Strategies for investing family remittances in value chains

Case study for the tourism chain in Sacatepéquez, Guatemala

United Nations

ECLAC

IFAD

Investing in rural people

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Introduction

Migrant remittances represent an important source of resources and external funding. Guatemala is among the top five countries in Latin America and the Caribbean for the economic importance of remittances: in 2019 they totalled 10.5 billion dollars, equal to 13.8% of the country's gross domestic product (GDP). Migration is driven by a range of factors, including employment opportunities and the desire to secure a higher standard of living, insecurity, family reunification and the growing impact of climate change, which limits or damages the population's livelihood. In 2017 some 928,000 Guatemalan migrants were calculated to be living in the United States, while the diaspora, which includes people of Guatemalan origin, was estimated to number some 1.4 million.

Remittances have a great potential to contribute to the economic and social upgrading of the rural value chains in which the recipients of those financial resources are engaged, including chains within the services sector. This requires creating conditions that facilitate and encourage the investment of remittances and other financial resources from the diaspora. One key element in those conditions is financial inclusion, which facilitates the accumulation of assets, the leverage of assets available for investment and the management of risks. The value chain approach disaggregates the wide variety of activities required for a product or service to pass through the different stages, from conception to delivery to consumers and final disposal after use.

This approach is a valuable tool in the analysis and formulation of productive development policies, since it recognizes that recipients of remittances in value chains have differentiated capabilities and needs that demand disaggregated analysis. This makes it possible to develop targeted recommendations so that support and incentives can be properly directed and remittances can act as a catalyst for productive development.

ECONOMIC UPGRADING	SOCIAL UPGRADING
Productive transformation of the links in the chain, and the chain as a whole, resulting in better products and services, improved production processes or higher value added activities that are more knowledge-intensive.	The living standards of chain participants and their communities rise thanks to decent employment conditions, with social protection, labour rights and safe working environments.
• New or improved processes • New or improved products • More complex functions within the chain • Involvement in new activities or chains	• Employment conditions, social protection and rights • Social and environmental conditions surrounding the rain • Strengthened social cohesion

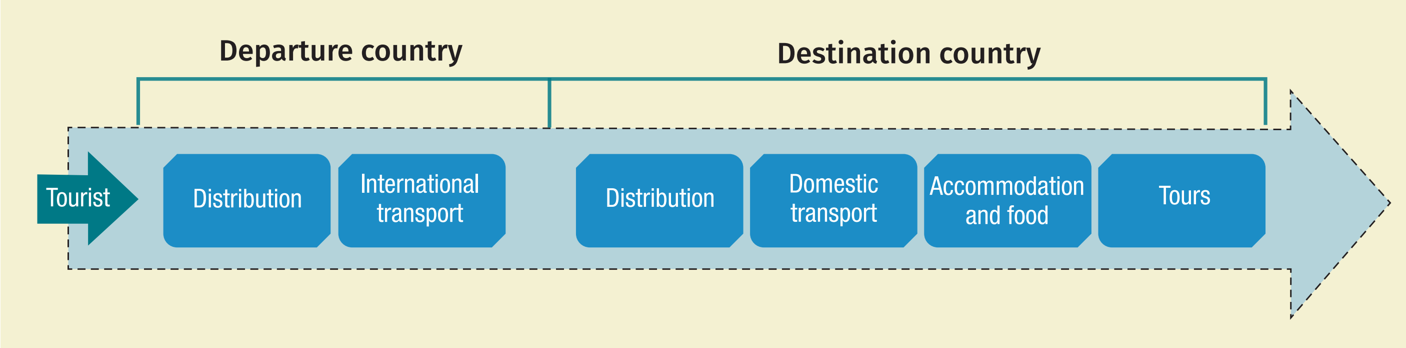
Background

The International Fund for Agricultural Development (IFAD) and the Economic Commission for Latin America and the Caribbean (ECLAC) launched a joint initiative to design a series of strategies to encourage the investment of family remittances in value chains. The Government of Guatemala, recognizing the potential of investing resources from the national diaspora, expressed interest in working with the initiative. In order to continue with the efforts to strengthen value chains carried out jointly by the Government of Guatemala, ECLAC and IFAD between 2014 and 2017, the Ministry of the Economy (MINECO) of Guatemala selected the tourism chain in the Department of Sacatepéquez as a case study.

With the idea of formulating evidence-based policies, strategies were formulated using the results of a survey on the use of remittances and an analysis of international best practices. The information gathered focused on three issues: family remittances, financial inclusion and productive development.

The rural tourism chain in Sacatepéquez, like other tourism chains, is divided into two segments. The first covers the agents involved in the departure countries, who are responsible for distribution and international transport. The second, in the destination country, comprises a broad array of agents who work in the areas of transport, lodging, food, tours and other services.

Rural tourism value chain

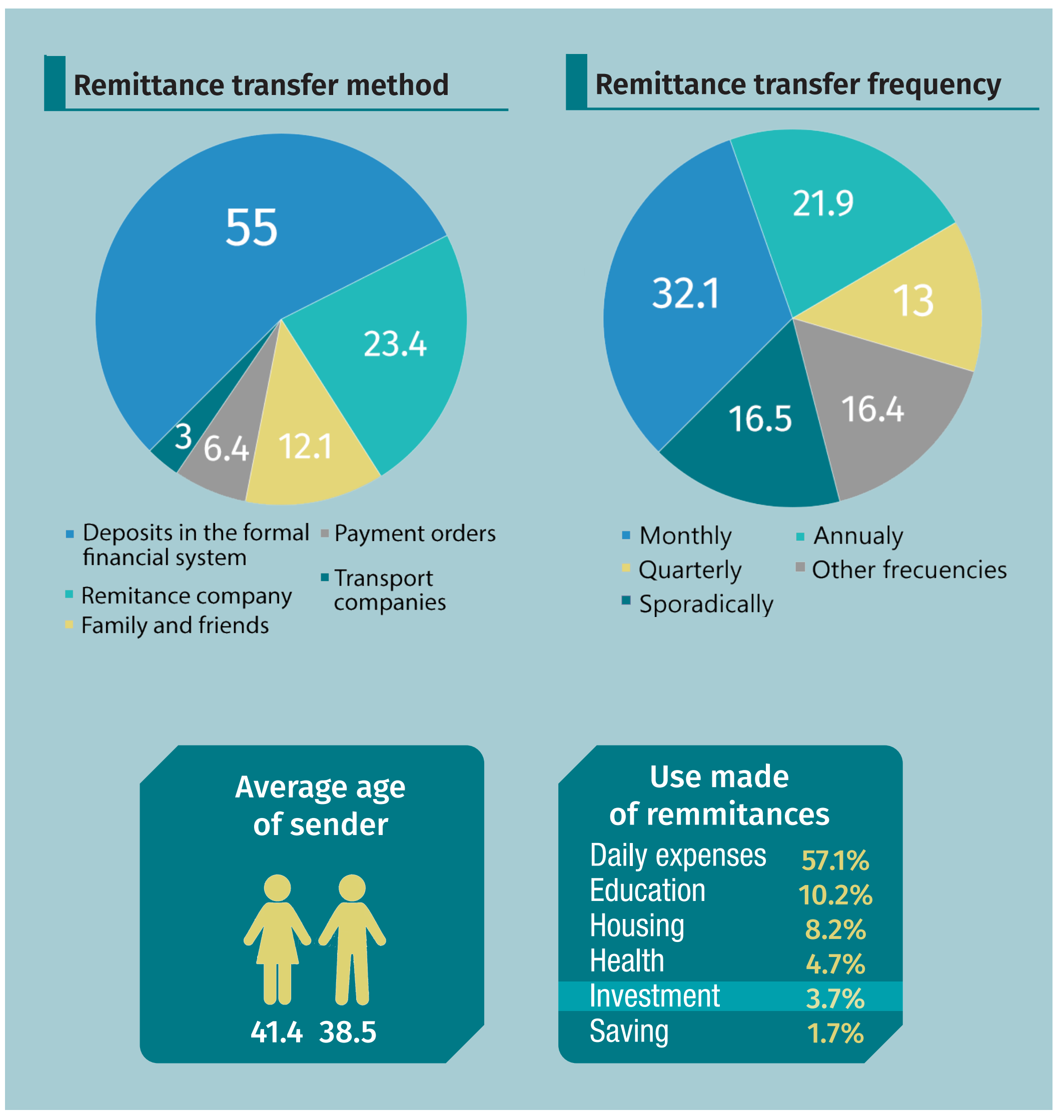


Findings

The main findings of the assessment involve key restrictions that prevent greater investment of remittances in the value chain:

1. Household incomes are low, and so remittances are primarily used to cover families' basic needs

The main channels for transferring remittances are the formal financial system and specialized remittance companies; nevertheless, informal channels, such as through family and friends, are still of great importance. Most remittance transfers are made on a monthly basis.

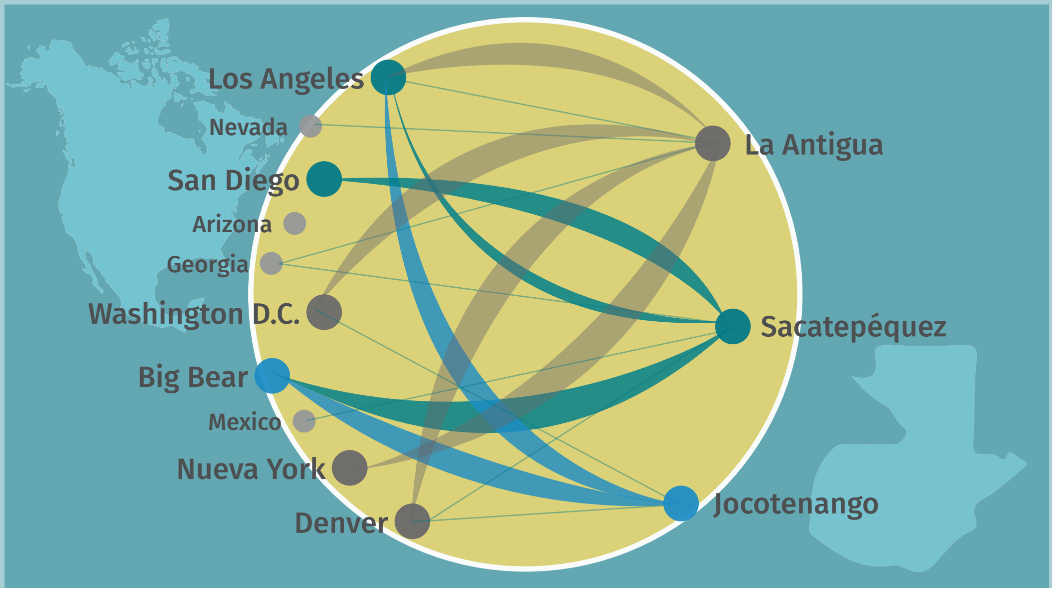


The average monthly remittance transfer is 57.10 dollars. Most of the remittances sent home by migrants are used for day-to-day expenses (57.7%), while spending on health care, housing and education accounts for 23.1%. The share of remittances used for productive activities is small, at around 3.7%; however, different links in the chain report different amounts, with the restaurant sector reporting the highest rates of remittance investment (5.6%). Remittance senders in the United States account for 68.1% of the total amount received by actors in the chain. The main corridor for remittances between Sacatepéquez and the United States is through migrants located in Southern California. Over the migrant's life cycle, remittance flows rise during the early years until they peak and, after a time, begin to decrease. As migrants remain abroad for longer, the remittances they send back begin to fall; this is particularly true of male migrants.

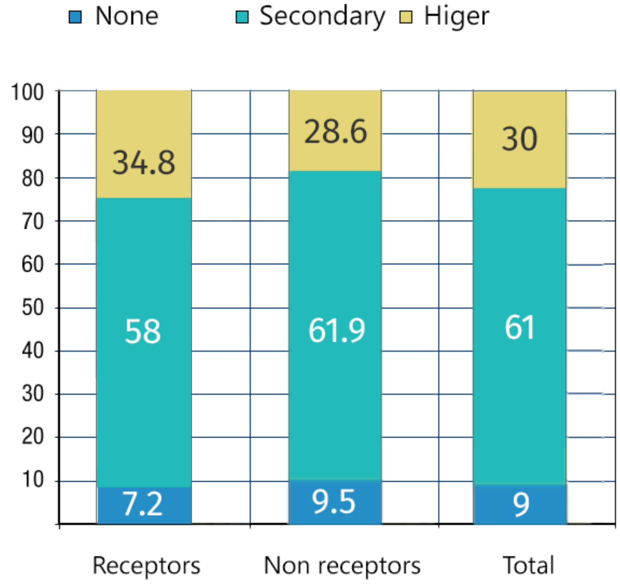
Investment of remittances in the tourism chain in Sacatepéquez, Guatemala
(Percentage of total received)

Restaurants (5.6%)	Tourist guides (2.5%)	Hotels (3.5%)	Tourist transport (4.5%)	Travel agents, Spanish Schools, handcrafts (0.0%)

Main family remittances corridors for the tourism chain



Level of education
(Percentages)



2. Actors in the chain report different capacities, which impact the conditions for productive insertion

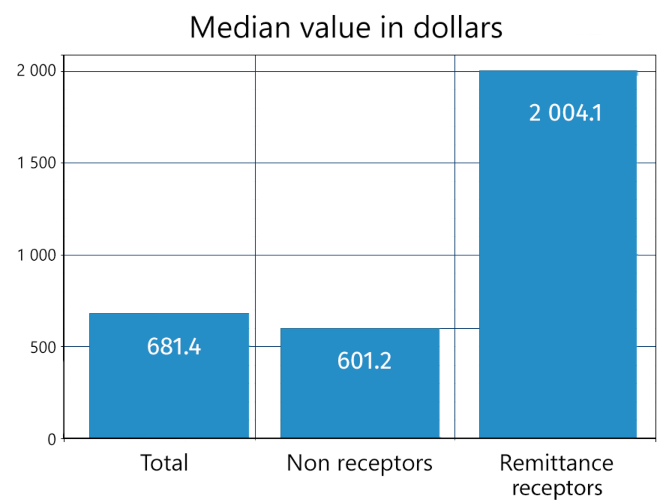
In this chain more than half of the population has secondary education at least, with remittance recipients reporting a slightly higher proportion with higher education. As regards information and communications technologies (ICT), almost all have mobile phones; Internet penetration, however, is lower (67.5%) and only half own a computer (49.3%). Remittance recipients report higher levels of Internet access than non-recipients (75.4% and 65%, respectively). The producers' levels of schooling (a variable that can serve as a proxy for technical capabilities) largely determines such key variables as income, access to the formal financial system, productive integration, propensity to invest and decisions regarding the use made of remittances.

As in other chains, differences in capacities can be seen between different links. Although average business earnings were 4,500 quetzals per full-time employee (approximately 600 dollars at the 2018 exchange rate), there are variations among the chain's different links. Actors in the hotel and

restaurant sectors reported, on average, higher levels of income than those engaged in other chain activities. Tourist guides and handcraft markets —which are the second largest group in the chain, after restaurants— receive lower incomes. Six out of every 10 interviewees said their main motivation was business opportunities; of those in the chain, however, only 11.8% said that the revenue earned through their businesses was enough to allow them to invest. Insufficient incomes increase the probability of individuals abandoning productive activities.

The study suggests that remittances are positively correlated with investments in the chain: remittance recipients report higher average amounts of investment in businesses and productive activities. The links with the highest levels of investment are hotels and restaurants.

Annual investment



3. Producers in the chain report low rates of partnering

Most actors in the chain are microenterprises which are fragmented, with only 5.5% belonging to associations of any kind. Most of the businesses offer fiscal invoices or sales receipts, with only 3.4% not doing so. This could be due to the nature of the services they offer.

Despite the low rates of partnership, an econometric analysis of the survey data suggests that belonging to an association has a positive impact on financial inclusion and on obtaining funding from formal sources.

4. Low rates of inclusion and financial capacities, with differences beytween those who receive remittances and those who do not

One of the characteristics of the value chain is relatively extensive use of basic financial services. Remittance recipients report higher levels of access to and use of financial products such as loans and investments. Similarly, remittance recipients are more likely to secure credit from formal sources.

	Receptors	Non receptors
Have access to a saving account	66.2%	65.8%
Have had access to credit	17.2%	15.4%
Use financial investment products	16.6%	11.1%
State they have no financial products	0%	7.6%
Make use of tghe financial system to obtain funding	34.1%	12.4%
Main reason for using sources of funding	Proximity and relationship (46.9%)	Low payments or fewer requirements (47.6%)

Only 19.6% of credit requests are lodged with formal financial intermediaries. Difficulties in providing a guarantee to cover the financial institutions' requirements restrict access to funding. Thus, excessive requirements and guarantees were reported as the main constraint on access to funding.

REPORTED CONSTRAINTS ON ACCESS TO FUNDING

- Excessive requirements or guarantees **(55%)**
- No funding available **(2.2%)**
- Inability to demonstrate income or to make payments **(42.8%)**

The variables that increase the likelihood of access to formal sources of funding include the actors' levels of formality, membership of an association or cooperative, and adequate levels of monthly income for meeting household needs. As in other chains, receiving remittances has a positive correlation with financial inclusion. A gradual improvement can be seen in financial inclusion, whereby the propensity to use more sophisticated services (for example, loans for production activities and insurance) increases once an account for managing personal finance has been opened.

According to the econometric analysis of the survey data, the observed results with the variables that determine financial inclusion included the following:

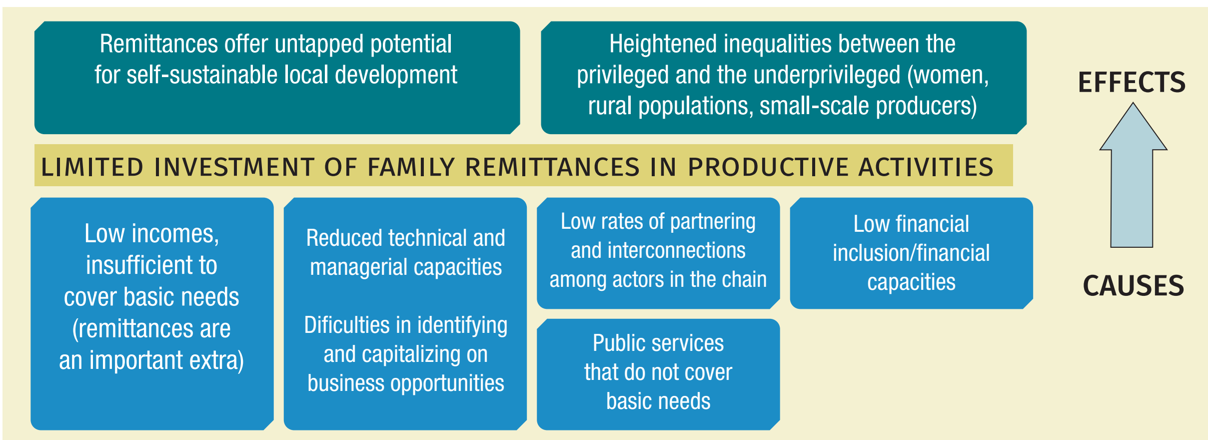
- Remittance recipients are 1.14 times more likely to use loan and investment products than comparable individuals who do not receive remittances.
- People working in restaurants and with hotels and transport report the highest marginal probabilities of making use of loan and investment products.
- Handcraft-related activities are more likely to face financial exclusion.
- Members of the chain with a greater understanding of financial institutions and instruments report higher rates of financial inclusion.

As regards investments, the business's monthly income has a positive impact on decisions to invest. At the same time, there is a positive correlation between access to formal financing and propensity to invest in different links of the tourism chain.

General restrictions

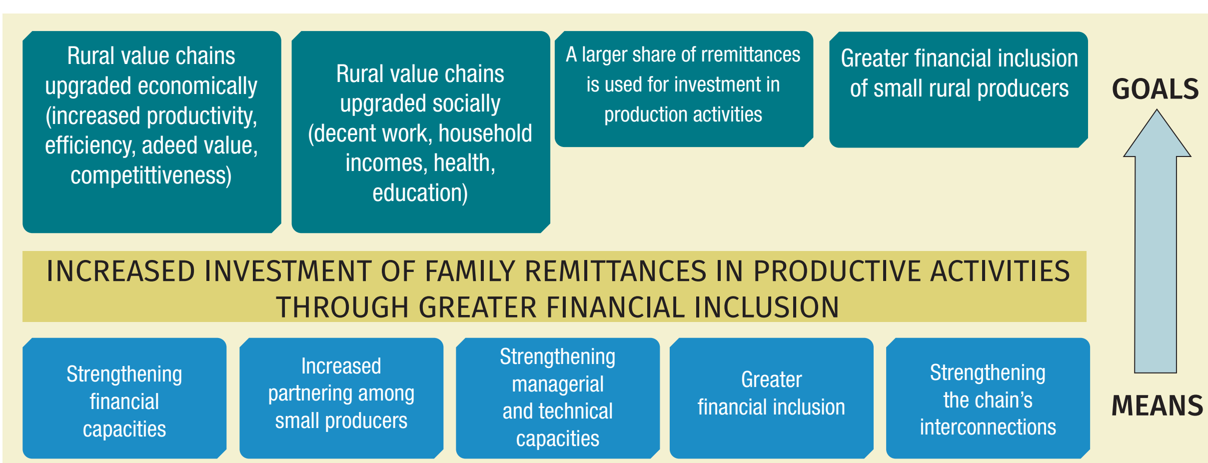
The evidence gathered was analysed and systematized to identify the factors limiting the investment of family remittances in the tourism chain. A decision tree was used to establish relationships of cause and effect and to correlate the identified restrictions and their effects, such as the untapped potential of remittances for local development and the worsening of inequalities between certain groups.

Restrictions tree: establishes relationships of cause and effect in the limited investment of family remittances in value chains



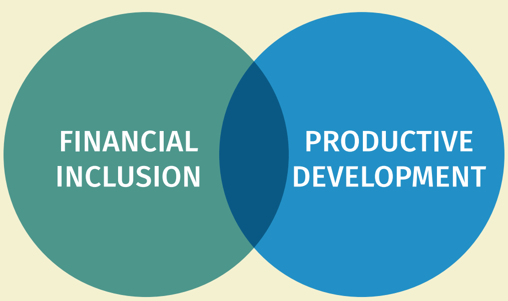
To counteract these restrictions, a series of actions was proposed to transform them into the desired scenario.

Objectives tree: transforms restrictions caused by limited investment of family remittances in value chains into the desired scenario



Recommendations

Based on the diagnostic assessment and the decision tree methodology, a set of strategies and actions were proposed to increase the investment of family remittances in value chains through financial inclusion. Those strategies are classified into two broad areas —financial inclusion and productive development— and their central elements are partnering, financial inclusion, strengthening financial capacities, technical assistance, strengthening productive and managerial capacities, economic upgrading, financial support for migrants and the diaspora, the value chain approach and collective efficiency.



Financial inclusion

- Strengthening the institutional architecture to promote financial inclusion. Focused on bolstering regulations and institutional mechanisms in such areas as the protection of financial service users, digital payments, adjustments to the legal framework, and access to funding for small rural producers.
- Strengthening financial capacities. Seeks to offer concrete tools so that financial service users —remittance recipients, in particular— can take informed decisions to capitalize on the potential benefits of financial inclusion.

- Designing new financial products. Intended to expand the supply of financial products and services for migrants in destination countries and remittance recipients, with a particular focus on women.
- Strengthening the availability of finance. Focused on supporting the financial services available through the existence of suppliers of a broad range of services, together with distribution channels to serve traditionally excluded populations, such as the inhabitants of rural areas.

Productive development

- Strengthening partnering and linkages within the chain. Seeks to design and implement programmes for the use of family remittances in production activities that foster closer ties among actors in the chain. Aims to encourage partnering by offering incentives for the creation of groups of producers who receive remittances, in particular those of smaller size.
- Strengthening the managerial and technical capacities of small producers. Intended to provide training on business management and technical and financial know-how in order to increase the probabilities of project success.
- Promoting investment in production activities by migrants in their communities of origin. Creation of appropriate financial instruments and positioning of financial intermediaries to interconnect migrants and local businesses. At the same time, design of sustainable financial models for migrants and their families, and the creation of migrant groups to work on specific projects without being formally constituted.

Based on the strategies and actions discussed with the Ministry of the Economy (MINECO) of Guatemala and the National Competitiveness Programme (PRONACOM), the general guidelines of a public programme covering several of those strategies and actions were drawn up. The programme was presented to the authorities for their consideration.

Proposal summary

Programme to promote greater investment of family remittances in productive activities, through financial inclusion

Purpose. To increase the investment of family remittances in productive activities among small rural producers and service providers, through greater financial inclusion.

Target population. Small producers and service providers in value chains who receive family remittances, with special emphasis on the rural tourism chain in the Department of Sacatepéquez, Guatemala.

Participant organizations. The proposal includes the designation of a public agency to be responsible for the execution of the programme, which could be the Ministry of the Economy. A council responsible for periodic programme monitoring, assessment and review should also be established. This Council, chaired by the Ministry of the Economy, would comprise representatives of the institutions involved with the programme.

Participation requirements. The forms of participation will correspond to the type of projects undertaken by investing the remittances, with the ultimate goal of supporting the economic and social upgrading of the chain. Participation will be open to small rural producers or service providers who meet the following requirements:

- Organized into groups of producers or service providers; that partnering can take the shape of interest groups or informal associations.
- Groups of remittance recipients may belong to the same link or different links in the chain.

- Presentation of a preliminary project for strengthening the value chain, through the use of remittances in production.

- Priority attention will be given to members of rural tourism value chains in the Department of Sacatepéquez, Guatemala.

Forms of participation. The support will target the following activities for strengthening the chain: training, certifications, procurement of machinery and equipment, production infrastructure, implementation of quality systems, research and development activities to improve or introduce new products and processes, adaptation of new technologies, design of products for the national and international markets (including products for the nostalgia trade), advisory services for designing export plans and meeting the legal requirements of the market, design of a marketing strategy and market studies.

Support amounts. Maximum and minimum support amounts for each project must be established. Since these are partnering projects, the recommendation is for amounts of public support ranging from a minimum of 10,000 dollars to a maximum of 200,000 dollars. The existing legal structure could be used, in order to streamline the implementation of the programme: in other words, making use of an existing fund or programme to which a line of support for the investment of remittances in production can be added. A fund to support the projects should be established, in accordance with the government's budgetary capacities. The guidelines for determining the support amounts and the co-financing percentages could cover the following: quality of the proposal and project, expected outcomes and returns, and resources currently available to the associations of recipients and migrants.

Monitoring and evaluation. At the end of each competition, the procedures and the programme's impact will be assessed, in accordance with established national procedures. Ideally, these evaluations would be conducted by an autonomous entity. In addition, a set of indicators for assessing the programme's impact will be needed.

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