

Economic Commission for Latin America and the Caribbean

SUBREGIONAL HEADQUARTERS IN MEXICO

Designing Strategies to Promote Investment of Family Remittances in Value Chains

A Toolkit



UNITED NATIONS



Investing in rural people



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IFAD

Investing in rural people



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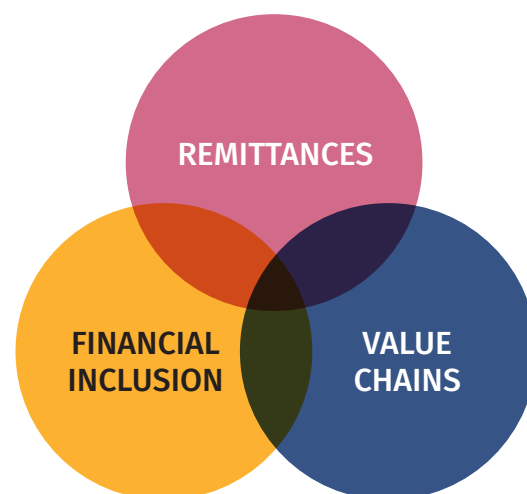
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Introduction

Between 2017 and 2019, the Economic Commission for Latin America and the Caribbean (ECLAC), with the financial support of the International Fund for Agricultural Development (IFAD) and the European Union, provided technical assistance to the Governments of the Dominican Republic, El Salvador and Guatemala in designing strategies to promote the investment of family remittances in value chains. The approach followed was innovative in that it integrated three major themes: the use of family remittances, financial inclusion, and productive development with a value chain perspective.

As in other technical cooperation activities in which ECLAC¹ has been involved, focus was placed on the following:

- (a) Using solid empirical evidence as a basis for the design of public policies.
- (b) Encouraging the participation of various stakeholders from the production sector, government and academia in all stages of the process.
- (c) Building capacity among public officials.



This guide presents a systematic overview of the procedures used by ECLAC in technical cooperation with the countries of the region.

The purpose of this toolkit is to summarize the steps and activities used in the analysis and formulation of public policies to foster investment of family remittances in value chains, underpinned by greater financial inclusion, with the aim of facilitating their replication in other countries and other chains.

¹ See, for example, R. Padilla Pérez (ed.), *Strengthening Value Chains as an Instrument of Industrial Policy: Methodology and Experience of ECLAC in Central America*, ECLAC Books, No. 123, Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2014 and R. Padilla Pérez (ed.), *Rural Industrial Policy and Strengthening of Value Chains*, ECLAC Books, No. 145, Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2017.

A. Who is this guide intended for?

- This guide is intended for public policymakers seeking to design instruments to encourage the use of remittances in production or investment, from a value chains perspective.
- It is also aimed at development experts involved in technical cooperation projects related to the role of migrants and diasporas in productive development.
- Researchers interested in tools for the formulation of instruments to support the investment of remittances and other diaspora resources in value chains will also benefit from this guide.

B. Structure of the guide

The guide is organized in three chapters, in addition to this introduction. The first chapter presents basic concepts used throughout the manual, as well as data illustrating the importance of family remittances and the timeliness of promoting a more productive use of remittances by strengthening financial inclusion. The second chapter summarizes the methodology for designing strategies and the third presents final reflections.

I. Definitions and approach

The methodology for fostering greater investment of remittances in value chains combines three fields of economic development literature that have rarely been addressed together: migration and remittances, financial inclusion, and productive development (with a focus on value chains). Definitions that will serve as a conceptual framework for the rest of the methodological guide are included in this chapter.

Migrants

A. Migration and remittances

According to the International Organization for Migration (IOM), a migrant is a person who moves away from his or her place of usual residence, whether within a country or across an international border, temporarily or permanently. An international migrant is considered to be a person who, crossing an international border, moves to a country other than that of his or her usual residence for a period of at least a year, not including temporary absences for holidays or work assignments (United Nations, 2017). IOM clarifies that the term migrant includes several categories of persons, such as migrant workers, smuggled migrants and international students (IOM, 2019a).

The Diaspora

Diaspora can be defined as a people or ethnic population residing abroad (migrants or descendants of migrants). Diaspora often maintain economic and social links between their homelands and the destination countries (IOM, 2019a).

Many factors drive people to migrate to other countries. ECLAC (2019a) and the Global Migration Group (GMG, 2010) cite as some of the main reasons:

- (i) **Economic factors**, such as unsatisfactory economic living conditions in the country of origin and significant wage gaps compared with the destination country.
- (ii) **The lack of political and social freedoms**, or in face of persecution and discrimination based on race, religion, ethnicity, gender or other factors in the country of origin.
- (iii) **Violence and insecurity**, rooted in ethnic and religious conflicts, economic inequality, competition for natural resources, threats to safety or organized crime.
- (iv) **Limited provision of public services and governance** as a result of poor quality in services such as education and health, as well as corruption and weak institutional governance in the country of origin.
- (v) **Environmental factors** including extreme weather and hydrological events caused by climate change that disrupt or undermine people's livelihoods, particularly in rural areas, for example, hurricanes, floods, droughts, water stress, pest infestations, earthquakes and land erosion.
- (vi) **Transnational networks and family reunification**, which constitute a pull factor as the organization of migrant communities in destination countries lowers the costs of migration.

The international community has widely recognized the role of migrants and diaspora in development, which is integrated in several goals and targets of the 2030 Agenda. Similarly, the Global Compact for Safe, Orderly and Regular Migration, adopted in 2018, underlines the importance of ensuring the participation of migrants in both the country of origin and destination, and highlights their significant economic, social and cultural contributions to both.

2030 Agenda	Global Compact for Safe, Orderly and Regular Migration (2018)
 <ul style="list-style-type: none"> The 2030 Agenda recognizes that migration is an integral part of development planning strategies as well as the implementation of some of the Sustainable Development Goals set forth in the Agenda. Migrants and diasporas are included the general principle of “leaving no one behind” and therefore make up a core component of the population that the targets of most SDGs seek to reach. 	 <ul style="list-style-type: none"> Objective 19 recognizes the need to create conditions for migrants and diasporas to fully contribute to sustainable development in all countries, and to realize this commitment governments should take actions such as developing targeted support programmes and financial products that facilitate migrant and diaspora investments and entrepreneurship.

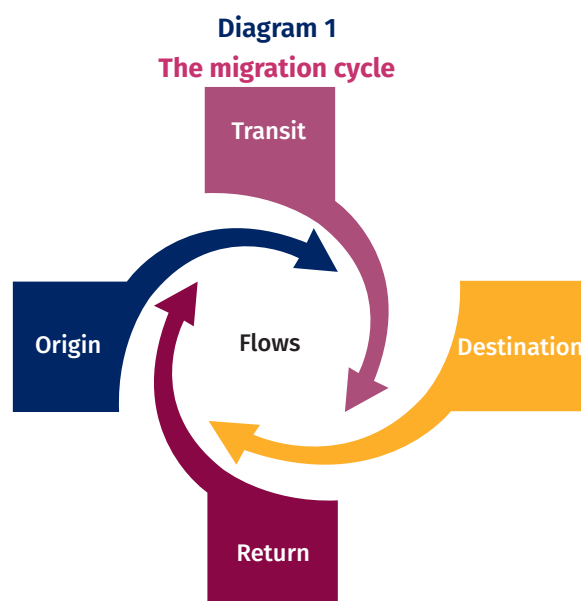
There is a high concentration of migration inflows from Latin American and Caribbean countries in North America. IOM estimates for 2019 indicate that there were 26.6 million migrants from Latin America and the Caribbean living in Canada and the United States and 5 million in Europe. Among the countries of the region, Mexico accounted for the largest migrant population, with 12 million people in 2019 (IOM, 2019b). The countries of northern Central America (El Salvador, Guatemala and Honduras) and Cuba, Dominican Republic, Haiti and Jamaica in the Caribbean have the highest number of migrants as a percentage of the total population.

This guide approaches international migration as a cycle (see diagram 1). For one thing, actions to promote the investment of remittances in value chains are designed to improve the economic and social conditions of communities so that their populations are not forced to migrate. For another, creating new economic activities and strengthening existing ones provides incentives for migrants to return to their communities of origin.

Migration as a social process begins in the place of **origin**, with the push factors for migration, the choice of destination, the weighing up of financial alternatives and family arrangements required, as well as the search for more social protection, whether

formal or informal. Once started, the intermediate phase involves **transit**, which, depending on the destination, routes and means of transportation, entails different time frames and risks. The duration of this phase can vary significantly, not least because of legal and geographical obstacles and the hostile (and sometimes criminal) environments that migrants must confront to reach their destination.

Upon arrival at the final **destination**, a new phase begins, with a number of possibilities for the inclusion of migrants. The most obvious is social and economic integration, the duration and feasibility of which are determined by individual, community, social, economic, political, institutional and cultural factors. A temporary or permanent return to the country of origin, be it voluntary or not, is possible. Temporary **return** results in circular migration, while the possibility of permanent return to the place of origin poses specific challenges. Such a move entails risks in terms of social, economic, family and institutional reintegration, with varying prospects and difficulties (Maldonado Valera, Martínez Pizarro and Martínez, 2018).



Source: Economic Commission for Latin America and the Caribbean (ECLAC) and the Food and Agriculture Organization of the United Nations (FAO), *Atlas of migration in the countries of northern Central America*, Santiago de Chile, United Nations, 2018.

Remittances

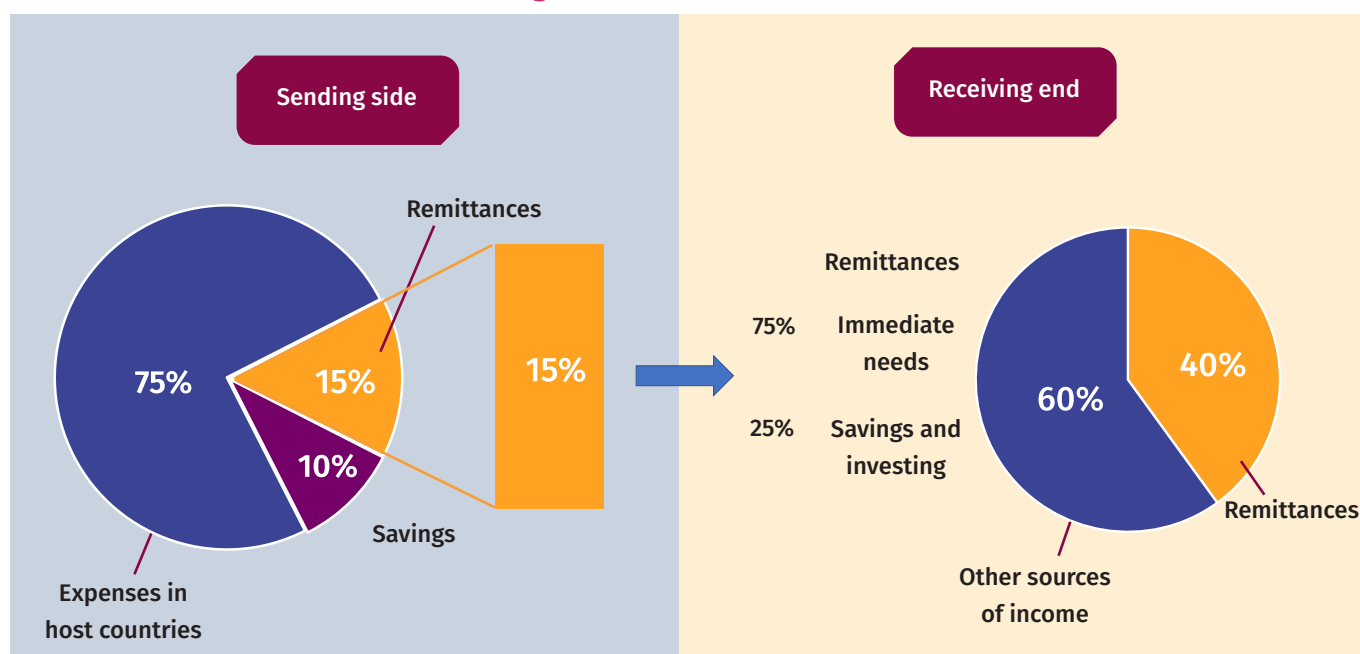
Remittance flows are a direct outcome of migration and can be defined as the transfers of the wages or cumulative resources that migrants make, primarily to their country of origin, and are used to support dependants, repay loans, make investments and for other purposes.

The contribution of remittances to receiving economies, measured as a share of gross domestic product (GDP), varies significantly among Latin American and Caribbean countries. In 2018, remittances as a percentage of GDP were highest in Haiti (32.5%), El Salvador (20.7%) and Honduras (20%), closely reflecting the size of the migrant population. In monetary terms, in 2018 the largest remittance inflows were registered in Mexico (33,471 billion dollars), Guatemala

(9,288 billion dollars) and the Dominican Republic (6,425 billion dollars) (ECLAC, 2019b).

Empirical research conducted by IFAD on migrants and the use of remittances worldwide estimates that 75% of migrant workers' income goes towards covering expenses in host countries, with about 15% of their income being transferred to their families in home countries, and 10% held in savings (see figure 1).² Of the remittances sent, 75% is used to cover immediate needs and approximately 25% is saved or invested. This distribution varies by country and depending on migrants' profile, but as a rule, the smallest share is allocated to savings and investment (IFAD, 2017).

Figure 1
Distribution of migrant income and of received remittances



Source: International Fund for Agricultural Development (IFAD), *Sending Money Home: Contributing to the SDGs, One Family at a Time*, Rome, 2017.

² Several studies show that family remittances are primarily used to cover basic needs such as food, clothing, health, education and housing (between 80% and 90%) (CONAPO/Fundación BBVA Bancomer/BBVA Research, 2018; Mondal and Khanam, 2018; Finkelstein Shapiro and Mandelman, 2016; Woodruff and Zenteno, 2007). Their use for investment in production and entrepreneurship remains limited.

A simple calculation based on remittance data for El Salvador shows the enormous potential for boosting economic activity. In 2018, family remittances accounted for 20.7% of GDP in this Central American country. If 15% of those remittances were allocated to investment in productive activities, that would represent 3.1% of GDP, which exceeds the share of public investment for the same year (2.3% of GDP).

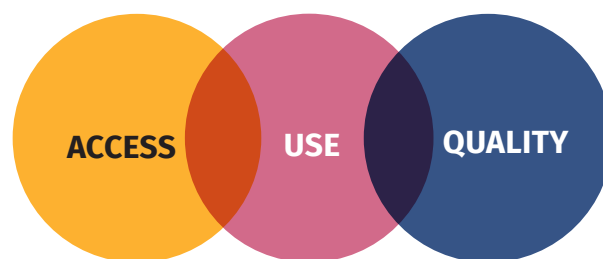
Strategies aimed at increasing the investment of remittances in value chains must consider the fundamental fact that remittances are of a purely private nature, meaning that the decision to use them rests solely with the recipient and the sender. Instruments must therefore be geared towards creating incentives to invest remittances in projects that provide income-generating opportunities.

B. Financial inclusion

A comprehensive definition of financial inclusion is the process of promoting affordable, timely and adequate access to a range of regulated financial products and services and broadening their use by all segments of society through the implementation of tailored existing and innovative approaches including financial awareness and education, with a view to promoting financial well-being as well as economic and social inclusion (OECD/INFE, 2012).



The above definition highlights three basic dimensions of financial inclusion: (a) access, understood as the availability of financial services in specific locations (Claessens and Perotti, 2007); (b) usage, which refers to the consumption of financial services, based on both supply and demand (Claessens and Perotti, 2005); and (c) quality, which encompasses the adjustments needed to meet the financial needs of all segments of the population, the institutional mechanisms that protect the users of financial services, and capacity-building related to the knowledge, skills and attitudes necessary to satisfy the demand for and supply of financial services (Roa and others, 2014; García and others, 2013).



Financial inclusion is not an end in itself, but a tool that has the potential to broaden individuals' capacities with a view to improving their well-being. Financial inclusion helps to improve the lives of people (Rewilak, 2017; Sahay and others, 2015; Aggarwal, Demirgüç-Kunt and Martínez Pería, 2006; Aportela, 1999), reduce poverty (Beck, Demirgüç-Kunt and Levine, 2007), lower transactions and build secure capital (Cull, Ehrbeck and Holle, 2014), and to leverage available assets for investment in human and physical capital (Cull, Ehrbeck and Holle, 2014), offset the loss of well-being caused by risk reduction of unforeseen events (Collins and others, 2009) and the temporary distribution of consumption (Boukhatem, 2016). ECLAC has long held that financial inclusion plays a central role in production development, and development banks are essential in that regard (ECLAC, 2016 and 2018; Pérez Caldentey and Titelman, 2018; Ferraz and Ramos, 2018).

Developing the financial system positively affects the impact of remittances on poverty reduction (Sobiech, 2019; Akobeng, 2016; Aggarwal, Demirgüç-Kunt and M. S. Martínez Pería, 2011), the creation of additional revenue sources for the financial sector (IFAD/World Bank, 2015) and economic growth (Inoue, 2018; Aggarwal, Demirgüç-Kunt and M. S. Martínez Pería, 2011). Financial education and technological innovation help to lower remittance transfer costs, especially in rural areas (Doi, McKenzie and B. Zia, 2012; Yang,

2008). Financial education makes it easier to send and receive remittances through formal channels, which in turn promotes savings and informed use of financial products.

It must be borne in mind that migrants and diaspora members have specific financial needs depending on where they are in the migration cycle (see diagram 2).

Diagram 2

Financial needs of migrants by stage of the migrations cycle



Source: Prepared by the authors on the basis of International Fund for Agricultural Development (IFAD)/World Bank, *The Use of Remittances and Financial Inclusion: A Report Prepared by the International Fund for Agricultural Development and the World Bank Group to the G20 Global Partnership for Financial Inclusion*, Rome, 2015.

Specific products and services are required from accessing these products and services depending on migrants' financial needs. However, (see table 1). various barriers prevent migrants and their families

Table 1
Barriers to the financial inclusion of migrants and their families

Financial instrument	Main barriers
Basic remittance transfers	<ul style="list-style-type: none"> • High transaction costs • Distance to the point of service • Administrative burdens • Lack of transparent information with clear cost structure • Lack of familiarity with digital transfer methods (mobile or Internet bases) • Mistrust of some new portals offering digital financial services • Lack of integration between payment and remittance platforms
Remittance transfers to a transactional account in country of origin	<ul style="list-style-type: none"> • Costs of transfers • Limited outreach of specialized banks offering low cost account to account transfers to migrants • Inability to open accounts in host country depending on migration status • High maintenance cost of accounts and lack of transparency on banking conditions
Save money in the country of origin	<ul style="list-style-type: none"> • Mistrust of local banks in the country of origin • Lack of mechanisms to check account balances remotely
Mortgage, home purchase or improvement loans	<ul style="list-style-type: none"> • Lack of access to credit (in the country of origin and in host country) • Limited supply of loan products adapted to the needs of migrants and their families
Contingency planning and capital to finance businesses (for complementary income, retirement or managed by relatives in the country of origin)	<ul style="list-style-type: none"> • Limited knowledge of and experience with related financial products • Lack of sources of financing and information about local opportunities and support • Lack of availability of adapted services back home, particularly in rural areas

Source: Prepared by the authors on the basis of International Fund for Agricultural Development (IFAD)/World Bank, *The Use of Remittances and Financial Inclusion: A Report Prepared by the International Fund for Agricultural Development and the World Bank Group to the G20 Global Partnership for Financial Inclusion*, Rome, 2015.

The aim of financial inclusion is to provide services and products to traditionally excluded population groups, for example, those in rural areas or the poorest deciles of the population. In Latin America, financial products and services are less widely used in rural areas and among the poorest 40% of the population (Villarreal, 2017). Given that rural areas and the poorest households are traditional sources of migration, strategies to mobilize resources from migrants and diasporas must incorporate greater financial inclusion.

C. Value chains

For the purposes of analysing and formulating public policies on production development, the value chain approach is a useful tool capable of breaking down the broad variety of activities needed for a product or service to transit across the various stages from conception of the product or service through to its delivery to consumers and final disposal once the product has been used (Kaplinksky and Morris, 2002). The different stages or steps of the manufacturing and delivery of a product or service are known as links. Each link is made up of a set of businesses and producers, who may compete or cooperate in providing that good or service.

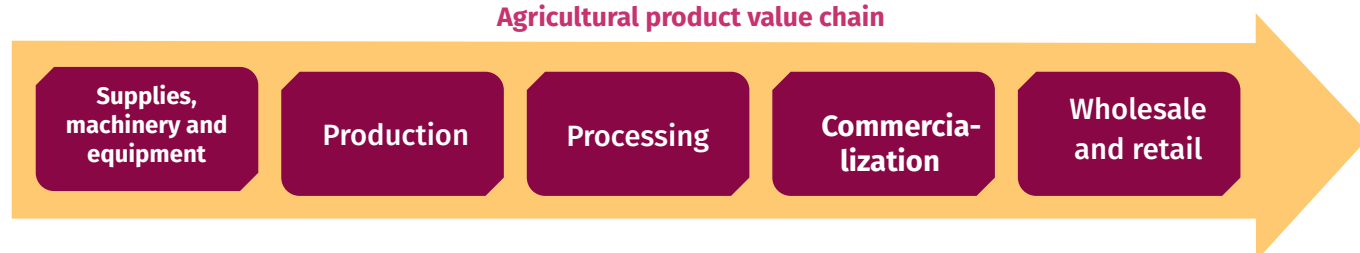
Diagram 3 depicts the general structure of a value chain for agricultural products. The first link consists of the suppliers of inputs, machinery and equipment to provide agricultural producers with a wide range of goods such as seeds, fertilizers,

irrigation equipment and animal feed, among others. In rural chains, there is often a heavy reliance on imported inputs sourced from representatives or salespersons from multinational companies. The producers (second link) form the core of the chain, and in rural areas their production and technological capacities tend to vary considerably. In Latin America and the Caribbean, small-scale producers with little access to modern technologies, limited financial resources and significant barriers to commercialization of their products generally make up the majority of the second link in rural agricultural chains.

The third link—processing—is not always present in rural agricultural chains. Very often, producers sell their goods without any processing or added value. However, various facilities for processing primary products exist, for example, the canning of fruit and vegetables and the preparation of health and beauty products.

The fourth link, commercialization, comprises various actors, such as carriers, brokers and distributors. In agricultural chains, there is a major presence of brokers who buy goods directly from producers and distribute them via wholesale or retail channels. These agents can appropriate a significant portion of the added value created in the chain, reducing the profits of small-scale producers who tend to have low production and marketing capacities. However, intermediaries can also add value to the chain by providing technological and market knowledge, as well as financing, to producers.³

Diagram 3
Agricultural product value chain



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

³ For a further analysis of the role of intermediaries in rural value chains see Gaudin and Padilla Pérez (2020).

Lastly, the fifth link, wholesale or retail sales, involves multiple channels such as supermarkets, convenience stores, municipal markets, restaurants and hotels.

While agricultural value chains continue to be predominant in rural areas of Latin America and the Caribbean, manufacturing and service activities are gaining prominence (Gaudin, 2019; Quiroz Estrada, 2017). The former can be seen in the agroindustry and handicraft sectors, for example, while the latter are clearly present in rural tourism.

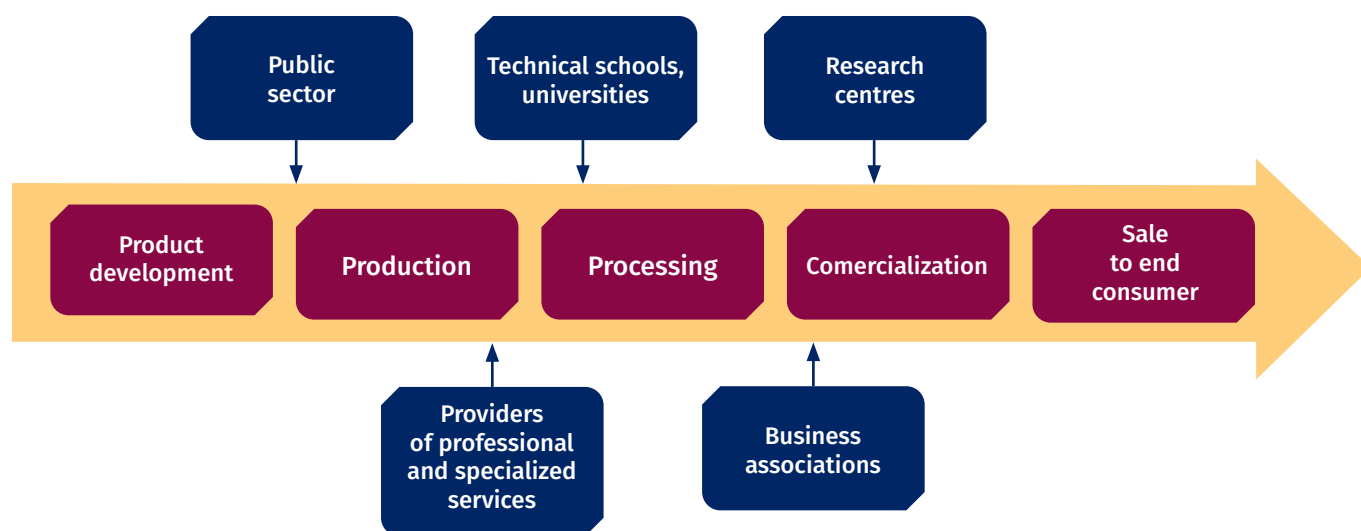
The value chain approach recognizes that strengthening all links is of paramount importance for increased competitiveness and for sustainability over time. Producers who invest to enhance their production capacities for higher quality goods with better yields also require more advantageous commercialization conditions that will enable them both to sell their products at a favourable price and to capture more of the added value generated.

Analysis of the main links and their relationships is complemented by the study of key public and private actors that support, regulate and interact

with the chain; herein resides its **systemic character**. Included in the analysis is the public sector, which regulates and supports the chain's activities, as well as various partners and suppliers of technology, knowledge and services, such as universities and technical colleges, research centres, professional and specialised service providers, and business associations.

A systemic approach to the analysis of value chains is relevant for all types of rural chains. Diagram 4 illustrates an example of an agricultural chain. Public sector institutions regulate and provide support for chain activities by verifying product quality and safety, establishing quality standards and monitoring compliance, providing technical training and financial support to chain actors and so forth. Technical schools and universities train those who work directly in the chains and also offer a wide range of services such as standardization and metrology, quality assurance and technical assistance. Research centres specializing in the agricultural sector give producers access to technological know-how and technical assistance.

Diagram 4
A systemic approach to value chains



Source: Prepared by the authors.

Providers of professional and specialized services assist in areas such as certification (e.g. organic or fair trade), training in the implementation of good agricultural or livestock practices, and advice on financial and management issues. Lastly, business associations support chains through political representation, marketing, technical assistance and other areas.

Economic Upgrading

Two key concepts in strengthening value chains are economic upgrading and social upgrading. Economic upgrading refers to the transformation of the links of the chain—and the chain overall—to obtain better products and services, more advanced production processes or activities that are of greater added value and more knowledge-intensive. In rural value chains, economic upgrading occurs when, for example, new technologies are used to improve the quality of an agricultural product; new cultivation techniques are introduced (e.g. precision agriculture, soil analysis, use of organic fertilizers, new forestry practices); and there is a transition from crop farming to the processing of agro-industrial products.

Social Upgrading

Social upgrading occurs when the members of the chain and their communities gain better living standards through decent work opportunities, social protection, labour rights and a secure work environment (Padilla Pérez and Oddone, 2016).

II. Methodology

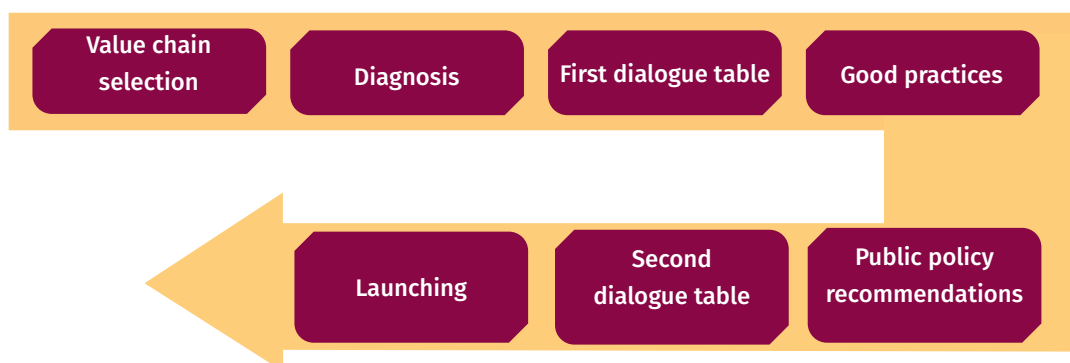
Based on previous experience around strengthening value chains, the result of previous collaborations between ECLAC and IFAD, a methodology was developed to design strategies aimed at promoting greater productive investment in family remittances that consists of seven steps, as illustrated in figure 6 (Padilla Pérez and Oddone, 2016).

Central to this methodology is its **participatory nature**, insofar as both actors in the value chain and public officials responsible for promoting and regulating the areas in question are actively involved in the various stages of the process. The mechanisms for such participation include round-table discussions, interviews, workshops and the provision of input such as diagnoses and strategies.

Another feature of the methodology is the building of local capacity thanks to the above-mentioned participation. Ministries or other public bodies whose primary areas of work include promoting the investment of remittances and **strengthening production activities** are the lead partners. Also participating are other public agencies such as those in charge of financial inclusion and monitoring of remittances (central bank, superintendency of banks) and of sectoral issues directly related to the chain (agriculture, rural development, tourism). Actors in the chain participate in the various activities through representatives of cooperatives and business associations.

Diagram 5

Methodology for promoting the productive use of remittances



Source: Prepared by the authors.

A. Selection of value chains

Criteria must be established for selecting the chains in which strategic undertakings will be made, given that governments have administrative constraints and limited resources. These kinds of choices should be made within the framework of a production development strategy and in the interests of transparency, it is better for these choices to be explicit rather than implicit (Ocampo, 2014).

Quantitative and qualitative criteria can be used for chain selection. Quantitative criteria refer to the construction of indicators that measure how much the chain contributes to the achievement of national, regional or sectoral objectives. A key indicator for the strengthening of value chains through investment of family remittances is the

presence of recipient families and production activities related to the chain in the region. Other relevant indicators are related to the characteristics of the value chain and its potential to promote local development in terms of employment generation, the inclusion of small producers and the creation of higher added value, among others.⁴

Qualitative indicators are aligned with national priorities, for example regional or sectoral development. In other words, if a specific region has been prioritized for government intervention to boost economic and local development, a chain that has a major presence in that region will be selected.

B. Diagnosis

This step comprises two parts: diagnosis of the value chain; and an analysis of the degree of financial inclusion of chain actors and their receipt and use of remittances.

The diagnostic study aims to identify potential bottlenecks in the value chain that make it difficult to strengthen. Bottlenecks are the barriers or problems faced by links in the chain or the chain as a whole (systemic bottlenecks), that impede their proper functioning or linking, as well as their economic and social upgrading. It is particularly important to analyse how family remittances can be used to overcome the bottlenecks faced by the actors in the chain in question.

Diagram 6 summarizes the components of the diagnostic. It begins by mapping the chain and identifying its links and main actors. This is followed by an analysis of the chain's international and national context, its economic

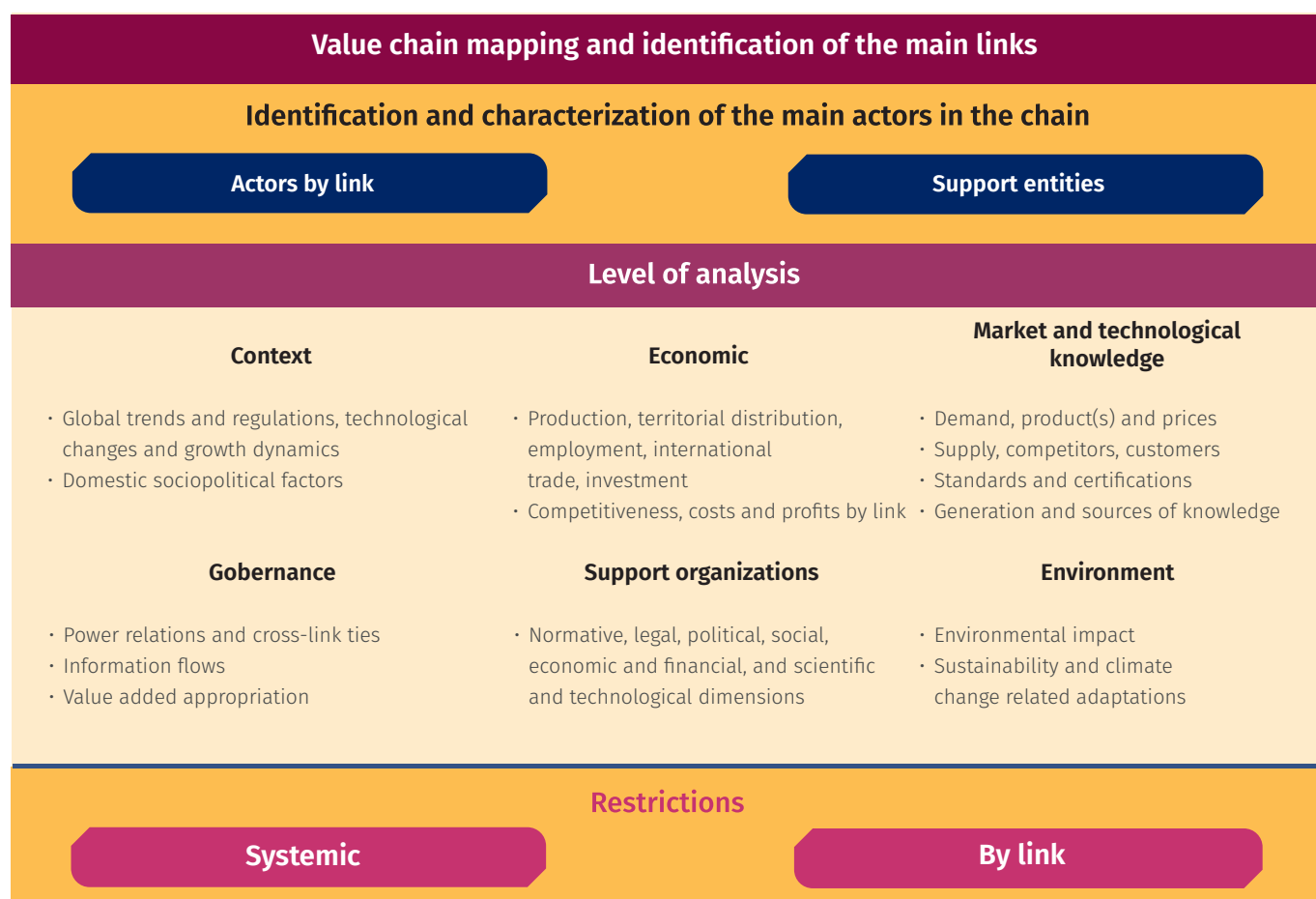
characteristics, market and governance conditions, relevant support institutions and environmental considerations. It must always be recalled, at each step, that the purpose is to identify bottlenecks.⁵ Strengthening value chains: a toolkit, prepared by ECLAC in collaboration with IFAD, covers a broad set of questions relating to each aspect of the diagnostic study.

In rural value chains in Latin America and the Caribbean, there are various bottlenecks to economic and social upgrading. Table 2 summarizes some of the common bottlenecks in commodity and agro-industrial chains, which are similar to those identified in the project referred to in this guide. Small-scale producers, who tend to make up the vast majority in the chains, are particularly affected, since large producers often have higher production, technological and financial capacities.

⁴ See the chain selection process in Gomes Nogueira, Padilla Pérez and Villarreal (2017).

⁵ For further details see Padilla Pérez and Oddone (2016).

Diagram 6
Diagnosis of the value chain



Source: R. Padilla Pérez and N. Oddone, *Manual for the strengthening of value chains*, Mexico, Economic Commission for Latin America and the Caribbean (ECLAC)/International Fund for Agricultural Development (IFAD), United Nations, 2016.

In rural value chains in Latin America and the Caribbean, there are various bottlenecks to economic and social upgrading. Table 2 summarizes some of the common bottlenecks in commodity and agro-industrial chains, which are similar to those identified in the project referred to in this guide. Small-scale producers, who tend to make up the vast majority in the chains, are particularly affected, since large producers often have higher production, technological and financial capacities.

Table 2
Common constraints faced by rural commodity value chains

Production and purchase of inputs	<ul style="list-style-type: none"> • Low production and technological capacities of small-scale producers in the chain, with a direct impact on productivity, quality and profitability. • Strong competition from imported products that are sold at lower prices and reduce the profit margins of small-scale producers. • Dependence on imported inputs, machinery and equipment means their purchase is often ill-timed and costly and also prevents any technology transfer from providers of such inputs to small-scale producers. • Poor application of good agricultural practices (GAP) and good livestock practices (GLP), affecting product quality and the productivity and profitability of small-scale producers. • Lack of access to sources of technological information (specialists, technical assistance, research and development), which has a direct impact on quality and yields. • Limited capacities to engage in processing activities, small-scale producers thus tend to sell unprocessed goods with little value added. • Lack of an environmental and climate change mitigation strategy negatively affects yields and increases vulnerability to extreme weather events.
Distribution, commercialization and consumption	<ul style="list-style-type: none"> • Lack of market knowledge (prices, consumer preferences, technical standards) limits the ability of small-scale producers to access formal national and international markets. • Lack of adequate transport equipment often results in product deterioration in transit to consumption and distribution points (warehouses, markets, hotels, restaurants). • The average consumer is ill-informed as to what constitutes a good quality and safe product so there is little incentive for small producers to introduce better practices.

Institutional

- Weak coordination, discontinuity, and scarce resources of public sector support programmes.
- Lack of statistical information on the chain which renders analysis and development of strategies difficult.
- Insufficient access to formal financing from public and private sources.
- High degree of fragmentation and weak organization within and between links because of a high level of informality in relations and lack of trust between actors.

Source: R. Padilla Pérez and N. Oddone, *Manual for the strengthening of value chains*, Mexico, Economic Commission for Latin America and the Caribbean (ECLAC)/International Fund for Agricultural Development (IFAD), United Nations, 2016.

For the **second part** of the diagnostic, and with a view to exploring in greater depth issues related to financial inclusion, the receipt of remittances and their possible use in production to overcome these bottlenecks, a questionnaire was designed and administered among a representative sample of actors in the chain.

The questionnaire comprised 61 questions, organized in five sections: economic and sociodemographic characteristics, productive activities, financial inclusion and remittances.⁶



A common challenge in Latin America and the Caribbean is the unavailability of rosters of the people comprising a value chain that could be used to establish a sampling frame for the collection of data. Neither public bodies nor business associations can provide such records.

This was the case in the three countries that received technical assistance (El Salvador, the Dominican Republic and Guatemala). In view of the above, a number of strategies should be used to establish a directory of actors that is as reliable and comprehensive as possible. These include:

- (i) Telephone calls and field visits in follow-up to the basic information provided by public bodies and business associations.
- (ii) Use of previously conducted censuses and surveys to produce estimates and update information.
- (iii) Inclusion of lists of individuals available in business associations and public bodies.
- (iv) Preliminary identification of the core of the chain (e.g. milk producers), based on information from population censuses. In the surveys among these actors, they are asked to provide the contact information of stakeholders involved in other links of the chain. This makes it possible to construct a network from which the sample is randomly selected.

Once the population estimate is complete, a sample design is prepared to ensure that the sample is statistically representative. This is to ensure that the exercise is dually representative: of the territorial dimension (the selected locations

⁶ The complete questionnaire is available in Padilla Pérez, Santamaría and Villarreal (2020).

in which the chain operates) and the actors (in accordance with the links that make up each chain). The survey is designed for both recipients and non-recipients of remittances.

As part of the systemic approach used to study the value chain, surveys are complemented by interviews with key actors in the area of remittances and financial inclusion, alongside those included in

the initial diagnostic, such as the superintendency of banks, remittance companies, development banks and ministries of foreign affairs (on account of their links with the diaspora).

Table 3 illustrates some of the main findings of the surveys.

Table 3
Main findings of the questionnaires on remittances, financial inclusion and production development addressed to actors in rural value chains

- | | |
|--|---|
| <ul style="list-style-type: none"> • Most of the remittances are used to cover household expenses associated with food, health, housing and education, among others. However, the percentage varies between chains, between 70% and 80%. • The average monthly amount of remittances received by each producer also varies from one chain to another, from US\$ 57 to US\$ 156. The amounts involved are usually modest, which poses a challenge for recipients wishing to invest on an individual basis. • The average share of remittances invested in El Salvador's tomato and green pepper value chain was around 15%, compared with 3.7% for the tourism chain in Sacatepéquez, Guatemala, and 6.3% for the dairy chain in the Dominican Republic. Within each chain, the shares vary significantly from one link to another. For example, in Guatemala's tourism chain, restaurant owners allocated a larger share of remittances to production activities (5.6%), while there was no such use of remittances in the case of craft workers (0%). Similarly, in the dairy chain in the Dominican Republic, investment of remittances was highest among producers (10%), while no such investment was recorded among independent workers. • A positive correlation was observed between income and the decision to invest, as well as between access to formal finance and the propensity to invest. | <ul style="list-style-type: none"> • The level of association among producers was low: in the case of the green pepper and tomatoes value chain in El Salvador, only 15% of interviewees reported belonging to an association and 22% to a cooperative. In the dairy chain the percentage was around 20%. The actors in Guatemala's tourism chain operate in even more isolation: only 5.5% belong to an association. However, econometric analysis showed a positive correlation between membership of an association and financial inclusion and the propensity to invest in productive work. • The main reason for not belonging to an association is the high level of mistrust among producers as previous attempts at association, whether formal or informal, have been negative (breach of contract and poor results, among others). • Producers' skills (approximated by the highest level of schooling) largely determine key variables such as income, access to the formal financial system, productive market insertion and propensity to invest. Small-scale producers in the chains have low levels of these skills, but there are significant variations. For example, in the Dominican Republic's dairy chain, about 50% of the actors completed basic education and 21% completed secondary education. In the green pepper and tomato chain in El Salvador, 80% of those interviewed completed only basic education. The actors in the tourism chain in Guatemala demonstrate a higher level of formal education, with up to 61% having completed upper secondary education. |
|--|---|

- The analysis of the survey showed significant gaps in financial inclusion and investment when disaggregated by sex, production conditions and geographic location. As an example, women involved in the green pepper and tomato chain are 11.2% less likely to have an account in a financial institution than men with a similar profile. In the Dominican Republic, women are 43% less likely to have an account in a financial institution and are 2.8 times more likely to turn to family and friends to borrow seed capital for businesses. This gap is also seen in Guatemala.
- The analysis also showed that the skills of the different actors in the chain vary and this is reflected in income gaps. For example, producers involved in the cultivation and commercialization of tomatoes and green peppers had, on average, higher skills and income levels than those who only grow the crops as well as those who grow and transform their products. Similarly, in the dairy chain, suppliers of agricultural input and processors/manufacturers are in a better position than independent producers. In the tourism chain in Guatemala, restaurant and hotel proprietors and providers of transport services had higher incomes and allocated more towards investment than craft workers.
- There is a continuum of financial inclusion, with the propensity to use more sophisticated products and services (e.g. business loans and insurance) increasing the more people have accounts for managing their personal finances. In the three cases studied, there was more widespread use of financial products and services among recipients of remittances. The possession of an account for the management of personal finances has a positive and significant effect on the share allocated to production activities. In Guatemala, for example, remittance recipients are 1.14 times more likely to avail themselves of credit and investment products than comparable individuals not receiving remittances. In El Salvador, remittance recipients are 24.3% more likely to be account holders at a financial institution.
- Access to formal financing is a key tool for investing resources, including remittances, in rural value chains. The multiple conditions or guarantees that must be provided are the main bottlenecks in access formal financing identified in the three chains.

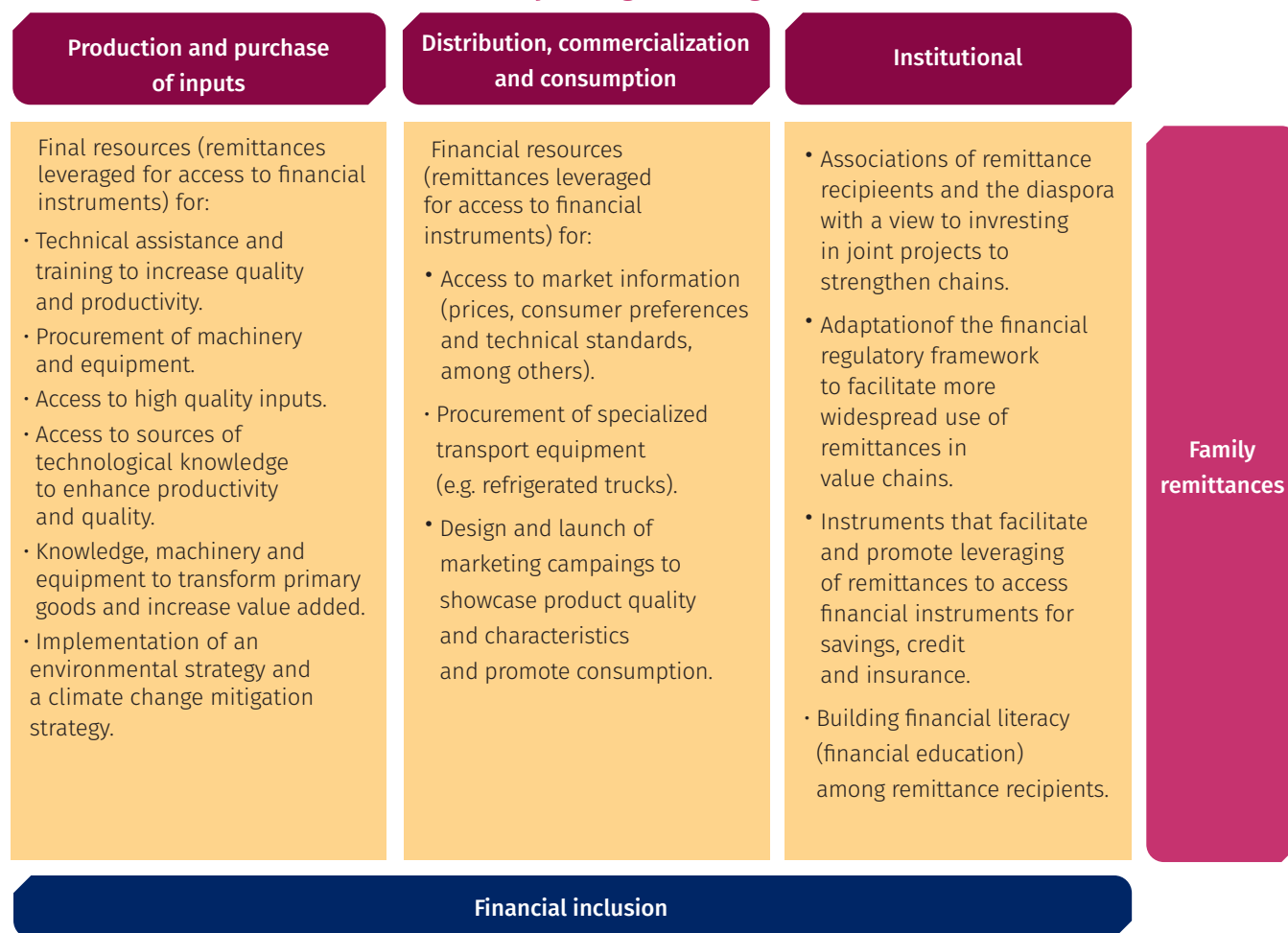
Source: : Prepared by the authors, on the basis of R. Padilla Pérez, J. Santamaría and F. G. Villarreal, “Estrategias para el uso productivo de remesas familiares e inclusión financiera: estudio de caso de la cadena de tomate y chile verde en El Salvador”, *Project Documents* (LC/TS.2019/70/Rev.1; LC/MEX/TS.2019/19/Rev.1), Mexico City, Economic Commission for Latin America and the Caribbean (ECLAC), 2020; J. A. López, R. Padilla Pérez and F. G. Villarreal, “Estrategias para el uso productivo de remesas familiares e inclusión financiera: estudio de caso de la cadena de turismo en Sacatepéquez, Guatemala”, *Project Documents* (LC/TS.2019/87/Rev.1; LC/MEX/TS.2019/22/Rev.1), Mexico City, Economic Commission for Latin America and the Caribbean (ECLAC), 2020; and R. Gilbert, R. Padilla Pérez and F. G. Villarreal, “Estrategias para el uso productivo de remesas familiares e inclusión financiera: estudio de caso de la cadena de lácteos en la República Dominicana”, *Project Documents* (LC/TS.2019/98/Rev.1; LC/MEX/TS.2019/23/Rev.1), Mexico City, Economic Commission for Latin America and the Caribbean (ECLAC), 2020.

Family remittances have the potential to ease the bottlenecks identified in the value chains analysed (see diagram 7). Whether directly or indirectly through greater financial inclusion, the additional funds would finance access to specialized inputs and business development services that can increase the quality and productivity of products and services, diversify production, for example through transformation activities, and design and implement climate change mitigation and adaptation strategies.

In terms of distribution and commercialization, leveraging remittances in the financial sector can help to improve access to market information (prices, consumer preferences and technical standards, among others) and acquire specialized transport equipment to ensure product quality and safety. Remittances are also a potential source of finances that can be used by business associations to design and launch marketing campaigns on the quality and characteristics of the products and promote consumption.

Diagram 7

**Potential uses of family remittances to strengthen value chains
(example of agricultural goods)**



Source: Prepared by the authors.

The chain structure presented in diagram 3 and the examples of how remittances can be used to strengthen it are illustrative of a primary product chain. However, the bottlenecks and the space for using remittances vary from one rural chain to another, depending on whether they are for agricultural goods, manufacturing or services.⁷

Since the individual amounts received from remittances are relatively small, as is the share that can be invested once the basic needs of the families are met, partnerships among remittance recipients must be encouraged. Similarly, the

financial inclusion of recipients should be promoted, using remittances as a key that opens the door to the formal financial system with access to savings accounts, credit and insurance. Building the financial literacy (financial education) of remittance recipients is paramount in order to better identify appropriate instruments and the responsible use thereof.

It is expected that the economic upgrading of value chains described above will lead to social upgrading. Small-scale producers would earn higher profits, thanks to increased productivity

⁷ The project referred to in this guide studied the potential use of remittances to strengthen three rural value chains: (a) the production of tomatoes and green peppers in El Salvador, an example of a primary product chain; (b) dairy in the Dominican Republic, an example of an agro-industrial chain; and (c) rural tourism in Sacatepéquez, Guatemala, an example of a service industry chain.

and quality, greater value added as a result of the transformation of primary goods, and more favourable conditions for the commercialisation of their products.

Thus, through the analysis of value chains it is possible to identify spaces for the investment of family remittances and distinguish challenges and opportunities for each link. The tools employed in this analysis can also be used to implement targeted interventions within each link, focusing on actors with the least capacity, such as the craft workers in the rural tourism value chain in Sacatepéquez, Guatemala, as seen in table 3.

C. Dialogue tables

As stated above, a central feature of the methodology is its participatory nature. Actors in the chain, as well as public, private, and academic organizations, are involved from the first stages of the process (definition of meta-objectives and chain selection) and in the various stages of information gathering for the diagnostic. Dialogue tables are a key step in the participation process.

Dialogue tables are meetings in which the various actors directly or indirectly involved in the value chain share views and experiences regarding a diagnostic or strategies that have been presented previously.

The dialogue tables constitute a process of communication and cooperation on a specific topic between the stakeholders who must collaborate for their mutual development and that of the relational system to which they belong (identification and application of solutions). A dialogue table offers the opportunity to discuss a well-defined objective, in order to identify and put into practice solutions that go beyond individual decisions (Padilla Pérez and Oddone, 2016).

The methodology described here proposes the organization of dialogue tables at two specific stages in the process: during validation and enrichment of data processed from the diagnostic and the strategy design stage.



First dialogue table

The first dialogue table is held upon conclusion of the diagnostic, with a view to its discussion and validation. It is an opportunity to highlight the importance of involving the chain's main actors and support organizations. After a brief presentation of the diagnostic, participants may take the floor to enrich the analysis and ensure that the bottlenecks and opportunities identified are relevant, and that none have been overlooked.

support organizations. Average attendance is 30 participants; any more than this may hamper the sharing of views and experiences.⁸

In addition to the dialogue tables, it may be necessary to create forums to discuss specific aspects of the diagnostic and strategies such as financial inclusion mechanisms, financing of initiatives or links with the diaspora.

Second dialogue table

As in the first dialogue table, the aim is to enrich the process and also to motivate all actors to commit to carrying out their respective tasks in order to overcome bottlenecks. It is key to carry out a strategy prioritization exercise in which dialogue table participants jointly decide on the immediate actions to be implemented.

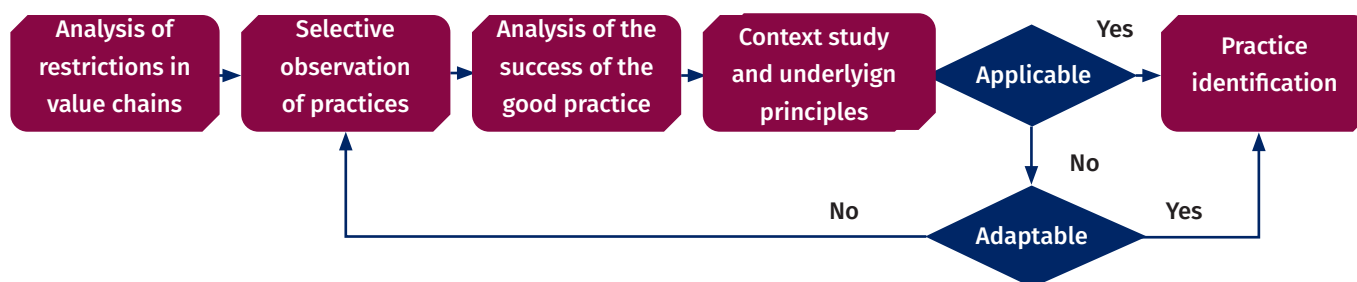
The dialogue tables tend to be convened by the public and private sectors, and are attended by representatives of the links in the value chain and

D. Good practices

Good practices complement the diagnostic in providing input for the design of strategies. Best practice research is based on the selective observation of a set of exemplars across different contexts in order to identify those that can be extrapolated to the reality to be modified.

It begins by familiarization with the problem or bottleneck that the value chain needs to resolve through the application of the good practice (see diagram 8).

Diagram 8
Process of good practice analysis



Source: Elaborated by the authors.

⁸ See the characteristics and organization of dialogue tables in the *Manual for the strengthening of value chains* (Padilla Pérez and Oddone, 2016).

As a first step, a list of bottlenecks is made and compared with the practices observed in other situations, beginning with a general description, the results obtained and the contextual elements. Regarding the latter, the data obtained can be used, for example, to determine up to what point the practice is usable regardless of the context (applicable) or whether there is some condition that would have to be reproduced in order for the practice to have the desired success (adaptable). If the application and the adaptation of the good practice prove impossible, the search must begin again elsewhere.

To identify good practices on the financial inclusion of remittance recipients and promoting greater investment of remittances in value chains, the first step was to carry out a comprehensive literature review of international experiences that could be extrapolated to the countries in the study. Particular emphasis was placed on financial services that fostered investment by remittance recipients in productive activities. Once the success stories were identified, common best practices were extracted. Subsequently, interviews with key stakeholders were conducted in order to obtain more detailed information on the previously selected cases. Lastly, the best practices were discussed and enriched in meetings and forums with experts (Aldasoro, 2020). The good practices identified include:

1. Expanding access to financial services for migrants and remittance recipients, which means leveraging remittance flows to access savings, credit and insurance instruments, among others.
2. Encouraging the adaptation of legal frameworks to foster financial inclusion.
3. Innovating in the design of new financial products, with special attention to adequate risk management.
4. Promoting the investment of remittances through formal financial services, with a need for programmes to build financial and technical capacities, especially among small-scale producers.
5. Mainstreaming a gender perspective to ensure that tools and procedures are designed to increase the appeal and accessibility of the formal financial system for women receiving remittances.
6. Enabling transnational access to financial services for migrants.
7. Having financial intermediaries that are a link between micro, small and medium-sized enterprises (MSMEs) operating in the country of origin in order to boost investment in productive activities.

E. Strategy design

Strategy design draws on the bottlenecks and opportunities identified in the diagnostic and on good practice. Specific strategies should be designed at the micro level, ideally projecting timelines, resources and responsible parties.

In line with the **logical framework** methodology, the first step in designing the strategies was to build a **decision tree**, which is used to systematize both the causes of an identified bottleneck or barrier that prevents adequate use of existing opportunities, and the means to address them as well as the expected results.

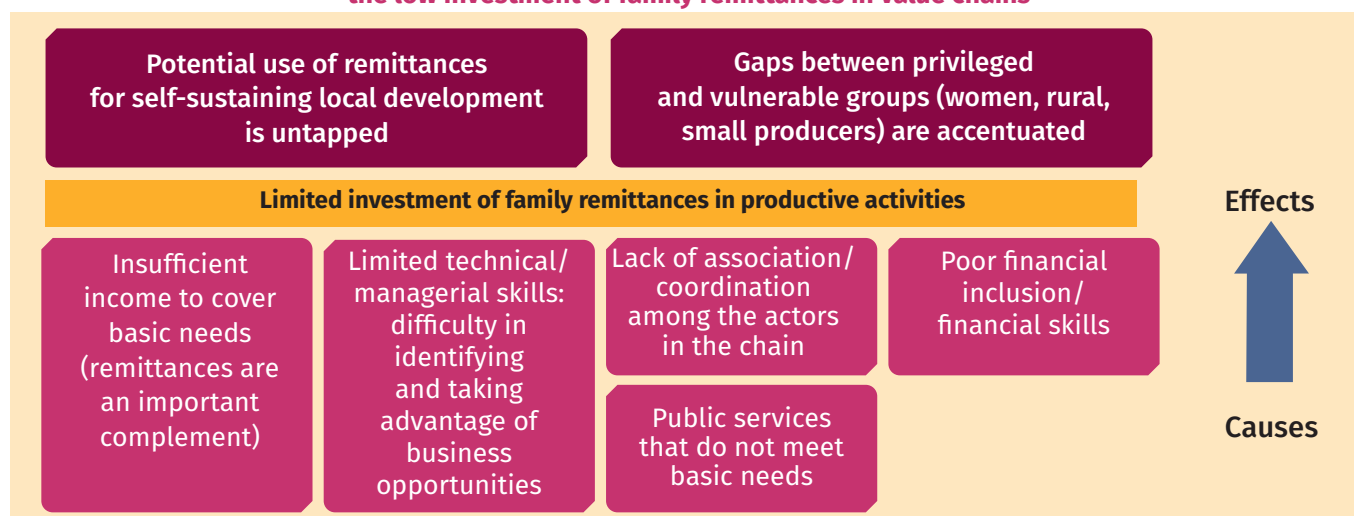
The specific case of promoting investment of remittances in value chains is illustrated in diagram 9, using the bottleneck tree (the first part of the decision tree) to establish cause and effect relationships. The main bottleneck to be overcome is the limited use of family remittances for investment in value chains. The main causes affecting small-scale producers who receive remittances

include low incomes that do not cover basic needs (remittances are an important complement) and insufficient managerial and technical skills to undertake production projects and take advantage of business opportunities. The lack of association between producers in the chain limits their access to credit, the commercialization of their products

under better conditions and investment in projects that can increase productivity and profitability. In addition, low levels of financial inclusion restrict access to the financing that small-scale producers require to scale up their activity.

Diagram 9

Bottleneck tree: establishment of cause-effect relationships regarding the low investment of family remittances in value chains



Source: Prepared by the authors.

On the effects side, there is an untapped potential regarding the use of family remittances as a driving force for greater local development through the strengthening of value chains. The variation in producers' capacities and their access to formal sources of financing leads to a widening of gaps in income and living conditions, affecting small-scale producers adversely.

Diagram 10 provides an overview of the objectives tree, in which the bottlenecks are transformed into the desired scenario. The primary objective is to increase the investment of family remittances in productive activities through financial inclusion. The bottlenecks identified can be overcome by building financial literacy (financial education) and managerial and technical skills; increasing

partnership among small-scale producers; expanding financial inclusion; and strengthening the linkages in the chain.

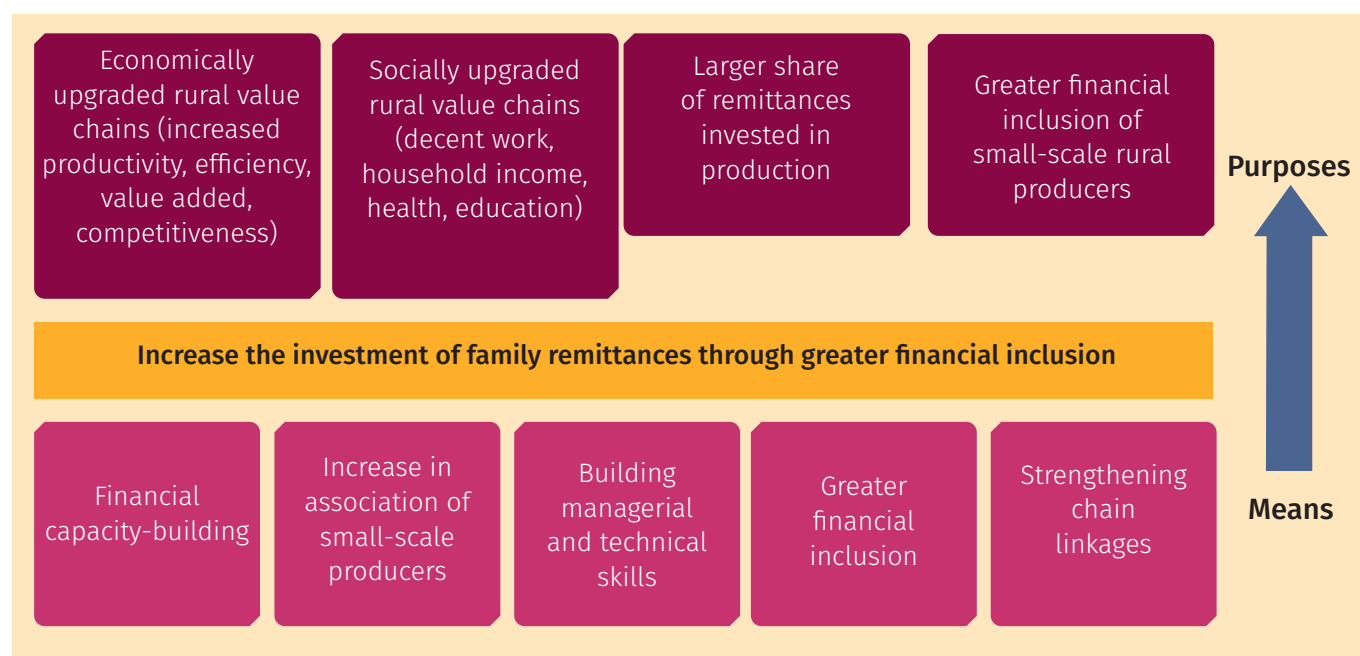
The desired outcomes (ends) of these actions are:

1. Economically upgraded value chains, with higher productivity, efficiency and profitability, based on greater value added and innovation.
2. Socially upgraded value chains, in which economic upgrading translates into higher incomes for small-scale producers and better living conditions for their communities.
3. A growing proportion of family remittances invested in profitable productive projects, and
4. Greater financial inclusion of small-scale rural producers.

The next step of the process was to develop the strategies, each with specific lines of action. These were refined and validated in working meetings with representatives of public bodies and the financial sector, as well as in the second dialogue table thereafter. The proposal contained seven strategies, with a total of 21 lines of action, as shown in table 4.

Diagram 10

Objective tree: transform restrictions into the desired scenario of limited investment of family remittances in value chains



Source: Prepared by the authors.

Table 4

Strategies to promote investment of remittances in value chains by boosting financial inclusion

Strategies	Lines of action	Specific examples
1. Strengthen the institutional architecture available to promote financial inclusion	<ol style="list-style-type: none"> 1. Encourage the adaptation of the legal framework to foster financial inclusion. 2. Develop a national strategy for electronic payments. 	<p>Adapt the legal framework to simplify requirements and streamline procedures so that the formal financial system becomes an attractive option for migrants sending remittances.</p> <p>Design strategies to include non-bank financial institutions in the financial system's regulatory framework in order to provide incentives for serving populations not served by traditional banks, particularly small-scale rural producers who receive remittances.</p>

	Lines of action	Specific examples
	<p>3. Strengthen consumer protection mechanisms.</p> <p>4. Use existing legislation on guarantees to facilitate access to financing for small-scale.</p>	<ul style="list-style-type: none"> • Set up inter-agency partnerships to boost the financial inclusion of migrants and remittance recipients (ministries of foreign affairs, central banks, financial system, ministries responsible for promoting investment). • Design a strategy to integrate digital payment and remittance platforms. • Promote alternative mechanisms for guarantees which could be based on information on the receipt of remittances and the fact that recipients are more likely to avail themselves of formal financial savings and credit mechanisms.
2. Fortalecer las capacidades financieras	<p>5. Strengthen the financial capacity of the users of financial services.</p> <p>6. Develop and build the capacity of financial service providers to cater to underserved segments of the population.</p>	<p>Design and conduct awareness-raising campaigns on financial services oriented to migrants and remittance recipients, in particular:</p> <ul style="list-style-type: none"> - Existing products and services (remittances, accounts, savings, insurance, funds, access to credit). - Information on costs, location and conditions of services for remittance transfers (to enable comparison between providers). - Access to credit lines (procedures, requirements and opportunities). - Investment in specific projects. <p>Design and implement strategies for strengthening the financial literacy of migrants and recipients of remittances (financial education). Action should focus on providing practical information by taking advantage of “teachable” moments, such as when they are opening an account or applying for loans.</p> <p>Strengthen the capacities of financial or microfinance intermediaries offering services to remittance beneficiaries in order to reduce transaction costs and facilitate preferential rates for lines of credit and access to remote points.</p>

Strategies	Lines of actions	Specific examples
3. Design new financial products	<p>7. Develop financial products and services that meet the financial needs of migrants.</p> <p>8. Develop financial products and services that meet the financial needs of remittance recipients.</p> <p>9. Develop financial products and services that meet the financial needs of women.</p>	<p>Facilitate access to savings accounts, credit lines and investment funds in the country of origin, so that migrants can invest in production activities to strengthen value chains.</p> <p>Encourage the financial system to create special considerations for remittance beneficiaries in terms of conditions of access for accounts, insurance (personal and health insurance), savings accounts or loans (consumer or mortgage); an example of this would be to include remittance income reporting.</p> <p>Relax the requirements for guarantees and collateral for women recipients of remittances (in recognition of the fact that they are less likely to own property) and promote the role of mutual guarantee companies.</p>
4. Strengthen available financing	<p>10. Access to sources of second-tier funding.</p> <p>11. Reduction of financial costs.</p>	<p>Establish second-tier funding mechanisms that meet the financial needs of migrants and remittance recipients.</p> <p>Use existing guarantee mechanisms to reduce the interest rates on loans sought by recipients of remittances interested in investing in value chains.</p>
5. Strengthen associations and chain linkages	<p>12. Design and implement programmes that incentivize vertical linkages.</p> <p>13. Design and implement programmes for the investment of family remittances in value chains that incentivize horizontal linkages.</p>	<p>Encourage the creation of groups of remittance recipients interested in investing in value chains by providing financial support for collective projects, for example. These recipient groups can be in the form of interest groups, unions (informal associations) or cooperatives (formal associations).</p>

Strategies	Lines of action	Specific examples
	<p>14. Implement commercialization support mechanisms for small-scale producers who receive remittances.</p> <p>15. Implement tools for supplier development and access to good quality, affordable inputs for small-scale producers who receive remittances.</p>	Design programmes to strengthen chains through investment of remittances that recognize the importance of backward and forward production linkages, namely the purchase of inputs and commercialization.
6. Strengthen the managerial and technical capacities of small scale producers	<p>16. Provide technical assistance in the formulation and management of production projects in which remittances are invested.</p> <p>17. Strengthen the production and technological capabilities of producers who invest remittances.</p>	Ensure that programmes encouraging the use of remittances include a technical assistance component on project management and training to strengthen the production and technological capabilities of small-scale producers.
7. Promover la inversión productiva de los migrantes en sus comunidades de origen	<p>18. Develop financial intermediation mechanisms.</p> <p>19. Design sustainable financial models.</p> <p>20. Promote migrant associations.</p> <p>21. Launch an outreach campaign to disseminate projects or initiatives among migrants.</p>	<p>Facilitate migrant's access to credit lines in the country of origin.</p> <p>Create or strengthen special investment funds for migrants and publicize them among communities abroad. The impact of this outreach can be magnified by targeting already established migrant associations interested in this type of activity.</p> <p>Design credit and investment instruments that are favourable to migrant associations.</p> <p>Identify migrant organizations abroad and determine potential counterparts interested in maintaining and strengthening productive links with the country of origin.</p> <p>Develop digital platforms that provide information on procedures and opportunities in the country of origin and that simplify the formalities and requirements for this.</p>

F. Launching

This is a participatory event to which the media are invited and at which the authorities responsible for implementing the policies to overcome bottlenecks convene representatives of the links in the chain and announce the commitments made. Dissemination of this event fosters public-private consensus between actors, institutions and serves as a demonstration of effectiveness to other chains that might wish to undertake a similar process.

The next challenge, implementation, is beyond the scope of this methodological guide and rests with the local stakeholders in the public and private sectors who have demonstrated their interest in and commitment to the process.

The prioritization of strategies and the identification of key players will determine the resources available and the steps to be taken.

For example, as a first step towards implementing the strategies, the Ministry of Economic Affairs of El Salvador, in collaboration with ECLAC, prepared an operational guide for the launch of a programme to provide business support tools to encourage the productive use of the resources of the Salvadoran diaspora.

III. Concluding remarks

This methodological guide summarizes the technical cooperation between ECLAC and the governments of El Salvador, Guatemala and the Dominican Republic in the formulation of strategies to boost the investment of remittances in value chains. The concepts and tools are described in brief and bibliographical references are provided for those who wish to explore specific topics in greater depth.

The exercise focused on specific chains and territories, but the lessons in terms of public policy are relevant to other chains and regions marked by population migration and the consequent receipt of family remittances.

The methodology presented here can also be replicated in other public policy design exercises, where there is a clear commitment to and interest in using solid empirical evidence as a basis, complemented by participatory processes that enrich the analysis and formulation of strategies.

Family remittances account for a growing share of several Latin American and Caribbean

economies, contributing more than 20% of GDP in three countries (Haiti, El Salvador and Honduras). The proposal to foster greater investment of remittances in value chains stems from the recognition that remittances are strictly private in nature, and therefore aims to create an enabling environment for remittance recipients and the diaspora to want to channel a percentage of their resources into investments that will improve their living conditions. Higher incomes reduce the need for economic migration and at the same time open up options for the diaspora who want to return but are looking for a sustainable source of income.

The value chain approach presented here is a blueprint for moving forward in this regard. As such, this guide contributes to the growing debate in the countries of the region on how to harness the vast uninterrupted inflows to ensure that they not only meet the basic needs of the population (food, health, education, housing) but also contribute to the sustainable economic and social development of the communities.

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The purpose of this toolkit is to summarize the steps and activities used in the analysis and formulation of public policies to foster investment of remittances in value chains, underpinned by greater financial inclusion, with the aim of facilitating their replication in other countries and other chains. The information contained herein is based on the technical cooperation between ECLAC and the Governments of the Dominican Republic, El Salvador and Guatemala.



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