Strategies for investing family remittances in value chains

CASE STUDY OF THE DAIRY CHAIN IN THE DOMINICAN REPUBLIC

United Nations
ECLAC
IFAD
Investing in rural people

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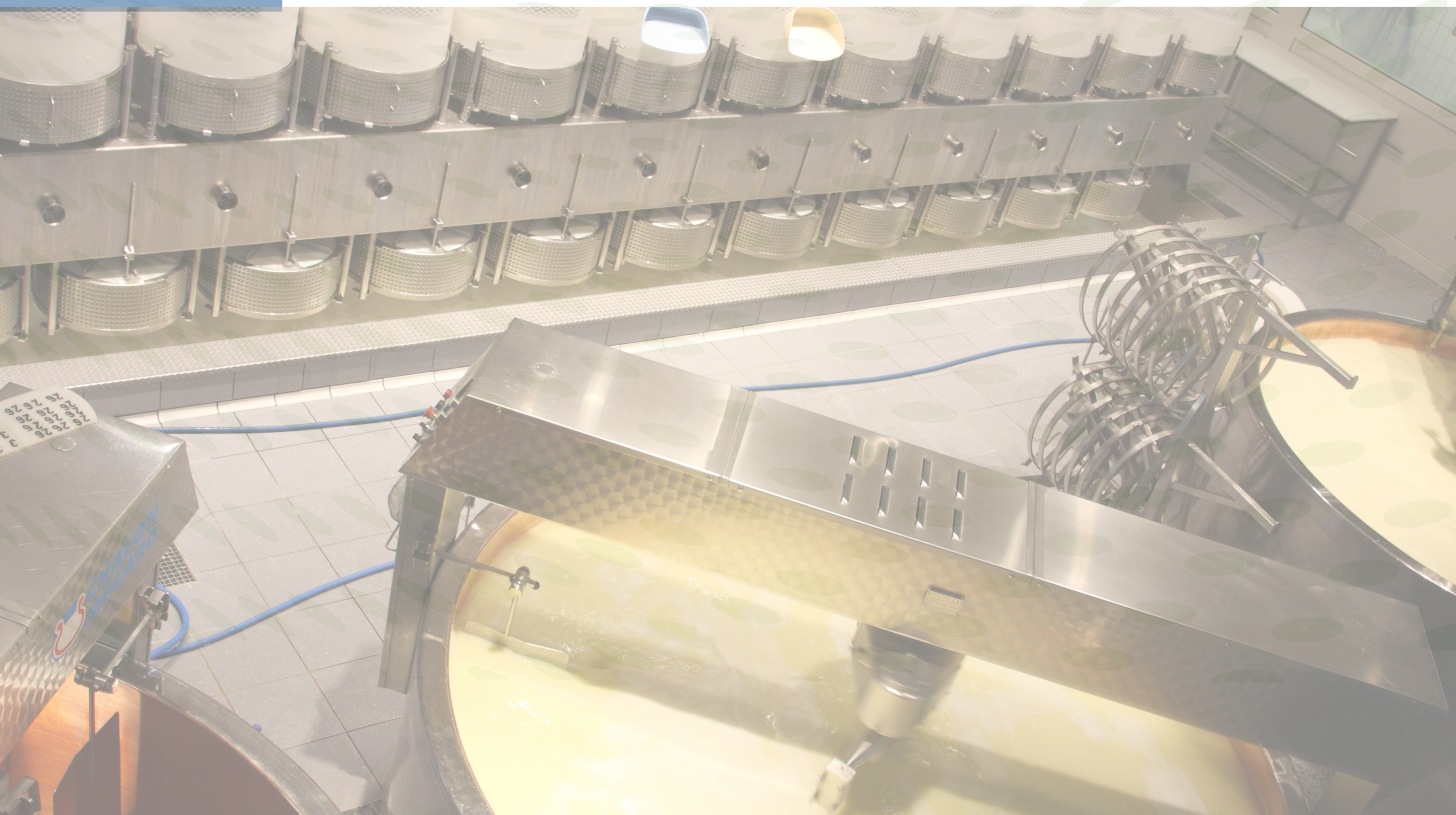

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Introduction

Migrant remittances are a major source of external funding and resources. In 2019, a total of 7.1 billion dollars in family remittances was received in the Dominican Republic, equivalent to 8.1% of gross domestic product (GDP). People's reasons for migrating are varied and include the search for work to obtain better living conditions, family reunification, payment of debts, the desire to send back remittances, insecurity in the country of origin and the growing effects of climate change, which are restricting or harming livelihoods, especially in rural areas. Dominican migrants constitute the fifth largest population group of Latin American origin in the United States. It is estimated that about 1.2 million Dominican migrants were residing in the United States in 2017.

Remittances can potentially be used to promote both economic and social upgrading in rural value chains in which the recipients of these financial resources are concentrated. This requires the creation of an environment that facilitates and encourages the investment of remittances and other diaspora resources. A key element of such an environment is financial inclusion.

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 for analysing and formulating production development policies, since it recognizes that recipients of remittances in value chains have differentiated capabilities and needs that warrant disaggregated analysis. This makes it possible to develop targeted recommendations so that support and incentives can be properly directed and remittances can trigger productive development.

ECONOMIC UPGRADING	SOCIAL UPGRADING
Economic transformation of the links in the chain, and the chain as a whole, resulting in better products and services, superior 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 in the chain setting • Enhanced social cohesion

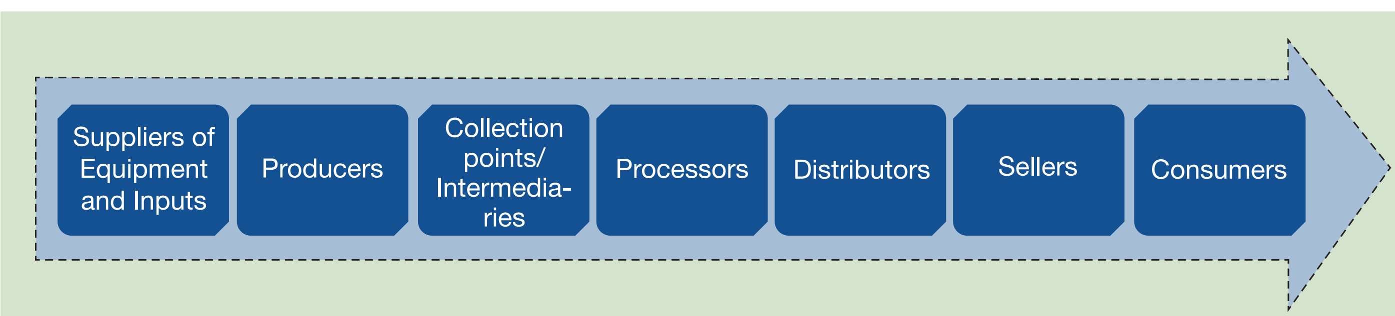
Background

The International Fund for Agricultural Development (IFAD) and the Economic Commission for Latin America and the Caribbean (ECLAC) launched a joint initiative to design strategies for encouraging investment of family remittances in value chains. The Government of the Dominican Republic, recognizing the potential of the country's diaspora, expressed interest in working on the initiative. In order to give continuity to the joint work done by the Government of the Dominican Republic, ECLAC and IFAD to strengthen value chains between 2014 and 2017, the Ministry of Industry, Trade and MSMEs selected the dairy chain in the Dominican Republic as a case study.

Setting out from the premise of evidence-based policy design, strategies were formulated using the results of a representative survey on the investment of remittances on productive activities. The information collected through the survey covered three topics: family remittances, financial inclusion and productive development. Strategy design was also supported by the study of international good practices.

The dairy chain of the Dominican Republic is present throughout the country. It is made up of very heterogeneous links, with many small production units, mainly in the production and processing links.

The dairy value chain



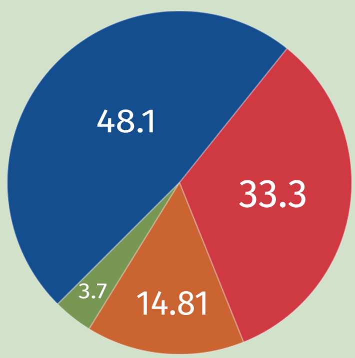
Findings

The main findings of the diagnosis are organized around constraints that limit the investment of remittances in the value chain.

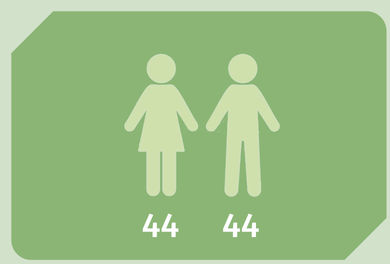
1. Household incomes are low and a large proportion of remittances go to cover basic household needs

Income flows from production activities vary between the links in the chain. Livestock activities predominate, accounting for nine of every ten production units. The monthly income of those participating in the chain averages 163.20 dollars. Monthly remittances average 156 dollars. The entire remittance-receiving population receives the money through remittance companies. Remittances are most commonly sent monthly.

Remittance frecuency



Average age of remitters



Average monthly remittance amount

156 dollars

Use of remittances

Current spending	33%
Education	10.6%
Housing	11.1%
Health	25.2%
Investment	6.3%
Savings	1.7%

The largest proportion of the remittances sent by migrants is used for current spending (33%). The percentage allocated to productive activities is small (6.3%), but there are differences between the links in the chain, with producers investing the largest share of the remittances received (10%), followed by processors (2.5%); the rest of the links invest practically nothing. Of the remittances received by the actors in the chain, 74% come from the United States and 11% from Spain. The provinces of the country where the chain receives most remittances are El Seibo, Monte Plata and Hato Mayor.

Remittances invested in production and financial management and other business expenses in the Dominican Republic dairy chain

(Percentages of total received)

Producers (10%)	Self-employed (0.0%)	Processors and manufacturers (2.5%)	Finished product intermediaries (0.0%)	Agricultural input suppliers (0.0%)

2. Most actors in the chain have low productive capabilities and low incomes, although there are large differences between and within links

In the chain, 56% of participants have basic education and 21% secondary education. As regards access to information and communication technologies (ICT), almost all have a mobile phone. However, the fact that the homes of chain participants are primarily in rural areas limits the penetration of physical Internet connections, with only 5% of producers having this service.

Average revenue from the business was reported as 651 dollars and average earnings as 284 dollars. Agricultural input suppliers are the link reporting the highest profits, while self-employed workers show the lowest average revenues and profits. In most cases, earnings from the business are used to cover household expenses, with just over a third being used for new investments.

The level of entrepreneurship is low: most actors reported starting their business because of family tradition or inheritance (37.4%) or to improve their incomes (39.9%), while 11% did so because there were no employment opportunities. Business ventures motivated by opportunity are the smallest category: only 5.3% went into the business because they had money and saw a good opportunity.

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3. Actors in the chain are atomized and have a high degree of informality

The proportion of actors in the chain participating in associations or cooperatives is 20.4%, with input suppliers most heavily represented (30%) and self-employed workers least (4.1%). The other population groups with a substantial level of participation are producers (23.1%) and processors/manufacturers (22.9%). Producers are a special case because they are a segment in which the most deeply rooted mechanisms of association, such as cooperatives, are of long standing. Among the main reasons for not belonging to an association are mistrust, lack of interest and there being no association to joins.

Only 2.3% of actors in the chain provide tax invoices, with input suppliers (10%) and processors/manufacturers (8.3%) being most likely to do so. Another 31% use non-formal invoices, this being the practice most followed by input suppliers (75%), processors/manufacturers (50%) and raw material intermediaries (45%). By contrast, 64.7% do not provide any kind of sales receipt to their customers, the highest percentages being among self-employed workers (87.8%) and finished product intermediaries (84.2%). This reflects a high degree of informality in the chain, since these producers are not only small-scale but operate mainly in rural or semi-rural areas.

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4. Financial products are more widely used among remittance recipients than among non-recipients, but in general actors in the chain show limited financial inclusion and capacities

In the chain, close to half of remittance recipients reported having an account at a financial institution, as compared to 31.3% of non-recipients. Access to financing through formal channels is low for both recipients and non-recipients; the main source of financing is savings (own resources). Only a quarter of those not receiving remittances carry out financial operations at a branch of a financial institution, with 73.5% stating that they did not carry out financial operations of any kind.

	RECIPIENTS	NON-RECIPIENTS
Own savings are main source of financing	92%	78%
Carry out financial transacions in a branch of a financial institution	51.9%	25.7%
Do not carry out financial transactions	51%	73.5%

By link in the chain, agricultural input suppliers (72.5%) and manufacturing processors (54.2%) most frequently reported having an account with a financial institution, while those with the least access to this type of service were self-employed workers (16.3%). Within links, remittance beneficiaries were more likely to have financial accounts on average.

The survey identified a phenomenon of self-exclusion, since those lacking a bank account stated as the main limitation that they did not consider themselves to have sufficient or sufficiently stable income, or that they did not meet the requirements laid down by financial institutions.

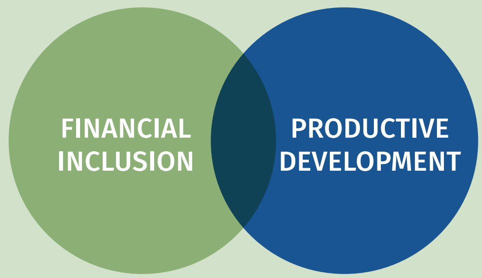
REPORTED CONSTRAINTS ON ACCESS TO FINANCING
• To many preconditions or too much collateral required (50.2%).
• High interest rates (32.3%).
• Inability to demonstrate income or payment capacity (42.8%).

According to the econometric analysis conducted on the basis of the survey results, the following are the findings for financial inclusion:

- Remittance recipients are 4.6 times as likely to have an account in a financial institution as non-recipients.
- There is a positive association between access to formal finance and the propensity to invest.
- Women are 43% less likely to have an account at a financial institution than men and 2.8 times as likely to turn to family and friends for business start-up funding.
- Actors in the chain with higher education are 20 times as likely to have an account as those with only basic education.
- Access to ICT is positively associated with financial inclusion, productive employment and the propensity to invest.
- Among those interviewed, having an account to manage their personal finances was found to have a significant positive effect on the proportion of remittances going to productive activities.

Recommendations

Setting out from the diagnosis and analysis of international good practices, a set of 7 strategies and 21 lines of action were proposed to increase the investment of family remittances through greater financial inclusion in the Dominican Republic dairy chain. The strategies are grouped into two major areas: financial inclusion and productive development.



STRATEGY 1: STRENGTHEN THE INSTITUTIONAL ARCHITECTURE TO PROMOTE FINANCIAL INCLUSION

The Dominican Republic is notable in the region for having a framework of protection for the rights of users of financial services, but there is scope to improve areas such as timely information on discrimination among financial services products and providers. A better contractual balance could also be struck between financial institutions and customers in order to protect users of financial services involving abusive clauses.

According to the findings for the dairy value chain, the main constraint on access to financing is the requirement for collateral. In view of the low levels of land ownership among small rural producers, movable property collateral, mutual guarantees and guarantee funds offer alternative mechanisms.

Alternative guarantee mechanisms can also make use of information on the receipt of remittances and the fact that recipients are more likely to be users of formal financial saving and credit mechanisms.

Lines of action

1. Strengthen consumer protection mechanisms
2. Develop a national strategy for the digitization of payments
3. Seek reform of the legal framework in pursuit of financial inclusion
4. Use existing legislation on loan collateral to facilitate access to finance for small rural producers

Other ways of increasing financial inclusion are to digitize payments and improve the legal framework and access to financing for small rural producers. One priority when it comes to adapting the regulatory and supervisory framework of the financial system is to define the boundaries of that framework, weighing the benefits and risks of incorporating non-bank financial institutions into the framework of prudential regulation and supervision that applies to the rest of the financial system.

Strategy 2: Strengthen financial capacities

The Dominican Republic has a Strategic Plan for Economic and Financial Education (2017). It is recommended that efforts to develop the population's financial capacity be continued on the basis of existing institutions. Given that a large proportion of actors in the dairy chain carry out their activities in rural areas, it is suggested that incentives be provided for the supply of financial products and services better suited to rural needs.

Lines of action

5. Enhance the financial capacity of users of financial services

6. Develop and strengthen the ability of financial service providers to cater to underserved segments of the population

The design of financial products and training instruments must take into account the differences in financial capacities between the links in the chain. In particular, special training and technical assistance should be offered to those actors in the chain who are worst placed in terms of financial capacity and thence financial inclusion: the self-employed.

This strategy seeks to provide concrete tools so that users of financial services, and remittance recipients in particular, can make informed decisions that allow them to take advantage of the potential benefits of financial inclusion, while also serving the needs of excluded segments of the population.

Strategy 3: Design new financial products

It is recommended that participants in the dairy value chain, particularly those currently with a lower level of financial inclusion, should be assisted in opening accounts to receive remittances and encouraged to save in these accounts through marketing strategies. Remittance recipients represent a business opportunity if they can be induced to open savings accounts that can later be linked to other financial products.

The Banco de Ahorro y Crédito (ADOPEM) of the Dominican Republic has been a leader in opening savings accounts, which could be linked to other financial products aimed at migrants and remittance recipients.

Banco BHD León, another Dominican bank, has adopted the practice of including remittance receipts —albeit only a percentage of them— in its credit evaluation policy, treating them as part of income for this purpose provided that they are fairly recurrent. These initiatives could be expanded and improved.

Another good practice observed in the Dominican Republic is the "Cuenta clavo" of Banco Unión. Through this instrument, the customer authorizes Banco Unión to automatically transfer a specific amount of remittances to a saving instrument every month. It also has a credit called "Avances de remesas" that can be used to resolve a problem, emergency or need arising before a remittance payment arrives, up to a maximum amount equivalent to the average of the remittances received in the preceding three months.

When the value chain was studied, women were also found to play a differentiated role. This should be taken into consideration to ensure that women have greater access to instruments such as credit, saving and insurance, and to training and education in the use of financial products and services.

Lines of action

7. Develop financial products and services to meet the financial needs of migrants

8. Develop financial products and services to meet the financial needs of remittance recipients

9. Develop financial products and services to meet the financial needs of women

Strategy 4: Enhance financial services provision

The most significant challenge in the Dominican Republic is to ensure that resources are available to create specialized sources of financing for small rural producers, such as those in the dairy chain, whether provided by the public sector or in partnership with private sector financial institutions. Expanding access to second tier sources and reducing financial costs are steps recommended to this end.

Lines of action

10. Access to second tier funding sources

11. Reduction of financial costs

This strategy is focused on ensuring that a wide range of financial services are available and that there are distribution channels covering traditionally excluded populations, such as rural dwellers.

STRATEGY 5: STRENGTHEN PARTNERSHIP AND COORDINATION IN THE CHAIN

Given the atomization of the actors in the dairy chain, it is suggested that combined actions be implemented to strengthen partnership, in particular via the formation of groups of remittance recipients, and to promote coordination between the different links in the chain. Support can be provided by key institutions and those operating related programmes, such as the Ministry of Agriculture and the Council for the Regulation and Strengthening of the Dairy Industry (CONALECHE), as well as the programme for public procurement of dairy products and derivatives within the framework of social programmes (School Food Programme, PAE).

This strategy suggests that instruments to support the chain and promote investment of remittances should stipulate as a requirement the participation of different actors associating through formal mechanisms (e.g. a legally constituted cooperative) or informal ones (e.g. interest groups or groupings of individuals).

“Recipient groups”, a loose arrangement that contrasts with more formal ones such as cooperatives, have been particularly attractive to small producers and the self-employed, whose experiences have not been positive when they have tried to set up formal associations such as cooperatives. Recipient groups can be a first step, providing flexibility and capable of evolving if necessary into more formal schemes.

Line of action 15 addresses a major weakness of the chain: small producers and the self-employed are highly dependent on imported inputs but struggle to acquire good-quality, affordable products. It is recommended that technical assistance and financing be provided so that they can purchase inputs at competitive prices.

Lines of action

12. Design and implement programmes for the investment of family remittances that provide incentives for vertical coordination (within the links of the chain)

13. Design and implement programmes for the investment use of family remittances that provide incentives for horizontal coordination (between the links of the chain)

14. Implement commercialization support tools among small producers in receipt of remittances

15. Implement tools for supplier development and access to good-quality, affordable inputs among small producers in receipt of remittances

Strategy 6: Strengthen the managerial and technical capacities of small producers

Most actors in the chain have a basic level of education and little training, especially the self-employed and small producers. It is therefore essential to strengthen managerial and technical capabilities. Financial incentives for the use of remittances need to be accompanied by capacity-building to increase the likelihood of medium- and long-term success. These actions can be supported by the National Technical and Professional Training Institute (INFOTEP), the Council for the Regulation and Strengthening of the Dairy Industry (CONALECHE), the Livestock Department (DIGEGA) and the Programme for the Improvement of Dairy Farming in the Dominican Republic (MEGALECHE).

Training in business management and the provision of technical and financial skills would make projects financed with a percentage of family remittance income more likely to succeed.

Lines of action

16. Provide technical assistance for the design and management of production projects that make use of family remittances

17. Strengthen the productive and technological capabilities of producers who invest family remittances

Strategy 7: Promote productive investment by migrants in their communities of origin

The Dominican diaspora, like other large diasporas such as those of El Salvador and Guatemala, has great potential to contribute to the development of its home country. In addition to remittances, the diaspora can contribute through direct investments, donations, and knowledge transfer, among other things. It is therefore particularly important to include this population in decision-making about the use remittances are put to and the implementation of public instruments to support joint investments by migrant and diaspora networks. This type of initiative can be supported by the Ministry of Foreign Affairs and other bodies involved in the dairy chain, such as the Ministry of Industry, Trade and MSMEs and CONALECHE.

This strategy aims to create appropriate financial instruments and to position financial intermediaries as a link between migrants and local enterprises. It also seeks to design sustainable financial models for migrants and their families, as well as to promote the formation of groups of migrants that can work on a specific project for the benefit of their communities of origin, with particular attention to the dairy chain, without having to create a new legal entity.

Lines of action

18. Develop financial intermediation mechanisms

19. Design sustainable financial models

20. Encourage migrants to form groupings

21. Mount a campaign to publicize the project or initiative among migrants

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