

# *Diasporas in Caribbean Development*

## Rapporteur's Report

By Michelle Lapointe

August 2004



INTER-AMERICAN  
DIALOGUE



**The World Bank**

Report of the Inter-American Dialogue and the World Bank

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## FOREWORD

The Inter-American Dialogue and the World Bank are pleased to present the report from our workshop “The Caribbean Diaspora as a Development Agent.” The discussion focused on the range of economic and social interactions that thrive between Caribbean immigrants and their home countries, and explored ways that the World Bank could enhance diaspora participation in national development.

Remittances are of crucial and growing importance to several Caribbean nations. As noted in *All in the Family* and other Dialogue publications, remittances improve the quality of life and help repair disparities in income distribution by flowing mostly to poor households. Governments as well as private sector and donor institutions are now looking at ways to reduce the cost of remittance transfers and to incorporate greater numbers of people into banks and other financial institutions.

In addition to sending remittances, immigrants buy home country products, invest in local businesses, and support their communities of origin through donations. Discussion at the workshop centered on the potential of these activities to contribute to development in the Caribbean. Issues of human capital and return migration—tapping into the diaspora’s professional training and experience gained abroad—were also explored at the workshop.

Participants offered a number of concrete recommendations for the World Bank to pursue in its work on the Caribbean. The report discusses the main ideas participants addressed and sets out their proposals for research and action. We hope this report will further advance the discussion on national development and the important contributions made by the diasporas of the Caribbean.

*Caroline Anstey*  
*The World Bank*

*Peter Hakim*  
*Inter-American Dialogue*

# *Diasporas in Caribbean Development*

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On April 14, 2004, the Inter-American Dialogue and the World Bank held a workshop to discuss ways of engaging the Caribbean diaspora in development efforts in their home countries. Sixty participants, including representatives of Caribbean governments, diaspora groups, and financial institutions, along with policy specialists from multilateral organizations and academic institutions, met to develop an agenda for the World Bank to work with diaspora communities.

Governments have begun to focus considerable attention on remittance flows and their policy implications, but policy makers have so far largely ignored other immigrant connections with their home countries. The scope of the diaspora's economic and social contributions to countries of origin is significant and extends well beyond unilateral transfer of remittances. In light of the growing importance of "transnational" communities—those that bridge home and host countries—the purpose of the workshop was to determine how the World Bank can support diaspora involvement in home country development.

The discussions were divided into three major themes: (1) remittances, hometown

associations, and transnational communities; (2) migrant investment in home country business and nostalgic trade; and (3) human capital and return migration. Experts gave presentations on each of these topics, which were followed by lively exchanges among participants. A final session was dedicated to developing recommendations for action by the World Bank.

## **Remittances and financial institutions**

Remittances to six Caribbean countries—Jamaica, the Dominican Republic, Haiti, Cuba, Trinidad and Tobago, and Guyana—totaled over \$6 billion in 2003. Yet, according to Manuel Orozco, a consultant to the Inter-American Dialogue, the Caribbean remittance market remains underdeveloped, meaning that it is dominated by informal methods of transfer as well as monopolies and oligopolies. The inefficiency and lack of competition in the Caribbean leads to some of the highest transaction costs in the Western Hemisphere.

It is especially critical, therefore, to facilitate remittance flows by reducing costs and expanding access to financial institutions in this region. To bring down prices, Orozco

## Mistrust of banking

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recommended removing formal barriers to competition, including regulations that restrict microfinance institutions from transferring remittances. He also encouraged the introduction of technology such as wireless Internet and debit cards to allow remittances to be received in rural areas where there are few banks.

Remittances reach low-income households more directly than any other financial flow, and they also bring income into the poor rural areas, which receive around 40 percent of remittances in the Caribbean. Orozco stressed that to maximize the distributive and developmental impact of remittances, they should be linked to financial institutions—banks, credit unions, and microfinance institutions—to provide receivers with opportunities for savings and investment in the same place where they pick up money from relatives living abroad.

Participants noted the obstacles, including a lack of documentation and a mistrust of banking institutions, that keep immigrants in the United States from using the formal financial system. The issue of proper documentation is not as critical in the case of Caribbean immigrants, as an estimated 70 percent have legal status in the United States. Instead, difficulty arises because most Latin American and Caribbean immigrants come from countries in which the banking system traditionally serves only elite clients. A major challenge for banks in the United States is to offer products and services, including remittance transfers, that are geared to this

mainly low-income group. Such outreach will build the trust of immigrant communities and expand a range of financial services, most notably the ability to build savings and

credit history and to access mortgage loans, to diaspora communities and their families at home. The problem of the “unbanked” is even greater in Latin America and the Caribbean, where fewer than two in ten have access to financial institutions.

### **Community-based donations: partnerships and limitations**

In addition to private transfers sent to family members, some immigrants make community-based donations through groups called hometown associations (HTAs). The HTAs organize to support a particular town or, in some cases, a cause (in several towns) and are active in many Latin American and Caribbean nations. Hundreds of Mexican hometown associations work on social projects in their communities of origin, and many have established partnerships with government entities. Rodolfo García Zamora of the University of Zacatecas described the “3x1” program, in which every dollar donated by an HTA is matched by a dollar each from the local, state, and national governments.

The majority of HTAs raise under \$10,000 a year and operate as charitable rather than developmental institutions. Currently, most projects are focused on health and education objectives, but some HTAs are increasingly discussing projects

that create employment opportunities and generate income in their hometowns, such as small factories that produce local items. The World Bank can assist with research, technical support, and training to help interested HTAs determine which projects are most feasible and how they can be effectively implemented. Such support is particularly needed when HTAs are making the transition to productive projects but lack experience.

How can immigrant organizations establish partnerships with larger institutions? What kind of support should governments and donor institutions offer these groups? Because the World Bank is such a large and complex institution, HTAs are unlikely to approach it directly with proposals. For that reason, umbrella organizations could serve as a liaison between the immigrant groups and large donor organizations. Mexican HTAs have joined together into larger federations, which have a better capacity to negotiate with partner institutions.

Participants agreed that embassies and consulates would not be effective intermediaries due to the diaspora's pervasive mistrust of government institutions as well as political fragmentation among the immigrant communities themselves. This need not exclude the government from a role altogether—consular offices can and should reach out to their diaspora communities and offer space for different migrant organizations to meet and network among themselves. Mexico, El Salvador, and the Philippines have all made advances in working with their overseas communities.

### **“Nostalgic” products and the potential for small and medium-sized enterprises**

According to Luis Guarnizo of the University of California at Davis, a traditional analysis in which people flow to the global north and remittances flow south is inadequate to capture “the economics of transnational living.” A new framework would include remittances but also take into account the economic impacts generated by immigrants visiting their home countries, keeping in touch with relatives, and buying home country products.

Such products, participants suggested, have the potential to reach a wider market and become highly profitable particularly for small and medium-sized enterprises (SMEs). Claudia Schatán of ECLAC-Mexico noted that the Hispanic market in the United States is large and expanding at a rapid rate, creating a window of opportunity to capitalize on “ethnic” or “nostalgic” exports. Small and medium-sized enterprises are crucial to local economic development because they account for around 50 percent of manufacturing employment in many Latin American and Caribbean countries and generate income in communities. Many SMEs produce nostalgic products, yet their contribution to overall exports is negligible.

Schatán noted that SMEs will need technical assistance in addition to the financial support already offered by some governments in order to capture a share of the nostalgic market in the United States. The diaspora communities can in turn serve as a bridge to the mainstream market in the United States and other destination countries. Market research will need to be conducted on diaspora

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communities to determine which nostalgic products are most in demand and to point SMEs to the most profitable ventures. Members of the Caribbean diaspora have greater familiarity with the export market and the profile of their immigrant community in the United States; one challenge is to connect this expertise with home country businesses.

### **Migrant investment in home country business**

Several participants emphasized the important role of diaspora business and professional networks in promoting investment by migrants in home country enterprises and nostalgic trade. Trade fairs and other forums of interaction among the diaspora can facilitate that investment. Governments can also encourage migrants to become investors in home country SMEs. One government program in the Mexican state of Jalisco offers loan support and technical assistance to small businesses owned, and sometimes run, by Jaliscans living in the United States. Several successful SMEs have grown out of this program, generating wealth in local communities.

### **Obstacles and concerns about the nostalgic market**

Although most participants agreed that immigrants have a strong demand for home country products, some raised doubts about the capacity of SMEs to compete in the export market. Several participants expressed concern that small and medium-sized producers of nostalgic goods face major obstacles on

both the sending and receiving sides. In the home countries, efficiency is limited by a lack of access to credit, high taxes, and production problems, among

other factors. On the receiving end, trade restrictions such as fitosanitary and intellectual property regulations are often difficult for SMEs to overcome. In addition, importers are often reluctant to purchase nostalgic goods because of inconsistent delivery or supply. Separate but parallel challenges are to improve production conditions in the home country and to increase knowledge of and access to export markets. One such program of support to small producers, the Caribbean Export Development Project, is currently being financed by the European Union.

Participants disagreed as to the significance of the nostalgic export market. Some argued that the diaspora's most important role in the trade arena is to lobby host country governments for trade agreements, and that nostalgic trade will have little overall economic impact. But others pointed out that nostalgic trade is not marginal—noting that over 75 percent of immigrants buy a range of home country products—and that labeling this market as “nostalgic” minimizes the extent of its impact. Nostalgic trade, they say, has a potentially large impact on small and medium-sized businesses. Institutions such as the World Bank that are already working with SMEs can tie their programs to work on nostalgic trade and attract migrant investment.

The demand for nostalgic products over the long term was an issue participants agreed warranted further study. Little is cur-

rently known about the market preferences of second and third generation diaspora members and the effect of their assimilation on the nostalgic market.

### **High-skilled emigration in the Caribbean: challenges for governments**

The Caribbean region has seen significant numbers of its best-educated citizens emigrate. The migration rate of the college-educated in the Caribbean is among the highest in the world—an estimated 76 percent of Jamaicans with a college education live in the United States. This “brain drain” has traditionally been considered a net loss for a country, but, by utilizing the skills and training of diaspora communities, governments can begin to counteract some of its negative consequences.

Percy Hintzen of the University of California at Berkeley suggested that because of their well-educated diasporas, Caribbean nations can, like China and India, take advantage of the current trend of outsourcing high-skilled jobs. Caribbean countries would first have to attract some of the educated diaspora back into the home country. To do so, according to Hintzen, Caribbean governments must make a concerted outreach to their overseas communities through embassies and consulates, as well as establish ministries or sub-ministries dedicated to diaspora affairs. Such actions to promote inclusion of diasporas will further their participation in home country development. In addition, Hintzen encouraged Caribbean governments to offer incentives to their emigrant populations to

facilitate visits and retirement in the home country. In turn, members of the diaspora can use their acquired skills to work on projects in the home country and train local practitioners.

Lindsay Lowell of Georgetown University broadened the discussion beyond the college-educated to include skilled tradespeople and others in demand in many developing countries. When migrants return to the home country after working abroad, they tend to earn more than if they had stayed. But, Lowell stressed, recruitment programs for temporary workers in industrialized countries need better government oversight to ensure that both the needs of each country and the rights of the workers are being protected. Lowell also encouraged the promotion of diaspora networks beyond academic associations, to improve business contacts. He noted that governments of both home and host countries can establish policies to facilitate return migration, citing examples in Mexico and Colombia by which nationals are given stipends to return home after completing degrees abroad.

One major obstacle to temporary or permanent return migration in the Caribbean is a widespread perception among the diaspora that home country governments are not particularly welcoming. Several participants described a general resentment in home country societies against those who have left; such an attitude can discourage diaspora members from playing a more active role in their countries of origin. By viewing the diaspora as an integral part of both national identity and national development, home countries can begin to change this

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reality. Suggestions for doing so included giving overseas communities the right to vote and establishing offices of attention to the diaspora. Currently, there is some symbolic inclusion of the diaspora by governments, but policies should be formalized and take into account the interests of the diaspora members themselves.

Participants noted that the World Bank and other multilateral organizations hire outside consultants to work in countries where the diaspora has a thorough understanding of social, economic, and political dynamics. They recommended that multilaterals actively recruit qualified members of the diaspora to collaborate on development projects in the Caribbean.

### **Designing an agenda for the World Bank in the Caribbean**

Participants discussed opportunities for the World Bank to work with diaspora groups and to develop a more comprehensive strategy on remittances, nostalgic trade, migrant investment, and return migration. One of the major concerns expressed was that the Bank would have difficulty working at the “retail” level—i.e., interacting directly with small groups like HTAs. The prospect of an umbrella organization working as a liaison between the immigrant groups and the Bank was raised in the session on HTAs. In addition, participants wondered about the Bank’s ability to fund non-governmental actors. Representatives from the World Bank explained that there is potential to work on these issues through engagement with national governments,

the diaspora community, and local development programs.

Participants underscored the need for further research to improve work

on diaspora issues. The field of migration and development is still relatively new, and important questions remain about the sustainability of current trends in migration and remittances, as well as the overall impact of the money entering home country and household economies. The Bank can support research and evaluation to better inform an action-oriented agenda on:

- ***Nostalgic trade:*** More research into immigrants’ transnational activities—including, but not limited to, the types of home country goods they consume while living abroad—will be an important contribution to the field.
- ***Small and medium-sized enterprises:*** Small producers in the Caribbean would benefit from more extensive information about the export market, perhaps as part of an integral strategy of support to this sector. The private sector arm of the Bank, the International Finance Corporation, is already active in capacity building for SMEs. It should be consulted about integrating the nostalgic market into this work.

The Bank is also looking at ways to put research results into practice and incorporate the findings of the discussions into its programs in Caribbean countries. Some of the recommendations put forth by participants included the following.

- ***Social investment funds:*** Programs related to rural development and social investment funds at the community level that are currently financed in the Caribbean should bring diaspora groups, including HTAs, into the discussion.
- ***Country assistance strategy:*** These three-year in-country strategies for the Bank are worked out with the government, the private sector, and civil society. Strategies for the Dominican Republic and the Organization of Eastern Caribbean States countries are upcoming; incorporating diaspora concerns may be an innovative approach.
- ***Human and social development work:*** Attention should be focused particularly on health and education reform, and on vulnerable populations affected by emigration (including at-risk youth, female-headed households, and the elderly). This effort could take the form of increased dialogue between the Bank and government agencies dealing with education, health, and social protections. It could also focus on engaging diaspora professionals, including nurses, teachers, and social workers.
- ***Banking sector reform:*** Specialists in banking sector reform at the World Bank and Inter-American Development Bank should be consulted to see how their work on financial sector development can complement efforts to expand access to financial institutions in the region.

Although the Bank was set up to lend to governments, it has, in recent years, begun funding civil society actors such as indigenous groups. Many diaspora groups, however, are based in the United States, which raises questions about how the Bank could support their work. The following Bank programs were mentioned as possible avenues for involving such groups:

- ***Foundations group:*** This program works with foundations in the United States.
- ***Institutional Development Funds:*** Designed for capacity building in-country, these grants might be able to fund diaspora groups if the linkages between the groups in the United States and those in the home countries are clearly shown.

## Conclusion

Caribbean communities are increasingly transnational; they are no longer bounded strictly by national borders. Diaspora members can play a role in the advancement of their home countries. There are a range of opportunities for the World Bank to take advantage of diaspora groups in development activities. Addressing the related but distinct issues of private family transfers, community donations, nostalgic markets, migrant investment, and return migration will require a flexible and innovative strategy—and a new dialogue among different sectors of the Bank and between the Bank and overseas communities.

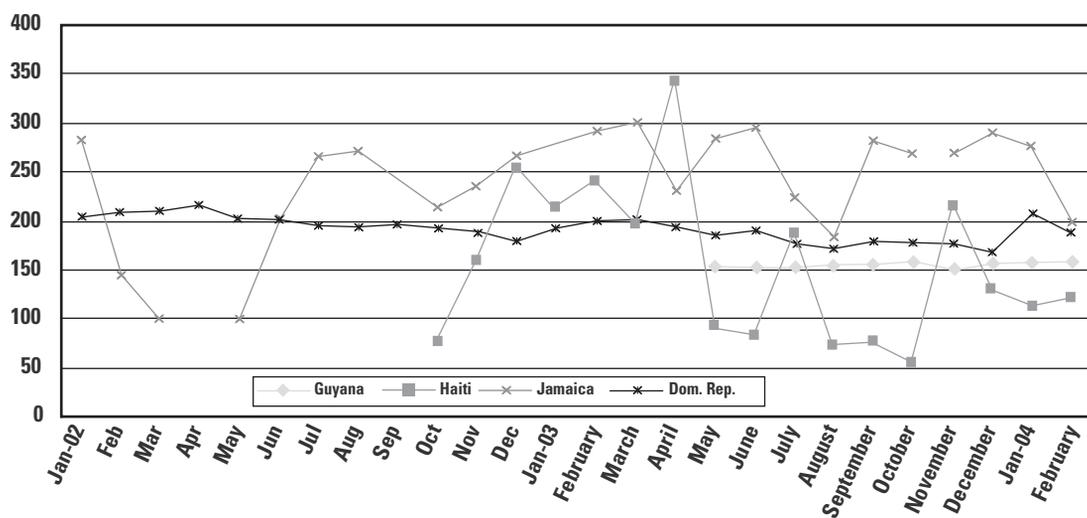
## Caribbean Region: Trends In Remittances and Immigration

Remittances to Selected Caribbean Countries (million US\$)

Year	2001	2002	2003
Dominican Republic	1,807	2,206	2,217
Jamaica	967	1,288	1,425
Cuba	930	1,265	1,194
Haiti	810	931	977
Guyana	N/A	119	137
Trinidad and Tobago	N/A	59	88
Caribbean	4,514	5,868	6,038

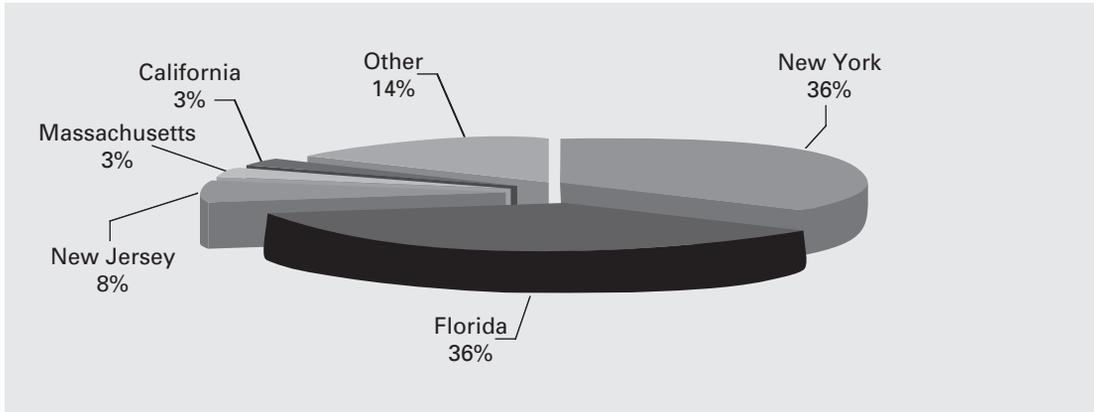
Source: Inter-American Development Bank

Average Monthly Amount per Remittance Transfer to Selected Caribbean Countries, January 2002–February 2004 (US\$)



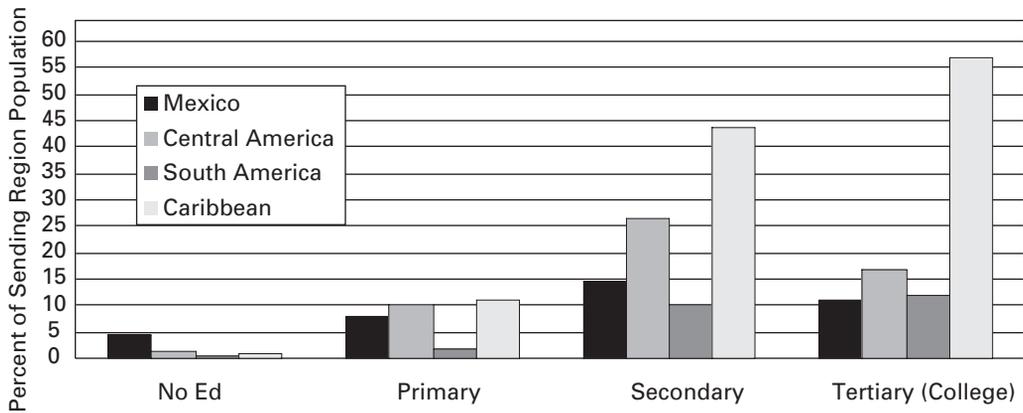
Source: National Money Transmitters Association, 2003 and 2002 averages.

### Distribution of Caribbean Population in the United States, by State



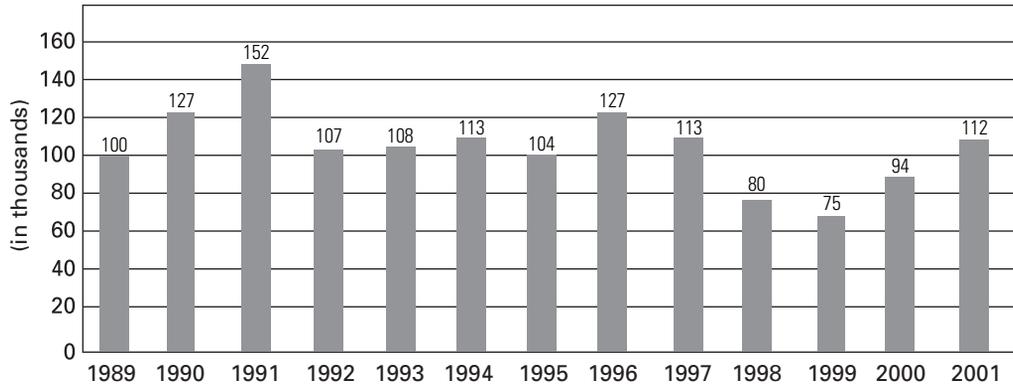
Note: Data are for Trinidad and Tobago, Guyana, Cuba, Dominican Republic, Haiti, Jamaica, Antigua-Barbuda, Bahamas, Barbados, Dominica, Grenada, St. Kitts-Nevis, St. Lucia, and St. Vincent.  
 Source: U.S. Bureau of the Census, 2000 Census.

### Percentage of Adults by Region of Birth and Level of Completed Education who Reside in the United States, 2000



Source: B. Lindsay Lowell, Institute for the Study of International Migration, Georgetown University.

## Legal Migration from the Caribbean to the United States, 1989–2001



Notes: Between 1989 and 2001, 1.4 million Caribbeans migrated legally to the United States. Data are for Anguilla, Antigua-Barbuda, Aruba, Bahamas, Barbados, Bermuda, British Virgin Islands, Cayman Islands, Cuba, Dominica, Dominican Republic, Grenada, Guadeloupe, Guyana, Haiti, Jamaica, Martinique, Montserrat, Netherlands Antilles, Puerto Rico, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, Turks and Caicos Islands, and U.S. Virgin Islands.

Source: U.S. Department of Homeland Security, Yearbook of Immigration Statistics, 2002, U.S. Government Printing Office: Washington, D.C., 2003.

## The Inter-American Dialogue

The Inter-American Dialogue is the leading U.S. center for policy analysis, exchange, and communication on issues in Western Hemisphere affairs. The Dialogue brings together public and private leaders from across the Americas to address key hemispheric problems and opportunities.

Dialogue activities are directed to generating new policy ideas and practical proposals for action, and getting these ideas and proposals to government and private decision makers. The Dialogue also offers diverse Latin American and Caribbean voices access to U.S. policy debates and discussions. Based in Washington, the Dialogue conducts its work throughout the hemisphere. A majority of our Board of Directors are from Latin American and Caribbean nations, as are more than half of the Dialogue's members and participants in our other leadership networks and task forces.

Since 1982—through successive Republican and Democratic administrations and many changes of leadership elsewhere in the hemisphere—the Dialogue has helped shape the agenda of issues and choices in inter-American relations.

## The World Bank

The World Bank is one of the world's leading development institutions. Its mission is to fight poverty and improve living standards in low- and middle-income countries by providing loans, grants, policy advice, technical assistance, and knowledge sharing services. It promotes growth to create jobs and empowers poor people to take advantage of these opportunities.

The 184 member countries of the World Bank are jointly responsible for how the institution is financed and how its money is spent. The Bank is currently involved in more than 1,800 projects. In 2003 it provided \$18.5 billion in loans and credits and worked in more than 100 developing countries.

In Latin America and the Caribbean these projects are as diverse as improving basic services for the poor in Bolivia, supporting indigenous and Afro-descendent peoples' development in Ecuador, establishing better public transport in Peru, expanding access to justice services in Mexico, strengthening land administration and titling in Honduras, protecting biodiversity resources in Central America, and providing clean water and sanitation services in Brazil.

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