

# Challenges and opportunities for the Salvadoran diaspora to invest in its country of origin



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ECLAC





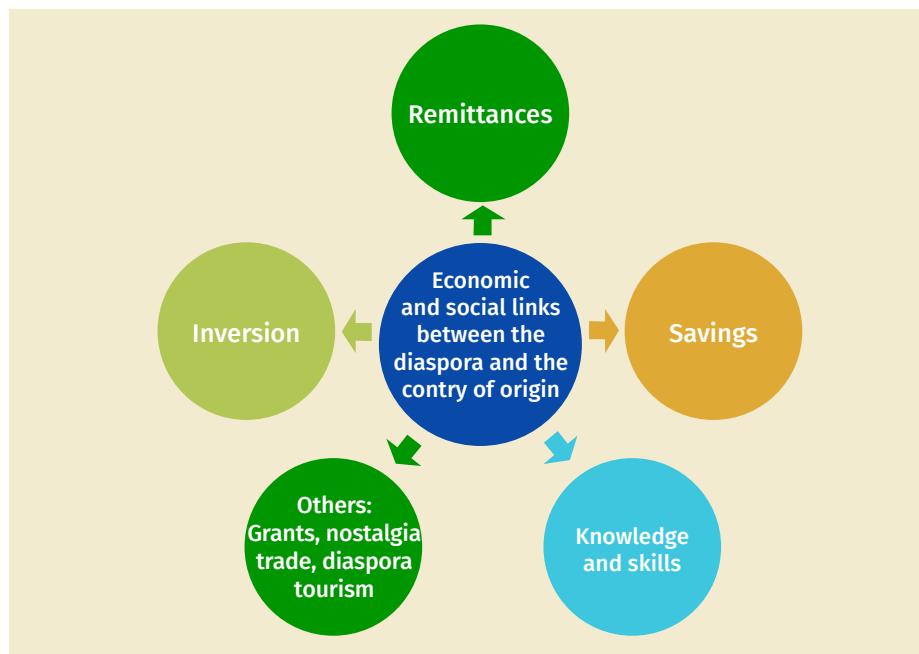
# Introduction

The Salvadoran diaspora in the United States numbers around three million people, of whom, in 2017, about 70% were living in the states of California, Texas, New York, Virginia and Maryland. Most members of the diaspora are employed in the service and construction sectors, with a low 5.1% rate of unemployment. In 2018, remittances from the diaspora, at US\$ 5.469 billion, represented the equivalent of 21% of El Salvador's GDP.

Salvadoran migration to the United States gathered pace in the 1980s, against the backdrop of civil conflict; and half of all ethnic Salvadorans currently living in the United States emigrated there before the year 2000. The reasons for migration include insecurity and high levels of violence in the home country, the search for better living conditions and higher income, and family reunification.

Diasporas can relate economically to their countries of origin in a variety of ways. In addition to remittances, interactions can occur through savings (current accounts, investment funds, pensions and health), investments (real estate and productive activities), human capital transfer, donations, nostalgia trade and tourism (medical or recreational).

## Potential economic contribution of diasporas to their place of origin



<sup>1</sup> Information from the Census and Statistics General Directorate (DIGESTYC) from MINEC, in 2019 the total population in El Salvador reached 6,704,864 inhabitants [online] <http://www.digestyc.gob.sv/index.php/novedades/avisos/590-el-salvador-estimaciones-y-proyecciones-de-poblacion-municipal-2005-2025.pdf> [date of consultation: 9 June 2020].



The important development role played by migrants and diasporas is widely recognized among the international community and is integrated into several of the 2030 Agenda Goals and targets. Similarly, the 2018 Global Compact for Safe, Orderly and Regular Migration recognized the cross-border participation of this population and the economic, social and cultural contribution it makes to both host and home countries.

THE 2030 AGENDA	2018 GLOBAL COMPACT FOR SAFE, ORDERLY AND REGULAR MIGRATION
	 <b>Global Compact FOR Migration</b>
<p>The 2030 Agenda for Sustainable Development recognizes migration as an integral part of development planning strategies and for achieving several of the Agenda's targets.</p> <p>Migrants and diasporas are part of the overall “no-one-left-behind” approach, and are therefore considered a core component of the population addressed by most of the SDG targets<sup>a</sup>.</p>	<p>Objective 19 of the Global Compact recognizes the need to create conditions for migrants and diasporas to fully contribute to sustainable development in all countries. Governments can provide support by creating the conditions for this to happen, for example, by implementing support programmes and designing specific financial products that facilitate investment and entrepreneurship by migrants and diasporas.</p>

<sup>a</sup> See International Fund for Agriculture Development (IFAD), *Sending Money Home: Contributing to the SDGs*, Rome, 2017.

Investment is part of the diaspora’s productive link with its country of origin and is a way of contributing to economic and social development, particularly in rural areas. However, investment activities are not the rule; fostering them requires an enabling environment and a strengthened institutional framework to help mobilize the resources in question. In the collaboration project here summarized, diaspora investment is understood as an amount independent from family remittances, similar to foreign direct investment (FDI), but it is carried out by diaspora members in their communities of origin.



# Background

The International Fund for Agricultural Development (IFAD) and the Economic Commission for Latin America and the Caribbean (ECLAC) launched a joint initiative to design strategies to encourage remittances to be invested productively in value chains, specifically targeting the tomato and green sweet pepper chain.

As a result of a detailed diagnostic study and an analysis of international good practices, seven strategies were designed.

## STRATEGIES FOR THE PRODUCTIVE INVESTMENT OF FAMILY REMITTANCES<sup>a</sup>

1. Strengthen the institutional architecture to promote financial inclusion
2. Strengthen financial capacities
3. Design new financial products
4. Strengthen the supply of financial products
5. Strengthen value chain partnering and coordination
6. Strengthen managerial and technical capacities among small-scale producers
7. Foster productive investment by migrants in their communities of origin

<sup>a</sup> See for further details on strategies and diagnostics, Padilla Perez, Santamaría and Villarreal (2019).

The Ministry of Economy of El Salvador expressed particular interest in strategy No. 7, which coincides with one of the core pillars of the current government's economic and foreign policy (2019-2024), namely to attract investment and promote trade among members of the Salvadoran diaspora.

In response to a request by the Government of El Salvador, ECLAC provided technical support in formulating strategies based on robust empirical evidence, through two instruments: (a) public information surveys conducted among members of the Salvadoran diaspora in the cities of Los Angeles, Houston and Washington (a total of 425 surveys); and (b) 15 focus groups involving members of the diaspora in the consulates of Los Angeles (California), Silver Spring (Maryland,) Manhattan and Long Island (New York) and Houston (Texas). Since there is not an updated directory with personal information on El Salvador's migrants and diaspora in the United States, a specific sample frame was created.

The surveys targeted two segments of the diaspora: (a) entrepreneurs and the self-employed; and (b) employees. The questionnaire aimed to gather empirical evidence to identify challenges and opportunities to foster diaspora investment in their communities of origin. The questionnaire collected data on six main topics: (a) sociodemographic characteristics; (b) patterns of economic and financial inclusion; (c) saving and investment; (d) remittances; (e) philanthropy (donations) and (f) linkages of other kinds.

# Survey findings

## Sociodemographic characteristics

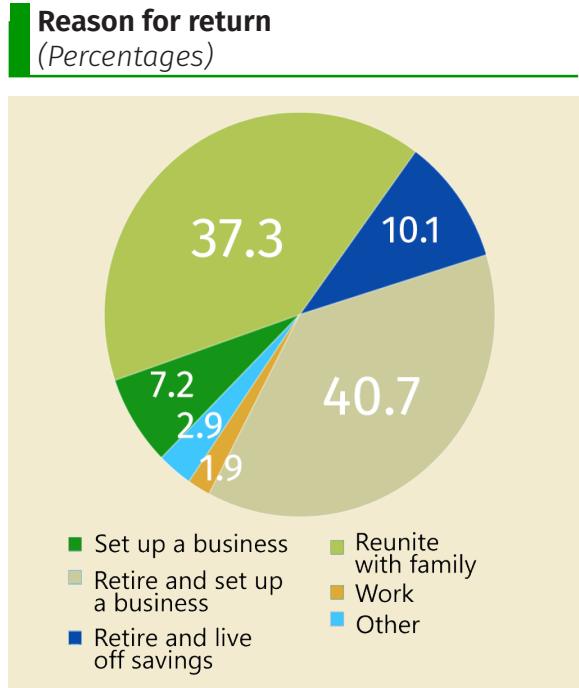
FEATURE	AVERAGE OF LOS ÁNGELES, HOUSTON Y WASHINGTON
Sex (percentages)	
Women	49.0
Men	51.0
Age (average)	41.9
Head of household (percentages)	
Yes	81.2
No	18.8
Economic dependents (average)	
United States	2.0
El Salvador	2.2
Schooling - Level attained (percentages)	
None	2.8
Basic (1 to 9 years)	34.2
Intermediate (10 to 12 years)	35.1
University (13 years or more)	27.9

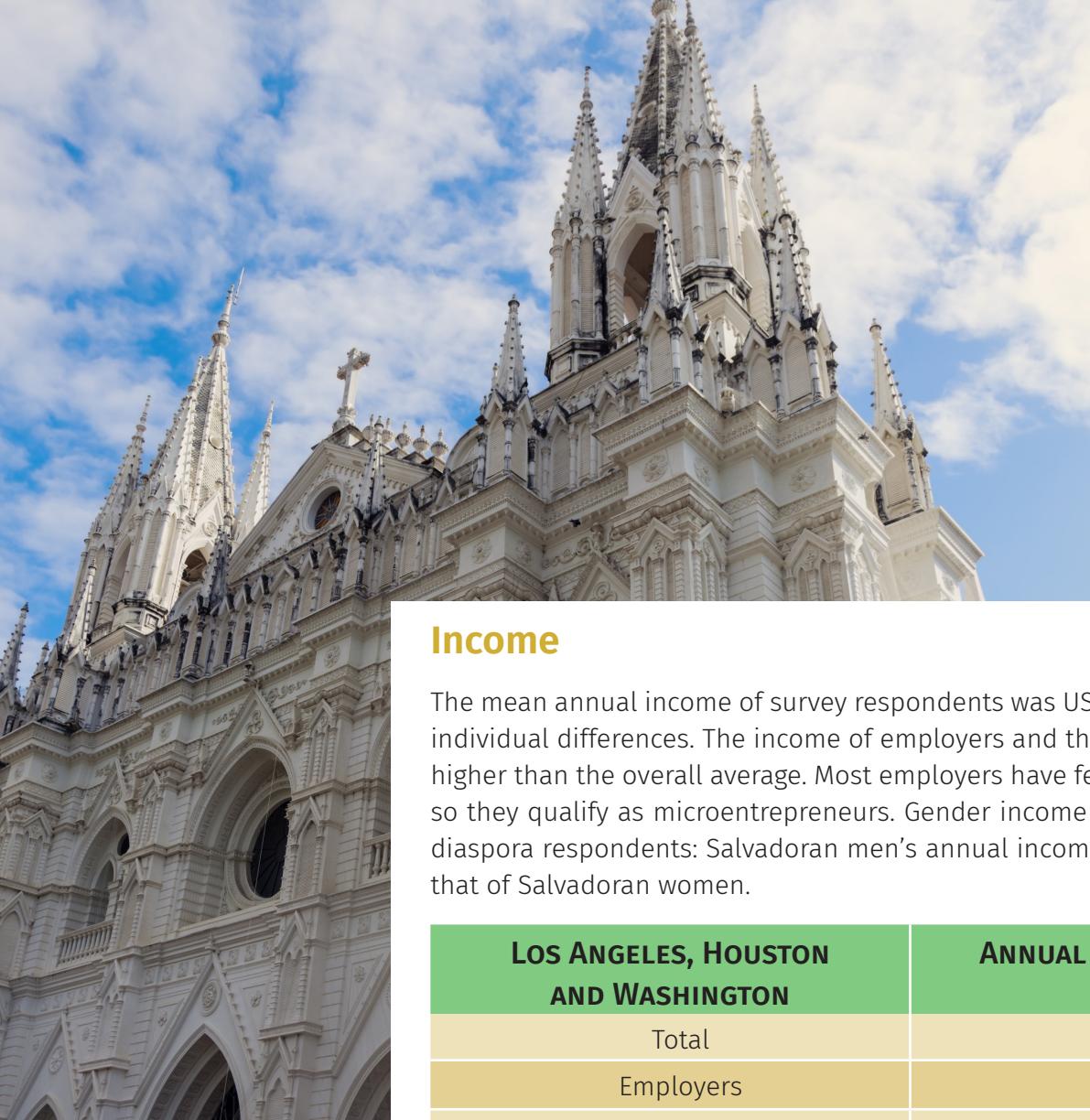
Among the surveyed population, a similar proportion of men and women is observed, which corresponds to the entire Salvadoran diaspora in the United States. On average, 2.2 dependents were reported in El Salvador, suggesting the prevalence of an economic and emotional link with the country of origin. Although the bulk of the surveyed population accumulates a basic or middle education, 27.9% have university studies.

As for the entire diaspora, the majority of Salvadorans surveyed are concentrated in service activities (general, recreation, accommodation and food preparation, health, education and social assistance) and construction.

## Intention to return

A key factor in analysing the mechanisms for attracting investment to the country of origin is the intention to return. Half of the survey respondents said they intended to return to El Salvador in the next two years. The fact that the main reason for returning is to retire and start a business is evidence of the roots that diaspora communities have in their country of origin and the potential for implementing policies to facilitate investments.





## Income

The mean annual income of survey respondents was US\$ 50,565, albeit with wide individual differences. The income of employers and those who have invested is higher than the overall average. Most employers have fewer than ten employees, so they qualify as microentrepreneurs. Gender income gaps also persist among diaspora respondents: Salvadoran men's annual income is 1.7 times higher than that of Salvadoran women.

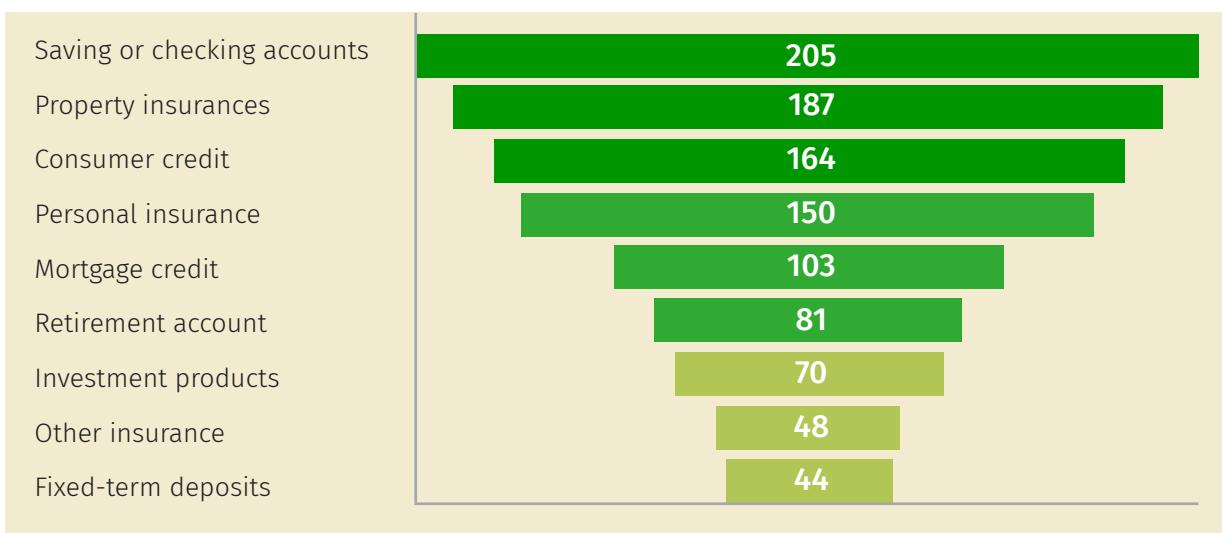
LOS ANGELES, HOUSTON AND WASHINGTON	ANNUAL AVERAGE INCOME (Dollars)
Total	50.565
Employers	95.770
Did not invest	41.147
Did invest	74.608
Men	63.962
Women	36.251

## Saving and other financial products

Seven out of 10 Salvadorans in the diaspora save, most of them doing so in the United States. Holding and making use of financial products and services enables safe asset accumulation, the leveraging of resources available for investment and risk management. Among respondents, there is a clear preference for making use of financial products in the United States: 74% holds a financial product or service in that country, whereas only 15% does it in El Salvador.

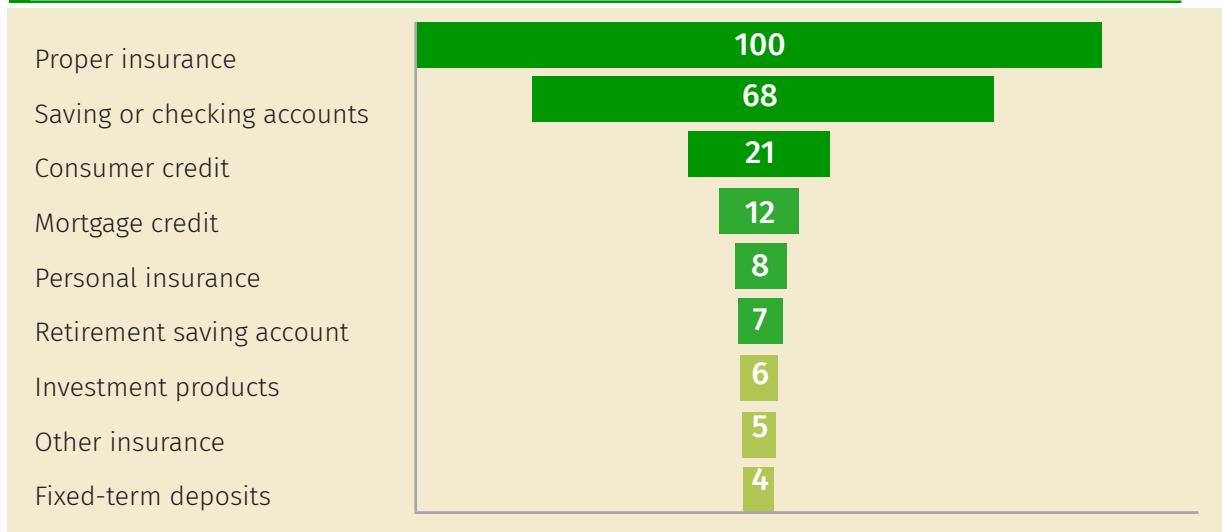
In the United States, the main financial products used by El Salvador's diaspora are saving or checking accounts, property insurance and consumer credit. The shorter the stay in the United States, the lower the propensity to make use of financial products.

## Financial products and services obtained in the United States (Frequencies)



El Salvador's diaspora use of financial products and services in their country of origin is limited. The most used product is property insurance (for cars and houses).

## Financial products and services purchased in El Salvador (Frequencies)



## Investment

Three out of 10 Salvadorans in the diaspora said they had made an investment in the last year, with 63.2% of them doing so in the United States. Investment in the home country is not common among diaspora members: only 7% did so, although another 3% reported investing both in the United States and their country of origin. This is in line with other reports that between 5% and 10% of migrant diaspora members invest in El Salvador. Thus, the challenge remains to encourage these groups to invest more in their home country. The investment amounts reported differ according to the labour profile of the diaspora members, employers investing more than employees on average.

<sup>2</sup> See International Fund for Agriculture Development (IFAD), *Good Governance of Migration for Sustainable Development, Background Paper*. Roundtable session 3.2, Global Forum on Migration and Development, 2018.

## ANNUAL AVERAGE INVESTMENT IN EL SALVADOR

Employer 51.278 dollars

Employee 42.617 dollars

Diaspora investment projects in El Salvador are concentrated in sectors related to the sale and purchase of real estate and services preparing food and beverages.

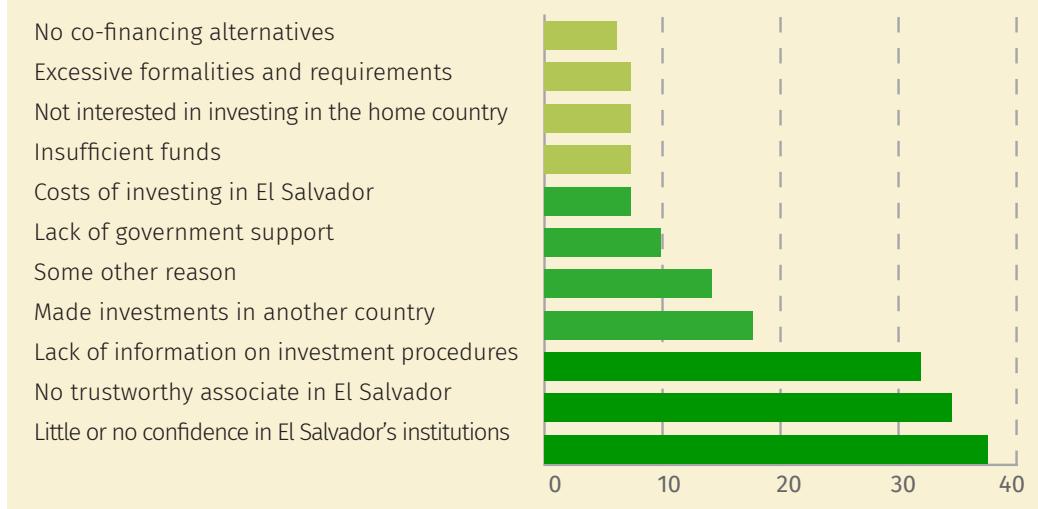
The questionnaire also sought to discern interest among diaspora members in investing in their country of origin. Six out of every 10 Salvadorans stated that they would like to invest in productive projects in El Salvador, which reflects their plans to return and both economic and emotional ties to the country of origin. Fifty-four per cent of those interviewed said they would be willing to invest in a microenterprise, while a quarter would do so in real estate. Moreover, investment intention is also concentrated in the diaspora members' departments of origin.

The average stay in the United States among diaspora respondents who are willing to invest is 16 years and 74% of them have savings. The percentage of women who are willing to invest is slightly higher than that of men (53,6% and 46,3%, respectively). Diaspora respondents who are willing to invest have a higher propensity to participate in a migrant association (83%, in comparison with 59% among those who do not participate) and to send family remittances (86,4% in comparison with 70% among those who do not send them).

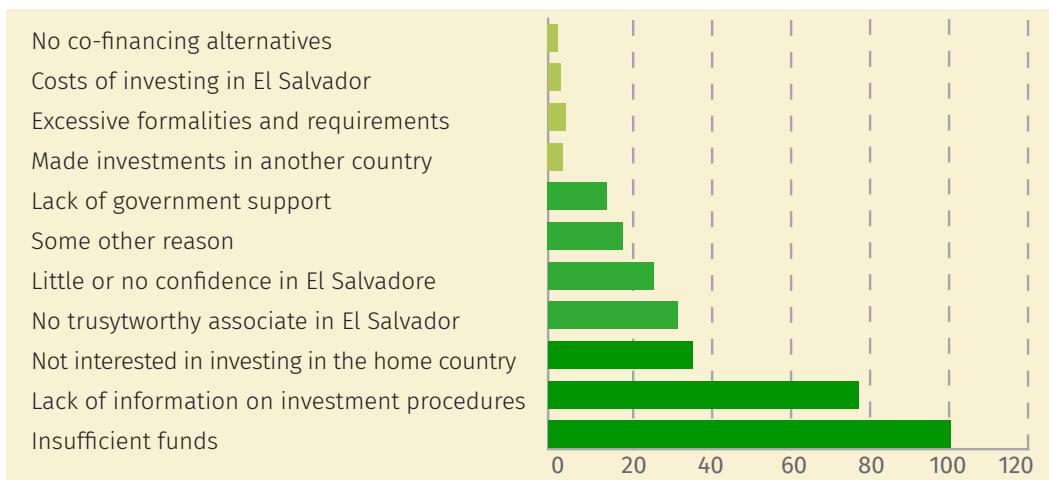
## Barriers to investment

Despite expressing an intention to invest, members of the Salvadoran diaspora identified various barriers to doing so, such as not having sufficient funds and a lack of information on how to invest in El Salvador. Employers cite little or no confidence in institutions as the main reason for not investing, followed by not having someone they trust to manage the investment in El Salvador, and a lack of information on how to make the investment.

### Employers: reasons for not investing in El Salvador (Frequencies)



## **Employees: reasons for not investing in El Salvador** (Frequencies)



## **Public programmes**

Nine out of ten respondents have not heard of any public programme to promote the investment in their community of origin. In view of these constraints, Salvadorans identified public programmes that could potentially facilitate investment in their country of origin, including credit lines, training services and the dissemination of information on related services, programmes and projects.

## **Public programmes of interest** (Frequencies)



## **Donations**

As might have been expected, the respondents' main economic link with El Salvador involves the sending of remittances (81% do so). However, a significant number also make donations: 20% of respondents reported having made some kind of donation to their country of origin in the last 12 months. The average amount of these donations, at 4,000, dollars, is significantly lower than that of investments; and they are widely dispersed: up to 70% of the total amount was channelled into social projects, such as support for low-income population groups, hospitals and churches, among others.

As was found in the case of investments, for employers the main reason for not donating is little or no confidence in institutions in El Salvador, followed by a lack of information on donation procedures.



# Focus groups findings

Focus groups including diaspora members who had a variety of investments in El Salvador, made it possible to validate the survey results and further elaborate the main findings. 15 focus groups were organized, which were attended by 99 members of the diaspora.

The focus group participants cited the following difficulties in using financial products and services in El Salvador: complexity and delay in procedures and requirements (legal proxy, financial transfers, opening of accounts, acquisition of housing); extra charges, higher commissions and interest rates in the country of origin; lack of information and the absence of agreements between banks in El Salvador and those in the United States.

FOCUS GROUPS: INVESTMENT MADE				
	Agriculture and agribusiness	Services	Tourism	Construction
Type of investments	Purchase and sale of nostalgia products, coffee, organic juices, rice, cocoa.	Family business, e.g. shops, pharmacies, mechanical workshops, call centers, gas stations.	Accommodation and food preparation (restaurants).	Real estate (land and houses).

The respondents also expressed a great deal of interest in investing in El Salvador, provided that financing is made available, the processes for carrying out these activities are improved, bureaucracy is reduced, and there is detailed knowledge of project information. They also indicated a positive attitude towards the new government.

FOCUS GROUPS: SECTORS OF INTEREST FOR INVESTMENT	
<ul style="list-style-type: none"><li>• Coffee, aquaculture</li><li>• Trade in nostalgia products</li><li>• Energy (solar panels, micro-generators)</li><li>• Digital services (software, photography, graphical editing)</li><li>• Real state (shopping centres, housing)</li></ul>	<ul style="list-style-type: none"><li>• Tourism (temporary accommodation services, restaurants)</li><li>• Financial services (insurance, investment funds, mobile platform)</li><li>• Trade (crafts, fashion design, graphics and signane)</li><li>• Recycling</li></ul>

***"Under the new government we are reviving investments in 30 coffee blocks in the Los Naranjos area".***

Member of the Los Angeles focus group.

The main constraints on investment were access to financing; lack of information on procedures, requirements and investment opportunities; cumbersome procedures; insecurity and lack of incentives.

### Focus groups: barriers to diaspora investment in El Salvador

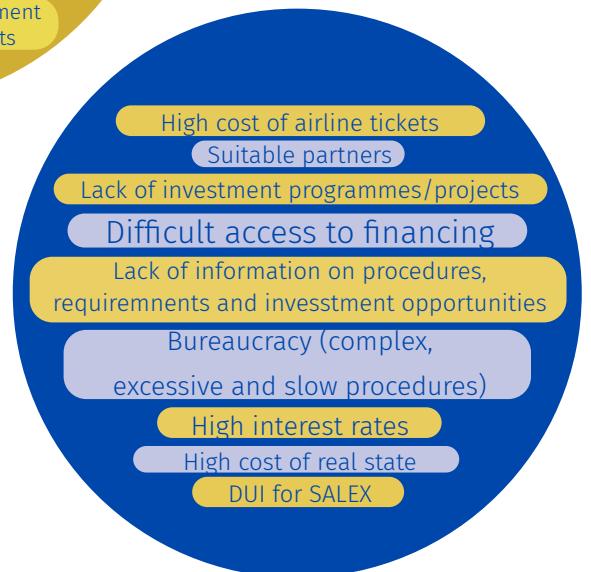
#### Washington



#### Los Angeles



#### New York



Focus group participants discussed the public support that would be desirable in a strategy to increase diaspora investment. Those most frequently mentioned can be grouped in three areas: (a) access to and expansion of funding alternatives and investment incentives; (b) streamlining of procedures and reduction of bureaucracy; and (c) dissemination of information, especially through digital windows and media.

*"Yes, there is interest in developing investments projects in El Salvador, provided that the processes are improved and modernized, and bureaucracy is reduced or eliminated"*

Member of the Los Angeles Focus Group.

## Public policy recommendations

Although only 10% of members of the Salvadoran diaspora invest in their country of origin, significant windows of opportunity have been identified:

- The existence of a material and emotional link with the country of origin.
- The main reason for returning to El Salvador is to retire and start a business.
- The favourable disposition towards investing in the country of origin (in addition to any investment already made).
- The existence of positive expectations for the new government.
- The existence of a segment of the Salvadoran diaspora with sufficient funds to invest.

Based on the instruments reported on above (surveys and focus groups), supported by a review of international good practices, ECLAC presented the Government of El Salvador with a set of strategies to foster diaspora investment.

To select and validate the strategies of greatest interest, the Salvadoran Government formed an inter-agency team consisting of representatives from the Ministry of Economy (MINEC), the Trade and Investment Secretariat (SCI), the Presidential Commissioner for Strategic Projects (CPPE), the Export and Investment Promotion Agency (PROESA), the Central Reserve Bank (BCR), the Development Bank of El Salvador (BANDESAL) and the Ministry of Foreign Affairs (MRREE). In working sessions, they selected and validated the following four strategies.

## **Characteristics of the selected strategies and lines of action**

- They are aligned with the strategies of El Salvador's public development agenda.
- They are evidence-based (surveys, focus groups, good practices).
- They drew on the capacities and previous experience of institutions in El Salvador.
- They were formulated in a comprehensive manner, i.e. they address different challenges and are complementary.
- They involved inter-agency coordination.
- They were formulated in a participatory manner, since there was dialogue with members of the diaspora (both in the focus group process and in the presentation of results).
- They pursued both short- and medium-term results.

### **STRATEGY 1. INCREASE DIASPORA ACCESS TO AND THE USE OF FINANCIAL PRODUCTS IN EL SALVADOR**

This consists of two main actions: (a) Facilitate access to financial products and services in El Salvador, by simplifying procedures and taking account of the specific needs of diaspora members; and (b) Expand the supply of financial products and services to leverage investment resources, insure assets and reduce risks.



#### **Lines of action**

1. Simplify and eliminate barriers to accessing financial products and services, for example:
  - Legal representative
  - Standardization of the single identity document (DUI)
  - Income declarations
2. Expand access to financial products in El Salvador, for example:
  - Electronic transfers
  - Opening of bank accounts
  - Retirement funds
  - Investment funds
  - Personal insurance
  - Bank loans
  - Online shopping

## **STRATEGY 2. INCREASE TRADE AND INVESTMENT FLOWS FROM THE DIASPORA TO EL SALVADOR**

This strategy's actions are grouped in areas that address two of the key investment challenges identified in the diagnostic assessment: access to financing through different instruments and the dissemination of timely information, on requirements and procedures for making investments and starting businesses in El Salvador. In the case of dissemination, this includes the launch of a portal targeting the diaspora, outreach to the diaspora through information desks in the consular network, training of consular staff to provide technical support, and the development of a strategy to promote and support trade and investment.

### **Lines of action**

3. Expand the financing mechanisms and instruments available to the Salvadoran diaspora (e.g. trust funds, credit lines and guarantee funds).
4. Develop sectoral guides and project profiles targeting the Salvadoran diaspora, including information on social and productive investment opportunities, along with their respective requirements, obligations and benefits and the procedures involved.
5. Design and launch an online platform or module targeting the diaspora (information on sectoral investment opportunities, with their respective requirements, obligations and benefits and the procedures involved).
6. Open an information and technical support window for investment projects of the Salvadoran diaspora.
7. Train personnel, both in El Salvador and in Salvadoran diplomatic and consular representations, to assist the diaspora on investment issues.
8. Hold meetings, seminars and business and investment forums targeting the diaspora.
9. Simplify procedures and requirements, and implement reforms to facilitate administrative requirements for exports, imports and investments by the diaspora.
10. Design and publish a strategy to promote and disseminate support tools to foster diaspora trade and investment.

### **STRATEGY 3. FACILITATE THE ENTRY OF DONATIONS FROM THE DIASPORA TO EL SALVADOR**

One area of interest for the Government of El Salvador involves strengthening the philanthropic activities of its diaspora. Although involving smaller amounts, philanthropic activities already exist among Salvadoran communities abroad, so the aim would be to facilitate them —for example, by simplifying procedures, using digital media and attending to their needs through the consular network.



#### **Lines of action**

11. Train staff in Salvadoran diplomatic and consular representations to assist the diaspora on donation issues.
12. Simplify the procedures and requirements for sending and importing donations in cash and kind from the diaspora to El Salvador.
13. Launch an online platform or module targeting the Salvadoran diaspora, with information on opportunities for and steps in making donations to the home country.

### **STRATEGY 4. IMPROVE GOVERNANCE IN SUPPORT OF THE SALVADORAN DIASPORA**

Enhance coordination between different actors to support the Salvadoran diaspora, for example by creating an advisory council encompassing various institutions and promoting diaspora initiatives. It is important that this council engage in dialogue with Salvadoran communities abroad, including support for their partnerships and communication with existing organizations and chambers.



#### **Lines of action**

14. Create an advisory council to coordinate public and private actions that promote initiatives to foster investments, trade and donations from the Salvadoran diaspora.
15. Forge alliances and cooperation agreements with Salvadoran organizations and chambers abroad.
16. Facilitate access to a directory of Salvadoran organizations and chambers abroad.
17. Design and implement a strategy to strengthen partnering among Salvadorans abroad.



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