019, internal migrants transferred an estimated USD 500 million in remittances. Receiving households, which are typically headed by women, typically have more disposable income and potential for saving than the national average. However, savings are generally informal, which limits a household's capacity to build assets for local investments. In the San Marcos region, only 42% of residents had access to a formal financial product.

2. **Tapping into the knowledge economy.** Innovative investment options remain untapped, especially the knowledge economy. Built around innovation, technology, education and skilled labour, the knowledge economy offers an important source of wealth in Guatemala, which has historically relied on low wealth-generating activities such as agriculture or *maquilas*. This is especially true for mid-size cities, which are well positioned to benefit from the knowledge economy. By capitalising on such investment opportunities, cities can foster local economic development and increase tax revenues that can finance improved services for residents and businesses.
3. **Keeping youth in school.** Guatemala experiences low and highly unequal educational attainment. For example, 52.3% of sixth grade students in Guatemala City, the capital, reached national standards in reading, compared to only 21% in San Marcos. These educational realities are closely linked to migration and development. Families that do not see opportunities for their children may decide that their children are better off if they seek work elsewhere. Children who are not thriving in school are more likely to drop out and face unstructured time, less supervision, and exposure to risks on the streets. Guatemala has recognised the importance of extracurricular education in the national context with a dedicated General Directorate in the Public Education Ministry.

ANTICIPATED RESULTS

This project supports San Marcos in introducing a tested two-year strategy to leverage remittances for local economic and human development. Remittances are integrated into development strategies through savings formalisation and investment into a knowledge economy, which creates attractive jobs and tax revenues for a dynamic city environment.

The strategy builds on over ten years of experience in financial inclusion that has benefited more than 200,000 people in 15 countries worldwide. It is based on the proven approach that asset building and financial inclusion, together with economic development, strengthen the labour force and create better jobs in the long term.

The strategy in San Marcos targets three main areas:

Result 1: Financial Education: Building Assets through Savings Formalisation

This project will provide financial education for 25,000 remittance recipients and help at least 7,000 enter the formal financial system. The aim is to formalise USD 2 million in savings within two years.

While many households in San Marcos receive remittances, most are excluded from the formal financial system, which limits their ability – and that of the city – to transform remittance savings into assets for local investment. The project aims to use financial education, inclusion, and savings mobilization to help transform these transactional, unbanked remittance households into formal bank account holders. It will form partnerships with local financial partners, banks and credit cooperatives, which are essential to providing saving and credit services tailored to remittance-receiving households.

A key component will be training financial educators to advise remittance-receiving households. These educators will engage people waiting in line at banks or money transfer operators for their remittance payments and offer them a free, personalised, 30-minute financial advising session. This one-on-one approach will provide accurate, detailed information on savings and credits to empower diligent financial decision making, with a focus on the needs and circumstances of women-headed households.

Result 2: Credit for the Knowledge Economy

The project will identify and coach 30 local entrepreneurs in San Marcos, with a strong preference for women entrepreneurs, to build their capacity to manage loans and grow their business sustainably. The aim is to demonstrate that remittance-receiving households and knowledge entrepreneurs represent a relevant business case for banks and credit cooperatives, which is key to the project's sustainability and potential for upscaling.

This component of the project will identify and partner with financial partner institutions committed to reinvesting remittance savings into the local community in the form of credit. The amount of USD 300,000 in remittance savings will be made available for credits to small and medium enterprises.

At least 30 small enterprises, primarily from the knowledge economy, will be fostered for growth so they can create jobs and contribute to local tax revenues. Partnering banks and credit cooperatives will top-up remittance savings with USD 100,000 from their own assets to increase the available credit volume.

To develop the knowledge economy, a central challenge for cities of emigration such as San Marcos is strengthening the human capital base of its youth and workforce. Supporting knowledge entrepreneurship in the San Marcos region will be significant and provide good alternatives to the agro-export employment sector. Typical knowledge enterprises in San Marcos include data management services, internet cafes, education and tutoring services, and foreign language classes.

Result 3: After School Programmes for Youth in High-Emigration Areas

This project will include 600 youth of middle-school age (*ciclo basico*) in educational programmes in one academic year with the goal of increasing school performance by 50%.

The project involves partnering with educational institutions and schools to expand access to high-quality after-school programmes with the aim of strengthening performance and employability – a tested approach to building human capital among youth. It will foster close relationships with parent groups to provide insights into local needs, and how the after-school programme can best address them. Teachers trained through this project will hold classes twice a week for groups of 20 students to help them build soft and technical skills. This component will also work with local education officials to raise awareness of school performance, standards, and their relationship to migration.

Result 4 – City stakeholders as enablers

The municipal government of San Marcos has a crucial role in integrating the project's knowledge and approaches into public policy and development efforts.

The 24-month pilot will allow the local government of San Marcos and other city stakeholders to observe how remittances can be leveraged for local economic development and increased tax revenues, which ultimately can finance the increased service needs of a growing urban population.

The project will hold at least two stakeholder engagement sessions and public events to showcase results and good practices. To build local capacities, the project will carry out three dialogues on migration and development, three trainings on local migration management, and design a toolkit on local migration mainstreaming and governance for local governments. These activities will further build local capacities and interests of city stakeholders to receive, manage and integrate migrants in San Marcos.

