

**UNLEASHING THE POTENTIAL OF DIASPORA  
DIRECT INVESTMENT IN CENTRAL AMERICA  
RG-T2217**

**CERTIFICATION**

The Grants and Co-Financing Management Unit (ORP/GCM) certifies that the amount of US\$750,000 from the Facility for the Promotion of the Regional Public Goods (FRPG-OC) is available for the financing of the program activities herein described.

  
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Sonia M. Rivera  
Chief a.i.  
Grants and Co-Financing Management Unit  
ORP/GCM

11/21/2012  
Fecha

**APPROVAL**

Approved   
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Antoni Esteveordal  
Sector Manager.  
Integration and Trade Sector  
INT/INT

11/27/12  
Fecha

## TC DOCUMENT

### “Unleashing the Potential of Diaspora Direct Investment in Central America”

#### I. Basic Information for TC

▪ Country/Region:	CID
▪ TC Name:	Unleashing the Potential of Diaspora Direct Investment in Central America
▪ TC Number:	RG-T2217
▪ Team Leader/Members:	Ady Beitler (INT/TIU), team leader; Caroline Levington (INT/TIU); Jaime Granados (TIU/CCR); Fabrizio Opertti (INT/TIU); Yasmin Esteves (INT/TIU); Gabriela Regojo (LEG/SGO); Santiago Castillo (FMP/CES); Mario Castaneda (FMP/CES); and Kea Wollrad (INT/RPG)
▪ Date of TC Abstract authorization:	07/19/2012
▪ Beneficiary:	CR, DR, ES, NI
▪ Executing Agency and contact name:	Agencia de Promoción de Exportaciones e Inversiones de El Salvador (PROESA) Contact: Salvador Salguero, Director de Inversiones
▪ IDB Funding Requested – Facility for the Promotion of Regional Public Goods (FRPG):	USD750,000
▪ Local counterpart funding, if any:	USD320,000 (in kind)
▪ Execution period:	36 months
▪ Disbursement period:	42 months
▪ Required start date:	12/1/2012
▪ Types of consultants:	Individual and Firm
▪ Prepared by Unit:	INT/TIU
▪ Unit of Disbursement Responsibility:	CID/CES
▪ TC Included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ GCI-9 Sector Priority:	Integration and Trade

#### II. Objectives and Justification of the TC

The Latin American and Caribbean region has one of the highest net migration rates in the world.<sup>1</sup> In the United States alone, there are 50.5 million Latinos (foreign-and U.S.-born).<sup>2</sup> In 2011, Latin America received US\$58.1 billion in remittances from its Diaspora, an amount more than three times the Official Development Assistance.<sup>3</sup> However, remittances are limited in their development impact because: (i) they are primarily used for consumption rather than investment; (ii) they typically flow within families, and there is a lack of information on productive uses outside of the family and immediate community network; and (iii) they are unlikely to be accompanied by knowledge transfer.

<sup>1</sup> Migration and Remittances Factbook 2011, 2<sup>nd</sup> Edition, World Bank.

<sup>2</sup> World Migration Report 2011, International Organization for Migration.

<sup>3</sup> Migration and Remittances Factbook 2011, 2<sup>nd</sup> Edition, World Bank.

This project aims to establish a regional public platform for Central America to unleash the productive potential of Diaspora resources for the development of the region. Specifically, it will fund the development of a sustainable marketplace for business and investment ideas to leverage the many resources of the Central American Diaspora community: financial, entrepreneurial skills and expertise, and networks.

Through a Regional Marketplace for Diaspora Direct Investment (“the Marketplace”), migrant businessmen and women interested in investing in their country of origin, or starting a new business there or multi-nationally, can present their ideas and connect with other investors and stakeholders, both public and private. The Marketplace will function as a platform to: (i) create a community of registered regional and Diaspora businessmen and women; (ii) collect a variety of potential business and investment ideas and initiatives presented by the Diaspora and to the Diaspora; (iii) give visibility to these initiatives both at a regional and global level and facilitate matchmaking of business partners and investors in public initiatives; (iv) provide an efficient and market-based platform for government and non-governmental institutions to provide incentives to participate, such as matching grants through a competitive process; (iv) be scalable and continue functioning in the long term, through regional agreement on a sustainable governance and funding structure; and (v) enable quantification of the successful connections between entrepreneurs and their partners in business and government, and evaluation of the barriers to Diaspora collaboration and investment.

The Marketplace will establish an innovative alternative to one of the main barriers affecting the flow of Diaspora direct investment (DDI) into Central American countries, which is information asymmetry on creditworthiness, given widespread informality of the region's economy.<sup>4</sup> The data shows that availability of credit information reduces financial constraints for growing businesses.<sup>5</sup> Thus, the Marketplace will provide a method of selection and endorsement of proposals that will facilitate information to Diaspora investors to lower the risks associated with the proposed investments and business endeavors.

The proposal builds on the efforts of the U.S. State Department's International diaspora Engagement Alliance (IdEA), which has provided matching grants for business ideas in the Caribbean (in partnership with the IDB), and wishes to expand the initiative to Central America. The proposed Marketplace therefore has multi-institutional and international support and an established source of financial incentives for participants. In addition, IdEA partner Univision will facilitate wide outreach to the Latino population in the U.S. as well as the region.

Throughout Latin America and the Caribbean there have been national initiatives aimed at engaging the Diaspora, mainly through the channeling of remittances towards specific productive uses or community initiatives, e.g., the “Tres por Uno” program for the Mexican Diaspora or the “Unidos por El Salvador” program. Most of these programs focused on community projects, funded or co-funded by the donations of migrants, but no other initiative has created a sustainable platform to promote local-Diaspora collaboration for both private and public investment and business creation. In other countries, financial institutions have created financial products and services targeting receivers of remittances (e.g. remittances as collateral for mortgages or credit), but very little has been done to promote foreign investment in which the migrant businessperson plays a leading role (a type of foreign investment known as Diaspora Direct Investment) thus harnessing the knowledge and skills of the Diaspora in

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<sup>4</sup> A 2008 study by the IMF (Guillermo Vuletin, “Measuring the Informal Economy in Latin America and the Caribbean,”) found the informal economy ranged from a low of 15% of GDP in the Bahamas to a high of over 70% in Paraguay.

<sup>5</sup> E.g. Tobias Baer et al., “The national credit bureau: A key enabler of financial infrastructure and lending in developing economies,” McKinsey Working Paper Number 14, December 2009, which finds that in countries with credit bureaus, 27% of SMEs report financial constraints, compared with 49% in countries without them.

addition to financial resources. The mechanism proposed here aims to go beyond the time- and resource-limited method of funding individual winning proposals; the goal is to sustainably overcome information barriers to allow the market to operate through an open and transparent platform that can be accessed by all stakeholders.

Promotion of Diaspora Direct Investment is particularly important for Central America. In fact, the Migration Policy Institute calculates that 2.9 million immigrants from Central America have made the United States their home, and their remittances account for a significant portion of the countries' GDP. In El Salvador, for example, they accounted for USD3.5 billion in 2010.<sup>6</sup> Programs promoting the productive use of these remittances will undoubtedly have positive spillovers effects over the region's economy.

The U.S. State Department, with partnership from the IDB, has recently made strides in the theory of Diaspora engagement, first, through the development of the Caribbean Ideas Marketplace, and second, with the Global Diaspora Strategies Toolkit.<sup>7</sup> The Toolkit document will be an important input in the development of the Central American Diaspora marketplace, as it proposes governments as the facilitators to help build mutually beneficial relationships with and networks amongst their Diaspora communities. The proposed Marketplace brings action and sustainability to these types of initiatives.

The Marketplace, as a Regional Public Good, will overcome several important market failures to Diaspora engagement, addressing problems of coordination and information. First, in terms of coordination, it connects potential investors, business partners, and regional and local government initiatives that would otherwise not find each other. Second, the participating agencies will set up the platform in such a way that individuals, partnerships, or local governments may receive endorsements from the platform administrators or their known network, thus reducing the cost of due diligence, and overcoming a critical information barrier to international investment. Today there are many web platforms (for other purposes) with successful endorsement tools—notably eBay for developing this type of functionality, as well as the more recent internet-based investment model called crowdsourcing/crowdfunding—that the implementing countries could look to as models. Essentially, the social networking functionality of the platform can, over time, substitute for the lack of a cross-border credit bureau.

The Regional Marketplace is expected to generate the following direct benefits:

- (i) Create a community of local and Diaspora businessmen and women that can easily and transparently network with potential business partners and stakeholders, both public and private;
- (ii) Collect a variety of potential business and investment ideas and initiatives for public and private investment presented by the Diaspora and to the Diaspora –these proposals constitute an extremely valuable database of opportunities;
- (iii) Overcome information barriers and reduce transaction costs to facilitate matchmaking and the creation of cross-border business partnerships and public sector investments;
- (iv) Create a scalable platform that can continue functioning sustainably in the long term;
- (v) Generate opportunities for increased foreign direct investment in Central America from the Diaspora communities;
- (vi) Contribute to job creation, through business creation and greater public and private investment;

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<sup>6</sup> Center for Strategic and International Studies, 2011, at <http://csis.org/blog/central-americas-economic-diaspora>

<sup>7</sup> U.S. State Department, "Global Diaspora Strategies Toolkit," 2011, <http://www.diasporamatters.com/download-the-diaspora-toolkit/2011/>

- (vii) Provide visibility to Diaspora engagement initiatives and generate greater interest from public policy actors in the important role of Diaspora Direct Investment for development.

The project is fully aligned with the Bank's GCI-9 sector priority of Integration and Trade.

### **III. Description of activities/components and budget**

#### **Component 1. Design Governance Structure**

- (i) Creation of an Advisory Board including specialized experts from each of the participating countries.
- (ii) Consultancy services to facilitate negotiation of the governance and long-term funding structure of the platform amongst the Advisory Board, as well as rules for participation and due diligence in the case of financial incentives, and drafting of resulting governance agreements (MOUs).

#### **Component 2. Build Online Diaspora Direct Investment Marketplace**

- (i) Consultancy services to design platform structure and components, and draft guidelines for participation in the platform with guidance from the Advisory Board. Platform components to include:
  - a. Local and Diaspora entrepreneur registry –profile creation and maintenance.
  - b. Idea, investment, and business opportunity sharing component, with appropriate mechanisms for communication and discussion.
  - c. Capability to run time-limited competitions for incentives by selecting proposals from (b) for entry in a competitive round.
  - d. Networking functionality and integration with social networking platforms.
- (ii) Consultancy services by ITC firm(s) to build the online platform, including establishing hosting and backup, designing privacy controls and safeguards, and training operators of the platform as established in the governance agreement.

### Indicative Results Matrix

	Unit	Baseline		Year 1		Year 2		Year 3		Expected Completion Date	Data Source
		Value	Year	Planned	Actual	Planned	Actual	Planned	Actual		
<b>Create a community of local and Diaspora businessmen and women that can easily and transparently network with potential business partners and stakeholders, both public and private</b>											
Memorandum of understanding signed by participating trade promotion agencies establishing long-term governance structure for online diaspora marketplace	#	0	2012	1		1		1		2015	Document filed in IDB Docs
Number of registered participants of the online diaspora marketplace	#	0	2012	0		500		750		2015	Project evaluation report
<b>Overcome information barriers and reduce transaction costs to facilitate matchmaking and the creation of cross-border business partnerships and public sector investments</b>											
Percentage of marketplace participants who indicate the social networking/endorsement function of the platform makes them more likely to conduct business with another marketplace participant	%	0	2012	0		0		75		2015	Survey results in project evaluation report
Percentage of marketplace participants who intend to conduct business with a counterpart met through the network	%	0	2012	0		0		50		2015	Survey results in project evaluation report
Percentage of marketplace participants who report gaining business insight from their participation in the diaspora marketplace	%	0	2012	0		0		75		2015	Survey results in project evaluation report
<b>Generate opportunities to increase foreign direct investment and job creation in Central America from the Diaspora communities through business creation and greater public and private investment</b>											
Number of investment leads recorded via the online diaspora marketplace	#	0	2012	0		20		40		2015	Project evaluation report
Dollar value of investment leads recorded via the online diaspora marketplace	\$	0	2012	0		375,000		750,000		2015	Project evaluation report

### Indicative Budget

The estimated cost is US\$1.07 million, of which US\$750,000 would be funded by the IDB. The proposed distribution of funds is as follows:

Category	IDB	Counterpart	TOTAL
<b>Component 1: Design Governance Structure</b>	<b>280,000</b>		
Consultancy services to facilitate negotiations	100,000		
Consultancy services for meeting logistics	80,000		
Travel	60,000		
Logistics and rentals for meetings	30,000		
Publication of documents & materials	10,000		
<b>Component 2: Build Marketplace</b>	<b>330,000</b>		
Consultancy services to design platform	90,000		
Consultancy services for software development	125,000		
Consultancies for training	90,000		
Travel	25,000		
<b>Project Coordination</b>	<b>40,000</b>		
<b>Monitoring &amp; Evaluation (incl. final audit)</b>	<b>30,000</b>		
<b>Contingencies (approx. 10%)</b>	<b>70,000</b>		
<b>Local counterpart</b>		<b>320,000</b>	
<b>Subtotal</b>	<b>750,000</b>	<b>320,000</b>	<b>1,070,000</b>

The IDB contribution would be on a non-reimbursable basis, chargeable to the Facility for the Promotion of Regional Public Goods (FRPG), which is financed from Ordinary Capital.

Local counterpart resources are estimated to total US\$320,000 (at US\$80,000 per participating country, including the executing agency). Participating country resources will be in-kind and represent the staff time and resources dedicated to the project.

Ady Beitler (INT/TIU) and Caroline Levington (INT/TIU) are the designated specialists responsible for collaborating with PROESA with the execution, monitoring, and supervision of the Program. Monitoring activities will include quarterly review of operational plans and the requirement of non-objection by the Bank for procurement and hiring (ex ante procurement procedures). A final project evaluation will be conducted, including surveys and follow-up interviews of marketplace participants.

Expenses for travel are contemplated in this operation, insofar as coordination among the beneficiary entities is essential to the success of the operation, and physical meetings are deemed the most effective and efficient way as they involve the testing of the platform and organization of focus groups.

#### **IV. Executing agency and execution structure**

The trade and investment promotion agencies (TPOs) of Costa Rica (PROCOMER), the Dominican Republic (CEI-RD), El Salvador Agencia de Promoción de Exportaciones e Inversiones de El Salvador (PROESA), and Nicaragua (PRONicaragua) will participate in the project, with PROESA assuming the role of executing agency. Letters of request from each of the participating TPOs are annexed.

The TPOs, as public promotion agencies, are particularly well positioned to lead the implementation and promotion of this initiative. They have the human resources, communications infrastructure, and networks in place to reach a large yet targeted audience. Among the participants are Costa Rica and Nicaragua, who ranked 10<sup>th</sup> and 11<sup>th</sup> respectively in the world for investment promotion in the 2009 FIAS Global Investment Promotion Benchmarking; Nicaragua placed 1<sup>st</sup> in 2012. Each participating agency has committed their facilities and man-hours (as detailed in the budget) to ensure the project's success.

PROESA, in particular, is suited to become the executing agency, as it has substantive experience working with the IDB on Diaspora promotion policies. In fact, it is the executing agency in Operation 2583/OC-ES (ES-L1057), led by the Integration and Trade Sector, which has a component promoting interaction with the Diasporas.

Project governance will be achieved through consensus of an Advisory Board established of representatives of the participant countries and facilitated by the Bank through workshops under Component I. The decisions made by the Advisory Board and the resulting Memorandum of Understanding will guide the implementation of Component II. Prior to the first disbursement, each participating country must have named their representative(s) to the Advisory Board.

Procurement will be realized in accordance with IDB policies for procurement of goods, works, and services (GN-2349-9) and for consultancies (GN-2350-9). Ex post review of procurement will take place via a final audit of the project and in accordance with the Procurement Plan approved by the Bank.

## **V. Major issues**

Coordination and cooperation challenges are likely to arise given the nature of the project as a regional public good. The design of the program, with Component I dedicated to developing a governance structure, is intended to mitigate coordination risks. Further, close participation of the Bank in a facilitation role, as well as the monitoring procedures established above, will help overcome such challenges.

Care will also need to be taken to ensure the financial sustainability of the Marketplace. The interactive platform provides a stable arena for communication among businessmen and women of the region and business development between rounds of competition. While ongoing maintenance costs are relatively low and substantially lower than the development of the platform per se (funded by the FRPG), some ongoing maintenance and investment in incentives will be necessary to ensure the sustainability of the platform. To mitigate this, in order for the citizens of participating countries to be eligible for incentives through the Marketplace, the participating agency from that country must provide material contributions (in cash or kind) to the maintenance of the platform. (Participation and maintenance requirements to be defined by the participating agencies as part of Component 1: Design Governance Structure.) This prevents free-riding by participant countries and aligns the incentives of participating local businessmen and women with their respective investment agencies.

## **VI. Conditions Prior to Disbursement**

A condition prior to first disbursement will be signing of a collaboration agreement between the four TPOs of the beneficiary countries - PROCOMER, CEI-RD, PROESA and PRONicaragua -stipulating the Program's activities, the acting of PROESA as executing agency and the specifying the in-kind contribution from each agency.

## **VII. Exceptions to Bank policy**

None

## **VIII. Environmental and Social Strategy**

This operation does not present environmental and social risks. It was classified as Category C in the Environmental and Screening Classification.

- Safeguard Policy Filter (SPF) Report:  
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?docnum=37105230>
- Safeguard Screening Form (SSF):  
<http://idbdocs.iadb.org/wsdocs/getDocument.aspx?docnum=37105233>



**Annexes:**

- Letters of Request
  - CR: <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?docnum=37105275>
  - DR: <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?docnum=37105277>
  - ES: <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?docnum=37105283>
  - NI: <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?docnum=37105287>
- Terms of Reference: <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?docnum=37105243>
- Procurement Plan: <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?docnum=37105242>