

# Diasporas, Émigrés and Development

## Economic Linkages and Programmatic Responses



A Special Study of the  
U.S. Agency for International Development (USAID)  
Trade Enhancement for the Services Sector (TESS) Project



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## PREFACE

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The TESS Project is intended to encourage and support enhancement of the trade and service sectors to promote economic development and country competitiveness. Specifically, the project provides technical support in advancing the understanding of constraints and competition in services sectors and in developing and disseminating best practices for liberalization and enhancing systematic efficiency. More information can be found at [www.tessproject.com](http://www.tessproject.com).

This paper was written by Brett Johnson, Trade and Investment Economist in collaboration with Santiago Sedaca, Director of Competitiveness, CARANA Corporation. Special thanks to the many experts who contributed their insights and opinions for this study.

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## Executive Summary

In an era when the movement of people has achieved high standing in the international agenda, development actors are paying close attention to the relationship between migration and development. There is a growing focus on the impact of economic ties between émigrés and diasporas and their homeland. There are numerous examples through which these linkages contribute to poverty reduction and economic growth. Not only do the financial resources sent home as remittances help alleviate poverty and support economic growth, but émigré and diaspora communities also serve as an important source of foreign direct investment, trade linkages and knowledge and technology transfer. Furthermore, many communities living abroad establish associations to address social and economic ills in their countries of origin. Recognizing the potential positive effects of these economic linkages, many donors and governments are looking for ways to further engage the émigré and diaspora communities in the development agenda.

This study discusses various modes through which émigrés and diasporas from developing countries can facilitate economic development in their homelands. Recognizing that these players can contribute to development at various levels depending on their motivations and capabilities, the paper adopts a broad perspective towards the ‘*diaspora-development link*,’ covering five key linkages:

1. Remittances
2. Collective Remittances for Community Development
3. Diaspora Business and Investment
4. Diaspora Based Investment Vehicles
5. Knowledge Transfer Mechanisms

Focusing on these linkages, this study serves as a compendium of programmatic opportunities for development actors wishing to ‘tap the development potential’ of communities living abroad. For each linkage, the study discusses the potential economic impact, possible programmatic responses or interventions and a sample of activities that target émigré and diaspora economic linkages to their homeland. Furthermore, the study discusses issues that should be considered prior to designing programmatic responses to the diaspora-development link, both in relation to specific linkages and the wider diaspora-development context. An extensive review of literature and information and opinions from over twenty interviews of migration experts, donor and NGO staff, representatives from diaspora organizations and development practitioners allows a comprehensive review of not only the diaspora-development link, but also insight on the design and effectiveness of programs targeting that link.

*Exhibit A* (below) presents a summary of diaspora-development opportunities and activities, related development benefits, challenges and constraints to consider, and possible interventions to maximize the potential of a particular diaspora-development link. A summary of the study’s findings follows.

## Exhibit A: Summary of Diaspora-Development Linkages and Programmatic Responses

Development Opportunity	Programmatic Activities	Development Benefits	Challenges/Constraints	Possible Programmatic or Policy Interventions
<b><i>Migrant Remittances</i></b>				
<b>Improving Remittance Transfer</b>	<ul style="list-style-type: none"> <li>Reducing cost of transfer</li> <li>Enhancing speed, reliability and quality of transfer</li> <li>Expanding international and domestic remittance networks</li> <li>Improving fee transparency</li> </ul>	<ul style="list-style-type: none"> <li>Less expensive transfers put more money in hands of poor recipients</li> <li>Cheaper and easier remittance transfers may result in greater inflows</li> <li>Greater use of formal transfer mechanisms</li> </ul>	<ul style="list-style-type: none"> <li>Rural financial institutions poorly integrated into national/international payment systems</li> <li>Remittance industry dominated by few players in some areas</li> <li>Possible market entrants limited by regulatory limitations</li> </ul>	<ul style="list-style-type: none"> <li>Fostering competition in the money transfer business</li> <li>Improve domestic financial ‘capillarity’ (institutional strengthening, new technologies)</li> <li>Facilitate partnerships between international and domestic financial institutions</li> </ul>
<b>Mobilizing Remittances for Productive Purposes</b>	<ul style="list-style-type: none"> <li>Linking remittance transfer systems to financial services</li> <li>Involving credit unions and microfinance institutions with remittance transfer processes to provide financial services to recipients</li> <li>Linking remittance transfers toward enterprise investment and development</li> </ul>	<ul style="list-style-type: none"> <li>Greater savings, investment and income opportunities for recipients</li> <li>Banking the un-banked and expanding access to financial services to the poor</li> <li>Contribute to client and resource depth of financial institutions (particularly MFIs) and ability to provide more services</li> <li>Job and income generation</li> </ul>	<ul style="list-style-type: none"> <li>Need or preference of recipients to use remittances for sustenance, health, education</li> <li>Weak financial institutions and networks, particularly in rural areas</li> <li>Potential remittance-financial service providers constrained by licensing regulations</li> <li>Weak market environments limit investment opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory changes to increase number of financial institutions able to provide transfer/financial services</li> <li>Strengthen institutional capacity of financial service providers</li> <li>Financial and technical assistance for migrant supported enterprises</li> <li>Create enabling environment for investment and enterprise growth</li> <li>Increase awareness of savings and investment options</li> </ul>
<b><i>Collective Remittances for Community Development (Home Town Associations)</i></b>				
<b>Social and Infrastructure Projects</b>	<ul style="list-style-type: none"> <li>Funding projects in health, education and community facilities and services</li> <li>Investment in electricity, water and sewage and transportation infrastructures</li> <li>Migrants collaborate with local counterparts in project identification, design, planning, implementation and monitoring</li> </ul>	<ul style="list-style-type: none"> <li>Education projects help accumulate communities’ ‘stock’ of social capital</li> <li>Investments in health and water/sewage enhance well-being</li> <li>Improvements in ‘economic infrastructure’ facilitate private sector development</li> <li>Enhances migrant and local experience in decision-making, organization/management skills</li> <li>Increased civic participation</li> </ul>	<ul style="list-style-type: none"> <li>Weak institutional and financial capacity of migrant association (limits scale and impact of projects)</li> <li>Lack of experience in project life cycle (needs assessment, design, planning, etc.)</li> <li>Lack of institutional capacity of local counterparts to act as development partners</li> </ul>	<ul style="list-style-type: none"> <li>Provide technical assistance, training and institutional strengthening (enable associations to be small ‘development agencies’)</li> <li>Project specific assistance in project life cycle (identification, design, implementation, etc.)</li> <li>Matching funds/in-kind assistance</li> <li>Enhance organizational capacity of local counterparts</li> <li>Development partnerships with migrant and counterpart associations</li> </ul>
<b>Productive Projects</b>	<ul style="list-style-type: none"> <li>Using pooled remittances for investment in new or existing enterprises that contribute to jobs and income generation in home communities/countries</li> <li>Financial and technical assistance in agriculture projects</li> <li>Working with local counterparts to sell and market goods</li> </ul>	<ul style="list-style-type: none"> <li>Source of foreign direct investment that may not have otherwise occurred</li> <li>Creation of new jobs and income generation contribute to reduction in poverty</li> <li>Transfer of skills and knowledge (management, organization, financial practices, production techniques, marketing) gained by migrants abroad</li> </ul>	<ul style="list-style-type: none"> <li><i>See above</i></li> <li>Involvement in productive/profitable activities may conflict with philanthropic nature of many migrant associations</li> <li>Lack of experience in development of business plans, processes or management</li> <li>Weak market environments in communities may undermine enterprise profitability and sustainability</li> </ul>	<ul style="list-style-type: none"> <li><i>See above</i></li> <li>Assistance identifying potentially viable/profitable investments</li> <li>Financial assistance/credit lines for productive investments</li> <li>Training and technical assistance in business management skills, marketing, accounting practices</li> <li>Introduction to ICT and e-commerce business solutions</li> <li>Assistance identifying specialized technical experts</li> </ul>

### ***Diaspora Business Linkages***

<b>Diaspora Business Networks</b>	<ul style="list-style-type: none"> <li>▪ Utilization of online portals/databases and networking events to disseminate business leads and facilitate matchmaking between diaspora and local counterparts</li> <li>▪ Using diaspora contacts, networks and positions in companies abroad to bring outsourcing and trade opportunities to home country</li> <li>▪ Provision of information on market conditions, policies and regulations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Enhanced access to international economy, enabling countries of origin to breach new markets</li> <li>▪ Business diaspora act as 'first movers,' utilizing diaspora advantage to overcome obstacles of entry and enhance chances of success (diaspora success facilitates new conventional international/domestic investment)</li> <li>▪ Outsource and trade linkages facilitate development of new growth sectors (i.e. technology)</li> <li>▪ Transfer of technical, management, operational production skills and techniques</li> <li>▪ Transfer of knowledge in international market standards, financial practices, corporate governance</li> <li>▪ Diaspora can serve as a push factor to influence economic reforms that can improve business and investment environments</li> </ul>	<ul style="list-style-type: none"> <li>▪ Weak business and investment, unfavorable domestic and international trade policies, political conflicts, etc.</li> <li>▪ Weak private sector, lack of attractive business opportunities</li> <li>▪ Weak institutional, organizational and financial capacity of network</li> <li>▪ Poorly designed or maintained online portals and databases may limit matchmaking activities</li> <li>▪ Reluctance of diaspora to participate in business in country of origin (negative perceptions)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Promotion of sound macroeconomic policies and legal and regulatory frameworks conducive to private sector investment and expansion</li> <li>▪ Technical assistance in the design, marketing, and maintenance of networking mechanisms (online portals and databases)</li> <li>▪ Financial and in-kind assistance for establishment and maintenance of networks and business services</li> <li>▪ Collaboration and/or partnerships in trade and investment fairs, investment promotion activities and networks</li> </ul>
<b>Government Sponsored Investment Promotion</b>	<ul style="list-style-type: none"> <li>▪ Investment promotion efforts targeting diaspora investors</li> <li>▪ Providing information to assist in selection of opportunities, policies and procedures</li> <li>▪ Provision of general investment services</li> <li>▪ Assistance in administrative and bureaucratic clearance</li> <li>▪ Investment incentives for diaspora investors</li> </ul>	<ul style="list-style-type: none"> <li>▪ Transfer of technical, management, operational production skills and techniques</li> <li>▪ Transfer of knowledge in international market standards, financial practices, corporate governance</li> <li>▪ Diaspora can serve as a push factor to influence economic reforms that can improve business and investment environments</li> </ul>	<ul style="list-style-type: none"> <li>▪ Weak business and investment environments</li> <li>▪ Lack of viable investment opportunities</li> <li>▪ Weak institutional and financial capacity of government investment promotion agencies to effectively network with potential investors or provide effective assistance and guidance</li> </ul>	<ul style="list-style-type: none"> <li>▪ Technical and financial assistance to strengthen institutional capacity of investment promotion agencies (IPAs)</li> <li>▪ Training for government IPA staff to provide effective investment services to potential diaspora investors</li> <li>▪ Creation of special diaspora investment service centers</li> <li>▪ Public relations campaigns in diaspora media to increase awareness of business opportunities</li> </ul>

### ***Diaspora Based Investment Instruments***

<b>Diaspora Investment Funds</b>	<ul style="list-style-type: none"> <li>▪ Funds designed to include mid-and-large scale investors</li> <li>▪ Managed by diaspora managers with investment experience in developed country economies</li> <li>▪ Equity investments in new or existing enterprises</li> <li>▪ Fund principals may be involved in management of recipient firms</li> </ul>	<ul style="list-style-type: none"> <li>▪ Source of FDI that may have otherwise not occurred due to conventional investor perceptions</li> <li>▪ Pooled resources allows fund to achieve economy of scale in ability to invest in more projects</li> <li>▪ Institutional nature may provide capacity to overcome entry or market barriers</li> <li>▪ Transfer of skills and practices in finance, accounting and corporate governance</li> <li>▪ Help to create track record that may result in conventional FDI</li> </ul>	<ul style="list-style-type: none"> <li>▪ Poor investment and business climates increase risk of failed investment, resulting in higher required rates of return, lack of investor interest</li> <li>▪ Weak or underdeveloped private sector may lack viable investment opportunities</li> <li>▪ Poor fund management (failed or unprofitable investments, inability to gain confidence of investors)</li> <li>▪ Reluctance among diaspora to invest in country of origin (negative perceptions)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Promotion of sound macroeconomic policies and legal and regulatory frameworks conducive to private sector investment and expansion</li> <li>▪ Donor involvement in establishment and maintenance of funds (add credibility)</li> <li>▪ Matching funds to supplement diaspora investments</li> <li>▪ Assistance in project identification, regulatory clearance and implementation</li> <li>▪ Public relations campaigns in diaspora media to increase awareness of the investment funds</li> </ul>
<b>Development Banks</b>	<ul style="list-style-type: none"> <li>▪ Banks in country of origin where diaspora can open deposit accounts at low interest rates</li> <li>▪ Bank uses deposits to fund projects with development focus (agriculture, health, education)</li> <li>▪ Supplements project funding with technical assistance</li> </ul>	<ul style="list-style-type: none"> <li>▪ Source of low cost funding for low-scale development projects</li> <li>▪ Funding for projects not covered by conventional banks</li> <li>▪ Technical assistance can enhance the effectiveness of funded projects</li> </ul>	<ul style="list-style-type: none"> <li>▪ Low bank credibility, institutional risks within financial system, poor banking regulatory and supervisory frameworks lead to higher required rates of return</li> <li>▪ Perceived risk of bank failure</li> </ul>	<ul style="list-style-type: none"> <li>▪ Establish sound banking regulations and supervision practices</li> <li>▪ Establish deposit insurance scheme</li> <li>▪ Provide technical assistance and institutional strengthening to bank</li> <li>▪ Training for bank officers in sound lending practices</li> <li>▪ Assistance in identifying experts (preferably from diaspora)</li> </ul>

### ***Diaspora Based Investment Instruments (cont'd)***

<b>Diaspora Sovereign Bonds</b>	<ul style="list-style-type: none"> <li>Bonds, underwritten in developed countries with large diasporas or the country of origin, are issued to members of diaspora</li> <li>Different types of bonds (maturity, minimum investment amount, interest rates) to meet the needs of different investors</li> </ul>	<ul style="list-style-type: none"> <li>Raise funds for public investment, particularly in infrastructure necessary for economic development</li> <li>Due to a 'diaspora' or 'patriotic discount' lower cost form of financing</li> <li>Reduced rollover risks and longer maturities due to long term perspective of diaspora</li> <li>Serves as stepping stone for gaining access to international finance markets</li> </ul>	<ul style="list-style-type: none"> <li>Negative internal and external economic (macroeconomic policies and indicators, public governance, etc.) and political factors can cause diaspora discounts to be insignificant</li> <li>Default or mismanagement of funds would close the doors to future diaspora or conventional bond issues</li> <li>Reluctance among diaspora to buy bonds (negative perceptions of risk and management of funds)</li> </ul>	<ul style="list-style-type: none"> <li>Promotion of sound economic policies and budget discipline</li> <li>Take efforts to reduce political risk</li> <li>Technical assistance and guidance in preparation for bond issue</li> <li>Enhance institutional capacity of issuing banks and relevant regulatory bodies</li> <li>Issue various types of bonds to meet different investor types (different interest rates, denominations, maturities)</li> </ul>
<b>Remittance Backed Bonds</b>	<ul style="list-style-type: none"> <li>Banks that receive large amounts of remittance transfers securitize future flows of remittances (foreign exchange) for bonds that raise external funding</li> </ul>	<ul style="list-style-type: none"> <li>If remittance flows are large and reliable enough, the terms of remittance backed bonds can be more generous than more conventional sovereign issues</li> </ul>	<ul style="list-style-type: none"> <li>Various indicators can negatively affect overall discount of remittance advantage (<i>see above</i>)</li> <li>Perceptions of potential default, mismanagement and risk may cause reluctance on part of investors (<i>see above</i>)</li> </ul>	<ul style="list-style-type: none"> <li>Establish mechanism to prevent corruption in use of funds</li> <li>Public relations campaigns in diaspora media to increase awareness of the bond issues</li> </ul>
<b><i>Knowledge Transfer/Reverse Brain Drain</i></b>				
<b>Professional Diaspora Networks</b>	<ul style="list-style-type: none"> <li>Internet based networks for diaspora professionals and professionals from country of origin to network, exchange ideas, collaborate on research, etc.</li> <li>Databases of professional profiles and skills</li> </ul>	<ul style="list-style-type: none"> <li>Helps to reverse the 'brain drain'</li> <li>Increase in aggregate social capital in country of origin</li> <li>Introduction of new ideas, innovations or technologies</li> <li>Access to the knowledge systems within the developed world</li> </ul>	<ul style="list-style-type: none"> <li>Weak institutional, organizational and financial affect capacity of networks to attract and maintain membership and participation</li> <li>Limited communications technologies in country of origin</li> </ul>	<ul style="list-style-type: none"> <li>Technical assistance in the design, marketing, and maintenance of networking mechanisms (online portals and database)</li> <li>Public relations campaigns in diaspora media and professional community about the network</li> </ul>
<b>Virtual Knowledge and Technology Transfer</b>	<ul style="list-style-type: none"> <li>Provision of virtual training of counterparts in country of origin involved in business ventures or development projects</li> <li>Mentoring in use of new technologies</li> <li>Diaspora members volunteer time</li> </ul>	<ul style="list-style-type: none"> <li>Transfer of management, financial, accounting and operational practices</li> <li>Introduction to latest business and development solutions involving technologies for e-commerce, communication and management information systems</li> <li>Low cost mechanism for knowledge/skill transfer</li> </ul>	<ul style="list-style-type: none"> <li>Organizational capacity to identify and recruit mentors/volunteers with appropriate skills, link them to recipients and ensure effective mentoring affects success of project</li> <li>Volunteers' ability to give time limited by work and other commitments</li> <li>Dependant on willingness and ability of the diaspora to provide knowledge and skill assets on free basis when they could earn paid consultant fees</li> <li>Physical return (if necessary) requires volunteers to forego income earning</li> </ul>	<ul style="list-style-type: none"> <li>Establishment of intermediary to raise and manage funds to support projects, provide technology platforms for exchange and communication, recruit and assign mentors/volunteers and assist in implementation of business ventures and development projects in recipient country</li> <li>Training in effective knowledge transfer techniques, including distance/virtual learning techniques</li> <li>Creation of diaspora consultant networks/databases that provide information on both paid and unpaid development opportunities and a list of diaspora consultants interested in knowledge transfer activities</li> </ul>
<b>Short-term Voluntary Consultancies</b>	<ul style="list-style-type: none"> <li>Diaspora professionals volunteer for short term one-time, sequenced or repeated visits</li> <li>Provide training and technical assistance according to their field(s) of expertise</li> </ul>	<ul style="list-style-type: none"> <li>Physical mechanism for knowledge transfer likely more effective than distant transfer mechanisms</li> <li>Less expensive than expatriate consultants</li> <li>Diaspora consultants require less time to adapt to language and culture</li> </ul>		

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## Remittances

The billions of dollars sent by migrants are widely recognized as a major economic factor in some developing countries. Although most remittances are primarily used to support poor families, some development actors are looking for ways to mobilize a greater proportion towards productive activities with income and job creation opportunities. In addition to ongoing efforts to improve the remittance payment process (to put more money in the pockets of recipients), donors and financial institutions have aimed to link transfers to financial services, targeting remittance recipients with options and incentives for savings, and borrowing instruments. Some programs aim to help ‘bank the un-banked’ by involving microfinance institutions and credit unions in the transfer process to reach poorer recipients and link activities to remittances. Examples of programs linking remittances to financial services include those carried out by the *Groupe Banques Populaires (Morocco)*, *Banco Solidario (Ecuador)*, *Inter-American Development Bank (IADB)*, *the World Council of Credit Unions (WOCCU)* and *PRODEM (Bolivia)*. Various development organizations have also implemented programs that aim to channel, or facilitate, the use of remittances towards micro, small and medium sized enterprise development, including those involving the *IADB*, *National Financiera (Mexico)* and *UNLAD-KABAYAN (Philippines)*. Issues that should be considered when designing programs that link remittances to productive activities include the appropriateness of channeling remittance flows toward productive investments when they are needed to support the basic needs of poor families; ensuring that remittance-financial services programs meet the needs of remittance recipients and the communities; limitations due to weakness in financial systems; the need to avoid market distortions in financial sectors and weak market environments for productive investments.

## Collective Remittances for Community Development

An increasing number of émigré and diaspora communities are using collective remittances and in many cases, collective efforts to address social and economic ills in their community or country of origin. A well-known form of this phenomenon is the hometown associations (HTAs) composed of emigrants from Mexico and Central America. In the past, these groups focused on social and infrastructure projects, but there is gradual emphasis on the part of some HTAs and development organizations towards activities with a greater impact on income and job creation. To both enhance HTA capacity to impact their home communities and facilitate a shift towards productive activities, some development organizations such as the *Pan-American Development Foundation (PADF)* and the *Inter-American Foundation (IAF)* are providing assistance in institutional development and project implementation as well as matching funds. To achieve the same goals, some governments have initiated programs that involve attracting collective remittances, project collaboration with HTAs, matching funds and encouraging HTA investment. Examples of such programs include Mexico’s *Three-for-One Matching Program* and *Mi Comunidad*. When engaging emigrant groups to enhance the impact of collective remittance efforts, development organizations should weigh two considerations. First, it is important to respect the priorities of these groups and not impose an outside development agenda. Second, when encouraging HTAs towards productive activities, one needs to consider whether they have the capacity, or desire, to shift their focus and be aware of market limitations. In addition, there may be more appropriate ways to involve emigrants in productive investment.



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## **Diaspora Business and Investment**

Within each diaspora community there are successful entrepreneurs with financial resources, business and technical know-how that can be targeted for economic growth. By acting as links to business opportunities, conduits of market information, first movers in a particular sector or economy, and sources of business experience, ‘business diaspora’ can help catalyze a country’s private sector and drive trade and investment. There are a number of formal mechanisms through which to engage the business diaspora in the promotion of trade and investment. Most provide a medium for information dissemination, networking or matchmaking, business guidance and promotion. These include diaspora business networks, such as *Armenian High Tech Council of America (ArmenTech)*, *South African Diaspora Network (SADN)*, *Lebanese Business Network (LBN)* and the *Silicon Valley Indian Professional Association (SIPA)*; chambers of commerce with a programmatic focus on a diaspora, such as the *Federation of Indian Chambers of Commerce and Industry (FICCI)* and the *Caribbean American Chamber of Commerce and Industry (CACCI)*; and government diaspora investment promotion carried out by investment promotion agencies. such as the *Indian Investment Center (IIC)* and the *Armenian Development Agency (ADA)*. The effectiveness of these mechanisms depends on a number of factors. While the diaspora may be more inclined to engage in homeland business than others, the overall business environment still has a large impact on their willingness to accept the risk. Furthermore, diaspora business promotion entities require the institutional and financial capacity for broad based outreach and the ability to serve members.

## **Diaspora-Based Investment Instruments**

For countries that do not attract sufficient or reliable volumes of FDI or are unable to access international financial markets to obtain external funds for private and public investment, diaspora-based financial instruments can play a crucial role in financing development. Due to their connections and affinities to their homeland, members of a diaspora may accept a lower rate of return and assume greater levels of risk in exchange for a ‘personal rate of return’—resulting in lower cost financing. Investment vehicles targeting the diaspora can also add to the depth and diversity of a financial system, as well as help create a positive track record that will help attract conventional FDI. There are various forms through which these private investment vehicles can take shape, including diaspora funds such as the *Armenia SME Investment Fund* sponsored by the *International Finance Corporation (IFC)* and diaspora development banks. Sovereign diaspora bonds, such as those raised in *Israel* and *India* have proven effective in raising funds for public investment, whereas banks in numerous countries have issued remittance-backed bonds to leverage diaspora funds for development. The creation of financial instruments targeting a diaspora may not be appropriate or successful in some cases. Even with affinities and connections with their homeland, diaspora investors are still wary of the risk and losing their investment. Countries with poor investment climates, weak fiscal discipline and government mismanagement will attract limited diaspora investment. Furthermore, some instruments require a level of institutional sophistication that countries have yet to achieve.

## **Knowledge Transfer Mechanisms**

Many developing countries have a number of highly skilled and educated professionals living abroad. Some see this fact as a negative result of the *brain drain*; however, others see the knowledge and skills of these professionals as an asset potentially more important economic

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factor than the mobilization of any financial resource. While the externalities of other diaspora-development linkages involve some level of knowledge or skill transfer, formal knowledge transfer mechanisms can help countries better tap into this *brain trust*. To date, numerous mechanisms exist. These include efforts to mobilize the digital diaspora through web-based portals that allow for knowledge sharing between the professional diaspora and counterparts at home. Examples include the *South African Network of Skills Abroad (SANSA)* and the *Brain Drain Project (Serbia)*. Some have gone farther by developing virtual mentoring programs that allow skill diaspora to train counterparts at home. A well-known example is *Digital Partners (DP) Digital Diaspora Networks (DDN)*, with projects in India and Africa. Projects include the *U.N.'s Transfer of Knowledge Through Expatriate Nationals (TOKTEN)* and the *International Organization for Migration's (IOM) Migration for Development in Africa Program (MIDA)*. While some of these mechanisms have promising features, their effectiveness depends on the institutional and financial capacity of the organization to reach out and engage the diaspora. The fact that many mechanisms depend on volunteer diaspora can affect the quality and depth of activities.

### **Cross-Cutting Considerations**

When acting upon the apparent potential of development-diaspora links programmatic strategy and design should take into consideration a number of factors that could affect the overall effectiveness and impact of programs targeting émigré and diaspora engagement. During the course of the study, experts and practitioners were asked to weigh in on issues they felt require some attention when responding to the diaspora-development potential, at both the conceptual and implementation level. For example, although involving diasporas may be innovative and potentially beneficial, the success of such initiatives depends on the same fundamentals, tools and practices that impact the effectiveness of other development initiatives. Both development actors and diaspora groups should consider the value of cooperating to meet each other's objectives. Cooperation may not always be necessary, desired or even appropriate. While it is important to 'meet them where they are,' and not impose an outside agenda on emigrant groups, donors and governments can influence their activities through advice and technical assistance or help them along by playing a leadership role. In addition, many of the activities discussed in this study depend on the voluntary and participatory actions of a diaspora, which can impact the effectiveness of an initiative. As such, intermediaries can provide the institutional capacity for diaspora outreach, organization, fundraising project planning and implementation, technical assistance and maintaining a medium for information exchange is key. While it is important to see diasporas as potential development partners in the field, they should also be included in strategic planning processes and assist in the design of initiatives. Finally, despite the enormous potential of diaspora financial and knowledge resources, émigré and diaspora groups should not be expected to shoulder a disproportionate burden in the development of their homeland, or be expected to substitute donor and government activities.

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## Introduction

*“Development is not so much about allocation of existing resources but rather mobilizing resources that are hidden, scattered or badly utilized” Albert Hirshman (1958)*

Millions of people live in a country other than that of their birth. Millions more are members of a particular diaspora, or national heritage. While reasons for their departure vary—jobs, education, persecution, civil strife—individuals within émigré and diaspora communities maintain a special affinity with their homeland, a desire to maintain a connection (cultural, social or economic) to their country of origin. With this affinity comes an interest in matters related to the development in their homeland, be it the social and economic well-being of remaining friends and family members, humanitarian concerns, business interests, professional aspirations, or even a desire to return “home” some day. When this interest becomes engagement, whether collective or individual, émigré and diaspora communities can use their financial, time and intellectual resource to help reduce poverty, contribute to the expansion of the private sector and enhance global competitiveness in their country of origin.

The link between migration and development has achieved high standing in the international agenda in recent years, demonstrated by the growing number of studies, conferences, pilot projects and initiatives funded by various development actors. These activities are in response to the observation that the movement of labor across borders can impact the development of the sending countries. This is not to suggest that the subject is new or neglected, but rather the growing realization by donors, governments and NGOs that the migration link demands greater consideration within the wider development context. Although there is an ongoing debate as to whether or not the impact of migration on labor exporting countries is positive, many development actors have turned their focus on those who have already emigrated as potential partners in economic development efforts in their countries of origin.

It can be argued that émigré and diaspora communities can be development actors (or even donors) in their own right. Not only do the financial resources sent home as remittances match or exceed donors funds in many countries<sup>1</sup>, but émigré and diaspora communities have served as an important source of foreign direct investment, trade linkages and technology transfer. Furthermore, many émigré and diaspora communities have established associations and partnerships with the sole aim of addressing social and economic problems within their country of origin. Examples of the diaspora engagement in economic development include:

- In 2002, migrants sent \$80 billion in remittances to developing countries to help sustain poor families, pay for education and health expenses and support investment in micro enterprises.<sup>2</sup>

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<sup>1</sup> Pedro De Vasconcelos, Inter-American Development Bank (IADB). Phone Interview, October 2003

<sup>2</sup> Ratha, Dilip, *Worker’s Remittances: An Important and Stable Source of External Development Finance*, in Global Development Finance 2003: Striving for Stability in Development Finance. World Bank, 2003  
[http://www.worldbank.org/prospects/gdf2003/gdf\\_ch07\\_web.pdf](http://www.worldbank.org/prospects/gdf2003/gdf_ch07_web.pdf)

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- Grassroots community organizations in the U.S. donate time and money for projects that address social and economic ills in their communities in their country of origin in Latin America and the Caribbean.
  - Members of the Chinese and Indian IT diasporas used networks and contacts within their host countries to channel investment and outsourcing opportunities toward their country of origin, which helped to incubate the development of high-tech sectors.
  - Diaspora entrepreneurs have acted as ‘first movers,’ moving early into a promising or struggling sector in their country of origin, creating momentum that catalyzes growth in industries that may be otherwise unable to attract sufficient conventional foreign direct investment.
  - Diaspora portfolio investors in private investment vehicles and sovereign bonds inject vital capital and budgetary resources for private sector expansion and the development of economic infrastructures.
  - More than 41 web-based diaspora intellectual networks help to reverse the brain phenomenon, facilitating the transfer of knowledge of professionals abroad back to the homeland.
  - Digital diaspora networks in India, Africa and Latin America are using diaspora IT entrepreneurs to provide ‘virtual training’ to transfer ICT technologies and skills to counterparts in their country of origin, helping to bridge the digital divide that constrains the development of many countries.

When the resources, connections and motives of émigré and diaspora communities are considered, not to mention the unique perspective they bring to their home country’s problems and potential solutions, it could be argued the impact of official donor activities is secondary when compared to the potential impact of effectively mobilized diaspora material, network and knowledge resources. By involving émigré communities as key stakeholders and integral development actors, both national governments and donors can facilitate the utilization of émigré resources to reduce poverty and spur economic development in countries of origin. There are multiple means through which this application can be achieved:

- Development Partnerships
- Collaboration in Design and Implementation of Projects
- Technical and Financial Assistance
- Institutional Strengthening
- Advocacy

## **Objective**

This paper focuses on various modes through which émigré and diaspora resources can be mobilized or channeled to facilitate economic development in countries that have been traditionally regarded as labor exporters (e.g. Mexico, El Salvador, Philippines) or the homeland of long standing diaspora or non-resident communities (e.g. Armenia, India, Lebanon). Recognizing that communities can contribute to development at various levels depending on

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their motivations, interests and capabilities, this paper adopts a broad perspective towards the link between émigré and diaspora communities and development (referred to as the *diaspora-development link*), from the mobilization of remittances for savings or community development at the grassroots, to the establishment of financial and business vehicles intended to facilitate investment and trade at the macroeconomic level, to the transfer of knowledge and technology.

Presenting a sample of past and present programs and activities involving émigré and diaspora communities, this study aims serve as a compendium of programmatic options and opportunities that governments, international donors, NGOs and émigré organizations could utilize in order to ‘tap the development potential’ of those living beyond the borders of their country of origin or heritage. To further the discussion on the application of programmatic opportunities, the study discusses issues that should be considered in the design and implementation of programmatic responses. In doing so, the authors hope that the study will provide a basic framework that will contribute to the development community’s increasing efforts to involve émigré communities in economic development initiatives.

## **Methods**

This study uses a combination of primary and secondary resources in considering the benefits of various diaspora-development links and the rationale, methods, details and considerations of programmatic responses to these links.

Secondary resources contribute to an extensive review of literature discussing ‘diaspora-grown,’ donor, government and NGO activities aimed at poverty reduction, business development and knowledge transfer in countries of origin. Most of the literature reviewed was either composed or funded by donor, governments, intergovernmental agencies or NGOs with an interest in the link between diasporas and development. The study also reviews organization and program websites that provide details, status and insight on relevant diaspora programs. This information is complemented by the authors’ attendance at conferences addressing migration and development.

The value added component of this study is the over twenty interviews conducted by the authors during the course of research. Migration experts, donor and NGO staff, representatives of diaspora organizations and development practitioners provided insight to the diaspora-development link as well as their opinions and analysis of overall effectiveness of programs. Furthermore, interviewees discussed various issues that donors, governments, NGOs and diaspora communities should consider when developing specific programmatic responses aimed at mobilizing émigré resources for development.

There are a few caveats that require attention. First, it should be noted that this study does not intend to provide an exhaustive account of programs and initiatives that have been developed. Rather, the study aims to provide a sample of possible activities for development actors to explore further. In focusing on economic linkages, the paper does not reflect on the role of diaspora as ‘agents of change’ in developing countries lacking political development. While the involvement of diasporas could help invigorate otherwise stagnant democracies that could in turn result in economic development, the political linkages that exist within many diaspora communities requires attention within a separate study. In focusing on the economic potential of

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communities living abroad, the paper does not address issues of permanent return or repatriation of migrants. Recognizing that many migrants may intend (and do) return home, the authors feel the development impact and surrounding issues of repatriation, albeit similar, are different enough to warrant a separate scope of study. Furthermore, the study does not look into migration management for development purposes or the development impact of migration countries that send or receive large flows of migrants (either temporary or permanent).

Recognizing that there are various levels through which members of émigré and diaspora communities can contribute to the development of their country of origin, this study includes a discussion of programmatic responses to key potential development linkages:

- Remittances
- Community Development
- Business Networks
- Investment Vehicles
- Knowledge Transfer Mechanisms

The study is structured as follows:

Observing the magnitude of migrant earnings sent back to developing countries every year, chapter one discusses means to enhance the development impact of remittances, particularly by developing means to channel funds towards productive investments. This section covers two key issues 1) mobilizing remittances for savings by linking recipients to financial services; and 2) mobilizing remittances towards enterprise development.

Chapter two covers projects implemented by emigrant associations in the United States that aim to address social and economic ills in their home communities through investment of volunteered time and collective remittances. The section discusses 1) a recent desire on the part of both development players and some emigrant associations themselves to shift the philanthropic and social focus of these organizations towards productive projects that generate jobs and income; 2) efforts by governments and donors to increase the impact of projects through matching or supplementary funds; and 3) efforts to strengthen the institutional capacity of migrant associations to enable them to become more effective in their activities.

Recognizing the role that émigré and diaspora communities can play in facilitating trade and investment in their countries of origin, chapter three discusses various mechanisms that help link the diaspora entrepreneurs to private sector development in their countries of origin. As members of an émigré or diaspora community, groups or individuals can play a crucial role as first movers that catalyze growth in a particular sector or economy. These mechanisms include diaspora business networks (both broad based and sector specific), chambers of commerce and focused investment promotion activities on the part of government investment agencies.

Chapter four provides a discussion and examples of various financial instruments targeting diaspora portfolio and retail investors as a means to inject investment capital into the private

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sector, or provide financing for public investments in economic infrastructure or social capital. These include investment funds, development banks and sovereign diaspora bonds.

Appreciating the concern of both labor exporting countries and migration experts over the potentially negative impact of “brain drain,” chapter five describes various mechanisms to facilitate the transfer of knowledge and skills from the diaspora to counterparts in their country of origin. These include 1) professional diaspora networks; 2) the mobilization of the IT diaspora to provide “virtual training” that bridges the digital divide; and 3) the physical return of diaspora professionals and experts for short-term consultancies.

In each of the topic above, key considerations for appropriate programmatic responses are provided based on the advice and opinions of the experts interviewed and cited throughout the study. Chapter six, however, discusses crosscutting issues introduced by interviewees that should be considered in developing strategies to facilitate the link between émigrés and diasporas and development. It should be noted that these considerations reflect the opinions of those queried during the study, based on their particular experience in their organizations, research or field work, and not necessarily on the experience of the wider development and diaspora community. As such, the considerations highlighted in this chapter may require further attention and investigation.

# Chapter 1: Remittances

Remittances sent by migrants to their native country are a powerful economic force for economic development in many labor-exporting countries, providing financial resources that not only alleviate poverty by sustaining the basic needs of many families, but also supporting private sector investment. Formal recorded flows of remittance to developing countries amounted to \$80 billion in 2002, and accounted for the second largest source of external funding for developing countries behind foreign direct investment (FDI).<sup>3</sup> The actual amount is probably significantly higher since up to one third of remittances flow through informal channels. The greatest volume of formal remittances flows within the Americas, with the U.S. as the source of most funds. According to the Inter-American Development Bank (IADB), migrants from Latin America and the Caribbean sent an estimated \$32 billion to family members and other recipients in their country of origin in 2002. These remittances represent “an amount far outstripping the flows of official development assistance (ODA) to the region,”<sup>4</sup> are equal to one-third of the regions foreign direct investment, and often match or exceed earnings from major exports. In South Asia, formal remittance flows have averaged over \$14 billion per annum since 1999. East Asia and the Pacific receive an average of \$10.5 billion. In sub-Saharan Africa, where weak accounting and the lack of formal transfer means make it difficult to come to an accurate figure, recorded remittance flows amount to \$4 billion.<sup>5</sup>

Data from a number of surveys and a good deal of anecdotal evidence indicates that the bulk of remittances is used for consumption as well as for investment in human capital (education, health, better nutrition). Investment in land, livestock, and in building or home improvement is also common, yet secondary to meeting the daily needs and investment in human capital.<sup>6</sup> In some countries, such as Bangladesh, remittances are used to fund the migration of other family members as a strategy to further enhance household income.<sup>7</sup> A much smaller portion of remitted funds is used for financial investments such as savings, businesses or other wealth generating activities.<sup>8</sup> A recent report for the UK’s

## Box 1.

### Patterns in Remittance Uses

- Basic needs and expenses
- Medical/Healthcare expenses
- Education
- Consumer durables (stereos, televisions, appliances)
- Improving or building housing
- Buying land or livestock
- Investments in socio-cultural life (birth, wedding, death)
- Loan repayments (often loans to pay off cost of migration)
- Savings
- Income or employment generating activities

Source: Sander, 2003. DFID Scoping Study: *Migrant Remittances to Developing countries*

<sup>3</sup> Ratha, 2003

<sup>4</sup> Multilateral Investment Fund (MIF), IADB, *Remittances as a Development Tool*  
[www.iadb.org/mif/v2/remittances.html](http://www.iadb.org/mif/v2/remittances.html)

<sup>5</sup> Ratha, 2003

<sup>6</sup> Sander, Cerstin, *Migrant Remittances to Developing Countries*. A Scoping Study prepared for UK Department of International Development (DfID), June 2003

<sup>7</sup> Siddiqui, Tasneem and Chwodhury R Abrar. *Migrant Worker Remittances and Microfinance in Bangladesh*. Report prepared for ILO, Dakar, February 2001.

<http://www.ilo.org/public/english/employment/finance/download/bangla.pdf>

<sup>8</sup> In many countries, purchases of land and livestock and home improvement contribute to the net worth if a person within a particular culture or economic and are thus type of savings or investment. These, however, are not considered financial investment within the context of many studies.



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Department for International Development (DFID) suggests that the propensity to use remittances for consumption is congruent with the aspect that, to a great extent, migration and remittances are part of a livelihood and poverty reduction strategy of the individual migrants and their families. For poorer families, consumption can have a follow-on effect of an improved standard of living and education opportunities.<sup>9</sup>

### **Mobilizing Remittances for Productive Purposes**

While the use of remittances for consumption may alleviate problems caused by poverty, it does not necessarily provide the means to leave poverty. Rather, these families can become dependent on the remittances to sustain their livelihoods. Although it may not be desirable or possible to channel remittances that are needed to sustain poor families, investments in productive activities provide recipients with the ability to add value to their surplus remittances after their basic needs have been met.<sup>10</sup> Even if the portion of remittances directed toward savings and investment is low at the family or community level, it adds up to a significant amount of money when considering the vast amount of remittances that flow into developing countries every year. If used effectively, the aggregate of small investments can play a significant role in reducing poverty in remittance receiving communities and contributing to economic growth within labor-exporting countries. If remittance recipients are able to channel a greater proportion of their remittances towards savings or investments in income and job creating activities, the impact of remittances on development could easily be multiplied.

The potential development impact of remittances has not gone unnoticed by development actors or recipient countries. Although the role that remittances play in meeting the basic needs of poor families and communities has long been recognized, there is a growing effort by development organizations and labor exporting governments to channel a portion of remittances towards productive purposes to generate income and employment. Donors, governments, and banks have engaged in the following initiatives to promote the use of remittances for economically productive activities:

1. Link remittance transfers to financial services that enable recipients to gain access to various savings, lending and investment instruments;
2. Extending involvement of microfinance institutions (MFI) and credit unions in the remittance transfer process to reach poorer recipients and link their microfinance activities to remittances; and
3. Facilitate the use of remittances in micro, small and medium sized enterprise development.

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<sup>9</sup> Sander, 2003

<sup>10</sup> International Organization for Migration (IOM). *Remittances to Africa and their Contribution to Development*. Working Paper. July 2002 <http://www.december18.net/paper72IOMRemittancesAfrica.pdf>

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## Linking Remittances to Financial Services

Weak financial systems and the lack of access to financial services that limit the ability of many people to invest in job and income generating activities are blamed for hindering the reduction of poverty and economic growth in developing countries. The same is true for remittance recipients. In many remittance-receiving countries large proportions of the population have little or no interaction with the formal financial system. For example, about 90 percent of the population of Nicaragua does not have a bank account<sup>11</sup>; about 70 percent of Mexico's population does not have an account with a financial institution<sup>12</sup>; and in the Philippines the 'un-banked' amounts to 80 percent of all households.<sup>13</sup> Most, if not all, of these un-banked households are poor. This lack of engagement in financial systems not only economically disenfranchises poor households but also reinforces their poverty as they are less able to invest in activities that might raise their income or standard of living and unable to adequately prepare for future shocks that can further deepen their poverty. Furthermore, without access to financial services, it becomes more difficult to mobilize their remittances toward savings or investment.

One practical way to address poor access to financial services, while tapping into the development potential of remittances, is to link remittance transfer services to financial services as a means to 'bank the un-banked' recipients. This process involves one-stop financial institutions that provide an easy and low-cost venue for migrants' families to receive remittances and the provision of various financial services. These services not only provide a means for recipients to mobilize a portion of their remittances for savings, but also provide access to lending mechanisms that can facilitate investment into enterprises or help a family in crisis. Essentially, this involves a shift from money transfer operators such as Western Union and Money Gram or forex and currency bureaus (that serve only a cash transfer or exchange function) towards the use and development of financial institutions (banks, credit unions, MFIs) that provide both remittance transfer services and financial services (such as savings accounts or loans).

Financial access through these coupled services is gained through the following process:

1. When recipients access their remittance payments through a financial institution, they can immediately begin a formal banking relationship with that institution.
2. Once a banking relationship is established, recipients can open a bank account and regularly invest a portion of their remittance inflows into their savings, which provides them with greater financial security, reasonable returns that add to their income, liquidity and a greater capacity to leverage funds for productive activities.
3. Furthermore, after a person has opened an account, they are able to gain access to various lending services provided by the bank or financial institution. Financial institutions are more comfortable lending to remittance recipients who use their services since a regular stream of remittance payments can represent a form of future

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<sup>11</sup> David Grace, World Council of Credit Unions (WOCCU) Phone Interview, October 2003

<sup>12</sup> Grace, David, *Designing a Winning Product, Remittances: A Tool to Reach the Underserved*. WOCCU/IRnet, May 16<sup>th</sup>, 2002,

<sup>13</sup> Melvin, Kevin, *Worker remittances as a Development Tool: Opportunity for the Philippines*. Report funded by the Asian Development Bank, 2003

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earnings. In some cases, recipients could use future remittances as collateral for lower lending rates.

The creation of new banking relationships result in, what Manuel Orozco calls, “financial democracy,”<sup>14</sup> where the average citizen—especially those with lower incomes, has access to financial services and opportunities for new income generating opportunities.

Linking remittance transfers to financial services can benefit financial institutions as well as the wider financial system by expanding and diversifying the client base and obtaining access to another supply of financial resources. This contributes to the stability of banks and allows financial institutions to realize greater economies of scale and improve the efficiency of their organizations, allowing them to do more with their money (i.e. provide more services) at a lower cost to the customer. Pooling resources through increased deposits enables financial institutions to finance a wider range of services that can result in a greater economic and social impact.<sup>15</sup> For some of the smaller financial institutions, such as microfinance institutions or credit unions, the additional funds provided through remittances can be used to leverage funds in commercial markets to finance growing lending operations that target small business development (see SME section below).

### ***Commercial Banks***

Some commercial and state banks have provided transfer and financial services for years. Due to their access to both international and domestic financial and money transfer systems and institutional capacity, some of these banks are able to offer a wider and more sophisticated range of financial services, handle relatively large flows of remittances and use their economic scale to transfer funds more efficiently and at a lower cost. With the size of the remittance business and the number of potential business opportunities remittance recipients provide, a greater number of these banks have become involved in the remittance transfer/financial services business. Examples include:

- **Groupe Banques Populaires (BP), Morocco**

In 2001, \$3.6 billion in remittances were sent to Morocco, which accounted for over 11 percent of the country’s GDP. At least 60 percent of these remittances went through the Groupe Banques Populaires (BP) a state-owned bank with an extensive network of branches in Morocco and throughout Europe. Since 1969, BP has been developing financial products to meet the needs of Moroccans, and offers a wide range of banking services that include a number of methods to send money. The cornerstone of these services is the basic checking account, in which three quarters of emigrant transfers handled by BP are deposited. A Moroccan emigrant can open a joint checking account at a local BP branch for themselves and a family member in Morocco. The emigrant can deposit funds that their recipient can withdraw at no cost to either party. In addition to the checking account, emigrants are availed a number of ways to wire money at a very

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<sup>14</sup> Orozco, Manuel, Remittances, the Rural Sector and Policy Options in Latin America. Migration Information Source, Migration Policy Institute (MPI). June 1, 2003. [www.migrationinformation.org](http://www.migrationinformation.org)

<sup>15</sup> Fernando, Nimal. *Workers Remittances and Microfinance: The Neglected Nexus*. The Focal Point for Microfinance: Finance for the Poor. Asian Development Bank (ADB). June 2003. [http://www.adb.org/Documents/Periodicals/Microfinance/finance\\_200342.pdf](http://www.adb.org/Documents/Periodicals/Microfinance/finance_200342.pdf)

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low cost. Money can be wired to a BP account, from which funds can be withdrawn by the account holder in Morocco for a fee of 0.1 percent of the amount transferred. They can also wire money to a person in Morocco to be picked up at a BP branch for around \$9. In addition, money can be sent through MoneyGram at any BP branch in Europe to a branch in Morocco without any charge beyond the minimum MoneyGram commission. Since around 70 percent of Moroccans living abroad invest in Morocco, BP provides subsidized credit for real estate and entrepreneurial investments in Morocco. The bank also offers a range of insurance schemes just for emigrants.<sup>16</sup>

- **Banco Solidario, Ecuador**

Ecuador has a sizable diaspora community living in Spain that sends large amounts of money back home. Remittances amounted to \$400 million in 2002. Recently, Banco Solidario joined forces with a number of Spanish banks to capture a share of the Spanish remittances market and offers an innovative range of services to migrants. As part of the 2002 agreement, anybody can transfer remittances from any one of the alliance branches all over Spain. Senders do not need to be members of the banks to send money and in Ecuador, payments can be received at any one of Banco Solidario's branches, BANKRED's ATM, or at any one of 100 cooperatives with which the bank has formed alliances within Ecuador. The cost to the sender is a fixed 4 percent of the total transfer, with a maximum charge of \$20. The average length of transfer is 24 hours. Banco Solidario complements its transfer services with a range of financial products that meet the needs of both the emigrant and their family in Ecuador. For example, the bank has developed a versatile savings account called "My Family, My Country, My Return." This account, based on remittances sent home, allows the emigrant to have full control of their money while abroad—only whatever amount the sender has made available to withdraw can be removed by their recipient in Ecuador. The emigrant can also set aside part of their remittances to save for a house or business upon return. In addition, emigrants have access to low cost, short-term credit to cover urgent needs in Spain, and a long-term low cost credit such as mortgages.<sup>17</sup>

### *Credit Unions and Microfinance Institutions*

While commercial banks may be better able to tap into financial and money transfer systems and provide more sophisticated services to remittance recipients, they may not serve the needs of poorer recipients, particularly in rural areas, without linking to smaller, down market financial institutions. Many experts feel that increasing the involvement of credit unions and microfinance institutions (MFIs) in the remittance transfer process is a promising means to expand financial access to the poor, particularly in rural areas with no access to the larger commercial banks. These institutions, which already provide financial services to the poor, are well equipped to handle remittance payments and establish banking relationship due to their expansive networks (see WOCCU example below) and presence in both rural and urban areas. As opposed to larger banks that might provide transfer and financial services to more up market clients, MFIs and credit unions are accustomed to small financial transactions and providing services to low-end

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<sup>16</sup> Iskander, Natasha, MIT, in Orozco, Worker Remittances: The Human Face of Globalization. [http://www.thedialogue.org/publications/country\\_studies/remittances/worker\\_remit.pdf](http://www.thedialogue.org/publications/country_studies/remittances/worker_remit.pdf)

<sup>17</sup> Sander, 2003

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clients. Due to the close relationships and one-on-one interactions that these institutions develop with their clients, they are able to provide many remittance recipients (many of whom are financially illiterate) with the guidance and assistance they require to effectively participate in the financial system. Their proximity and involvement with the communities receiving remittances enables MFI's and credit unions to provide specifically tailored financial services that better meet the needs of remittance receiving communities.

In recent years, there has been a push on the part of development actors to establish and extend credit union and microfinance networks that provide remittances services to the poor. These activities have included:

1. Establishing partnerships with remittance transfer organizations and financial institutions in other countries;
2. Improving remittance transfer and distribution mechanisms;
3. Facilitating lower cost transfers;
4. Enhancing institutional capacity of MFIs;
5. Promoting banking system use by remittance recipients; and
6. Developing tailored financial services for the poor.

Below is a sample of programs and projects that have promoted the linkage between remittance transfers and financial services for the mobilization of remittances for savings and productive investments:

- **Multilateral Investment Fund (MIF), Inter-American Development Bank (IADB)**

The Multilateral Investment Fund of the IADB has been at the forefront of promoting remittances as a development tool by supporting projects that 1) lower the cost or improve the ease of remittance transmission through the financing of technology platforms and training, and explore improved methods of transmission; 2) improve the enabling environment for remittances through improved regulation, supervision and transparency of popular savings and microfinance institutions providing services to remittance recipients and other depositors; and 3) mobilize savings and leverage the development impact of remittances through the support of innovative services to encourage migrant communities to participate in the financial sector and enterprise investment.<sup>18</sup>

- In El Salvador, MIF has worked to improve financial services and remittances by helping Federación de Asociaciones de Cooperativas de Ahorro y Crédito (FEDECACES), a federation of credit unions serving the poor, to develop automated transaction and management information systems, better training and governance and new financial products tailored to families receiving remittances. The project has the dual effect of strengthening the Federation of Associations of Cooperatives and thereby broadening the supply of financial products, improving services to remittance

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<sup>18</sup> For more information on MIF's Remittance Cluster and related projects, see *Remittance as a Development Tool*, <http://www.iadb.org/mif/v2/remittances.html>

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senders, and expanding coverage to micro and small enterprises throughout El Salvador.

- In the Dominican Republic, MIF is funding a project focused on *distribution channels for remittances*. This project aims to 1) strengthen capacity of remittance transfer systems through new technologies that reduce transmission costs; 2) develop new technological applications for transmittal of remittances; 3) improve the ability of the microfinance sector to process remittances; and 4) promote the use of the banking system by remittance recipients. Another project in the Dominican Republic involves *financial and business services to remittance recipients*. The goal of this project is to boost the income of low-income populations in areas affected by migration (many of whom receive remittances) through access to financial and business services when remittance recipients need support for productive activities.
- MIF has developed an alliance with the Spanish saving bank system (La Caixa). Under this alliance, Latin America and Caribbean savings and microfinance institutions will receive assistance from La Caixa to make remittance distribution more efficient using payment card (ATM) technology and reach low-income groups with tailored financial products and services. As a result of this alliance, money can now be sent from Spain to Ecuador for as little as \$3. Money transfer companies like Western Union have responded by lowering their own costs.

- **World Council of Credit Unions (WOCCU) International Remittance Network (IRnet)**

A promising program that facilitates remittance transfers and links remittances to savings opportunities is the World Council of Credit Union's (WOCCU's) International Remittance Network (IRnet). In 2000, WOCCU established the IRnet, a partnership with Vigo Remittance Corporation to facilitate the transfer of funds from credit unions in the United States to Latin America. The service allows members of over 160 credit unions in 23 U.S. states with over 700 points of services (branches) to send money to 42 countries in five continents for a fee lower than other transfer alternatives. Compared to the competition, those sending remittances can save as much as \$25 for a \$200 transfer. These low rates can be achieved through the size of the network, the efficiency of the transfer system and the non-profit basis of the participating remittance-sending credit unions. In addition to providing lower cost transfers, IRnet discloses the actual exchange rate at the point of sale and will refund a member's money and fee if a problem occurs.

At the distributing end, WOCCU is working with various countries with strong credit union movements and a large volume of remittance transfers. The purpose of this work is to upgrade or expand the "receiving" network and provide guaranteed remittance services to a wider range of credit unions through the involvement of commercial transfer companies and credit union national associations. Already this work has been performed in El Salvador, Guatemala, Honduras and Jamaica—with activities underway in Mexico and other countries.

Not only does WOCCU use its expansive credit union network to transfer remittances at a lower cost than most of the competition, but upon receiving remittances, recipients can

also become a member of the local credit union, which provides them with access to savings, loans and insurance services. Once a banking relationship is established, credit unions can play the part of a microfinance institution (MFI) and provide credit for a range of activities, including loans for small enterprises, agricultural activities, investments in property or other purposes.

IRnet is promising in a number of ways. With over 37,000 credit unions broadly disbursed in 85 countries, the international credit union system could have one of the best infrastructures of any financial network in the world—facilitating remittance transfers while providing financial services to more people.<sup>19</sup>

- **PRODEM Bolivia**

In Bolivia, the remittance market is a \$5 million plus business, with most remittances transferred through informal channels, the postal offices and the Western union. Since the commercial banks were not interested in this market and most Bolivian MFIs were not engaged in money transfers, PRODEM, itself a MFI, felt it could fill the gap with its competitive advantages, such as proximity to low-income populations, offering personalized services and operating in rural areas. PRODEM offered a transfer service and new financial services to remittance receivers and aimed to create a saving culture. Clients who received remittances could open a savings account at attractive conditions (premium interest rates for deposited remittances). Clients that established a relationship with the institution could subsequently obtain small business loans. Expected future remittances could also be leveraged as collateral for loans.<sup>20</sup>

**Box 2**  
**WOCCU: Looking Forward**

WOCCU is working with Mexican and U.S. officials to develop mechanisms that improve the cost and ease of remittances, while linking the transfer to financial services. In the same way that many employees in the U.S. automatically direct funds towards payment or savings account, remittance funds would automatically be transferred to an account of a person in Mexico. Although there is an automatic clearinghouse that can facilitate remittance funds through the Central Bank of Mexico, many credit unions don't have access to these clearing activities. David Grace and the WOCCU are currently working to help credit unions develop this capacity.

Source: David Grace, Phone Interview, October 2003

## **Channeling Remittance towards Enterprise Development**

One of the largest constraints limiting private sector growth in developing countries is the lack of available and affordable credit and other financial resources necessary for seed or working capital for enterprises, particularly those in the small and medium size enterprise (SME) sector. There is evidence that remittances can play a large role in supporting the growth of enterprises in labor exporting countries with migrant communities that send large volumes of remittances. For example, remittances are responsible for almost 20 percent of capital invested in micro

<sup>19</sup> Grace, 2003 and WOCCU Website: [http://www.woccu.org/prod\\_serv/irnet/index.php](http://www.woccu.org/prod_serv/irnet/index.php)

<sup>20</sup> International Labor Organization (ILO). Making the Best of Globalization: Migrant Worker Remittances and Microfinance. Workshop Report, November 2000. <http://www.ilo.org/public/english/employment/finance/download/remitrept.pdf>

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enterprises in urban Mexico.<sup>21</sup> Although living abroad, many migrants are interested in investing in enterprises in their home country, either as a means to employ family members at home, earn additional income or prepare for their retirement or eventual return to their home country. In addition to providing financial resources, many migrant entrepreneurs will participate at some level in the business venture to ensure that the activity accomplishes its expected returns.

These types of investments on the part of remitters can have a large impact on poverty reduction and the expansion of business in their home communities. Channeling remittances towards enterprises, no matter the type or size, can generate jobs and sources of income that may have otherwise not existed. While the actual number of jobs created and the enterprise's earnings will depend on the market environment where they operate, these investments can help provide economic momentum in struggling local economies. If investments are in manufacturing enterprises, they can contribute to the development of local supply chains.<sup>22</sup>

Just as valuable as the financial investment is the transfer of knowledge from the migrant entrepreneurs/investors to those in the home community. Depending on their occupation in their country of residence, migrants can have knowledge of more efficient technologies, production systems, management techniques, accounting practices, marketing and other skills that can be passed on to their counterpart. This transfer of knowledge can help increase the productivity and competitiveness of enterprises, enhancing their profitability and potential for future expansion. (For more on these types of benefits, see proceeding sections on investment and business networks.)

In recent years, the development community has increasingly focused on SME development as a tool for poverty reduction and private sector expansion. Within the migration context, a number of donors and governments have looked at ways that they can incorporate remittances and migrant entrepreneurs into wider SME development programs. In some cases the programmatic responses are similar to those discussed in the previous section - working with financial institutions to help these entrepreneurs obtain the credit needed to establish and operate successful enterprises. In other cases, these actors are working to enhance the ability of both migrant entrepreneurs and their local counterparts to run efficient, competitive and profitable businesses. This is done through training, technical and marketing assistance.

- **Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IADB)**

In addition to facilitating access by remittance recipients to financial services, the MIF has led development efforts to link remittances to SME development:<sup>23</sup>

- In Ecuador, MIF has been working with the Banco Solidario in Ecuador to *support micro enterprises through utilizing a line of credit*. This project consists of a

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<sup>21</sup> Woodruff, Christopher and Rene Zenteno. Remittances and Microenterprises in Mexico. August, 2001. [http://sccie.ucsc.edu/papers/epapers/Remittances\\_Mexico.pdf](http://sccie.ucsc.edu/papers/epapers/Remittances_Mexico.pdf)

<sup>22</sup> Pan American Development Foundation and Columbia University SIPA. *Building Capacity of Immigrants to Serve as Development Actors in Latin America and the Caribbean: A Resource Guide for the Development Community*. May 2003.

<sup>23</sup> For more information on MIF's Remittance Cluster and SME projects, see *Remittance as a Development Tool*, <http://www.iadb.org/mif/v2/remittances.html>



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revolving line of credit of up to US\$2 million, with an additional 10 percent (up to US\$200,000) for technical-assistance projects. One of the main objectives of the project is to facilitate the flow of remittances and make it easier for Ecuadorian migrants and their families to gain access, maintain savings and engage in productive investments. In addition, the project is extending coverage of the formal financial system in Ecuador to the micro enterprise sector, especially in rural areas and attempting to demonstrate the feasibility of achieving attractive financial returns through medium- and long-term lending in order to attract more people, including remittance recipients, towards the use of financial instruments.

- In Mexico, MIF is working with the Fundación para la Productividad en el Campo, to establish a model for the productive use of remittances through interaction between producers in the communities of origin and migrating entrepreneurs. This includes improving the business skills of groups of producers needed to turnout and market agricultural and micro industrial products, providing access to markets and information, and facilitating access to financing leveraged by the capital contributed by the migrants abroad.
- In Brazil, MIF has worked with Banco Sudameris de Investimento (BSI) on a Remittance Fund for Entrepreneurs (Dekassegui Fund). This project aims to promote entrepreneurial activities by Brazilian temporary workers overseas who want to start businesses upon their return by creating a mechanism to tap into a small portion of regularly transferred remittance accounts to more productive uses.
- **National Financiera (NAFIN), Mexico**

NAFIN is a development bank that implements an enterprise development program that has provided financial and technical support to over 80,000 micro entrepreneurs since 1994. As part of this program, NAIF provides support for productive projects in Mexico through migrant worker remittance. The NAFIN program offers several advantages to migrants interested in establishing or expanding an enterprise in their home country—including financial, training, and technical and marketing assistance for projects that channel remittances toward a productive use. NAFIN has developed community investment development funds that could be adopted to mobilize remittances for community-managed investments in micro enterprises.<sup>24</sup>
- **UNLAD-KABAYAN, Philippines**

UNLAD is one of the few organizations in the Philippines that aim to mobilize migrant worker resources for productive use and community development. It has mobilized pooled migrant savings, helped to identify appropriate investments and facilitated credit applications with the objective of creating new jobs through sustainable businesses. Services available to migrants include savings accounts, investments in existing businesses, special start-up funds and skills training, logistical support and network. In

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<sup>24</sup> International Labor Organization (ILO). Making the Best of Globalization: Migrant Worker Remittances and Microfinance. Workshop Report, November 2000

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addition to these services, UNLAD has implemented a social support program to educate and organize migrant workers.<sup>25</sup>

## **Programmatic Considerations**

Despite the various potential benefits of linking remittances to productive activities through access to financial services and enterprises as a means to reduce poverty, a number of issues arise when considering programmatic responses to ‘tapping the development potential.’ These include avoiding a dependence on remittances for development, the appropriateness of attempts to channel remittances towards productive investments, meeting the needs of recipients, constraints due to weak domestic financial systems in rural and underdeveloped areas, weak market environments for productive investments and the danger of creating market distortions

- ***Appropriateness of Channeling Remittances Towards Productive Investments***

While the enormous flows of remittances could indeed be an important source of finance for job and income generating investments, it may not be appropriate to attempt to re-channel funds towards productive investments. Since most remittances are sent or received by families who use the funds to best fill their needs, development actors and government will have little luck influencing the use of the bulk of individual remittance monies. Lowell and Garza note that remittances are spent in an ordered way, on a hierarchy of needs. For many poor families, most remittance monies are solidly earmarked for basic needs and are not available for other purposes. Once the households are able to meet these basic needs, they are probably more likely to be more able and amenable to alternative remittance uses.<sup>26</sup>

Although agreeing on the value of remittances invested in productive activities, Patrick Taran<sup>27</sup> from the International Labor Organization (ILO) argues that many of the uses for remittances, usually not deemed as productive, could indeed have a large impact on a community’s or country’s long term development. Taran says that remittances used for housing improvements, education, health and skills training help contribute to the aggregate social capital of communities. He cited the example of Comoros, where remittances have helped to ensure that 85% of children are able to go to school. While this might not have an immediate development impact, he feels that a higher educated populace will be as much an asset for development as remittance supported micro enterprises. Similarly, remittances investments in land, home improvements and livestock that are usually not considered productive investment can contribute to a family’s ability to earn income or ability to have a safety net for rough times.

Many experts advise that programmatic responses should aim to lower transaction costs and increase the ease of remittance transfers (see Box 3 Enhancing Transfer Process) and ensure a range of opportunities and services that enable them to use remittances to best

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<sup>25</sup> Ibid.

<sup>26</sup> Lowell, B. Linsay and Rodolfo De La Garza. The Developmental Role of Remittances in U.S. Latino Communities and Latin American Countries. June 2000

<sup>27</sup> Taran, Patrick, Senior Migration Specialist, ILO, International Migration Branch. Phone Interview, October 2003.

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meet their needs. When trying to facilitate the productive use of remittances, approaches that remove barriers, provide alternatives and incentive will be more promising than interventionist approaches.<sup>28</sup>

- ***Meeting the Needs of Recipients and their Communities***

When developing programs that link financial services to remittance recipients, it is important to consider the potential clients and their economic context. David Grace from WOCCU says that the most successful remittance-savings initiatives are those that serve various economic groups while simultaneously meeting changing needs and situations of individuals and communities. Savings and lending products should be designed to best fit the needs of the customer, as opposed to the interests and agenda of development specialists and governments. Furthermore, these programs should be designed to not only target the recipients of remittances, but also the wider community, such that the benefits can be multiplied—both in terms of access to services and the use of remittance resources pooled through savings. For example, MFIs can use the money from deposits to lend to all types of borrowers. As a result, the wider community, even those that do not receive remittances, can also use remittances to mobilize investment.

- ***Weaknesses in Domestic Financial Services***

Although efforts to link transfers to financial services is a promising mechanism to mobilize remittances for savings, a number of constraints within domestic financial systems and the financial institutions themselves could limit their actual impact. Even if recent trends within the international remittance market are moving towards easier, lower cost and more transparent transfers (see Box 3), Jan Wimaladharmma from DFID notes that recipients still face problems accessing the money once the transfer enters the domestic market.<sup>29</sup> This is particularly true in rural areas. While recipients in urban areas have fairly good access to institutions that receive international transfers, rural regions tend to be much less well serviced by the financial industry.<sup>30</sup> A recent report funded by the Asian Development Bank (ADB) says that in many countries, the financial services in rural areas lack ‘capillarity’ or the ability to move money from account to account in the banking system.<sup>31</sup> The small-sized thrift banks, rural banks and grass roots financial institutions are poorly integrated into the national and international payment systems and there is a general lack of automation technical capacity.<sup>32</sup> Not only does this require institutional strengthening with the rural financial systems, but development actors working to link transfer and financial services will likely need to work with domestic financial institutions to utilize technologies that improve payment clearance systems,

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<sup>28</sup> Van Doorn, Judith, *Migration, Remittances and Development, Migrant Workers*, Labor Education 2002, No 129. International Labor Organization (ILO), Social Finance Program. 2002  
<http://www.ilo.org/public/english/dialogue/actrav/publ/129/8.pdf>

<sup>29</sup> Wimaladharmma, Jan. Department for International Development (DFID), Financial Sector Team. United Kingdom. Phone Interview, September 2003.

<sup>30</sup> Sander, 2003

<sup>31</sup> Mellyn, Kevin. *Worker Remittances as a Development Tool: Opportunity for the Philippines*. Asian Development Bank (ADB) 2003.

<sup>32</sup> Sander, 2003

automated technologies, management information systems and inter-institution connectivity, especially in rural areas.

Similarly, increasing the involvement of MFIs faces a number of constraints. First, David Grace says that for MFIs to solve some of the access problems that remittance recipients face, they must have as many points of service as possible.<sup>33</sup> While some MFIs, such as the Grameen Bank in India and Bangladesh, have multiple service points, larger MFIs in some countries have 20 branches on average. Thus, there is a need to link MFIs together through greater cooperation. Second, an ILO paper focusing on workers' remittances in Bangladesh noted that while the MFI option was indeed promising, regulatory frameworks might need to be changed so MFIs can become involved in foreign exchange transfers or engage in various financial transactions with other (particularly commercial) financial institutions.<sup>34</sup> Furthermore, to successfully engage in the remittance business, many MFIs will require substantial institutional strengthening in regards to technology, management information systems (MIS), financial accounting and development of new financial instruments and developing correspondent relationships with banks abroad.

**Box 3**  
**Enhancing the Remittance Transfer Process**  
**Putting More Money in the Hands of Recipients**

The quality, availability and reliability of remittance services vary from country to country. In many remittance receiving (as well as sending) countries, insufficiently developed financial sectors, weak legal and regulatory frameworks and inadequate technologies lead to high cost, lengthy, and at times, unreliable transfers. Not only do these constraints impose substantial costs on both remitters and recipients (many of whom are poor), but evidence shows that inefficiencies in the transaction process—long delays in check clearance, exchange losses or improper disclosure of transaction costs—deter remittances.

In the past, a few money transfer operators dominated the market. Due to the lack of market competition they were able to charge excessive fees and/or transfer funds at an unfavorable exchange rate. In most cases, fees and the exchange rate used were not disclosed to the remitter, so they did not know the actual amount received in the home country. Recently, however, a growing number of banks (both from remitting and receiving countries) have become more engaged in the remittance business by opening new branches across borders and applying modern banking technologies to provide better services. In other cases, financial institutions with large global networks (for example credit unions) have created partnerships with remittance transfer companies to provide cheaper and reliable remittance services. The resulting competition has gradually led to lower transfer costs.

Not only has the increased number of market players contributed to lower transfer costs, but also more transfer options allow people to receive remittances with greater ease. One of the more popular techniques in the Americas is the introduction of ATM/Debit Card transfer services that are being offered by a growing number of private banks. When a migrant worker enrolls in such programs, they are issued a debit card that can be used by a designated person in Mexico. The banks earn money off low transfer fees and/or monthly maintenance fees. The cost of this type of transfer can be less than half the cost of a traditional transfer.

Two approaches hold the strongest potential for enhancing the transfer process. The first approach is to establish a policy regulatory environment that fosters competition and new entrants in the remittance business on both sides of the border. The second approach is to work with both international and domestic financial institutions to utilize technologies that improve payment clearance systems, automated technologies, management information systems and inter-institution connectivity—especially in rural areas.

<sup>33</sup> Grace, David. WOCCU. Phone Interview, October 2003

<sup>34</sup> Siddiqui, 2001

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Both Jan Wimaladharm (DFID) and Dilip Ratha (World Bank) emphasize that in the end, issues related to the transfer and mobilization of remittances are ultimately financial development programs. One could argue that a conventional financial development program that allows for greater financial capillarity and a wider range of financial services (savings, microfinance) designed to meet diverse clients, would still benefit remittance recipients—even if the program didn’t focus on them. Although the development potential of remittances can be used to urge sending country governments to move forward on deeper financial reforms—success will still depend upon sound financial institutions, legal and regulatory frameworks and practices.

- ***Weak Market Environments for Productive Investments***

One constraint (and a topic repeated throughout the paper) that could limit the potential impact of initiatives channeling resources toward productive investment is the probable lack of investment opportunities or a difficult market environment. Communities that receive remittances may have labor shortages (due to migration) or weak market demand. In many cases, the migration itself was a symptom of a lack of economic opportunities. Even if initiatives help to increase savings, their impact will be limited if the banks are unable to determine viable investments to be leveraged with remittance savings. Similarly, if the economic environment is not conducive to growth, remittances that are channeled towards enterprise investment may not generate jobs or income.

- ***Avoid Market Distortions***

As some of the earlier examples illustrate, a number of institutions have used various incentives as a means to channel remittances. While this technique is recommended by a number of experts and institutions, a few experts caution against the practice, emphasizing the need for programmatic responses to be market based. For example, Dilip Ratha of the World Bank feels that there are limits to the extent that donors and governments can enhance the economic impact of remittances beyond creating sound regulatory and market environments that promote lower cost and higher quality transfer and financial services. Ratha cautioned against incentive schemes such as premium interest rates or exchange rates as a means to take part in savings options or productive investments, noting that many incentives can create distortions that can affect the wider financial markets.<sup>35</sup> Ultimately, it is advised to remove barriers and constraints tied to the transfer and use of remittances, and let the market guide the actual movement and allocation of funds. If this is achieved, and there is adequate awareness of the services available, alternatives that mobilize savings and investments will be used by more people.

- ***Avoid Dependence on Remittance as a Key Source of Development Finance***

Finally, some experts noted that some actors, particularly the governments of labor-exporting countries, become dependent on remittances to buoy economies. While remittances may be relatively reliable, shocks or economic crises in the host countries from which emigrants send funds can have a significant impact on remittance levels. For example, in the aftermath of the Russian crisis in 1998, Armenia saw a large decrease in remittances from that country.

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<sup>35</sup> Ratha, Dilip. Senior Economist, World Bank. Phone Interview, September 2003

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Furthermore, governments should not regard remittances as a substantial source of development finance. For example, Susan Martin from Georgetown University worries that some labor exporting governments may see remittances as a substitute, not a complement, to official development aid and social and public spending. In some cases, reliance on remittances could be a regressive form of aid since many remittance-sending migrants that compose some émigré and diaspora communities that send large amounts of remittances earn poverty-level wages in the developed countries where they work. By placing a greater dependence on emigrant resources to fund development, the poorest in the rich countries could shoulder a large part of the effort to relieve poverty in the poorer countries.

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## Chapter 2: Collective Remittances for Community Development

Although a large majority of remittances are sent from individuals to meet the needs of their families, an increasing number of emigrants and members of diaspora communities wish to do more to contribute to the development of the communities and countries from which they emigrated. In a growing trend, émigrés from Central and Latin America, the Caribbean and elsewhere have been pooling a portion of their remittances to promote community development. While collective remittances make only a small share of total remittances, the aggregate amounts to a significant source of development funds. For example, collective community investments in Mexico amounted to more than \$30 million in 2002.<sup>36</sup> Since many of these investments take place in poor rural areas, it is evident that these contributions can provide significant benefits and large development impact to recipient communities.

### Hometown Associations

The most renowned medium for channeling collective remittances are hometown associations or HTAs, which are groups of emigrants seeking to support their home communities, maintain relationships with local communities, and retain a sense of community as they adjust to life in their new home.<sup>37</sup> These emigrants develop relatively cohesive associations with a close-knit membership that follow basic rules of group discussion and decision-making. This type of association has become very popular in U.S. emigrant communities from labor exporting countries in Latin America, particularly Mexico and El Salvador. While these groups usually maintain a core of active members, they are able to mobilize the time and financial resources of hundreds of fellow emigrants from the same locality to raise money and volunteer time. At times, HTAs will join together to create federations to adapt to changing circumstances and new opportunities.

### **Social and Infrastructure Development Projects**

Generally, HTAs have served a philanthropic function by addressing social and economic problems in home communities. Collective remittance contributions are used to fund projects involving health, education, recreation and other public services—such as electricity, water and sewer systems and roads. These groups do not merely donate money, but also play an active role in the identification, planning, coordination, implementation and monitoring of these projects through donations of their time. During the project cycle, they work with, or create, local counterparts within the home community. In many instances, HTAs collaborate with local government authorities as well.

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<sup>36</sup> Donald Boyd, Senior Deputy Assistant Administrator Latin American and Caribbean Bureau, USAID. Opening Remarks - Launch of "*Mexican Hometown Associations and Their Development Opportunities*" by Manuel Orozco. September 15, 2003

<sup>37</sup> Orozco, Manuel. *Latino Hometown Associations as agents of development in Latin America*. Inter-America Dialogue, 2000

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Depending on the success of their implementation, these types of collective remittances projects can have a number of direct and indirect impacts that contribute to the well-being and development of a community, such as:

- Projects involving education help communities to accumulate their ‘stock’ of social capital, which is widely considered a key factor in long term economic development;
- Projects improving the health care and water and sewage systems can benefit the overall wellbeing of communities and build further upon their stock of social capital. Studies have shown that healthy people are more economically productive; and
- Projects contributing to electrical and transportation infrastructure contribute to the economic infrastructure necessary to facilitate development of the private sector.

While the collective funding for these projects is a central component of HTAs’ community development efforts, Carlo Dade from the Inter-American Foundation (IAF) says, “money is only a small part of what is exchanged between the diaspora and their home communities. Also important is the exchange of human capital, knowledge, business opportunities and culture [that occurs throughout the process.]”<sup>38</sup> By involving local residents in the identification, design and implementation of activities, HTAs help local individuals gain capabilities that will facilitate future economic development—such as decision-making, organizational and management skills. In addition, HTAs can transform the political culture and local politics by energizing local activism and civic participation, as well as encouraging transparency and accountability within community and local government.<sup>39</sup>

**Box 4**  
**Community Projects In Africa**

Although HTA activities in the Americas receive extensive attention in the development community, similar activities takes place in other regions. The African Foundation for Development (AFFORD-UK) describes projects carried out by African diaspora in the U.K.

- £5000 to develop a vocational training center. Employed staff to run training programs.
- £3000 to supply books and computers to deprived schools.
- Assistance building bridges to link remote villages to services.
- £4000 to build hospital ward.
- £5000 to build community hall.
- Establishing free drug provision scheme.

Source: Ndofor-Tah, Caroline, *Diaspora and Development: Contributions by African Organizations in the UK to Africa’s Development*. 2000 [www.afford-uk.org/download/afford\\_report.pdf](http://www.afford-uk.org/download/afford_report.pdf)

## **Productive Investment Projects**

As they begin to meet the more pressing needs of their community—social welfare and infrastructure—some of the older and more capable hometown associations/federations are beginning to look at ways to become involved in productive economic projects and to contribute to job and income generation in their home community. This includes diffusing information on

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<sup>38</sup> Dade, Carlo. Working with the Diaspora to Support Development. Inter-American Foundation. 2003. [http://www.iaf.gov/publications/Fact\\_Sheets/2003\\_7\\_16\\_en/Remittancesfinal2.pdf](http://www.iaf.gov/publications/Fact_Sheets/2003_7_16_en/Remittancesfinal2.pdf)

<sup>39</sup> The leaders of HTAs based in the U.S. are generally keen on ensuring that the collective contributions they provide are used properly and not appropriated for other means.



investment opportunities, and even more important, serving as a vehicle to pool the collective remittances and financial resources of small scale savers and investors in the U.S. for investment in home countries.<sup>40</sup>

In a sense, investment activities on the part of the HTAs and HTA Federations represent a form of foreign direct investment (FDI), albeit with lower expected rates of returns, which can open some communities/markets to investments that would have otherwise not occurred. Brunsen McKinley, from the IOM, notes that as opposed to foreign investors who base their decision on criteria of a cost-benefit calculations, migrants not only use objective criteria, but also subjective factors such as personal, emotional and cultural connections; prestige; or the pleasure of contributing to the development of their home community.<sup>41</sup>

In addition to their financial investments, HTAs participate in the start-up and operation of collective productive activities, which can facilitate the transfer of skills and knowledge in business management, organization, financial practices, production techniques and marketing, etc, that they have gained by working abroad. This can help guarantee the success and sustainability of a collective investment while putting important development skills in the hands of local counterparts. When coupled with investments in social and infrastructure projects, productive investments and knowledge transfer can serve as a catalyst for economic growth within a community.

### **Box 5** **HTA Success Factors**

A number of key factors can determine a HTA's ability to successfully implement community development projects:

- Institutional Capacity: Management, organization, leadership, fund raising and project experience
- Ability to maintain commitment of association members to donate time and money
- Understanding of Project Cycle: Needs assessment, project identification, design and implementation
- Institutional capacity and project experience of home country counterparts
- Effective cooperation and coordination between HTA and home country counterpart throughout project cycle; Consultative processes
- Collaboration with government, NGOs and donors
- Access to technical, financial and in kind assistance

Sources: PADF and SIPA, 2003, Ndofor-Tah, 2000, Lowell and Garza, 2000.

## **Donor and Government Involvement in HTA Activities**

Although many HTAs have been operating for over a decade, government and development actors have recently recognized the potential value of HTA-type projects for meeting development objectives. Governments with large migrant populations abroad and extensive HTA engagement see the mobilization of collective remittances as a means to help address social and economic problems in their country. Similarly, donors and development agencies with grassroots development operations in the Americas see HTAs as a vehicle through which some of their development objectives can be achieved. At one level, these development actors have worked to enhance the ability of HTAs to effectively implement projects through institutional,

<sup>40</sup> Public-Private Infrastructure Advisory Facility (PPIAF), Migrants Capital for Small-Scale Infrastructure and Small Enterprise Development in Mexico. January 2002.

<http://www1.worldbank.org/wbiop/decentralization/laclib/remittances.pdf>

<sup>41</sup> McKinley, Brunsen. *Migrants Remittances in the Americas: Trends and Policy Options for RCM Countries*. International Organization for Migration (IOM). 2003.

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financial and technical support. At another level, some governments and donors have looked for ways to help or encourage the use of collective remittances for productive investments in small businesses, agriculture and manufacturing. Described below are different ways that ‘outside’ development actors and governments can and have increased the effectiveness of HTA and related activities.<sup>42</sup>

## **HTA Assistance from Donors and Development Organizations**

Within the last two to three years, a number of donors and development agencies working within the Americas have implemented pilot projects or initiatives to provide financial, technical and in-kind assistance to enhance the economic impact of HTAs and community development projects. Generally, these projects involve institutional development, project level assistance and matching funds for community projects.

*Institutional development:* While HTAs have indeed had a positive impact on their communities, weak institutional capacities limit their ability to achieve their full potential. Although Amy Coughenour Betancourt, from Pan American Development Organization (PADF), recognizes that many of the groups have been around for some time and have accomplished a great deal without outside assistance, she also wonders what more could have been accomplished with technical assistance. Lee Nelson, also from PADF, reflects on how failures discourage association member participation or how weak organization can stunt the growth and evolution of groups. They note that many émigré organizations lack effective organizational structures, strategic development, and planning and decision making processes. By providing technical assistance, development actors can assist hometown associations to become small development agencies.<sup>43</sup> At the institutional level, this includes:

- Working with groups to identify and develop specific capacities and organizational strengths, as well as identify and assess weaknesses. Once identified, development actors can address weaknesses and maximize strengths.
- Working to enhance organizational marketing for member outreach and developing partnerships for collaboration and financial assistance.
- Providing methods and techniques for effective stakeholder cooperation. This not only includes relationship building, collaborative planning and distribution of responsibilities, but also conflict management.

At the same time, development actors can work with HTA counterparts in home communities to provide them with the institutional capacity necessary for them to be effective partners in HTA projects.

*Project Assistance:* At the project level, development actors can engage in a range of activities to enhance HTAs’ ability to implement successful community projects. In some cases this may

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<sup>42</sup> Due to the extensive coverage of this topic and various related activities in various studies and reports this paper aims to provide a summary of government and donor activities. For more details on this topic look at various articles by Manuel Orozco at the Inter-American Dialogue: [www.thedialogue.org](http://www.thedialogue.org)

<sup>43</sup> For More Information, see PADF and SIPA, 2003

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involve these actors working along side the HTA, or merely helping them to develop the necessary tools and methods. These activities include:

- Guidance in the identification and design of projects that can have a larger development impact.
- Providing a basic understanding of a project's life cycle and management and assistance in the planning, launch and implementation of specific projects.
- Linking migrant groups to reliable local counterparts and funding partners.
- Business services assistance for projects with a productive or commercial element. This includes market studies, management, accounting and ICT development.
- Assistance identifying experts for necessary technical assistance.

*Matching Funds:* Generally, HTAs provide between \$5,000 and \$20,000 toward community development projects.<sup>44</sup> While this amount can significantly impact a poor community that would usually not have access to these funds, development actors can supplement or leverage collective remittances with matching funds. This provides HTAs with limited resources the ability to undertake projects that would have been difficult, if not impossible otherwise. As a result, these HTAs can implement larger projects that will have a greater economic impact.

While a number of organizations have worked with HTAs in the U.S. and Latin America, two organizations are currently implementing projects that could represent replicable examples for activities not only in the Americas, but also in Africa and Asia. These include:

- ***Pan American Development Foundation (PADF) –***

The Pan American Development Foundation (PADF), is a private non-profit organization assisting the least advantaged people in Latin America and the Caribbean. PADF is working to help HTAs make their collective investments more productive by providing tools to implement developmentally sound activities and to explore the extent to which these groups can become major players in community development. Currently, USAID funding is leveraging activities under PADF's Transnational Development Initiative that links U.S. based emigrant groups that wish to focus on economic development projects with training, matching funds and other resources.<sup>45</sup>

At the core of the initiative is the Transnational Development Fund—a matching grant fund to be supported by private sector, foundation and government donors. The fund leverages collective remittances and is available to emigrant groups on a competitive basis, with eligible projects including those that promote sustainable economic and social development in their home countries. In addition to the provision of financial resources, one of PADF's key activities within these projects is to facilitate a learning process

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<sup>44</sup> Data for Mexico. Orozco, 2003 and Public-Private Infrastructure Advisory Facility (PPIAF), [Migrants Capital for Small-Scale Infrastructure and Small Enterprise Development in Mexico](http://www1.worldbank.org/wbiop/decentralization/laclib/remittances.pdf). January 2002.

<sup>45</sup> For more information see PADF and SIPA, 2003 and [www.padf.org](http://www.padf.org)

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through HTA partner training workshops to prepare them to become ‘small development agencies.’ This includes training in the following:

- Community needs assessments;
- Program design and implementation;
- Financial management;
- Monitoring and evaluation of project outcomes; and
- Strategies for fundraising and leveraging private and public sector partnerships to promote increased investment in productive activities.

As a result of this training, PADF expects that its partner HTAs will be better equipped to choose, implement and monitor projects.

Leveraging \$300,000 of USAID funding and \$154,000 raised through contributions from emigrant organizations from Haiti, El Salvador and Mexico, PADF is working with HTAs, local NGOs and private sector organizations on economic development projects by providing funds, training and technical assistance:

- In Haiti, PADF is working with the National Organization for the Advancement of Haitians (NOAH), a Washington D.C. based immigrant organization, and the Comite Relevement Musec (COREM), a federation of farmer groups on a revenue-generating project involving environmentally friendly fruit trees.
- In El Salvador, PADF is working with United Salvadoran-American Civic Committee (USACC), a U.S. based ‘home country’ organization that aims to strengthen the Salvadorian community in the U.S. and improve the lives of people in El Salvador, and Confederacion de Federaciones de la Reforma Agraria Salvadorena (CONFRAS), a Salvadoran based organizations that link seven confederations of more than 190 agrarian cooperatives. The cooperatives will receive assistance to produce, process and market food for local export markets.
- In Mexico, PADF is working with an HTA from Ayoquezco, Oaxaca state and Fundacion para la Productividad en el Campo (FUPROCA), which is an NGO that has played a large role in training and developing linkages with HTAs and marketing products to increase the production, marketing and sales of a women’s cooperative. PADF is working directly with FUPROCA to provide technical assistance and support to the cooperative. The HTA is providing funding and business support.

- **Inter-American Foundation (IAF)**

The IAF is an independent U.S. government agency that funds grassroots development projects designed and implemented by Latin American and Caribbean organizations. Recently, IAF has been working with immigrants to support projects they have been implementing in their home communities. While the IAF does not fund U.S. based organizations, it has used grants to co-fund community development projects in

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partnership with diaspora organizations in the U.S., as well as to provide technical assistance to the projects they finance.<sup>46</sup>

- In Mexico, IAF is collaborating with Fundacion para la Productividad en el Campo (APOYO), a Mexican NGO that plans to use \$400,000 in remittances from HTAs in the U.S. to help capitalize a revolving loan for low income farmers in the migrants' home states to gain access to credit. Borrowers are provided assistance in environmentally sound agricultural techniques, financial management and marketing. The funds for the project's activities provided by U.S. migrants, Mexican state and federal governments, project beneficiaries and APOYO are expected to total more than \$2.9 million.
- In Haiti, IAF has provided grants to Fondasyon Entstityon-yo pou Developman ki Soti nan Baz-la (FIDEB), an association of community development organizations, to fund development projects involving diaspora organizations and HTA. As part of the initiative, FIDEB serves as a link between HTAs that wish to fund projects in their hometowns, as well as help strengthen the capacity of counterpart Haitian organizations to work with diaspora groups. FIDEB is also operating a fund to co-finance communities development studies with HTAs to be used as investment guides and strategic planning tools.
- In El Salvador, IAF is funding the Asociacion cooperativa de Ahorro, Credito I Agricola Comunal De Paraiso de Osorio (COPADEO), which is working with a mayor's office, local groups and communities in an alliance to capture remittances for development projects. COPADEO works with other local actors to connect with Salvadoran migrants in the U.S.

### **Government Efforts to Enhance Collective Remittance Impacts**

Some governments with large migrant communities abroad have recognized the ways that migrant associations can help address social, infrastructure and economic projects within their country. For government authorities, particularly those at the provincial and municipal level, collective remittances can be a vital supplement to their own limited budgets and a means to support public services. Similarly, governments are interested in productive activities that can raise income and lower unemployment within their constituencies. In a desire to increase the use and impact of collective remittances some government authorities have implemented the following measures:

- Provide incentives to attract greater flows of collective remittances;
- Collaborate with HTAs in the planning and implementation of projects;
- Match collective remittance inflows with government funds; and
- Actively solicit and encourage investment by emigrants in their hometowns.<sup>47</sup>

Presently, Mexico is at the forefront of programs that attract and use collective remittances. The success and potential of some of its initiatives has caught the attention of other labor exporting

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<sup>46</sup> Dade, 2003. For more information on IAF projects, see [www.iaf.gov](http://www.iaf.gov)

<sup>47</sup> Lowell and Garza.

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countries and the donor community. The discussion below will briefly describe Mexico's most recognized program, a three for one matching fund project for small scale infrastructure and other community projects and programs encouraging emigrant investments in community enterprises.<sup>48</sup>

- **Iniciativa Ciudadana 3x1: Three-for-One Matching Fund Program: Zacatecas**

In 1992, the Mexican state government of Zacatecas initiated a program that matched the dollars donated by emigrants with funds from federal and state governments. The program was expanded to include municipal funds, and for every dollar donated an additional three dollars was provided from government sources. The funds raised go into a fund for development projects in HTAs' hometown communities. In 2002 emigrant groups and government authorities channeled \$16 million through this program.<sup>49</sup> The amounts committed to the program by HTAs have increased so rapidly in recent years that, at times, the government does not have the budgets to match the funds.<sup>50</sup> Due to the success of the program, other states throughout the country are implementing their own three for one programs. In 2002, the Iniciativa Ciudadana projects totaled \$43.5 million—a quarter of which came from the contributions of Mexican HTAs.<sup>51</sup>

Typical projects under this program include the construction of roads, street paving, the provision of water, sewage and electricity and the construction and improvement of other community facilities. Recently, some projects have included the provision of computers for schools, small dams and water treatment pools.<sup>52</sup> Although the final choice of the projects is left to the HTAs, many of the projects in Zacatecas reflect the preferences of government officials who perceive infrastructural work as the best kind of partnership with Mexican clubs. Infrastructure activities may also reflect that many HTA members equate construction with development and progress.<sup>53</sup> Although the average amount budgeted for 3x1 projects in Zacatecas is around \$42,000,<sup>54</sup> many times the construction process of large work is spread out among different phases, each one counting as an individual project, thus accommodating groups and communities with different financial capabilities.

- **Mi Comunidad (My Community), Guanajuato**

A program of the Mexican state of Guanajuato that aims to attract migrants' savings toward investment in community businesses that can have a positive impact on the home community. Under this program, which began in 1996, members of a particular HTA, along with local investors, become stockholders in a local enterprise. While these

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<sup>48</sup> For a more detailed description of these activities, see Public-Private Infrastructure Advisory Facility (PPIAF), *Migrants Capital for Small-Scale Infrastructure and Small Enterprise Development in Mexico*. January 2002. <http://www1.worldbank.org/wbiiep/decentralization/laclub/remittances.pdf> and Manuel Orozco at [www.thedialogue.com](http://www.thedialogue.com)

<sup>49</sup> Orozco, 2003

<sup>50</sup> PPIAF, 2002

<sup>51</sup> Orozco, 2003

<sup>52</sup> PPIAF, 2002

<sup>53</sup> Orozco, 2003

<sup>54</sup> Ibid.

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investors have business interests in mind, they are contributing to the development of their hometown through projects that create jobs.

Originally, the enterprises, or ‘maquiladoras’ were to be joint public-private ventures, with émigrés and/or local investors contributing half of the capital (\$60,000 minimum) and the state government the other half. In the end, the state only participated as facilitator—helping to develop a business plan, putting up two months of wages, providing training courses for new workers and making low cost loans available. Other parties offered legal, administrative and technical assistance.<sup>55</sup>

During the first four years of the program, 12 maquiladoras in seven municipalities were completed and operational, with nine additional enterprises underway. During that time, migrants had invested around \$2.2 million into 21 firms, with each employing over 30 people.

- **Fondo Estatal De Apoyo De Los Zacatecanos Austentes (FEAZA)**  
FEAZA is an investment fund for migrants that aims to promote and support the development of productive activities of Zacatecan migrants and their families through the lending of financial resources for projects of proven viability and profitability. The program started with an investment and reinvestment fund of 2 million pesos, 50 percent of which came from a solidarity contribution from Fondo Nacional de Apoyo para las Empresas de Solidaridad (FONEAS) a federal fund, and 50 percent from the Zacatecan state government. HTA groups with origins in Zacatecas are able to propose candidates for possible recipients and projects. For each project approved by the fund, migrants contribute 40 percent of the total investment. FEAZA provides credit for working capital, machinery and physical equipment and installations. Loan amounts can vary from 10,000 to 100,000 pesos and interest is fixed at 12 percent a year.

Although FEAZA was formally created in 1998, its operations did not begin until 2000. A total of 15 projects have been approved, amounting to \$150,000 in credits. All projects are for agriculture and cattle raising activities. The majority of loans have been channeled to already existing enterprises rather than new ones. During the program there has been no problem with credit recovery.<sup>56</sup>

### **Programmatic Considerations**

The programs described above present effective ways that outside actors can help emigrant associations increase the overall impact of their collective remittances and efforts on their home communities or countries. Outside organizations should, however, consider the following concerns when providing assistance to, or involving themselves in, emigrant associations’ activities: seeing collective remittances as an alternative source of public funding; assessing the priorities of HTAs vis-à-vis those of outside actors; and supporting HTA projects in productive activities.

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<sup>55</sup> Orozco, 2003 and PPIAF, 2002

<sup>56</sup> Public-Private Infrastructure Advisory Facility (PPIAF), Migrants Capital for Small-Scale Infrastructure and Small Enterprise Development in Mexico. January 2002.  
<http://www1.worldbank.org/wbiop/decentralization/laclib/remittances.pdf>

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- ***Avoid Viewing HTA Activities as a Substitute for Public Services***

Indeed, the mobilization of collective remittances has benefited a number of countries, particularly in Mexico and Central America. One should remember, however, that to some extent, projects carried out by HTAs are compensating for local governments' inability (most likely due to financial constraints) to provide their constituents with adequate public services. While emigrants are playing a crucial role in the provision of services, it is important that the respective local, provisional and national governments that are technically and legally responsible for public services do not see HTA efforts as a long term substitute, not a supplement, to social and public spending. This is especially important considering that many HTA groups come from émigré communities that earn poverty-level wages in the countries where they work.
  - ***Respect Priorities of Groups***

Primarily, it is important to consider the goals of HTAs and the reasons for which their members come together. Raul Rodriguez from the North American Development Bank says that many community groups with social or philanthropic missions are content with their current activities and have no aspirations to take on further initiatives, while others are seeking opportunities to both build their capacity and network with other HTAs to undertake a wider array of projects. Rodriguez cautions against attempting to overrule the common sense and priorities of HTAs, stating an appropriate response is to leverage efforts and decisions made by these associations through sound and objective technical advice and honest brokerage services to assist with their projects.<sup>57</sup> To paraphrase advice voiced by many experts: “meet them where they are, not where you want them to be.”<sup>58</sup> (See the *Cross-Cutting Considerations* chapter for an expanded discussion of this issue.)
  - ***HTAs and Productive Activities***

The experts interviewed and cited in this study provided cautionary advice that governments and development actors need to consider when encouraging HTAs to move toward more economically productive projects. First, it is important to realize that their size and informal origins limit the potential activities of many HTAs. At the same time, implementing successful productive projects can be more difficult than many social and philanthropic projects that HTAs are generally involved in. For example, projects involving enterprise development require market analysis, the development of business plans and/or the selection of proper capital good and inputs. While some HTAs have more sophisticated organizational and management structures to implement a wider scope of projects, many lack the mechanisms and organizational capacity that would allow them to effectively play an active role in administering productive projects. Second, some experts are concerned that the involvement in productive activities may be in conflict with the collective nature of HTA activities due to the individual nature of the near term benefits that flow from productive projects. For example, HTA members could see income-generating projects that use collective remittances as favoring a select few in

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<sup>57</sup> Rodriguez, Raul, in *Approaches to Increasing the Productive Value of Remittances. IAF Case Studies in Financial Innovations and International Cooperative Community Ventures*. March 2001.

[http://www.iaf.gov/news\\_events/Special\\_Events/Remittances.eng.pdf](http://www.iaf.gov/news_events/Special_Events/Remittances.eng.pdf)

<sup>58</sup> Jeremy Smith, USAID. Phone Interview, September 2003.



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the community, rather than the community as a whole, and therefore contrary to their mission.<sup>59</sup>

Similar to concerns regarding the mobilization of individual remittances for productive uses, participants in an HTA conference noted that although some HTAs may wish to engage projects that generate jobs and income, it is important that these projects are demand driven and based on realistic market potential. They cautioned that weak macroeconomic conditions, the lack of viable investment opportunities and labor shortages – especially in communities where a large portion of the workforce has emigrated – could render these projects ineffective. Manuel Orozco says, “both HTAs and public authorities need to have a greater sense of the risks involved in economic or wealth generation projects. Central to this issue is determining how successful a given investment project will be, how contracting and labor demand will operate and what schemes to implement to distribute the wealth. These are still issues unfamiliar to many HTAs and individual immigrant investors, who require much assistance.”<sup>60</sup> In such cases, further efforts to develop social capital and economic infrastructure could help lead to more viable investment opportunities.

Even if HTAs are not always the most appropriate mechanism to promote productive investment, some experts feel that focusing on HTA members who may be interested in individual or joint productive investments, instead of the collective membership, may be a more effective approach. Dale Crowell from PADF says that development actors should look at leading emigrant entrepreneurs involved in HTAs to determine how they use their position to link business opportunities in home communities and facilitate those activities. Amy Coughenour Betancourt from PADF suggested that development actors interested in income generating projects should focus on HTA groups or federations with wider regional or national scopes. Due to the wide and more diverse membership of these groups, there are likely sub-groups with a greater business focus and more interest in expanding business linkages with the homeland. Both Crowell and Jeremy Smith from USAID feel that within this context, HTAs can serve as a networking mechanism for entrepreneurs to identify opportunities. With enough interest, business motivated members can establish diaspora business networks, which is a topic discussion in the next section.

Finally, when discussing émigré sponsored community development in Central America, Jeremy Smith (USAID) notes that many of the projects implemented by HTAs are similar to programs funded by USAID. In the end, they are still rural and community development projects. If projects are poorly conceived, designed or implemented, or use ineffective development tools, their impact on recipient communities will be limited, whether the project are émigré grown or part of a conventional community development program. To an extent, HTA projects differ only in the fact that they are funded primarily by collective remittances rather than official ODA.

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<sup>59</sup> PADF and SIPA, 2003

<sup>60</sup> Orozco, 2003

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## Chapter 3: Diaspora Business and Investment

Despite the magnitude of remittance flows and its potential to reduce poverty and contribute to private sector development in some communities, most of its uses and benefits, even when channeled toward productive activities, are concentrated at the individual, grassroots or community level. Exploiting the diaspora-development linkage for broader private sector development requires a greater focus on ‘business diaspora’ (successful entrepreneurs living abroad) by mobilizing their material, knowledge and business network resources to drive investment and trade expansion and incubate sector growth.

### **Diaspora Entrepreneurs and Business Expansion**

Within each diaspora community, there are individuals or circles of entrepreneurs with the financial resources and business, management, operational and technical know-how, that if properly marshaled, can serve as a catalyst to their home country’s business sector.<sup>61</sup> Lev Freinkman from the World Bank says these business diaspora can play a key role in helping countries to breach the global economy, penetrate new markets and link local businesses to the world by serving as channels for the flow of information, market intelligence, capital and skills.<sup>62</sup>

#### ***Link to Business Opportunities and Conduit of Market Information***

The Chinese and Indian diaspora are key examples where well placed entrepreneurs have played a critical role in attracting foreign direct investment (FDI) through joint ventures, promotion of domestic companies’ exports and directing outsourcing opportunities to their country of origin. For example, many attribute the remarkable development of the IT industry in Bangalore, India to business linkages with Indians working in Silicon Valley, and throughout the high tech economy in the U.S., who have provided expertise, capital and outsourcing contracts. Similarly, the development of Taiwan’s high technology sector was facilitated by efforts targeting highly educated Chinese Americans to return to Taiwan and establish new ventures. This type of business networking can occur in various ways. Sometimes, diaspora business development occurs at an ad hoc basis, depending on the contacts and activities of individuals or close circles of businesspeople. In other instances, there is a concerted effort on the part of the diaspora business communities and their counterparts in the country of origin to develop a stronger economic link. In both cases, the linkages are facilitated by new transportation and communication technologies that allow even small firms to build partnerships with diaspora entrepreneurs abroad.

A recent high level study conducted by the Indian government’s Report of the High Level Committee on Indian Diaspora<sup>63</sup> outlines some key benefits of developing linkages to business diasporas. For example, entrepreneurs from the diaspora perform the following:

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<sup>61</sup> Diaz-Briquets and Jorge Perez-Lopez. The Role of the Cuban-American Community in the Cuban Transition. 2003. [http://ctp.iccas.miami.edu/Research\\_Studies/BriquetsLopez.doc](http://ctp.iccas.miami.edu/Research_Studies/BriquetsLopez.doc)

<sup>62</sup> Freinkman, Lev. *Role of the Diasporas in Transition Economies: Lessons from Armenia*. World Bank. 2002 [http://www.armpolicyresearch.org/ConferencesSeminars/Archive/pdf/freinkmanedited\\_Revised.pdf](http://www.armpolicyresearch.org/ConferencesSeminars/Archive/pdf/freinkmanedited_Revised.pdf)

<sup>63</sup> See <http://indiandiaspora.nic.in/contents.htm>

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- Provide useful insights in market penetration strategies;
  - Provide up-to-date information about local rules and regulations, business environments and procedures;
  - Act as conduits for business opportunities, using their contacts and business networks to open up doors for new products and exports from their countries of origin into their country of residence; and
  - Diaspora with access to decision making process and top management can influence outsourcing decisions by multinational corporations for the benefit of businesses back home.

James Rauch states that networks can be used to transmit information about current opportunities for international trade or investment. For example, transnational diaspora networks can facilitate opportunity matching through the provision of market information, letting suppliers know what consumers in a particular country will be receptive to their products, or enlightening suppliers on how to adapt their products to consumer preferences or trends in a given country. Within a given foreign market, diaspora networks can also help firms with distributors, component suppliers, and investors for joint ventures.<sup>64</sup> Other studies have noted that business diasporas can offset information asymmetries and other market failures by creating or substituting for trust through cultural affinities that supplement formal channels within weak market institutions,<sup>65</sup> facilitating movement in business environments that would not otherwise have occurred.

### ***First Movers***

While recognizing the importance of business diasporas as links to business information and opportunities, some experts remark on the importance of business diasporas as “first movers,” i.e. investors who come first to an emerging market of the home country when other investors (including those within the country of origin) are not interested. By acting as first movers, these business diaspora change market expectations and advance the flow of more conventional investment.<sup>66</sup> Lev Freinkman notes, “the concept of ‘first movers’ is important...in a situation that is characterized by great uncertainty and excessive economic risks.” Within this context, “first movers are critical to get the economy moving” in an otherwise unattractive situation.<sup>67</sup>

Business diasporas are in a unique position to serve as successful market leaders because of access and information advantages that other agents do not have. On one hand their understanding of the cultural context, politics and the business environment, coupled with their social and business linkages with those in the business community and government administrations in the home countries, give business diaspora an advantage over other foreign investors. These advantages not only better enable them to reduce the costs of identifying and

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<sup>64</sup> Rauch, James. *Business and Social Networks in International Trade*. *Journal of Economic Literature*, December 2001, pp. 1177-1203.

<sup>65</sup> Ellerman, David. Policy Research on Migration and Development. World Bank Policy Research Paper. August 2003. [http://econ.worldbank.org/files/29100\\_wps\\_3117.pdf](http://econ.worldbank.org/files/29100_wps_3117.pdf) and

Rauch, James. *Diasporas and Development: Theory, Evidence and Programmatic Implications*. August 2003. USAID/TESS-funded project.

<sup>66</sup> Freinkman, 2002

<sup>67</sup> Ibid.

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building new partnerships, but also to overcome administrative hurdles that could hinder new business activities. As a result, diaspora entrepreneurs are able to reduce the overall transaction costs (both time and financial) of entry into a new market. On the other hand, business diasporas possess knowledge of both international market conditions (particularly those in the developed world) and modern management and production techniques, as well as access to various financial resources. This in turn gives them an advantage over local entrepreneurs. Using these advantages to implement successful business initiatives and to establish a track record, business diasporas can change market expectations that will in turn accelerate flows of investment from other diaspora and more conventional sources.<sup>68</sup>

### ***Source of Business Knowledge and Skills***

Whether or not entrepreneurs from a particular diaspora community act as first movers, the external benefits of their involvement can help transform the dynamics of a struggling economy. For instance, business diaspora perform the following:

- Serve as behavioral models for other economic agents to follow;
- Transfer crucial knowledge of operational, management and productive techniques that enhances efficiency and profitability at both the enterprise and industrial levels; and
- Contribute to the introduction and promotion of new technologies that may increase the efficiency of production processes.

Together, these benefits can enhance the competitiveness of industries and a country's goods in the global economy. Furthermore, diasporas can help introduce sound corporate governance, accounting and financial practices that, if adapted, can make local enterprises more attractive to other investors.<sup>69</sup> Depending on their scale, extent of their involvement, or their connections with local governments, diaspora entrepreneurs can be a "push factor" for market reforms, through either lobbying pressure or advice that can lead to a more conducive investment and market environment.<sup>70</sup>

### **Developing Links to Business Diaspora**

The ability of diaspora to contribute to private sector growth through trade, investment and knowledge linkages warrants the development of formal mechanisms that enhance the potential of this diaspora-development link. Essentially, this involves the development of intermediaries or networks that establish and incubate business relationships between diaspora entrepreneurs and their private and public sector counterparts in the home country, while facilitating the efficient flow of information. Three such examples, diaspora business networks, chambers of commerce and government sponsored investment promotion, are discussed below.

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<sup>68</sup> Ibid.

<sup>69</sup> Gevorkyan, Aleksandr and David Grigorian. *Armenia and Its Diaspora: Is there a Scope for a Stronger Economic Link?* Armenian International Policy Research Group. April 2003.

<sup>70</sup> Zeitlyn, Sushila, Senior Social Development Adviser, DFID (UK) and Freinkman, 2002

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## Diaspora Business Networks

One promising vehicle for encouraging the engagement of business diaspora is the establishment of business organizations or networks that focus on expanding trade and investment in a particular country of origin. Business networks can be initiated by members in the diaspora community seeking to get involved in business interests at home, members of the business community in the origin country seeking to reach out to the diaspora, home country governments or a combination of the above. Specific functions of these networks include:

- Serving as clearing houses for business leads, using online portals and databases to disseminate information on business opportunities and facilitate matchmaking between diaspora entrepreneurs and counterparts in the county of origin;
- Disseminating information on market conditions and studies, regulations and policies and industry news;
- Providing forums (conferences and business events) for diaspora entrepreneurs' networks, development relationships and shared experiences; and
- Provide guidance or training in business development.

Below are a few examples of business networks involving business diaspora from Armenia, India, Lebanon and South Africa.

- **Lebanese Business Network (LBN)**

The Lebanese Business Network (LBN) is a non-profit business vehicle seeking to help Lebanon's private sector re-energize its business connections with overseas Lebanese and facilitate the return of Lebanese brainpower and capital back to the country for the benefit of Lebanon's economic development. The LBN serves as a formal venue to reach out to and organize the broad and diverse network of Lebanese expatriates abroad. An online marketplace, business matching database and source of industry information, it identifies opportunities and creates links between Lebanese entrepreneurs, business diaspora and international businesses, introduces Lebanese firms to international financial and business opportunities and vice versa. This includes special sales transactions, strategic alliances, joint ventures and related partnerships. Aside from using the Internet as an international marketing medium, there are a number of other ways LBN reaches out to the international diaspora, such as:

- Participating in local and international events outside Lebanon targeting the diaspora;
- Creating relationships with international Lebanese associations and utilizing them to spread word of the network's activities;
- Working with the commercial divisions of foreign embassies in Lebanon to encourage business linkages; and
- Disseminating information via printed media outlets, links to other relevant websites and online marketing campaigns.

To enhance the impact of its activities, LBN has created alliances with government and non-governmental organizations including the Investment and Development Authority of Lebanon (IDAL), a public investment promotion authority; the Federation of Lebanese

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Chambers of Commerce, Industry and Agriculture; the Association of Lebanese Industrialist (ALI), a Lebanese economic organizations bringing together industrialists from all of Lebanon; and Subcontracting and Partnership Exchange (SPX)—Lebanon, a Lebanese, EU, UNIDO partnership aiming to provide SMEs with advisory information and services to promote subcontracting and partnerships between these enterprises and international companies. Using analysis of the database from a supply and demand perspective, LBN shares opportunities with its partners and uses their connections to attract network users to fill specific needs.

The network was established in 2000, originally named Lebanese International Business Network (LIBN), with design assistance from Stanford Research Institute and USAID consultants. Responding to changing demands of the network's users, a new network was created to provide more online business information, an automated online matching service and an expanding database. The Network is managed and funded by Indevco Foundation, a non-profit organization. InfoPro, a publishing and market research company specialized in information-based products and services, has provided in-kind contributions of technical assistance, business information and a visible presence in events and the Lebanon Opportunities Magazine. To date, the network has attracted approximately 1000 members. While LBN does not keep track of communications between its members for the sake of member confidentiality, staff believes that around 15 percent of communications have had positive results.<sup>71</sup>

- **Armenian High Tech Council Of America (ArmenTech)**

ArmenTech was established in 2000 by a group Armenian-American high-tech entrepreneurs and executives, many of whom have generated millions of dollars in high-tech companies in the U.S. The organization aims to apply the collective expertise of its membership to support and enhance the development of the high-tech sector and the success of Armenian companies working in the software and high-tech industry. In a sense, the founders are trying to help utilize its diaspora to transform Yerevan into a high tech hub in the same way the Indian diaspora has brought IT business to Bangalore. Through its activities, ArmenTech aims to produce the following results:

- To encourage the successful development of the high-tech and IT sectors in the Republic of Armenia with the intent of providing employment and improving the economy;
- To support the infrastructure, facilities, equipment, and competitive telecommunications services necessary to support the incubation and expansion of software, e-commerce, Internet, and other high-tech companies in Armenia;
- To assist in the development of professional training programs in software engineering, project management, application development, and IT services marketing;

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<sup>71</sup> E-mail correspondence with LBN network; and SRI International and Lebanese American University, *Lebanese International Business Network*. Report for USAID. July 2000. For more information, see [www.linbusiness.com/LBN/LB\\_LearnMore.asp](http://www.linbusiness.com/LBN/LB_LearnMore.asp)

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- To promote the education of high school and university students in Armenia, preparing them for careers in the high-tech and software industries.<sup>72</sup>

One of the key activities undertaken by the organization is the launch of *SiliconArmenia.com*, an online medium designed to promote Armenia's technology sector through increased exposure to international markets and prospective costumers, partners and investors. *SiliconArmenia* is a joint initiative of the Union of IT Enterprises (UITE) in Armenia and ArmenTech, and was funded in part by a grant from the World Bank Development Marketplace Competition. At the launch in January 2000, Berge Ayvazian, President of ArmenTech, said *SiliconArmenia.com* will serve as a virtual bridge between the "incredible technology talent that exists in Armenia today and the global technology marketplace." If the Web site is successful, it could help position and brand Armenia as a high value place for high-tech outsourcing and investment. Companies and professionals can actively participate in the network through the following actions:

- Register to receive SiliconArmenia newsletters;
- Submit company and organization profiles;
- Post company and organization news;
- Participate in the forums and exchange opinions and experience with colleagues; and
- Post business opportunities, tender announcements and requests for proposals.

Key features of the Web site, which is available in English, Russian and Armenian, include:

- News and analysis related to the Armenian technology sector;
- Business opportunities, tenders and requests for proposals;
- Database of Armenian technology companies;
- Success stories of Armenian technology companies and entrepreneurs; and
- E-learning, on-line training and skills development.

In addition, success stories of several companies and individuals working in Armenia are highlighted on the site. The site was built and is managed using software donated by Synergy International Systems, a U.S. based company with offices in Armenia.<sup>73</sup>

- **South African Diaspora Network (SADN)**

The South African Diaspora Network was launched in 2001 with funding from the World Bank Development Marketplace Competition. Its pilot stage has recently been completed and the organizers are working to determine the next steps. The key objectives of the pilot network are the following:

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<sup>72</sup> For more information, see <http://www.armentech.org/>

<sup>73</sup> For more information, see [www.siliconarmenia.com](http://www.siliconarmenia.com)

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- To facilitate networking between respected and influential ex-South African business people in key overseas markets and young, high potential South African based start-up ventures;
  - To increase the quality of international market and competitor information available to high potential South African based start-up ventures; and
  - To reduce the cost, time and risk of obtaining reliable information from overseas markets by high potential South African based start-up ventures.

During its first phase, the project focused on the following two main groups of business contacts:

- High potential South African based businesses that wish to expand into international markets, and recognize the need for assistance, guidance and support in their endeavor to internationalize; and
- Well placed and highly connected South African expatriates living in the greater London area that expressed a willingness to assist South African based businesses with their efforts to internationalize.

Local businesses were recruited via extensive press and media coverage in South Africa. Those who applied to become part of the network were interviewed, surveyed and/or visited to ascertain their suitability for inclusion in the Project. Overseas members were recruited by way of presentations held at South African business clubs and associations in London. The primary tool of the network was to facilitate a dialogue between South African business and expatriate business people. Once the network was established, network operators attempted to bring together potential alliances and partnerships by introducing suitable appropriate members to each other.<sup>74</sup>

During the design process, the organizers needed to choose whether to develop a network based on either the quality or quantity of members. The decision was made to focus energy and resources on the development of a small network of high quality as it was determined that a greater material difference could be made, albeit to a smaller group of high potential South African based businesses. At the completion of the first stage, however, its organizers felt that a project focused on building a highly quantifiable network with a greater volume of members would have been more successful. (See considerations section below for more discussion on this issue).<sup>75</sup>

- **Silicon Valley Indian Professional Association (SIPA)**

Founded in 1987, SIPA provides a forum for entrepreneurs from the expatriate Indian community to contribute to cooperation between the U.S. and India in high technology areas. The association aims to offer a bridge to India at the grassroots level and promote networking with visiting business professionals. According to the association's Web site, "SIPA's members are high-energy, motivated individuals who share a common desire to promote Indo-U.S. cooperation in high-technology areas. Their interests lie in meeting

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<sup>74</sup> Although no trade has yet to stem from the network, a number of ongoing relationships were developed.

<sup>75</sup> Center for Innovation and Entrepreneurship, University of Cape Town Graduate School of Business. *South African Diaspora Network: Final Report*. Prepared for the World Bank, 2003.



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with business leaders of the South Asian community and individuals who share similar professional goals, finding strategic business partners, or simply sharing their experiences with other professionals.”

SIPA’s activities generally involve social events (e.g. conferences and dinners) that provide a range of opportunities to learn more about engaging the IT industry in India, for example:

- o Discussions on how Indians and Chinese professionals are using their community networks to build successful businesses, and how local experience combined with local and global networks has helped entrepreneurs to form subsidiaries, joint ventures and other business operations in their homelands and further their professional development;
- o Discussions of opportunities for business process outsourcing (BPO) in India; and
- o Events for Silicon Valley professionals to meet with ministers and top officials to learn of government policies and IT infrastructures in different Indian state.

Currently, SIPA consists of over 2,300 members. SIPA’s members are highly qualified engineers, corporate managers, legal and financial experts, business people, and other professionals. Most of them are actively involved in the high-technology industry and hail from almost every major company in Silicon Valley.<sup>76</sup>

## **Chambers of Commerce Diaspora Activities**

Although they do not primarily focus on a particular business diaspora, chambers of commerce can play an important role linking the diaspora to the business community in their country of origin. Most chambers already have a mandate to promote commercial ties (trade and investment) between two, and sometimes more, countries. Within their regular programs, chambers are actively involved in networking, matchmaking, business facilitation and the provision of commercial information as well as market research, conferences and export promotion assistance, much like the diaspora business networks discussed above. Chambers of commerce, however, go further, providing a link to the wider business community within a country or region that a diaspora business network may avail. Furthermore, chambers of commerce can play a key role in interacting with governments and business in order to advocate economic policies surrounding both domestic and international commerce. Each of these activities provides an opportunity for diaspora involvement in the promotion of business in a country of origin.

Consider, however, the potential of explicitly focusing on or incorporating the diaspora within the context of a chamber’s mandate. Without necessarily establishing stand-alone diaspora business networks, chambers of commerce diaspora programs could provide an effective means to leverage diaspora networks, knowledge and capital. Furthermore, this can be achieved within an institutional framework that is already widely known, respected and successful in both the national and global arenas. Two such programs are discussed below.

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<sup>76</sup> For more information, see <http://www.sipa.org>

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- **Federation of Indian Chambers of Commerce and Industry (FICCI) Diaspora Division**

FICCI represents a group of 500 chambers of commerce, trade associations and industry bodies. The federation speaks directly and indirectly for over 250,000 business units—small, medium and large—employing around 20 million people. Recognizing the enormous potential of the Indian business diasporas, FICCI has initiated an action plan to bring about a tenfold increase in FDI inflow from the Indian Diaspora to \$5 billion by 2008. To achieve this objective FICCI launched a new division to service and leverage the global network of non-resident Indians (NRIs) and persons of Indian origin (PIOs). The Division works in partnership with the Government of India (Ministry of External Affairs in particular) to forge a constructive and productive relationship with the Indian diaspora. Activities include:

- o Creating specialized networks across sectors and countries to leverage the diaspora's strengths for India's economic growth and development.
- o Focusing on strengthening the commercial and economic dimensions of India's relations with the diaspora.
- o Creating a network to map skills and technologies available within the diaspora and to work with central and state governments to increase diaspora inflows into India.
- o Leveraging marketing networks of the diaspora to promote exports of Indian goods and services both among Indian communities and their host countries.
- o Work in tandem with FICCI's committees in various sectors in order to increase diaspora's contribution to these sectors and enhance two-way exchanges between Indian companies and commercial entities of the Indian diaspora based abroad.

FICCI has played a key role in planning “Pravasi Bharatiyas Divas,” large annual conferences that bring together members of the Indian diaspora, their domestic counterparts and government officials to discuss issues pertinent to the diaspora and economic linkages to their homeland. In January 2004, 2000 diaspora from 61 countries joined over 1200 domestic participants in the second annual conference. The “Pravasi Bharatiyas Divas” resulted in a memorandum of understanding between the government and 15 business associations and chambers of commerce to help to connect the business hubs within the diaspora. As part of the understanding, the diaspora business associations agreed to exchange information on critical areas such as general economic environment, government policies in relation to investments and sectoral strengths of the respective regions. The signatories will also facilitate trade and investment flows and promote other related exchanges between their respective representative enterprises.<sup>77</sup>

FICCI is well positioned to create these specialized networks across sectors since it had already compiled a huge database comprising thousands of associations and chambers of Indian origin as well as individuals, corporations, business leaders and professionals spread over 75 countries.<sup>78</sup>

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<sup>77</sup> <http://timesofindia.indiatimes.com/articleshow/415859.cms>

<sup>78</sup> For more information see [www.indiaday.org](http://www.indiaday.org) and [www.ficci.com](http://www.ficci.com)

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- **The Caribbean America Chamber of Commerce and Industry (CACCI)**

CACCI is located in Brooklyn, NY, which has the highest concentration of immigrants from the English-speaking Caribbean in the U.S. The organization was created in 1985 to promote economic development among Caribbean American, African American, Hispanic and other minority entrepreneurs. CACCI's primary goal is to help ensure the survival of Caribbean American, African American, Hispanic and other minority entrepreneurs, and to increase their level of influence in a competitive business climate. Currently CACCI has a membership over 1700 in the U.S. and the Caribbean.<sup>79</sup> Its services include the following:

- o Comprehensive business resource center;
- o Seminars on how to start, operate and manage a business;
- o Power breakfast business networking meetings; and
- o Coordination of trade fairs, expositions and trade missions to the Caribbean.

While the organization's original focus was on supporting the Caribbean business diaspora in the United States, CACCI has become increasingly oriented towards promoting trade and investment with the Caribbean. Import-export businesses account for around one-third of its membership. CACCI collaborates with CARICOM agencies as well as industrial development corporations and ministries of trade of individual CARICOM countries. In 2004, using financial assistance from a range of public resources in New York, CACCI will open the Caribbean Trade Center (CTC) with a mission to develop, promote and sustain trade and investment between the U.S., the Caribbean region and the international community.<sup>80</sup>

## **Government Sponsored Diaspora Investment Promotion**

A few countries with large business, finance or entrepreneurial communities abroad have realized that business diasporas that invest or bring business back to their country of origin can inject life into struggling or infant industries. One way of doing this is through targeted activities or mechanisms within government investment promotion authorities (IPAs) that specifically target potential investors or trade partners in the diaspora community. The activities of an IPA in relation to a diaspora are likely to depend on the strategy, institutional capacity and available funds from diaspora business conferences to the development of IPA services that focus primarily on potential diaspora investors. Two examples are discussed below.

- **Indian Investment Center (IIC)**

Recognizing the potential impact that non-resident Indians (NRIs) or Persons of Indian Origin (PIOs) can have on business development and investment, the Indian Investment Center (IIC), the Government of India's single window agency for information or assistance for investments, technical collaborations and joint ventures, provides a range

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<sup>79</sup> Rauch, James. *Diasporas and Development: Theory, Evidence, and Programmatic Implications*. August 2003.

<sup>80</sup> For more information, see <http://www.caribbeantradecenter.com>

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of services tailored to attract and assist NRI investors. In addition to providing the usual assistance available to other potential investors, IIC provides special services for potential NRI and PIO investment. These include the following:

- o Providing data to assist in the selection of investment opportunities;
- o Functioning as a one-stop-shop for necessary services for establishing projects with NRI investment;
- o Informing NRIs and PIO of government policies and procedures, as well as the facilities and incentives available to them;
- o Assisting to obtain the approval of government authorities; and
- o Monitoring the implementation of projects, and if necessary, helping in remove difficulties during the implementation process.

To facilitate the development of enterprises in India, the IIC has developed mechanisms that enable Indian companies to collaborate with business diaspora to identify sources of capital and technology. The agency maintains an industrial information service that provides the status of industries and profiles for potential industrial projects. Furthermore the agency's Web site provides answers to an expansive list of NRI investment questions on bank accounts, repatriation of profits, investing in securities, shares, company deposit and property, as well as special facilities to repatriating NRI investors.<sup>81</sup>

A recent high-level study examined ways the Indian government and business community could further facilitate NRI investment. Its conclusions recommended the following:

- o Greater investment guidance be provided to the diaspora. Government missions or IIC posts abroad should organize regular meeting with diaspora business people and brief them on changing industrial conditions and policies;
- o Domestic business associations and chambers of commerce create units within their organizations to promote business with the Indian diaspora;
- o A dedicated one-window setup that provides consultant services to overseas Indian investors through special cells in select Indian embassies to help potential investors identify suitable projects, understanding rules and regulations, and obtaining official clearances;
- o The government set up special economic zones exclusively for projects set up by NRI or PIOs; and
- o Indian missions should keep track of visits by top-level NRI professionals and business managers to arrange networking and training opportunities.<sup>82</sup>

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<sup>81</sup> For more information, see [http://iic.nic.in/iic1\\_a.htm](http://iic.nic.in/iic1_a.htm)

<sup>82</sup> Report of the High Level Committee on the Indian Diaspora. 2002. <http://indiandiaspora.nic.in/contents.htm>

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- **Armenian Development Agency**

Armenian Development Agency (ADA) is a government agency that aims to facilitate productive investment flows into the Armenian economy, the export of Armenian goods and services to international markets and the development of Armenian enterprises. Like most trade and investment promotion agencies, ADA conducts studies, publishes and provides information, organizes international conferences and trade fairs, as well as export activities of Armenian enterprises. Although the lack of funding constrained its promoting activities, a substantial increase in government funding and assistance (both financial and technical) from international donors is gradually allowing the agency to engage in more effective activities, including targeting the large wealthy Armenian diaspora. It should be noted that it is too early to tell if recent efforts are effective.

Other than in the IT sector, where organizations like ArmenTech (see above) have been successful in bringing business to Armenia, foreign direct investment has been one of the weakest of diaspora-development links. While there has been a good deal of investment in property, investment in manufacturing industries that would create jobs has been limited. To address this issue, the ADA has been building contacts with key Armenian business people in various industries abroad to find ways to solicit outsourcing opportunities. One way that ADA identifies interested diaspora business people is through conferences sponsored by the agency (or government) or diaspora organizations. As ADA identifies potential investors, the agency matches them with highly successful businesses in Armenia that could become a part of successful partnerships. While conferences rarely result in a wave of real diaspora-Armenia business interest, there is usually a small number of Armenian diaspora with whom ADA is able to develop fruitful relationships. If such identification, nurturing and matching efforts are successful, ADA will be able to bring in crucial ‘first movers’ that could jump start struggling sectors of the economy.

### **Programmatic Considerations**

While the experts interviewed and cited in this study agree that the diaspora option could indeed become a catalyst for business development and investment in developing countries, there are a number of issues that should be considered before attempting to tap into this potential, or, to expect such a link to occur in reality. This includes concerns over sound business climates, achieving broad based memberships and the institutional capacity of network intermediaries and IPAs.

- ***Sound Business Climate***

Despite the clear advantages of tapping into the business diaspora to drive private sector development within a particular country, the economic link should not be merely assumed or taken for granted. Although agreeing that all things being equal, emigrant and diaspora would rather invest or do business with or in their home countries, Susan Martin from the Institute for the Study of International Migration at Georgetown University adds that generally, this inclination is only marginal. Like other conventional investors, diaspora business people require a relatively sound environment for investment and business operations. If potential ‘first movers’ face a constant uphill battle (despite

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the advantages discussed earlier) due to weak business environments and are unable to overcome barriers and obstacles with sufficient ease, they may decide to go elsewhere, their cultural affinities and desire to help the homeland notwithstanding. Noting that native entrepreneurs' information advantage make them more aware of specific business obstacles that could undermine the success of their efforts in their country of origin, one expert said some business diaspora may actually be less likely to engage in business. Thus, they will wait until conditions improve or other 'first movers' get involved.

Essentially, a country cannot expect to mobilize greater diaspora involvement until policies are favorable.<sup>83</sup> In a recent study examining economic links involving the Armenian diaspora, Grigorian and Gevorkyan note that the relationship between diasporas and their countries of origin is a dynamic one that can be influenced by actions and policy makers in the home country related to the elimination of problems in economic policy and management, legal and regulatory frameworks, public sector governance and rule of law.<sup>84</sup> In many cases, attracting diaspora investors will require the same type of reform programs that countries implement to attract conventional business engagement. Once the business environment begins to improve, the diaspora could indeed be the first to make a move and play an important role in catalyzing business expansion.<sup>85</sup>

In some cases, the diaspora's perceptions of the business climate may be inaccurate or misguided. When referring to Armenia, some note the diaspora's perception towards the country business environment is overly negative when compared to the strides that have occurred since its transition in regards to policy improvements. Experts with experience with Armenia note that these misperceptions are a residual of unsuccessful investments in the past and instances of government officials taking advantage of the diaspora and their resources. Once countries like Armenia succeed in bringing about changes in economic conditions, actors from both the government and private sector should engage in public relations campaigns targeting the diaspora, disseminating information concerning improvements in the investment environment and stories of successful business initiatives and investments.

- ***Broad Based Networking and Outreach***

The success of both diaspora networks and investment promotion agencies depends on their ability to tap into a broad base of the business diaspora. The experience of the South African diaspora showed that the volume of members and contacts, as opposed to quality, is likely to result in a greater number of business 'hits.' A report on the first stage of the project states that a business network cannot be based purely on a few high quality local members and overseas members, but will need to comprise a greater number of participants to gain results across a broader base. In the case of the SADN, this necessitates mechanisms to manage greater numbers of participants and potential alliances with a worldwide focus. Similarly, IPAs such as the IIC and ADA, need to

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<sup>83</sup> Maureen Lewis, World Bank

<sup>84</sup> Gevorkyan, Aleksandr and David Grigorian. *Armenia and Its Diaspora: Is There and Scope for a Stronger Economic Link?* Armenian International Policy Research Group. Working Paper No. 03/10. April 2003.

<sup>85</sup> Susan Martin, Georgetown University. Interview September 2003.

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focus their attention on engaging a wide spectrum of diaspora individuals representing a range of industries to successfully link diasporas to investment opportunities in the home country. It is for this reason that a program such as FICCI's diaspora division may be a successful tool for diaspora business networking. With the networking capacity of chambers of commerce and related associations, diaspora outreach and engagement can be greatly expanded.

The SADN report also states that a broader base of members or contacts is key to ensure long-term sustainability of a network. With a wide membership base of more expansive and diverse networking opportunities, members will be more likely to pay a small charge for the use of databases and other network services. Furthermore, a broader base cushions networks against the ebb and flow of members' interests. On one hand, the business diaspora represent a "moving target" as their interest level, time availability and commitment to the network wavers and shifts, whereas local companies are often looking for exporting opportunities in the short to medium term. A broader based membership would help ensure that network activity remains at a level to justify its existence.

Within this context, the success of both diaspora networks and IPAs' efforts to attract diaspora investment will greatly depend on their ability to reach out to the business diaspora. Well-publicized (within the diaspora community) trade and investment fairs abroad, or diaspora business conferences, are two ways to establish linkages with members of the business diaspora. To sustain more active relationships with the business diaspora, however, networks and IPA's require events or activities that keep the diaspora engaged and in communication. For networks, this includes the regular meetings, such as those held by SIPA and CACCI. IPAs can create cells in countries with large business diasporas and use the benefit of proximity to interact with diaspora business people on a regular basis, answer questions and provide close guidance to interested investors at all steps of the process. Since chambers of commerce already carry out some of these functions, programs such as FICCI's diaspora division could help provide effective diaspora outreach activities.

- ***Institutional Capacity***

Most of the activities discussed in this section require some level of organizational, technical and financial capacity. This includes 1) funding and maintaining online portals and databases with a professional appearance and providing up-to-date information and efficient matchmaking services; 2) organizing and funding conferences that not only draw the attendance of key business people and government officials, but also create an environment that facilitates fruitful interactions; and 3) the mobilization of trained investment promotion officials able to provide effective guidance and investment services. Without the institutional capacity to undertake these activities, diaspora networks or IPAs will not be able to achieve the broad based participation of diasporas or facilitate business connections that result in actual deals.

Funding was a problem for some of the organizations contacted during the course of the study. Both the interviewees from LBN and ADA noted that the scope of their activities,

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and thus their impact, was limited by funding constraints. The representative from LBN noted that with increased funding the organization could participate in more international exhibitions and trade events. Additional funding could also allow the organization, which is based in Lebanon, to sustain ‘ambassadors,’ in diaspora host countries who could assist in gathering leads and market intelligence as well as marketing the network. Both of these activities could greatly enhance LBN's ability to reach out to the Lebanese diaspora. A representative ADA noted that the lack of past funding greatly undermined diaspora networking and outreach activities, which make it very difficult to establish fruitful relationships with the Armenian diaspora. Expanding its reach through investment promotion cells abroad, as recommended by the India high level study, is not an option for the ADA at this time.

Amidst considerations of institutional, outreach and networking capabilities of diaspora investment promotion mechanisms, a representative from the IFC's Multilateral Investment Guarantee Agency (MIGA) suggested the utilization of tools like MIGA's IPAnet, an international investment-specific portal Web site providing free access to online foreign investment and privatization resources. This includes a searchable database of investment opportunities, market studies and other investment related information, and the development of targeted information alerts tailored to specific affinity groups. The representative said that diaspora business groups could easily incorporate themselves into customized affinity groups based within IPAnet's own database and Web portal as a means to maintain investment linkages in their home country.

There are a few programmatic responses to enhance the capacity of diaspora networks that can be carried out on the part of donors or interested governments. This includes:

- Financial, technical or in-kind assistance in the design, marketing and maintenance of networking mechanisms and the provision of various business services;
- Collaboration and/or partnerships in trade and investment conferences, networking activities, database and opportunity development; and
- Providing seed funding to establish and develop a network to the point that its membership is large and willing to pay a levy to sustain the network.

The institutional capacity of investment promotion agencies to attract potential diaspora investors can be enhanced by:

- The provision of IPA funding from budget allocations, or donor financial or in-kind assistance to support various investment promotion activities targeted at diaspora groups;
- Training for IPA staff to provide effective investment services to potential diaspora investors; and
- Financial and in-kind assistance for public relations campaigns to improve diaspora perceptions, increase awareness of business opportunities and highlight improvements in the business environment.



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## Chapter 4: Diaspora Based Investment Instruments

Although diaspora business networks and targeted investment promotion activities may be successful in linking diaspora entrepreneurs to investment opportunities, these mechanisms are unlikely to reach those members of a diaspora that are interested in some form of investment, but who are not entrepreneurs or not able or willing to directly engage in business in the homeland. One way to mobilize this segment of a diaspora is through the development of indirect investment vehicles that become a part of portfolios held by individual diaspora investors. While these ‘retail’ diaspora investors may invest in diaspora financial instruments to contribute to the economic development of their country of origin, they also wish to achieve a reasonable return on their investment to meet their own financial goals. Financial instruments targeting diaspora investors can include private equity funds or debt instruments such as business loans or sovereign bonds. Though the actual scale of individual investments may range, the pooled resources can result in significant amounts of foreign direct investment (FDI) and government financing. In addition to serving as a crucial source of financing, these instruments can contribute to the “first mover role” of larger individual investors, play a first mover role within the financial sector, add to the depth of otherwise shallow financial systems and help inject and develop financial skills into the local financial sector.

### **Funding Private and Public Sector Investment**

For developing countries with little or no chance of attracting any serious and/or reliable volumes of FDI or are unable to access international financial markets to obtain external financing, diaspora based financial instruments can play a crucial role in financing economic development. As discussed earlier in this paper, diaspora investors may require lower rates of return and are willing to assume relatively greater levels of risk due to various connections and/or affinities to the homeland. These diaspora investors use a combination of both objective and subjective criteria when deciding whether to make investments that might contribute to the development of their country, as opposed to the solely objective criteria used in conventional investment decisions. Essentially, this type of investor is willing to forgo some financial return for the margin of ‘personal returns’ they receive from investing in the homeland.

Aside from the direct benefits of invested funds, diaspora investment vehicles can result in a number of indirect benefits, such as contributing to the depth and diversity of a financial system. The introduction of new instruments adds to the diversity by creating new options for private and public sector financing. Even if they are initially targeted for diaspora investors, they can be used as examples or incorporated into domestic financial instruments. In addition, the introduction of diaspora based financial instruments can help set a standard that develops into new instruments. Furthermore, these instruments can help lead to higher levels of future investment. In the same way as diaspora business people act as first movers within a business sector, diaspora based financial vehicles can act as first movers within the financial sector. Well designed diaspora investment vehicles can change perceptions of investment environments by creating success stories that help create a positive track record that will help attract other investors into the market and potentially lead to an expansion of conventional FDI.

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There are a number of potential financial instruments that can be developed to accommodate a range of members within a diaspora, depending on the amount they wish to invest and the level of risk they are able to bear. A sample of these vehicles for investment is discussed below. These include diaspora investment funds, sovereign diaspora bonds and remittance-backed bonds.

## **Diaspora Investment Funds**

Grigorian and Gevorkyan note that one promising form of diaspora investment is the institutional investment channel, or investment funds. These funds are designed to include mid-and-large scale diaspora investors not otherwise engaged in business ventures due to the disproportionately high institutional barriers they face (when compared to some of the larger investors involved in the diaspora networks discussed in the previous chapter). Equity shares are issued to investors and diaspora professionals with experience in western style financial management control the investment funds. The proceeds of the pooled resources are then used for equity investments in new or existing private companies.<sup>86</sup>

Equity investment vehicles can have both immediate and long-term benefits on the local economy. In the immediate term, investment funds lead to projects or investments that may have 1) required a lengthier or expensive financing process, 2) not obtained sufficient financing to ensure reasonable returns or 3) never occurred at all. Since professionals abiding by developed country standards would manage the funds, potential investors may feel more secure in assuming the additional risks attributed to investing in developing countries, and as a result enabling the fund vehicles to raise greater amounts of capital. By pooling resources, these funds can achieve economies of scale that individual investors would find difficult to achieve, thus providing the financing necessary to fund larger and/or more effective investments that will have a larger impact on the economy. Whereas the transaction costs (dealing with imperfections in the legal system and administrative obstacles) may result in unacceptable rates of return or cause smaller individual investors to become apprehensive about involvement with specific business ventures, the scale of the funds combined with the fund principals' experience could make it easier to overcome various barriers.<sup>87</sup>

While investment funds could develop the capacity for their managers to act on their own projects, these vehicles could also be employed to help finance individual diaspora first movers investing in their country of origin. By partnering with an investment fund, these business diaspora will not only have greater financial resources at their fingertips, but also the ability to leverage the institutional weight of a fund to overcome start-up, technical and administrative obstacles. As a result, these funds can contribute to successful diaspora 'first mover' ventures and the establishment of a strong track record likely to attract further investors.

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<sup>86</sup> Gevorkyan, Aleksandr and David Grigorian. *Armenia and Its Diaspora: Is There and Scope for a Stronger Economic Link?* Armenian International Policy Research Group. Working Paper No. 03/10. April 2003.

<sup>87</sup> Ibid.

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Grigorian and Gevorkyan note that the medium and long-term benefits likely outweigh the short-term benefits of these types of funds. Investment funds, if set up as holding companies, can use their ownership stake and experienced managers to exert effective control over the management of enterprises, which contributes to the long term success of a company. If managed by competent professionals from the diaspora, the operation of the funds may provide valuable training opportunities for locals to get hands-on experience in investment banking. Finally, through their interactions with local and national governmental authorities, these funds may influence these institutions to adapt policies and procedures that can improve the overall investment environment.

An example of an institutional investment fund targeting the expansive Armenian diaspora is discussed below:

- **Armenia SME Investment Fund**

In May of 2000, the International Finance Corporation (IFC), a part of the World Bank Group, commissioned a feasibility study through the U.S. Trade Development Agency (USTDA) to assess the demand for long-term capital by Armenian SMEs. The study found that although many lending programs (some of which were sponsored by international donors and other organizations) were provided by local banks, many Armenian SMEs were still unable to meet their long-term financing needs. Rather, the lending environment favored businesses with short-term trade financing needs and those that could provide substantial collateral coverage through the form of real estate.

To respond to the financing needs of SMEs, the IFC sponsored the creation of an investment fund to promote the development of the SME sector in Armenia through facilitating enterprise access to capital. The IFC would play a key role as a leading investor by contributing up to \$5 million to the fund. The Armenian diaspora (as well as other interested investors) will be expected to raise \$15 million to bring the total fund to \$20 million. The SME fund, which was approved in June of 2002, will provide equity and quasi-equity to qualified SMEs. The fund will focus on SME development by:

- o Establishing joint ventures with credible multinational partners, particularly businesses with strong diaspora connections.
- o Making investments in existing Armenian SMEs that have a need for capital to realize their market potential.

Instead of focusing merely on companies that would meet local demands, the fund will seek portfolio companies with products or services that are export driven.

A New York based private investment firm run by a member of the Armenian diaspora will manage the fund. The fund manager has a broad advisory and management background, as well as experience with developing countries. According to sources familiar with the fund, the \$15 million share to be funded by the Armenian diaspora has not been reached.<sup>88</sup>

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<sup>88</sup> For more information, see Summary of Project Information (SPI), [www.ifc.org](http://www.ifc.org)

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## Sovereign Diaspora Bonds

Issuing sovereign “diaspora” bonds is another potential financial instrument available to some developing countries with large diasporas. These bonds target diaspora investors as a means to raise funds to finance public investments that can contribute to the overall economic development of a country of origin. If conducted properly, diaspora bonds can serve as a stepping-stone towards access to the international capital markets, playing a ‘first mover’ role. Either underwritten in developed countries with a large diaspora from a respective country or based in the home country, these bonds are geared towards diaspora who would like to invest in the homeland financially, but are not willing to tolerate the risk of dealing with private investment funds. Since the sovereign risk carried by these bonds may be easier for these investors to deal with, they carry lower required rates of return. By raising funds through diaspora bonds, governments can achieve finance development without inflationary policies or higher taxes that could constrain in the short and medium term.<sup>89</sup>

Grigorian and Gevorkyan note that one key benefit of diaspora bonds vis-à-vis conventional bonds placed on the international bond markets is the possibility for a diaspora or patriotic discount. This discount represents the margin of economic returns that diaspora individuals are willing to forgo for nationalistic reasons (desire to contribute to the development of their homeland). Specifically, this discount is the difference between the rate of interest a country would pay to issue the bond on the international market and the rate of interest paid to sell the bond to the member of the diaspora. Grigorian and Gevorkyan suggest that diaspora bonds can serve as a source of longer maturity funds than those available to a government if conventional emerging market instruments are used. Diaspora bonds can also reduce rollover risks, since diaspora investors are likely guided by their interest in the long-term development of their homeland than conventional investors. This can reduce the risk of an Argentine-type financial crisis. Furthermore, the consequences of default and the mismanagement of funds (in terms of gaining access to future diaspora or conventional international bond financing) make the issuance of bonds a self-imposed mechanism to adopt sound economic and public governance policies.

A number of countries have successfully issued sovereign bonds to members of their diaspora, including Bangladesh, China, India, Israel, Lebanon, Pakistan and the Philippines. Notable examples from Israel and India are discussed below.

- **Israel Bonds**

In the early 1950’s, Israel found itself in great need of funds to finance its development as a new state. In response, Jewish diaspora and Israeli leaders decide to introduce Israel bonds to the American diaspora. The Knesset adopted a law authorizing the flotation of Israel’s first bond issue, known as the Israel Independence Issue, and the Development Corporation for Israel was created to offer the securities in the U.S. To raise awareness of the bonds, then Prime Minister Ben-Gurion launched a public relations campaign involving rallies throughout a coast-to-coast tour. The campaign helped raise \$52.6 million in bond sales in the first year. Examples of projects funded by the bonds include:

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<sup>89</sup> Grigorian and Gevorkyan, 2003

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- o Aiding in the construction of the Trans-Israel Highway;
  - o The building of desalination plants;
  - o The ongoing absorption of new immigrants;
  - o Expansion of transportation links connecting outlying areas;
  - o A Jerusalem light rail system to ease traffic jams in Israel's capital; and
  - o A Tel Aviv subway system that will alleviate congestion and pollution.

The bonds have also helped the governments achieve higher credit ratings for other sources of external financing. In a global credit research report, Moody's Investors Service affirmed strong credit rating for Israel's sovereign debt, noting that a portion of positive credit rating was due to the reliable financial support of the diaspora bonds. The report noted the financial advantage the Israeli government has in its ability to turn to Israel Bonds for a substantial portion of its overseas borrowing needs.

In promoting these bonds, the Israeli government capitalized on the emotional bonds of the Jewish diaspora to increase their involvement. In a tribute to the success of the bonds, former Prime Minister Golda Meir said, "you have a stake in every drop of water we put into our land, in every mile of road built, in every kilowatt of power, in every field, in every factory." When asked what type of collateral the government could offer, she said the only collateral she had was the "children and future of Israel." Present leaders in the Israeli government have credited the low cost financing of the bonds as a means to meet the country's development objective in a way that would otherwise not be possible.<sup>90</sup>

In addition to the emotional attraction of these securities there are a few attractive features of the Israel Bonds. For instance:

- o The bonds are not restricted to people of Jewish origin;
  - o There are various types of bonds with different minimum investment amounts, interests rates and years to maturity to meet the needs of different investors;
  - o Bonds can be purchased in denominations as low as \$250;
  - o Bonds are freely transferable;
  - o Bonds can be included as part of IRA accounts; and
  - o Many of the bonds can be gifted to family members or charitable institutions.
- **India Bonds**

India is another example where the government has sponsored the issuance of sovereign bonds to NRIs. One includes the Resurgent India Bond (RIB) for NRIs of banks acting in fiduciary capacity of NRIs. The bonds, which were floated in 1998, mobilized close to \$4.2 billion of diaspora resources for the development of the infrastructure sector, which is in great need of financing. Many in the financial industry felt that the impressive show

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<sup>90</sup> For more information, see [www.israelbonds.com](http://www.israelbonds.com)

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helped boost the foreign institutional investors' sentiment<sup>91</sup> and stabilize the rupee, which had been sliding for a number of years. A similar bond, the India Millennium Deposits (IMD) floated in 2000 and raised over \$5.4 billion from the diaspora.

## **Remittance Backed Bonds**

The World Bank's 2003 Global Development Finance Report<sup>92</sup> suggests that the establishment of remittance-backed bonds is another way that countries can leverage diaspora funds to raise external financing for development. The report notes that in recent years, many emerging market issuers have used the securitization of future flows of foreign exchange to avoid credit rationing in the face of deteriorating sovereign risk ratings. Basically, banks that receive large amounts of wire transfers from workers and companies abroad issue the bonds on the international capital markets. The bonds are backed by the foreign exchange from remittance flows. During the remittance process, the transferred money (in the form of foreign exchange) is deposited in an offshore account prior and then converting into local currency for payment to the remittance recipients.<sup>93</sup> As long as there are sufficient remittances the securitized cash flows help ensure that the borrowing institution will have the foreign exchange necessary to make payments without recipients' payments being threatened.

Due to the relative reliability of remittances, and the lower level of risk to investors resulting from securitized remittance flows, the terms of these bonds can be significantly more generous than through conventional sovereign issues. In 2001, Banco du Brasil issued \$300 million in bonds (with a five year maturity) using the future yen remittances of Brazilian workers in Japan. In 1998, Banco Cuscatlan, a bank in El Salvador that handles a large amount of the country's remittance flows, offered \$50 million in remittance-backed bonds. Similar bonds have been used in Mexico, Panama and Turkey as well.

Assuming that about half of all recorded remittances pass through the banking systems at an over-collateralization ratio of 5:1, the World Bank report estimates that developing countries could potentially raise about \$7 billion in external finance for development using remittance backed securitization.

## **Programmatic Considerations**

Although an attractive means of tapping into diaspora resources to fund economic development, the development of financial instruments targeted towards diaspora portfolio investors may not be appropriate for some countries. As observed in an earlier section, potential investment linkages between the diaspora and their country of origin cannot be taken for granted. Although those investing in institutional investment funds, diaspora development banks or sovereign bonds may be willing to forgo a portion of their economic returns in exchange for 'personal rate of return,' they are no less inclined to desire an appropriate rate of return than conventional

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<sup>91</sup> Syed Firdaus Ashraf, *RIBs collect \$ 3.46 billion, market calls it 'decent success'*, <http://www.rediff.com/business/1998/aug/24rib1.htm>

<sup>92</sup> Ratha, 2003

<sup>93</sup> Orozco, Manuel. *Globalization and Migration: Impact of family Remittances in Latin America*. Inter-American Dialogue. July 2001

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investors within a particular risk category. Cultural and emotional connections to the homeland notwithstanding, individual diasporas are still rationale economic actors and unlikely to participate in the types of financial instruments if there is a reasonable chance that their investments might fail (investment funds or bank deposits) or the money will be misused (bonds).

- ***Sound Investment Climate***

Like conventional investment vehicles, the success of diaspora financial instruments will depend on appropriate policies for investment and sound financial systems. For example, the profitability and success of investment funds like the SME funds discussed above will depend on the business environment in which enterprises operate and actual market opportunities (in terms of domestic and export demand) SMEs could realistically tap into. To facilitate broader diaspora involvement in such a fund, a government may not only be required to improve the investment climate through policy and regulatory reforms per se, but also to engage in trade negotiations that open SMEs' access to international markets.

Although a sovereign diaspora bond issue may appear to be an easy way to raise funds for development, Grigorian and Gevorkyan caution that issuing authorities should be aware of the prerequisites and dangers associated with diaspora, or any other kind of bonds. First, the success of a diaspora sovereign bond issue and the size of the diaspora discount (the lower interest rate a issuing government would pay for bonds due to the diaspora's willingness to forgo a portion of their returns for nationalistic reasons) would largely be dependent on a country's ability to market the bonds. Like conventional bond issues, the discount depends on a range of internal and external economic and political factors. The lack of progress in economic policies or concerns of fiscal discipline could cause the diaspora discount to become insignificant, as could concerns that the bonds could be used inappropriately. Second, authorities must remember that the issuance and management of bonds are institutionally intensive and require a certain level of institutional capacity. Finally, the actions of the government in the use and management of bonds could have a large impact on its future ability to raise further bond financing from the diaspora or conventional investors. Governments cannot view these diaspora resources as easy money. Grigorian and Gevorkyan state that international experience shows that issuing tradable sovereign bonds would "require kissing goodbye to any political and economic opportunism," which may impact rollover risks and interest rates on future bonds. Authorities must realize that diaspora bonds are not donations to the treasury's coffers—at some point in time, the bonds must be paid in accordance to the original terms. Defaulting or mismanaging the debt could close the doors of future bond financing opportunities for years to come.

Grigorian also notes that while remittance-backed bonds may be attractive to countries where raising foreign exchange for debt servicing is a challenge, he emphasizes that they carry potential risks. While relatively reliable, levels of remittance flows are not guaranteed. To the extent that the flow of remittances depends negatively on domestic conditions in the home country (i.e. emigrants send money when things might get worse) and provide flows of foreign exchange when other sources, such as foreign investment or exports decline, remittance receiving countries can enjoy a counter cyclical foreign

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exchange flow. If, however, economic shocks or problems in the country of origin are correlated with those in the host country (from which emigrants send remittances) relying on remittances to provide the foreign exchange for debt payments could put a country in a bind. As such, countries that do wish to securitize remittances should not become too dependent on flows for debt service payments.

In the end, governments and private sectors in countries of origin must find ways to attract the diaspora who may very likely be skeptical or risk adverse toward investing at home. Maureen Lewis at the World Bank notes that this could be difficult when one considers the wide range of possible safe and profitable investment opportunities in their country of residence. Consider for instance the investment choices an U.S. immigrant has in relation to say, Armenia, Ghana, Ethiopia, Jamaica or Haiti. Not only would it require substantial changes in investment conditions, but also public relations campaigns like those carried out by the Israelis in the 1950s. To complement these activities, countries should focus on smaller and simpler investment schemes that establish a track record and bring about success stories that can help the diaspora feel more secure in their investments.



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## Chapter 5: Knowledge Transfer Mechanisms

Millions of highly skilled and educated professionals with backgrounds pertinent to development (science, technology, education, finance, economics, business and health) live in countries other than that of their origin. As globalization expands, new labor market opportunities and the flow of skilled professionals from developing countries continue. A traditional response to these expatriate professionals living abroad is to consider them as a symptom of a problem commonly referred to as the “brain drain,” a phenomenon said to negatively affect the economic development in many countries. A different approach, however, is to regard these professionals not as a loss, but as a potential gain to the sending country.<sup>94</sup> While the mobilization of financial resources, either through individual or collective remittances or various forms of individual or institutional investment, is an important diaspora-development link, it can be argued that the mobilization of knowledge and skills of these expatriate professionals can play an even more effective role facilitating economic development in their countries of origin.

### Brain Drain vs. Brain Trust

When workers (or in some cases refugees or exiles) leave a country, they usually retain connections and networks in their home country. Modern forms of transportation and communication reduced the friction of distance between origin and destination countries and facilitate these connections such that migrants are able to maintain closer and more intimate linkages with their home areas than ever before.<sup>95</sup> When these linkages are fostered, they can yield a backward flow of knowledge and new technologies, a “reverse brain drain” which can contribute to initiatives in health, science, education and social science research. Furthermore, the expansion of knowledge (social capital) and modern technologies can boost productivity and competitiveness, which are two factors that can impact economic development and the terms of a country’s engagement in the international economy. Specific impacts include:

- An increase in the aggregate social capital of a developing country, i.e. a more educated and skilled workforce;
- The introduction of new production techniques and technologies in agriculture, manufacturing and industry that enhance efficiency and output;
- The exchange of management, financial, accounting and operational practices that make firms more efficient, more able to attract investment and gain access to credit and ultimately be more successful in the long term. In time, these benefits would flow upwards to the industry or sector level; and
- Knowledge of the latest business solutions involving new technologies for e-commerce, communication and management information systems.

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<sup>94</sup> Meyer, Jean-Baptiste and Mercy Brown. *Scientific Diaspora: A New Approach to the Brain Drain*. UNESCO, 1999. <http://www.unesco.org/most/meyer.htm>

<sup>95</sup> Hugo, Graeme. *Circular Migration: Keeping Development Rolling?* *Special Issue: Migration and Development*. Migration Information Source. June 2003. <http://www.migrationinformation.org/Feature/display.cfm?ID=129>

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The transfer of knowledge and skills is an important externality of many of the diaspora-development linkages discussed earlier throughout this study. While these types of indirect transfers will inevitably have a positive impact on economic development, formal mechanisms that facilitate the flows of knowledge may better enable countries to tap into the ‘brain trust’ of professionals living abroad and use that knowledge to support economic development. Two possibilities for reversing the brain drain include the mobilization of the digital diaspora, and promoting in person transfers through the short-term physical return of emigrants or diaspora.

## **Mobilizing the Digital Diaspora**

While some countries and organizations have tried to promote the permanent return of emigrants as a way to reverse the brain drain, more promising approaches establish linkages and connections that allow for information exchange to take place between diaspora professionals and their country of origin without necessarily returning home. This way the country of origin gains access to not only the knowledge and expertise the diaspora individual may possess, but also the knowledge networks he or she are involved with in the host country.<sup>96</sup> Using today’s technologies, this can be achieved through diaspora networks that allow for the remote, or ‘virtual’ mobilization of diaspora knowledge.

## **Professional Diaspora Networks**

Internet-based professional networks are one of the most common mechanisms linking migrant professionals to professionals in their homeland to pool their collective knowledge and contacts. In such networks, professionals from the country of origin and the diaspora enter an Internet portal and fill out an online registration for a database that serves as a matching tool other members can access. Using information provided through the database, members connect with potential research or project partners and network with members of similar interests, fields of experience and geographical regions.<sup>97</sup> In some cases, these network members can use these portals for chat room discussions to exchange contacts, technical methods, lessons learned or raise awareness of key issues in their field of expertise. As of 2002, there was evidence that 41 Internet-based expatriate networks existed and represented diaspora communities all over the world. Two examples of professional networks are discussed below.

- **South African Network of Skills Abroad (SANSA)**

One of the most well known diaspora knowledge networks, SANSA, connects skilled people living abroad who are interested in contributing to South Africa’s economic and social development with local experts and projects. The network has over 2,000 members in over 57 countries, with expertise in hundreds of specializations and active in a number of professional sectors, predominantly business and academia. The individual profiles, including members’ fields of interest and areas of specialization, are available through a database system that also includes information on research projects in natural sciences, engineering, technology and health sciences; research and professional

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<sup>96</sup> Meyer and Brown, 1999.

<sup>97</sup> Meyer and Brown, 1999

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associations and conferences. Depending on the level of interest and the extent of their involvement in the network, member contributions to the network include:

- o Receiving South African graduate students in laboratories, or training programs;
- o Participating in training or research with South African counterparts;
- o Transferring technology to South African institutions;
- o Transmitting information and results of research that is not locally available;
- o Facilitating business contacts; and
- o Initiating research and commercial projects.

Since a majority of SANSAs members are based in developing countries, they have access to business networks and new technologies, that if effectively linked through these activities, could contribute to the development in one of Africa's leading economies. The project is maintained by South Africa's National Research Foundation.<sup>98</sup>

- **The Brain Drain Project, Serbia, FRY**

During the 1990's Yugoslavia, a country with around 10 million people, saw close to 500,000 people—many of its most capable young people in the fields of science, technology, education, medicine and finance—emigrate all over the world. Instead of viewing this as a problem, the founders of the Brain Drain Project decided to view it as a potential asset, a tool for positive change and stabilization in the former Yugoslavia and South Eastern Europe. The project to date, which is funded in part by UNESCO and UNICEF, has focused on developing a publicly accessible Web-oriented database of individuals. Members can search a database to find others with backgrounds of interest. In the future, the project aims to develop a forum for the exchange of ideas, as well as provide information pertaining to:

- o Job offers in key fields in Yugoslavia;
- o Information on investing in Yugoslavia;
- o How best to transfer money;
- o Recommendations regarding books published in Yugoslavia, reviews of specific cultural events;
- o Thematic maps and graphs displaying diaspora distribution according to location, fields of endeavor, age, etc.;
- o Survey results (advantages and disadvantages of old and new surroundings, plans to return, conditions, etc.); and
- o Interviews with various individuals, e.g. scientists, politicians, businessmen, entrepreneurs (both foreign and domestic) on topics of interest to the diaspora community.<sup>99</sup>

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<sup>98</sup> For more information, see <http://sansa.nrf.ac.za>

<sup>99</sup> For More information, see <http://www.braindrain.eu.org>

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## Virtual Knowledge and Technology Transfer

Professional diaspora networks can play a vital role in creating contacts and exchanging ideas. Most interactions within these networks are between professionals. Those who are not within the professional realm can be left out of the knowledge transfer process. On the other hand, depending on the commitment and interest of the its members, diasporas can use the internet and e-mail as a means to provide virtual or distant learning opportunities, contribute to the implementation of development projects, or find ways for those remaining in the country of origin to gain skills and knowledge without necessarily migrating themselves. By using the Internet as a project tool, these types of activities help to increase social capital in labor exporting countries and help transfer crucial skills in business, manufacturing, finance, agriculture and other areas that can contribute to economic development.

- **Digital Partners (DP) Digital Diaspora Networks (DDNs)**

Digital Partners (DP) is an international NGO based in Seattle, Washington that has brought together some of the world's leading intellectuals, development specialists, IT entrepreneurs and their colleagues in a virtual organization that spans the globe. DP understands that potential ICT entrepreneurs in developing countries are limited in their actions by a lack of information about opportunities, potential partners, institutional contacts and resources. On the other hand, DP has observed that many in diaspora communities have important skills and access to a wealth of human and material resources that could contribute to ICT development, but perceive few avenues to apply them. Presently, DP is at the helm of a new effort to involve IT diasporas in the development of ICT in their countries of origin to help bridge the digital divide. Working with a range of private sector, donor and UN agencies, DP has been integral in the development of digital diaspora networks in India, Africa and recently, Latin America and the Caribbean.<sup>100</sup>

*South Asia Initiative* – DP felt it was important to establish a mechanism to join the IT diaspora from India and help transfer their accumulated knowledge and expertise of IT systems and entrepreneurship to reduce poverty in India—without their repatriation. The project started by identifying and linking Indian expatriates wishing to address social ills and increase economic opportunities through problem solving methods using IT in India. By volunteering their time and providing advise over virtual channels (e-mail) these diaspora “social entrepreneurs” mentored firms and organizations aiming to use technology as a tool for poverty reduction and economic development. Experts from the diaspora provided advice in business management and IT solutions. While the diaspora had a lot to offer on a volunteer basis, it soon became clear that the transfer of knowledge would be more effective when coupled with financial resources. In cooperation with the diaspora and other interested individuals, firms and organizations, DP created a social venture fund designed to support initiatives that are scalable, catalytic, market-based, collaborative and technology driven. To date, the fund has contributed to:

- o Development of smart card technology to enhance the efficiency, cost and safety of MFI activities;

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<sup>100</sup> For more information, see <http://www.digitalpartners.org>

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- o Established technology training centers;
  - o Created ICT centers to support reconstruction logistics and supply chain processes needed to rebuild villages after the earthquake in the state of Gujarat;
  - o Created an initiative to promote electronic literacy among rural populations and explore the feasibility of employing information technology to stimulate local commerce and business to improve access of rural communities to government services; and
  - o A grant to develop an effective web-based information resource center for social action networking by local non-profit and community organizations.

*Digital Diaspora Network Africa (DDN-A)* – In Africa, ICT has barely taken a foothold. Computer illiteracy and the lack of access to ICT are widely recognized as an increasingly powerful obstacle to the economic, civic and political development of Africa. DDN-A Africa seeks to promote development in Africa through mobilization of technological, entrepreneurial and professional expertise and resources of the African diaspora. Brought together with the growing number of organizations, corporations, foundations, and academics promoting the application of ICT to assist Africa's development, members of the African diaspora would provide a rich source of ideas, skills and support for promoting digital opportunities in Africa. The DDN-A facilitates the exchange of ideas and information to help ICT entrepreneurs create opportunities and find the partners and resources they need to make use of them.

Part of the DDN-A program is AfriShare, an innovative initiative committed to unleashing the enormous potential of today's information and Internet technology to build a bridge to carry the resources and knowledge of the diaspora back to Africa. The initiative aims to:

- o Develop a means for expatriate Africans in North America and Europe, and friends-of-Africa to contribute talent and resources directly to those in need;
- o Develop a Web platform that is accessible worldwide where social investors and entrepreneurs can be matched, and where ideas and talent can be exchanged, and Africa-focused projects supported; and
- o Deliver social and financial returns that will generate solid return to investors.

If successful, the project will mobilize and organize a cluster of stakeholders with a direct interest in Africa's sustainable development into a "brain trust" that will help identify innovative projects on the ground in Africa and pinpoint ways that information technology can be used to trigger market-based solutions to the region's poverty.

### **Physical Return: Short Term Consultancies**

While mechanisms that allow members of a professional diaspora to transfer knowledge without the necessity of return, some organizations have focused on ways to facilitate the physical transfer of knowledge and skills through short-term, one-time, sequenced or repeated visits, or consultancies, either paid or volunteer. Encouraging the temporary return of émigrés and diasporas can have a number of benefits. First, if based on volunteer visits, the transfer of

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knowledge can occur at a much lower cost (the UN estimates a savings of 50 to 70 percent) compared to paid consultants. When one considers that as a whole, Africa spends an estimated \$4 billion each year to employ 100,000 non-African expatriates<sup>101</sup>—this could free up resources that can go towards development objectives. Second, the transfer of knowledge can occur at a higher speed since the emigrants are likely to require less adjustment time to get acquainted with language or the social and cultural context. Third, due to a diaspora consultant’s connection and interest in the homeland, networks are created and follow-up takes place. Examples of short-term mechanisms include:

- **Transfer of Knowledge Through Expatriate Nationals (TOKTEN), United Nations**  
TOKTEN is one of the best-known programs allowing professionals to share their expertise with their country of origin. Within its framework, qualified expatriate professionals (with a minimum of a masters degree or equivalent, and a significant amount of professional work experience) return to their countries for a short period of time to share the skills they have gained during their residence in developing countries. These professionals volunteer their services, often motivated by the desire to play a role in the development process of their home country. TOKTEN consultants perform tasks that might otherwise be performed by international consultants. TOKTEN consultants, who work with research, academic, public or private institutions in their country of origin, can work in a range of technical fields and specializations including:
  - o Agriculture and environmental sciences
  - o Business management
  - o Finance and economics
  - o Manufacturing processes
  - o Technology
  - o Health
  - o Law

While TOKTEN consultants forgo professional fees, they do receive daily allowances, are reimbursed for travel expenses, and receive medical insurance.<sup>102</sup>

One example of this program is in Mali, an African country with a high level of migration into Europe and a widespread diaspora working in key institutions abroad. The TOKTEN program at the University of Mali (TOKTEN TALMALI) filled the urgent need for qualified teaching and research personnel in a number of key areas by bringing Malian academics living abroad back to their home country on short term contracts. Twelve missions by visiting expatriate professors to the University of Mali were held in the 2000-2001 academic year as part of this joint Government of Mali, UNESCO and UNDP project. The visiting professors, living in Africa, Europe and North America, represented specialists in a wide range of fields, which included engineering, international law, mathematics, marketing, tourism, computer science and economics.

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<sup>101</sup> IOM Deputy Dir.-Gen Ndioro Ndiaye, DDN-A conference

<sup>102</sup> UNOPS Website. <http://www.unops.org/textimageflash/default.asp?pmode=3&pno=22>

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The project also facilitated co-operation between the visiting professors and their counterparts at the University of Mali to foster continued dialogue and exchange of inter-university experiences.<sup>103</sup>

- **Migration for Development in Africa (MIDA)—International Organization for Migration (IOM)**

MIDA is part of the IOM's migration for development in least developed countries (LDC) program that aims to enhance LDC's human resources through the transfer of know-how and expertise through the actual or virtual return of those professionals from LDCs living abroad. The MIDA program involves the temporary or permanent transfer of vital resources and skills to support the development of countries of origin. MIDA is continuously developing a databank that identifies priority human resource needs in African countries and skills availability in diaspora. Countries of origin and host countries share this databank. To enhance the effectiveness of the retuning individual, MIDA trains its personnel to manage transfer of skills and other resources of Africans in the diaspora for development programs in Africa. Furthermore, MIDA works to enhance the partnerships based utilization of Africans in the diaspora for coordination and/or implementation of joint ventures between host countries and countries of origin. MIDA has found that the mobility of expatriate African professionals between the host country and the country of origin is a crucial factor to the success of temporary return programs and is working with both host and origin states to develop policies that ease the movement of participants.<sup>104</sup>

### **Programmatic Considerations**

Tapping into the knowledge and skills of the professional diaspora can contribute to economic development by reversing brain drain. Nevertheless, a few issues should be considered before developing these mechanisms as tools for economic development. These include institutional capacity and limitations of using diaspora volunteers for knowledge and skill transfer.

- ***Institutional Capacity***

All three types of knowledge and skill transfer mechanisms discussed in this chapter require some level of institutional capacity to be effective. Similar to diaspora business networks, knowledge transfer networks require the technical and financial capacity to recruit potential members, maintain Web sites, and maintain online databases. Programs such as the Digital Partners' Digital Diaspora Networks are effective because they are able to identify and match 'digital mentors' in the U.S. with counterparts in India or Africa. In addition, organizing projects through the social venture fund requires the ability to raise money, select grants and facilitate the implementation of specific projects. Furthermore, in an effort to drive the momentum of the DDN movement, DP has organized large conferences at the U.N. and elsewhere that have drawn dignitaries and key IT professionals. Without the sufficient capacity of DP as an intermediary for the diaspora, the transfer of skills and knowledge would be limited. Projects like TOKTEN and the IOM's MIDA require the networks and ability to match diaspora consultants with

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<sup>103</sup> [http://www.unesco.org/education/studyingabroad/highlights/brain\\_drain.shtml](http://www.unesco.org/education/studyingabroad/highlights/brain_drain.shtml)

<sup>104</sup> For more information, see [http://www.iom.int/DOCUMENTS/PUBLICATION/EN/Mida\\_eg.pdf](http://www.iom.int/DOCUMENTS/PUBLICATION/EN/Mida_eg.pdf)

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needed skills to relevant projects and institutions in a developing country, but also the financial and human resources to oversee activities.

- ***Limitations of Diaspora Volunteers***

Unlike some of the other programmatic responses to the diaspora link that involve some level of financial benefit to members of the diaspora (remittances and productive projects, diaspora business linkages, diaspora based financial instruments), the impact of the types of networks described in this section is dependent on the ability and willingness of the diaspora to provide their ‘knowledge and skill assets’ on a volunteer basis. While this issue will be discussed in the next chapter, it is particularly relevant to programs involving volunteer diaspora consultants. Physical return on a volunteer basis requires that the diaspora consultants forgo (at times) substantial income earnings. This can restrict the potential consultant pool to those that can afford the time. Furthermore, while there are many in the diaspora with altruistic intentions, it could be difficult to obtain the assistance of the most experienced and talented professionals due to the fact that they, like other consultants who work in developing countries, can be well compensated for doing the same work for governments, donors or international organizations. One way to tap in to the knowledge advantage of these professional diasporas is to develop diaspora consultant networks that link consultants to both paid and unpaid consultancy opportunities in their homeland to expand the amount of diaspora willing and able to participate in short term knowledge and skill transfer opportunities.



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## Chapter 6: Conclusion and Crosscutting Considerations

A number of potential economic linkages exist between émigré and diaspora communities and their homeland. Whether through remittance flows, collective contributions of time and money, business networks, investment or the transfer of skills, knowledge and experience, persons living outside their country of origin have various ways to contribute to economic development in many developing countries. By getting involved in their homelands, either through philanthropic or business activities, diasporas can play a crucial role as ‘agents of change,’ injecting new ideas and resources that can catalyze progress in otherwise stagnant economies. By establishing effective formal mechanisms that enhance the diaspora-development link and facilitate the efforts of various diaspora agents, development agencies, governments, NGOs and diaspora groups could have a positive impact that would not be possible through individual or informal activities. In the midst of increasing interest in the diaspora-development link by the international development community, this study provides a compendium of programmatic opportunities for development actors to mobilize diaspora resources—be they financial, material or knowledge—for poverty reduction and economic development. The examples discussed in this study—adapted to different developing country scenarios—could be applied in the design of programs to promote various levels of diaspora development engagement in economic activities in their country of origin.

When acting upon the apparent potential of development-diaspora links, programmatic strategy and design should take into consideration a number of factors that could affect the overall effectiveness and impact of programs targeting émigré and diaspora engagement. Through this study, the authors aimed to go beyond describing potential links and programmatic opportunities by introducing critical issues that could be relevant in the design and outcome of programs targeting émigré and diaspora groups. While the study identified issues highlighted in the literature, felt that a good deal more could be learned through interaction with those close to the topics at hand. In addition to providing information on linkages and projects, experts and practitioners were asked to weigh in on issues they felt require some consideration when responding to the diaspora-development potential, at both the conceptual and implementation level. Although the previous chapters presented programmatic considerations for each of the key topics, those interviewed presented a number of crosscutting issues that are relevant within the wider diaspora-development context. The views of interviewees (as well as a few discussed in the literature) concerning these crosscutting issues are presented in the following sections.

It should be noted that these considerations reflect the opinions of those queried during the study, based on their particular experience in their organizations, research or field work, and not necessarily on the experience of the wider development and diaspora community. As such, the considerations highlighted in this chapter may require further attention and investigation.

### ***Need for Further Research on Actual Impact of Diaspora-Development Programs***

Many of the programmatic examples highlighted in this study involve well-conceived strategies and mechanisms to tap into the development potential of émigré and diaspora communities. While each example has its own challenges and achievements and the approaches to the diaspora-development link appear sound in theory, many experts queried in this study felt there

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is a need for further research on the actual impact of such programs. Through impact evaluations, lessons learned and best practices, efforts should aim to identify techniques and approaches of programs, including those highlighted in this study, that are most effective, as well as problems that limit the impact of these programs. Furthermore, this research could look into the various considerations noted throughout this paper and current chapter to determine their applicability and effective means to address or overcome them.

### ***Diaspora-Development vs. Conventional Development***

Primarily, it is important to realize that many of the possible responses to the diaspora development link, including those discussed throughout this paper, are not much different from conventional responses to economic development issues. While the involvement of a diaspora can lead to more beneficial outcomes, many of the interviewees noted that when it comes down to it, the overall success of a diaspora initiative—whether involving remittances and financial services, community development, business networks or investment mechanisms—depends on the same fundamentals, tools and practices that contribute to the success of other development projects within a particular focus. Rather than developing new or innovative projects targeting diaspora groups, efforts could focus on ways to employ the diaspora as another avenue through which development can be facilitated—while promoting the same development tools that have seen positive results in other conventional development programs.

### ***What is the Value Added?***

Jeremy Smith (USAID) emphasizes that it is important to consider the value of donor/government-émigré involvement and cooperation in meeting each other's objectives. On one hand, it is important to determine that the involvement of donors and governments can add value to current émigré activities that focus on economic development in their homeland. Many émigré and diaspora initiatives can and do achieve remarkable results without government or donor assistance. Indeed, financial support and technical assistance may contribute to the effectiveness of activities; however, at times, outside involvement may not be necessary, desired or even appropriate in some contexts.

On the other hand, when trying to get emigrants involved in official development initiatives, it is important to consider the extra value from diaspora involvement from the perspective of donors and/or governments. In many ways, the examples discussed in this study (microfinance, community development, trade and investment promotion, emerging market financial instruments, knowledge transfer networks) mirror initiatives taken on the part of development actors that do not necessarily involve émigré groups. While in many cases diaspora engagement can reap numerous potential benefits, attempts to direct diaspora resources towards particular objectives or focus on potential links may provide a distraction that affects the overall effectiveness of a project. Ultimately, the involvement of the diaspora and various development actors should be hinged on whether their activities realistically supplement, complement or add value to each other.

### ***Diaspora as Development Partners...***

In the same way as it is important to promote donor coordination to maximize development efforts within a particular country or region, it is important that development actors coordinate with diaspora communities interested in the development of their home countries through the

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programmatic process. As noted at the beginning of the study, it is reasonable to argue that diaspora and émigré communities can have as much or more of an impact on poverty alleviation, reduction and economic development than other development actors. As such, some of the experts interviewed during the course of the study emphasized that diaspora organizations be regarded as key stakeholders and partners within the development process. Diaspora and émigré groups should be involved in the design and implementation of development initiatives. Not only is diaspora involvement important to find ways to enhance the impact of their own activities through complementary actions, but their unique perspective and relationship to the homeland could also provide key insight that could enhance the appropriateness and impact of development interventions. In doing so, however, governments and donor organizations alike should not assume that the process should be on their own terms. One author is cited as saying that mainstream development actors need to brake a long history of co-opting organizations and their interests into wider agendas, without due regard for what they can contribute or indeed what their own agendas might be.

Despite the need to inform and involve diaspora organizations in the creation of development of strategies, one expert from an official donor agency noted that some donors have yet to find a way to meaningfully engage diaspora. This detachment is not a conscious effort to exclude diasporas from the process, but rather a lack by either party to figure out exactly the best venue for cooperation. He stressed the need to establish platforms for two-way discussions and develop mechanisms for the dissemination of information on activities and ideas carried out by both development actors and their diaspora partners.

***Meet them where they are...***

Jeremy Smith advises that to add value to diaspora activities, you need to think within the context of the diaspora and “meet them where they are, not where you (development actor) would like them to be.” Participants at a conference on HTAs observed that émigré organizations are created for a number of different reasons in response to various perceived needs and priorities and emigrant involvement is based on those factors. Attempting to shift these factors according to particular development agendas is likely to be difficult, if not counterproductive. Rather than spending time and money trying to re-channel émigré efforts and resources that meet donor and government objectives (projects with productive aims, savings, productive investment), Smith suggests that interested partners could work into what diaspora groups are already doing and add value to those activities. Some diasporas may be content with philanthropic activities, with little or no interest in “productive activities.” Pushing émigré groups towards activities outside their realm of programmatic interests could undermine their interest in contributing to development efforts.

Judith Van Doorn, of the ILO, states that programs linking diasporas to development need to be demand driven and responsive to the needs and desires of both the diaspora and those in the country of origin. Pedro De Vasconcelos from the IADB says that interested development actors should look at the profiles of the diaspora communities and the potential recipients or partners in their country of origin to assess their needs, priorities, possible responses and their institutional and financial capabilities to find ways to develop strategies accordingly. Van Doorn notes that the views of diasporas and national counterparts can diverge, which increases the complexity of possible responses.

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Staff interviewed from PADF advocated a proactive approach, saying development actors should observe the progression of emigrant organizations' past activities and develop an appropriate approach accordingly. In their projects, PADF tries to design their programmatic responses according to the context of a particular group. Although the Foundation provides assistance in feasibility studies to determine whether a project is worthwhile, ultimately the émigré groups they work with decide on the type of projects. This is similar to the thoughts of Jennifer Beaston from Digital Partners, who says that key to successful interventions involving diaspora is to find something that the diaspora is passionate about and work with them to develop clear action steps they can take to successfully turn those passions into reality.

***But you can influence their activities...***

Diaspora links and interests are not static, the activities of HTAs, diaspora business groups or knowledge networks can evolve as they achieve goals or as their interests change over time. Many times, this evolution can be a result of lessons learned and best practices experienced along the way.

While noting the importance of working within the context of the interests and activities of the diaspora, a number of experts note that outside actors can help move diaspora efforts forward. Lee Nelson from PADF states that it is possible to meet émigré groups where they are and help drive their evolutions. Amy Coughenour Betancourt, also from PADF, says that development actors can help open groups' eyes to various opportunities and ways that they can make their efforts more effective, or engage in activities that may have a greater development impact than those previously conceived. Many times émigré activities are based on various preconceptions of what they think can be effective. Jennifer Beaston (Digital Partners) says that sometimes the diaspora may not have been in touch with the homeland in a while, and thus do not have a clear understanding of current conditions and opportunities. As a result, they underestimate what can be achieved and only act upon their previous conceptions. Similarly, diaspora individuals and organizations may not realize the value of different development opportunities they can contribute to; however, behaviors and priorities can be changed if evidence of successful approaches is provided. For example, an emigrant who only sends remittances directly to relatives may be convinced to channel a portion of their resources towards community development projects, social venture funds or financial instruments if they are able to see how such alternatives can contribute to the well being of their relatives, home community and development of their country in a way that is more sustainable than a dependency on remittances.

***...And some diasporas may need more of a push***

Furthermore, there are cases where it would be appropriate for development actors to play a leading role to push diaspora into activities that could have a greater economic impact. For example, one interviewee noted that the Armenian diaspora, which, for the most part has not gotten involved in activities beyond philanthropy, is unwilling to be the 'first mover' and put their money forward to invest in business. The interviewee stated that the Armenian business diaspora is unlikely to go in on its own without substantial donor assistance or backing. Within this context, the IFC-sponsored SME fund could play a role in gaining momentum within the diaspora community. Similarly, a panelist at an HTA conference noted that many HTAs are afraid or unwilling to take the "leap of death" to get involved in more productive community

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investments. Donors could play a role in working with capable HTAs to help them make that ‘leap.’

### ***Constraints of Diaspora Volunteerism...***

Many of the initiatives discussed throughout the paper have some level of volunteer and/or unpaid involvement, whether it involves time in the home country, time organizing efforts from abroad or transferring knowledge and information over the Internet. While émigrés show their commitment to their homeland through their volunteer activities, the time spent on HTA networking or mentoring activities is usually done on their free time. As a result, Beaston notes, volunteer activities are placed on the back burner in the face of other priorities, such as job and family commitments. Involvement in projects can peak and wane, depending on other activities in people’s lives. Beaston adds that this can be problematic within the context of diaspora-based development initiatives. Many development activities, such as those implemented by HTAs or Digital Partners’ Digital Diaspora Network and Social Venture Fund require constant participation, leadership and coordination on both sides of the border to ensure the effective design, planning and implementation of projects. Productive projects geared toward job and income creation require the development of business plans and management approaches. Projects involving business or knowledge networks require that someone manage the Web sites and databases and organize networking opportunities and events. The volunteer nature of many diaspora activities does not allow for participants to sufficiently engage in the due diligence that many projects require. As a result, groups are more inclined towards simpler projects that are easy and convenient to implement. While beneficial, these projects may not reach their full development potential.

### ***...Requires the aid of Intermediaries***

One response to the volunteer issue is the use of intermediaries with full time paid employees able to conduct due diligence throughout the design, planning, implementation and monitoring stages, coordinate between the diaspora and counterparts in the country of origin, find potential funding partners, maintain an online website or database, as well as provide advice and technical guidance. Examples of such intermediaries include PADF (HTAs), Indevco (business networks) and Digital Partners (knowledge networks). The involvement of an intermediary introduces one further problem—funding. Jennifer Beaston notes that while many diasporas are willing to donate their time and money to development efforts, they have less of an interest in donating a portion of these resources to an intermediary that bears the cost of coordinating efforts or maintaining a network. As a result, these intermediaries require other funding sources to provide their services. Many intermediaries are able to utilize a diverse range of financial resources, including donors, governments, intergovernmental organizations, private foundations and individual contributions. This, however, raises a question of sustainability. What happens if these funding sources dry up? During the course of the study, the authors spoke to a representative of the now defunct U.S. Armenian Business Council who said the organization was forced to fold after its funding ran out and the organization was unable to raise a sufficient amount of money from the Armenian diaspora business community to fill the financing gap. This raises the question of sustainability of many diaspora development activities.

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***Avoid a dependence on Diaspora resources***

Although opportunities for the tapping the potential of the diaspora-development link, abound, in the end, the aim of involving émigré and diaspora communities in the development process should be the same as that of any development agenda: to promote long term and sustained economic growth. One would hope that eventually the efforts of donors, governments and diaspora communities (even if not collaborative) would help create a situation where a particular developing country is not dependent on outside sources (such as the diaspora) to support family subsistence, community and public services or national GDP; to kick-start business and maintain sufficient levels of investment; or to fill skill and knowledge gaps. Programmatic responses should be designed to achieve these objectives.

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