

Determinants for the Effective Provision of Public Goods by Honduran Hometown Associations in the United States: The Garífuna Case

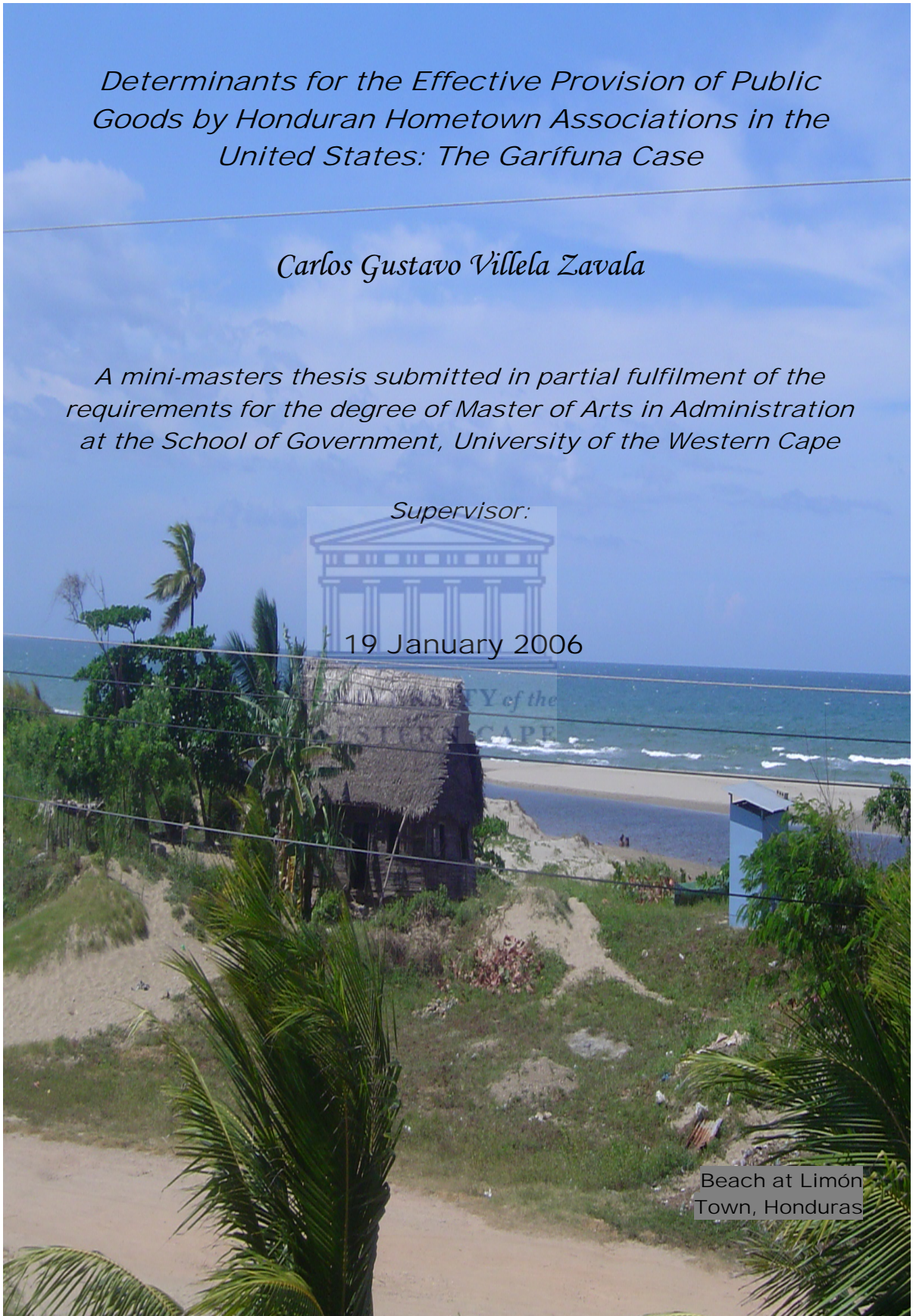
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Beach at Limón
Town, Honduras



KEY WORDS

Migration
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Community-Based Organisations
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Bounded Rationality
Information Asymmetry
Contracts
Implicit Contracts
Agency
Incentives
Principal-Agent Approach
Principal
Agent
Information Economics
Search and Information Costs
Monitoring Costs
Opportunism
Adverse Selection
Moral Hazard
Hidden Action
Effectiveness



ABSTRACT

The term Collective Remittances (CRs) refers to the money sent by migrant associations, known as Hometown Associations (HTAs), to Community-Based Organisations (CBOs) in their hometowns for financing public works projects. Few cases of CR are known in Honduras. The only ones reported are among the Garífuna ethnic group living on the Caribbean Coast, and with a large migrant community in New York City (NYC).

This mini-master's thesis is the first study written on CRs in Honduras. It studies CR experiences in four Garífuna hometowns and their corresponding HTAs in NYC. It answers three questions: How do CRs work in each case? What are the determinants for HTAs to provide CRs to the hometowns? And what are the determinants for local CBOs in the hometowns to use the CRs effectively to provide public goods in the hometowns?

CR is conceptualised as a *contract* between two parties: the HTA, which is the *principal* that chooses which local group and project to finance, and the local CBO, which is the *agent* possessing more information on which projects could be carried out in the hometowns, and which finally executes these projects.

The study concludes that the existence of HTAs in the USA is explained by the socially enforced institution of the *hijos del pueblo* (sons of the town) having a duty to help their hometowns, as well as the private benefits of preserving Garífuna traditions and the possibility of helping repatriate dead immigrants. Fulfilling this duty (and the consequent prestige attained) provides the incentives to send CRs home. In the cases studied, CRs were used to partly finance potable water projects, electricity projects, road paving, a community centre and the construction of a Catholic temple. In most of the cases HTAs worked with a local development organisation, known as *Patronato*, which formed specific committees for executing projects, for example the water and the electricity committees. For the construction of the temple, a religious organisation known as *Pastoral* was the local partner.

The CR contract established was of an “implicit” nature, which is unwritten and informal. Despite the fact that HTAs have in the past financed many projects, today they are more reluctant to supply CR. Current Patronatos are inactive or unrecognised by the community. HTAs don't trust that Patronatos have sufficient capacity, so selecting projects is difficult. Five limiting determinants were identified; some of them prevent CR being sent at all, while others reduce the effectiveness of financed projects. Unwritten or unclear rules (institutions) within the HTAs and the local CBOs can generate conflicts and reduce motivation. The lack of mechanisms for signalling the hometowns' needs also makes project selection difficult. Nonexistent or unwritten rules for supplying CRs and for monitoring their use may result in the ineffectiveness of financed projects.

To overcome these problems, it is suggested that formal rules are established within and between the HTAs and recipient CR groups. Participation of local authorities in the definition of the towns' necessities should be addressed with HTA financial assistance, and possible partnerships with other local NGOs are also suggested.

DECLARATION

I declare that the *Determinants for the Effective Provision of Public Goods by Honduran Hometown Associations in the United States: The Garifuna Case* is my own work, that it has not been submitted before for any degree or examination in any other university, and that all the sources I have used or quoted have been indicated and acknowledged as complete references.

Carlos Gustavo Villela Zavala

19 January 2006





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List of Abbreviations	
Abbreviation	Meaning
CBD	Community-Based Development
CBO	Community-Based Organisation
CR	Collective Remittances
ENEE	Empresa Nacional de Energía Eléctrica
GDP	Gross Domestic Product
IADB	Inter-American Development Bank
HTAs	Hometown Associations
L.	Lempiras
NGO	Non-Governmental Organisation
NIE	New Institutional Economics
NYC	New York City
ODECO	Organización de Desarrollo Comunitario
OFRADEH	Organización Fraternal Negra de Honduras
PA	Principal-Agent Approach
PG	Public Goods
SANAA	Servicio Nacional de Acueductos y Alcantarillado
SUNY	Sangrelaya Unidos en New York City
TAC	Transaction Costs
UN	United Nations
USAID	United States Agency for International Development
US\$	United States Dollars

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1 Introduction

Since the mid-1990s a long established practice among the Latin-American migrant communities in the USA has gained public attention. The term *Collective Remittance* (CR) refers to the funds sent by migrant *Hometown Associations* (HTAs) to their hometowns for financing public works. Despite the fact many Honduran HTAs exist, few examples of CR are known. Difficulties are mentioned in the known cases. The following thesis is a research of CR in Honduras, which applies the Principal-Agent (PA) Approach, belonging to the New Institutional Economics (NIE), as a theoretical framework. CR is an unexplored subject in Honduras and this research probably constitutes the first of its kind in the country.

The objective of this exploratory study is to establish how CRs currently work in Honduras, and to indicate what the most relevant determinants are for the effective participation of Honduran HTAs in the provision of public goods in the home towns

The paper is structured in five chapters. The first chapter conceptualises CR; it describes the Honduran experience and presents objectives and questions of the research. Chapter two summarises the basic assumptions of New Institutional Economics, and discusses the Principal-Agent Approach. It conceptualises CR as a contract between the HTAs in the USA and the CBOs in their hometowns. Since the HTAs possess less information than the hometown CBOs, it is difficult for them to select the appropriate CBO with whom to transact and, once the contract is established, to monitor the work carried out by the selected CBO.

Two general hypotheses are proposed. They predict that *HTAs do not have CR transactions with the local CBOs due to high search-information costs (Adverse Selection Problems)* and that *the projects financed by HTAs are not effective due to high enforcing costs (Moral Hazard Problems)*.

The research methodology is explained in chapter three. Hypotheses were applied to the Garífuna, an ethnic group with the only known experiences of CR in Honduras. The Garífuna live on the Caribbean coast, and have a large migrant community in New York City. Key decision-makers in four HTAs in the USA and in local groups from three hometowns were interviewed. Chapter four presents the research results. The fifth and

final chapter ends with conclusions reached, and suggests some recommendations for increasing CRs and their effectiveness in Garífuna hometowns.



1.1 Migration, Remittances and Development

The process of globalisation has resulted in more than the transfer of goods, capital and information among countries; it has also meant the migration of millions of workers, usually from a developing to a developed country. At the beginning of the decade, approximately 175 million people in the world lived and worked outside their country of birth¹. The economic gaps between the developed and the developing world and the shrinking and ageing population in the former, as opposed to the quickly expanding populations in the latter, seem to indicate that international migration is bound to increase in the future².

Migrants retain ties with their places of origin. While living abroad they continue to affect their place of origin by transferring money and by culturally and politically influencing their home country. The term *remittances* refers to the transfer of financial resources made by migrants. Remittances worldwide have grown steadily over the past 30 years, and currently come to about US\$100 billion a year³. Latin America and the Caribbean together form the region with the highest level of remittances, estimated at US\$45.8 billion during 2005⁴. As in the previous two years, remittances exceeded the combined totals of overseas aid and foreign direct investment received by the region. About three-quarters of the total volume of remittances sent by the 25 million Latin-American and Caribbean-born adults living abroad came from the United States (USA)⁵.

Given the significant weight of remittances in the region's economies, multilateral development organisations, governments and civil society have, since the mid-1990s, renewed their interest in the possibility of leveraging remittances to promote development in the migrant-producing countries. Some argue that remittances help loosen the budget constraints of their recipients and allow them to increase the consumption of goods and services. Remittances increase human capital (when used in education and healthcare) and physical and financial investments (when used in

¹ See United Nations Population Division (2002), pp.2-3.

² See Spatafora (2005), pp. 69.

³ *Idem* 2.

⁴ See Inter-American Development Bank Press Release of 22 March 2005.

⁵ *Idem* 4.

residential real estate or for starting a business)⁶. Interventions, then, should be limited to facilitating the transfer of funds and regulating the commissions charged. Others point out that, since remittances are mostly used in consumption⁷, their developmental impact can be increased only if their use in savings and investment is promoted⁸. Using remittances as anything but income for consumption is, however, constrained by the economic hardships faced by remittance-receiving households, and by the context of their communities. Investment alternatives are limited in the migrant hometowns where basic infrastructure is still missing.

1.2 Collective Remittances: Basic concepts

Goldring (2003) identifies three types of remittance⁹. *Family remittances* are the wages or salaries used for consumption – money sent by migrants to support close relatives left behind.¹⁰ *Investment remittances* refer to the money used by the migrants in entrepreneurial rent-generating activities¹¹, and *Collective Remittances (CR)* are the funds sent by migrant groups to finance public work projects in their communities of origin¹².

The purpose of family remittances is to maintain and perhaps improve the standard of living of relatives in the hometown. Their final use is a matter of private choice for the recipients, and they are usually spent on clothing, food and other consumption goods¹³. The purpose of investment remittances is to generate profit; they usually include the savings of migrants (in many cases returning migrants) used for buying houses or land, or in opening businesses¹⁴. The purpose of CRs is to contribute to improving living conditions in the hometown as a whole¹⁵. They are mostly used to finance projects dealing with basic health, education, public infrastructure, and for religious purposes¹⁶. In Central America and Mexico these projects include the construction or improvement

⁶ See Spatafora (2005), pp. 70.

⁷ Surveys have shown that more than 70% of remittance receivers in Latin America use the funds to pay for common expenses such as food, housing and utilities. See IADB (2004), pp. 22.

⁸ See Goldring (2003), pp. 4.

⁹ See Goldring (2003), pp. 8.

¹⁰ See Goldring (2003), pp. 9-11, and compare to Durand (1994), pp. 285-286.

¹¹ See Goldring (2003), pp. 8, and compare to Durand (1994), pp. 287-288.

¹² See Goldring (2003), pp. 6, 8, 12-13.

¹³ See Goldring (2003), pp. 8 and 10, and compare to Durand (1994), pp. 285-286.

¹⁴ See Goldring (2003), pp. 8 and compare to Durand (1994), pp. 287-288.

¹⁵ See Goldring (2003), pp. 12-13.

¹⁶ See Orozco (2003), pp. 2.

of roads, bridges, drainage, sports fields, halls and plazas; the instalment of electrification, potable water facilities and telephone lines; donation of equipment and support to schools, hospitals and old age homes; building or restoration of churches, and support for cultural and religious activities¹⁷.

The three main actors that can be identified in dealing with collective remittances are the remitters, the intermediaries and the beneficiaries¹⁸. Hometown Associations are the remitters of CR. Alarcon (2003) defines a Hometown Association as “an organisation formed by migrants from the same locality with the purpose of transferring money and resources to their community of origin”¹⁹. They are generally non-sectarian, voluntary organisations that depend entirely on donations²⁰. Wise characterises the HTA as a “collective migrant”. HTAs have more capacity than individual migrants to finance projects in their hometowns²¹.

In more than one hundred Mexican HTAs studied by Orozco, the CR *beneficiaries* were rural migrant-producing villages²². Most often, HTAs work with local groups in the hometowns, although intermediaries of CR are sometimes specific individuals in the towns, such as the priest, the school principal or a relative of an HTA member. Sometimes HTAs organise their own committees to carry out a project in their hometown²³. The known cases in Honduras involve committees or local community development organisations called Patronatos²⁴.

In Mexico and El Salvador, partnerships have been developed between the government and the HTAs. These partnerships are cost-sharing programs, in which the state leverages the funds of the HTAs, serves as a counterpart for the execution of projects, and assists communities in executing the projects²⁵.

¹⁷ For the Mexican case see: Goldring (2000) pp. 13, Orozco (2003) and <http://www.sedesol.gob.mx>. For El Salvador, see: Orozco (2004) and <http://www.fisd.l.gob.sv> and for Honduras see Cantor (2004) pp. 24-25. For projects in Guatemala, El Salvador and Nicaragua, see Andrade and Silva (2003) pp. 38.

¹⁸ See Goldring (2003), pp. 8 and 14.

¹⁹ See Alarcón (2000), pp. 3.

²⁰ See Leiken (2000), pp. 16.

²¹ See Wise (2001), pp. 758-759.

²² See Orozco (2003), pp 17-18.

²³ See Goldring (2003), pp. 12-14, Alarcón (2000), pp. 28, Orozco (2003) pp. 19-20, and Orozco and Welle (2005), pp. 14 and 26.

²⁴ See Cantor (2004), pp. 24.

²⁵ For a description of the Mexican 3*I program see Orozco (2003) pp. 21-40 and <http://www.sedesol.gob.mx>, and for El Salvador's “*Unidos por la Solidaridad*” program see the responsible ministry site www.fisd.l.gob.sv/.

1.3 Collective Remittances and Development in the Hometowns

In the United Nations 1990 Human Development report, *development* is defined as the process of enlarging people's choices; most critical to these wide-ranging choices is the access to resources and goods needed for a decent standard of living, including items such as education and drinking water. The poor usually cannot seek substitutes for these resources, or cannot move to areas where they are available. Therefore, mechanisms for their effective delivery are essential measures for reducing poverty²⁶.

Public Goods are those which are nonexcludable and whose consumption is nonrival. They are nonexcludable because their benefits are available to all once they are provided. Nonrival means that a unit of the good can be consumed by an individual without reducing the consumption opportunities still available for other users of the same unit²⁷. *Pure public goods*, for example the defence services provided by a state to its citizens, fully satisfy both conditions. The benefits of *impure public goods* are partially rival or partially excludable, for example highways with toll fees²⁸. Some products and services are "public-like" in the sense that their provision is of public interest, though their characteristics might allow only a monopoly to offer them, or their provision may have additional and unplanned positive or negative effects. Such is the case with the provision of drinkable water.

In migrant-producing towns, the access to pure goods and to "public-like" goods is often limited. The state lacks funds for financing their production, and private firms rarely provide them²⁹. Collective remittances, however, can finance local groups that can carry out projects that provide public goods³⁰ in the hometowns.

The term "*Community-Based Development*" (CBD) refers to projects that actively include beneficiaries in their design and management. It relies on "communities" which organise themselves and participate in development processes³¹; in this case, in the provision of public goods.

²⁶ See Besley and Ghatak (2004), pp. 1.

²⁷ Compare to Cullis and Jones (1998), pp. 46-48.

²⁸ Compare Sandler (1992), pp. 5-7.

²⁹ Compare to Cantor (2004), pp. 19.

³⁰ The term "Public Goods" is used throughout the study in a very broad sense - it denotes pure and impure public goods as well as public-like goods.

³¹ See Ghazala and Vijayendra (2003), pp. 2, 8, 10 and 18.

CRs can be viewed as cases of CBD in which local groups in the hometowns are able to obtain funds from the HTAs for providing public goods. They can facilitate projects that would otherwise be impossible for the recipient communities to implement³². In a study of Mexican HTAs, CRs were sometimes equal to over 50% of the local government's public works budgets, and in the case of small villages with fewer than 1,000 inhabitants, CRs amounted to up to seven times the budget³³.

CBD projects are implemented in a unit called 'community', which refers to an administrative area, a tribal area, or identifies a common interest group³⁴. Based on the concept of a *transnational community*³⁵, which considers that migrants still exert cultural, social and political influence in their places of origin, it can be argued that in the case of CR, "community" includes both the migrants' hometowns and their populations in the USA. Under such a perspective, CR projects are provided both for and by the beneficiaries, a particular type of *self-help* CBD known as *community-based service provision*³⁶. This study, while acknowledging that social and cultural ties do exist in a transnational way, assumes a different perspective, and proposes the simultaneous existence of two communities: the migrant community with its HTAs in the USA, and the local community organised in groups in the hometowns. Such distinction allows for the study of the motivations, working mechanisms and interaction between these two actors.

1.4 Honduran Experience with Collective Remittances

As is the case with other Latin-American countries, migrants and their remittances are of great importance for Honduras. Puerta estimates that in 2004 between 820,000 and 850,000 Hondurans lived in the United States³⁷, representing approximately 12% of the country's total population. For the last 6 years, the amount of remittances received in

³² See Orozco, Lowell, Bump and Fedewa (2004), pp. 18-19.

³³ See Orozco (2003), pp. 18 and 27.

³⁴ See Ghazala and Vijayendra (2003), pp. 2, 8, 10 and 18.

³⁵ A vast literature explores the subject of transnational communities. To cite just a few authors (some of whose ideas are also used in this study): Faist, Thomas, *Transnationalization in International Migration: Implications for the Study of Citizenship and Culture*, University of Bremen; Goldring, Luin. (2002), *Remesas familiares, remesas colectivas y desarrollo: Implicaciones sociales y políticas de una desagregación de remesas*; Goldring (2003) See *Bibliography*, Andrade and Silva (2003) See *Bibliography*.

³⁶ See Pinto, pp. 4-7.

³⁷ Puerta (2005), pp.25.

Honduras has been greater than the combined exports of coffee and bananas, the country's main traditional agricultural products. The contribution of remittances to the balance of payments has also been larger than those of free processing zones during the last 3 years. Remittances are currently, therefore, the country's main source of foreign currency. In 2004 they totalled US\$1,373.5 (15% of the GDP)³⁸.

The fact that there is a large Honduran migrant population living in the USA³⁹, mostly concentrated in three cities⁴⁰ (New York, New Orleans and Los Angeles), and the existence of several Honduran HTAs⁴¹, suggests a potential for these organisations to supply CR for financing the provision of public goods in their places of origin. The Honduran CR experience, however, is rather underdeveloped. Few cases are known of HTAs participating in the provision of public goods, and those cases that are known have experienced difficulties.

According to Puerta: *"...Until now collective remittances in Honduras are not well known and rarely used. Isolated cases that have occurred after Hurricane Mitch⁴² were invested without complementing funding from the public or private sector"*⁴³. This observation is confirmed by the lack of information on CR projects in local newspapers, in the country's public offices, consular dependencies and among researchers on remittances belonging to the Honduran remittances research network⁴⁴.

³⁸ Central Bank of Honduras (2001), (2002), (2003), (2004) and (2005).

³⁹ In a study carried out among 2,800 Latin-American migrants in 5 American cities, around 6.7% of Honduran remittance senders stated that they belonged to an HTA. See Orozco, Lowell, Bump and Fedewa (2004), pp. 19.

⁴⁰ See Andrade and Silva (2003), pp. 13.

⁴¹ The exact number of Honduran HTAs in the USA is not known, as no census of HTAs has been carried out. Taking as a reference that the Honduran Remittances Group (see footnote 44) have contact information for 15 HTAs, some of which are federations of HTAs, that a study on Garífuna migration (Cantor, Eric (2004)) reports 7 additional HTAs, and that the Honduran Presidential Commissioner for Honduran Communities Living Abroad has a directory of 45 organisations or informal groups of Hondurans that helped consulates during the registration process for Temporal Protection Status (TPS), it can be estimated that at least 40 Honduran HTAs exist.

⁴² Hurricane Mitch took place in Honduras in 1998. According to the Economic Commission for Latin America and the Caribbean (ECLAC), around 6 000 people died and 70% of the economy was affected, with losses totalling approximately US\$10 000 million.

⁴³ Puerta (2005), pp. 43.

⁴⁴ Operating since August 2001, the Remittances Group (<http://migracion-remesas.rds.hn>) is made up of researchers, private development organisations and civil society umbrella groups. Its mission is to debate the use of remittances as an instrument for development. In July 2003 it organised the first international forum, on "Remittances for Development". The event was sponsored by the Presidential Secretary and the National Convergence Forum. The Honduran President was among the participants.

The only known cases of CR in Honduras are briefly mentioned in a study on migration of the Garífuna ethnic group (Cantor 2004) living in villages along the country's Atlantic Coast⁴⁵.

1.5 Research Objective and Questions

CR is an unexplored subject in Honduras - no research has been conducted, or studies on the subject written. Thus, this study attempts to open the discussion on the topic and is of an exploratory nature. It probably constitutes the first study exclusively concentrating on CR in Honduras.

The objective of the study is to establish how collective remittances work in the Honduran case, and to indicate the most relevant determinants for the effective participation of Honduran HTAs in the provision of public goods in the hometowns.

Three research questions are proposed:

1. How do collective remittances work in Honduras?
2. What are the determinants for HTAs to raise and send collective remittances to finance the provision of public goods in their hometowns?
3. What are the determinants for the hometown groups to effectively manage collective remittances from HTAs for providing public goods in the hometowns?

By exploring the factors that facilitate or impede HTAs from participating in the provision of public goods in the hometowns, the study could propose alternatives to overcome obstacles and create the conditions that facilitate the use of CR for improving living conditions in the hometowns.

⁴⁵ See Cantor (2004), pp. 24-26 and pp. 37-38.

2. Theoretical Framework

2.1 Basic Assumptions of New Institutional Economics

The body of thought known as *New Institutional Economics (NIE)* was born as a criticism of the neoclassical assumptions that decision-makers in economic activities can obtain and process all necessary information instantly and with no cost, that they can anticipate the future perfectly and are therefore able to make agreements which can be completely monitored and enforced, and that the political, legal and other institutions have a neutral effect on economic outcomes⁴⁶. Neoclassics explains the performance of an economy as a function of productivity (achieved through specialisation of labour)⁴⁷. NIE declares that institutions matter; it considers that explaining economic activities only in terms of the price system or as a function of productivity is rather simplistic; transaction costs exist and influence the structure of institutions and the economic choices made by rationally limited individuals⁴⁸.

2.1.1 Explaining Behaviour: A rationally limited individual maximising his own interest

NIE is based on methodological individualism, that is, all the outcomes should be explainable by individual action⁴⁹. In all circumstances, individuals make their own choices, and pursue their personal interests or motives limited by their own constraints and the restrictions set by the existing institutional and organisational structures⁵⁰. Conventionally, it is assumed that individuals try to maximise utility in a perfectly rational way, which means their preferences are stable and consistent and that they have the ability to foresee everything that might happen and evaluate all available courses of action⁵¹. NIE, however, introduces the idea that the preferences of decision-makers can be incomplete, and subject to change over time⁵². Because of bounded rationality, decision-makers are not omniscient and have problems in processing information. They

⁴⁶ See Furubotn and Richter (2000), pp. 8-9 and Brousseau (2002), pp. 4.

⁴⁷ See Brousseau (2002), pp. 4.

⁴⁸ Compare to Furubotn and Richter (2000), pp. 1 and pp. 8-9, and to Voigt and Engerer (2002), pp. 130.

⁴⁹ See Voigt and Engerer (2002), pp 130.

⁵⁰ See Furubotn and Richter (2000), pp. 2-3.

⁵¹ See Kreps (1990), pp. 745.

⁵² See Furubotn and Richter (2000), pp. 3.

cannot anticipate all contingencies that might occur. Under such conditions, rules can be set as guidelines on how to behave in certain circumstances⁵³.

2.1.2 Rules Guiding the Behaviour of Individuals: Institutions

Institutions can be defined as a set of formal and informal rules and their enforcement arrangements⁵⁴. The rule component of institutions determines who will make decisions, what actions are allowed or constrained, what procedures must be followed and what information must or must not be provided. The sanctioning component establishes the payoffs that will be assigned to individuals dependent on their behaviour⁵⁵.

Depending on their sanctioning component, institutions can be classified as internal or external. External institutions are enforced by representatives of the state, for example laws and ordinances. Internal institutions are rules whose non-compliance is sanctioned by members of society. Four different kinds of internal institutions exist. *Conventions* are self-enforcing, because no-one is better off for deviating unilaterally from them. *Ethical rules* are the internally enforced institutions. Individuals internalise them as the “right thing to do”. *Customs* are enforced by non-organised societal control. Damage to the reputations of noncompliant individuals is an example of such sanctioning. Lastly, *private rules* are enforced by organised third parties, such as private courts of arbitration⁵⁶.

The purpose of institutions is to direct individual behaviour in a particular way, and by doing so they give structure to activities and therefore reduce uncertainty⁵⁷. Voigt and Engerer consider that the role of institutions is:

“To reduce uncertainty, extend time horizons, induce people to specialise and to try greater division of labour, and in short, make everyone better”⁵⁸

Institutions and the people using them are called organisations⁵⁹. Arrow adds that an organisation is: “...a group of individuals seeking to achieve some common goals, or in

⁵³ See Voigt and Engerer (2002), pp. 131.

⁵⁴ See Schmolter (1900), pp. 61.

⁵⁵ See Ostrom (1990), pp. 51.

⁵⁶ See Voigt and Engerer (2002), pp. 133.

⁵⁷ See North (1994), pp. 4.

⁵⁸ See Voigt and Engerer (2002), pp. 131.

⁵⁹ See Furubotn and Richter (2000), pp. 7.

different language, to maximise an objective function”⁶⁰. Setting and operating institutions and organisations and guaranteeing obedience to their rules requires the use of resources. These costs are broadly referred as Transaction Costs.

2.1.3 The Cornerstone of NIE: Transaction Costs

Transaction Costs (TAC) are both the costs attached to using the market and the costs of administrative coordination within a hierarchical organisation⁶¹. Since NIE considers that transacting individuals have human limitations, bounded rationality and a tendency to make mistakes, they will always be inefficient compared with the predicted decision-makers of neoclassical theory. It is because of these characteristics of the individuals making decisions that TAC are universally encountered⁶².

TAC were first introduced to economic thought by Ronald Coase, who argued that:

“In order to carry out a market transaction it is necessary to discover who it is that one wishes to deal with, to inform people that one wishes to deal with and in what terms, to conduct negotiations leading up to a bargain, to draw up the contract and to undertake the inspection needed to make sure that the terms of a contract are being observed.”⁶³

The TAC to which Coase refers are classified as *Market TAC* and they include search and information costs, bargaining and decision costs and supervision and enforcement costs. The TAC of setting up, maintaining or changing an institutional design are classified as *Managerial TAC*. A third class refers to the *Political TAC* of setting up and running the institutional framework of a policy.

If individuals perceive that the TAC are prohibitively high, they will decide not to transact. Since the higher TAC are, the fewer exchanges will take place, NIE considers that TAC are critical for the development of an economy⁶⁴. The introduction of TAC theory reoriented established thinking about economic processes, and marks the departure point of NIE from neoclassical economics. The existence of positive TAC provides the reasons why institutions should be included as variables in the economic model. Institutional structures affect both transaction costs and individual incentives, and hence, economic performance⁶⁵. When considering the fact that institutions affect

⁶⁰ Arrow (1970), pp. 224.

⁶¹ See Chandler (1977), pp. 490 and Furubotn and Richter (2000), pp. 8.

⁶² See Furubotn and Richter (2000) pp. 39.

⁶³ See Coase (1960), pp.15.

⁶⁴ Compare to Voigt and Engerer (2002), pp. 131.

⁶⁵ See Furubotn and Richter (2000), pp. 1 and 10.

economic outcome, then they are treated as endogenous variables. When institutional arrangements are viewed as individuals' responses to reduce TAC, and when the reduction of TAC explains why one institutional arrangement works better than another, then institutions are treated as endogenous variables⁶⁶.

2.1.4 NIE and Contracts: The Economic Theory of Contracts

In economics, contracts are viewed as agreements (regardless of their legal status) between individuals, who recognise a mutual interest in changing their behaviour. These agreements may include the actions each contracting party is to take, any payments that might flow from one another, the rules and procedures they will use to decide matters in the future, and the behaviour that each might expect from the others⁶⁷. Contracting parties will participate in the agreement if they find it advantageous individually. They can establish a contract without writing it down or articulating it explicitly - such contracts are designated "*Implicit Contracts*"⁶⁸. Contracts occur not only in the market, but also within organisations. Whereas neoclassical economics saw the firm as a production set, from the standpoint of NIE the firm is seen as a nexus of contracts⁶⁹.

NIE, and particularly the subsection known as the economic theory of contracts, incorporates the concepts of *asymmetry of information*, *imperfect foresight* and *opportunistic behaviour* in the study of contracts⁷⁰. Asymmetry of information refers to one of the contracting parties possessing more information⁷¹ or having different knowledge⁷² to another. Imperfect foresight refers to the bounded rationality of individuals in predicting the future; this means that it would be impossible to include in the contract all the future contingencies that might exist⁷³. Given that contracting individuals might be opportunistic, both asymmetry of information and their opportunism may generate problems. An individual is said to behave opportunistically if they disguise preferences, distort data or deliberately confuse issues in order to gain personal benefit⁷⁴. Because contracting parties are aware of the possibility of

⁶⁶ Compare to Voigt and Engerer (2002), pp. 135.

⁶⁷ See Milgrom and Roberts (1992), pp. 127.

⁶⁸ See Furubotn and Richter (2000), pp. 156-157.

⁶⁹ See Fama (1980), pp.288, and Furubotn and Richter (2000), pp. 152.

⁷⁰ See Furubotn and Richter (2000), pp. 146.

⁷¹ See Furubotn and Richter (2000), pp. 4.

⁷² See Stiglitz (2003), pp. 15.

⁷³ See Furubotn and Richter (2000), pp. 179-180.

⁷⁴ See Furubotn and Richter (2000), pp. 4.

opportunistic behaviour, ex-ante⁷⁵ measures are designed to guard against ex-post opportunism⁷⁶. The asymmetries of information, and imperfect foresight given the possibility of opportunistic behaviour, are sources of TAC.

Transaction Costs result in both information and contract enforcement problems. In terms of contracts, market TAC can be classified into⁷⁷:

- *The Costs of Preparing the Contract* (Ex-ante Search and Information Costs): are the costs involved in searching for a suitable party with whom to deal (incurred by activities such as advertising, or by creating organisations such as the stock exchange); the costs of communicating among the prospective parties to the exchange (for example telephone and fax costs) and of gathering information about the prices demanded by different suppliers of the goods; and the costs involved in testing and quality control⁷⁸.
- *The Cost of Concluding the Contract* (Bargaining and Decision Costs): bargaining costs include costs of legal advice or the time taken during writing of a contract when the parties bargain its provisions. Decision costs are incurred when making gathered information available, for example the costs of advisors and of reaching decisions in groups⁷⁹.
- *The Costs of Monitoring and Enforcing the Contractual Obligations* (Supervision and Enforcement Costs, or Search and Information Costs): are those incurred in monitoring the agreed deliveries, measuring the valuable attributes of the exchanged goods, and in protecting rights and enforcing contractual provisions.⁸⁰

The theoretical approaches developed to deal with these problems can be classified into three different groupings⁸¹:

⁷⁵ The term ex-ante refers to the time before the contract takes place, whereas ex-post denotes the time after the contract has been established.

⁷⁶ See Furubotn and Richter (2000), pp. 169.

⁷⁷ See Coase (1960), pp. 15, quoted in pp. 17 section 2.1.3 The Cornerstone of NIE: TAC.

⁷⁸ See Furubotn and Richter (2000), pp. 44.

⁷⁹ See Furubotn and Richter (2000), pp. 45.

⁸⁰ Idem 79.

⁸¹ See Furubotn and Richter (2000), pp. 146, and compare with Brosseau and Galachart (2002), pp. 8-9.

- The *Implicit Contract Theory* is concerned with the difficulties that arise when agreements are not enforceable, or are not perfectly enforceable⁸².
- The *Incomplete Contract Theory* is concerned with the post-contractual difficulties that arise because of specific investments⁸³ made by contracting parties, and the difficulties of third parties in verifying the execution of contractual obligations⁸⁴.
- *The Agency Contract Theory (or Principal-Agent Approach)* is concerned with the problem of asymmetric information possessed by the parties to the contract⁸⁵.

2.2 The Principal-Agent Approach

An agency relation is one in which two economic actors with asymmetric information, known as the principal and the agent, are considered⁸⁶. The principal engages the agent to perform some service on their behalf. To facilitate the achievement of the activity they delegate some decision-making authority to the agent. The principal offers a contract that the agent can accept or reject, but since the former knows or can observe less than the latter, the latter may behave opportunistically. Depending on whether the parties are asymmetrically informed before (and up to) the establishment of the contract, or thereafter, two kinds of agency relations are studied: *Adverse Selection* refers to asymmetric information distribution occurring ex-ante, and *Moral Hazard* to distribution occurring ex-post.

2.2.1 Adverse Selection & The Lemons Principle

Before the contract is established, the principal needs to select the agent with whom they will transact. Not all the possible agents are equally qualified for performing the tasks that the contract requires. The principal needs to select an agent possessing the required characteristics, but cannot observe the qualities of the individual agents fully before the contract is concluded, therefore information is asymmetric ex-ante. An unqualified agent can take advantage of this situation ex-ante to misrepresent his qualifications in order to be selected and establish a contract with the principal. Pre-

⁸² See Furubotn and Richter (2000), pp. 146.

⁸³ Specific Investments refer to investments that generate higher returns in a particular employment than elsewhere, for example the purchase of tools that have highly specialised uses. See Furubotn and Richter (2000), pp. 128.

⁸⁴ Idem 82.

⁸⁵ Idem 82.

⁸⁶ See Furubotn and Richter (2000), pp. 148.

contractual opportunistic behaviour under asymmetric information conditions leads to the selection of an inappropriate agent, a situation known as *Adverse Selection*⁸⁷.

Akerlof (1970) illustrated the effects of adverse selection using the case of a used car market. Generally, the sellers of used cars have more knowledge about the quality of the cars they are selling than the buyers do. Since buyers cannot tell the difference between a good or a bad car (between peaches and lemons), they are not willing to pay more than the average price, which is lower than the price acceptable to a “high quality” seller. Sellers have no incentive to provide good quality goods, since they can only sell them at a low quality price. As a result there tends to be a reduction in the average quality of goods in the market. Akerlof (pp. 489) concludes:

“For most cars traded will be the ‘lemons’, and good cars may not be traded at all. The ‘bad’ cars tend to drive out the good.”

The Lemons Principle shows how adverse selection can lead to a non-existent market.

Similar conclusions can also be reached when considering TAC. To prevent ex-post opportunism, the principal uses resources ex-ante to verify the characteristics of the possible agents. These costs are TAC, specifically information and search costs. However, if the principal perceives that the information and search costs are too high, they might decide not to transact at all, and no contract would be established. To overcome adverse selection, two mechanisms exist: screening and signalling. In the former the principal takes the initiative, while the latter is performed by the agent.

- *Screening*

Screening describes the situation that exists when the party lacking information proposes a menu of contracts to the informed party. By selecting one of the contracts, the agent reveals their true quality and the principal gains valuable information⁸⁸. For example, a lazy worker might choose a contract where he or she is paid by the hour, whereas an efficient worker might prefer to be paid for task completion. The agents effectively select themselves.

⁸⁷ See Furubotn and Richter (2000), pp. 180.

⁸⁸ See Kreps (1990), pp. 651.

- *Signalling*

Signalling refers to the fact that the informed contracting party can undertake activities that signal their qualities⁸⁹. Signals are attributes that are observable but alterable in an individual⁹⁰. For example, an educational degree can be used by an employee (an agent) to signal his or her capacity to their employer (the principal).

2.2.2. Moral Hazards: Hidden Actions or Information

After the contract is established, asymmetric information can occur in one of two ways. First, the agent's action might be not directly observable by the principal. This, for example, may include the effort that a worker dedicates to the tasks assigned by the principal. The second way occurs when the agent has made some observations that the principal has not made, for example the information known by a subordinate that is not available to management⁹¹. The first is a case of hidden action, and the second is one of hidden information⁹².

The agent might not only feel tempted to behave opportunistically; they may also encounter two circumstances that facilitate such behaviour. Firstly, it may be too costly for the principal to directly monitor the agent's actions, or acquire full knowledge of the agent's personal observational information directly. Secondly, both the principal and the agent are aware that outcomes are determined not only by the agent's action, but also by external and uncontrollable events. As a result, the agent can always blame forces beyond their control for any poor result⁹³.

Whereas adverse selection was a source of search and information costs, moral hazards are a source of monitoring costs. If monitoring costs are high than violations to contracts are inevitable⁹⁴, and contracts will not be implemented as originally agreed.

⁸⁹ See Furubotn and Richter (2000), pp. 221.

⁹⁰ See Spence (1973), pp. 357.

⁹¹ See Furubotn and Richter (2000), pp. 148.

⁹² See Arrow (1985), pp. 38.

⁹³ See Furubotn and Richter (2000), pp. 180.

⁹⁴ See Furubotn and Richter (2000), pp. 45.

Monitoring and verifying are possible solutions to moral hazard problems, as they increase information about the actions of agents. This in turn can be used as a basis for rewarding good (or penalising bad) behaviour⁹⁵.

2.2.3. Incentive Compatibility: Agents pursuing their own interests while they serve those of the principal

Finally, the Principal-Agent approach considers the compatibility of incentives; which means that the agent, when pursuing their own interests, also serves those of the principal. The incentives driving the behaviour of individuals include not only motivating elements or the possibility of reward, but also constraining elements. In the case of moral hazard, compatibility is achieved by offering the agent an economic incentive when they reveal information to the principal or behave in a way that serves the principal's interests - for example, offering a bonus to the managers of a firm when profits increase. In the case of adverse selection, the contract offered to the agent is constraining. The agent would select it only if he or she possesses the characteristics or abilities required by the contract⁹⁶.

2.3 An Institutional Perspective of CR with a Principal-Agent Approach

In the provision of public goods through CR, two groups are present: HTAs in the USA and the CBOs in the hometowns. Groups in both countries can be conceptualised as *organisations*. Both of them are composed of people working together under a system of rules, which are the HTA statutes and the internal institutions present in the migrant community and in the hometowns. Informal social institutions, as well as possible private gains, perhaps in the form of prestige, might create the incentives for migrants in the USA to establish a group for helping their hometown. The same is true for the Patronatos or other CBOs in the hometowns. However, members spend time and effort in the working meetings, in fundraising, and in participating in the different activities. Deciding to finance a particular project in the hometowns might be perceived by HTA members as a task consuming too much time or effort.

An agreement or *Contract* is established between the HTAs and the hometowns organised in Patronatos or another form of CBO. The HTAs agree to provide the funds,

⁹⁵ Compare to Milgrom and Roberts (1992), pp. 186.

⁹⁶ Compare to Furubotn and Richter (2000), pp. 188 and 183.

and the CBOs agree to use them in the execution of projects for the provision of public goods. Of the two contracting parties, the HTAs possess less information concerning the hometown's specific needs than the local inhabitants. They must decide to which group they will entrust CR. CBOs possess more information about a town's needs and the projects that could be executed than the HTAs do. Once the contract is established and CR is transferred to the towns, the HTAs remain in the USA and cannot directly observe the actions of the local CBOs. Local CBOs, unlike the HTAs, are able to supervise the projects' execution and are more informed as to their progress. Since it is most likely that the contracts are of an unwritten nature, internal institutions should provide the enforcement mechanisms for each party to fulfil its agreed role.

From an NIE perspective, with a Principal-Agent approach, the research question can be expressed as:

1. Which existing institutions explain the establishment and enforcement of contracts between the HTAs and their counterpart CBOs in the hometowns for supplying CR to be used in the provision of public goods?
2. Is the level of information-search cost for finding a reliable and capable partner in the hometowns preventing HTAs from establishing a contract for supplying CR to be used in the provision of public goods?
3. Is the level of monitoring cost during the transacting of CR reducing the effectiveness of contracts for supplying CR to be used in the provision of public goods?

Search and information costs are present *ex-ante* during the contract establishment phase of the provision of public goods through CR. Resources are used in communicating and in establishing the initial contact between the HTA and CBOs. HTAs will seek mechanisms to avoid working with local CBOs that are not capable of managing the funds and executing the planned work. HTAs can use screening to decide if the Patronato or other CBO in the community is adequate for the purpose. CBOs in the community can signal the HTAs that they are qualified and trustable enough to undertake the project. They might convince the HTAs they are an adequate partner by demonstrating their experience in similar projects, or acquiring a formal legal status. Resources are also used in choosing on which specific project the funds will be used, but again the CBO can signal possible financing opportunities for the HTA. If this

initial phase concludes successfully, then the HTAs agree to provide funds to the hometowns for accessing public goods.

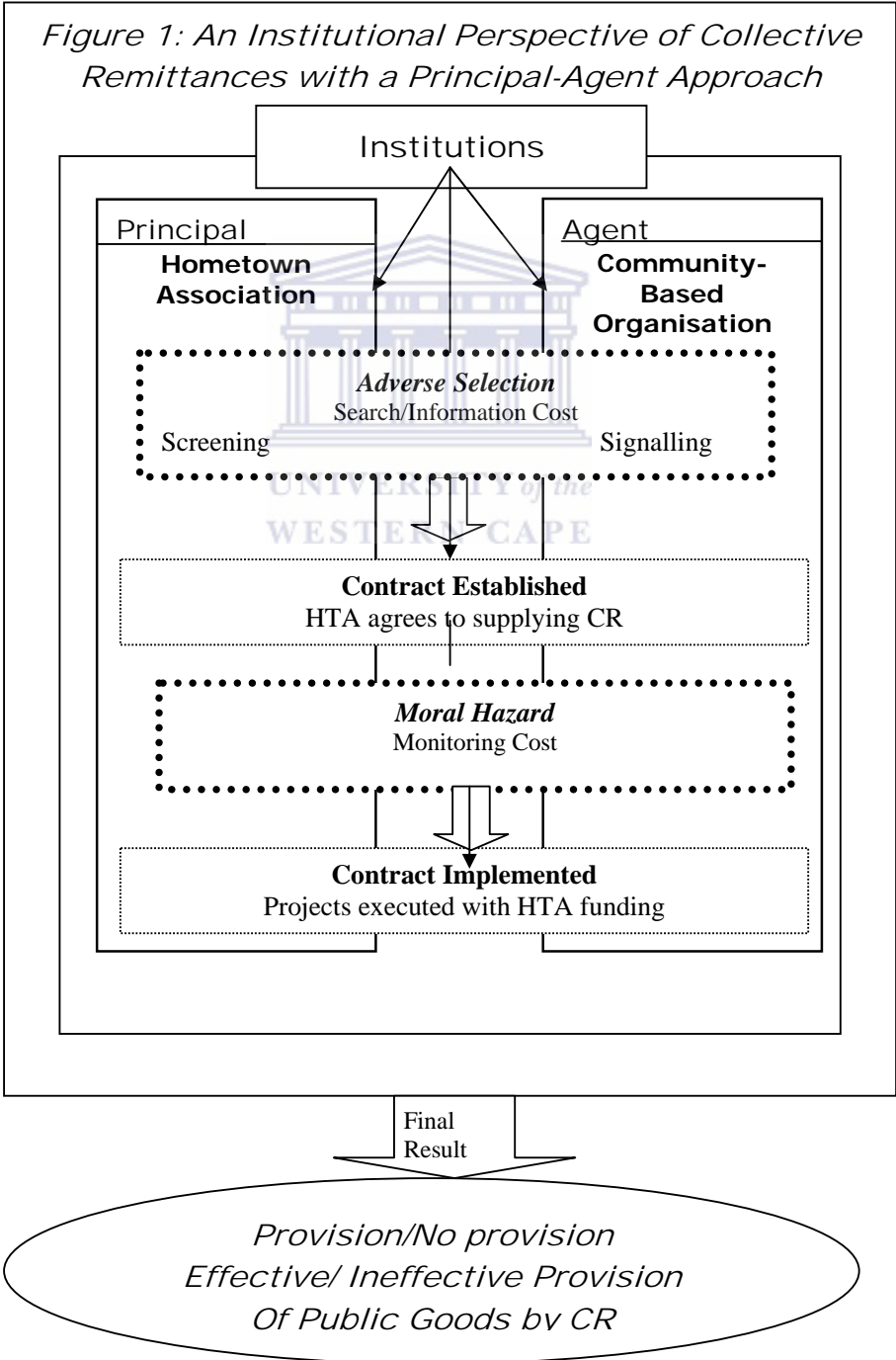
During the contract's implementation and enforcement phase, monitoring costs are incurred. Time and effort is required for monitoring whether the local CBOs manage the CR properly. For example, bills can be verified in the USA, and the HTA's directors can travel to the hometowns to verify the use of CR. The HTA wants to avoid the hiding of opportunistic actions by the CBOs, such as funds being used for other purposes than what was agreed, or even being stolen. Since the HTA is not present during the execution of work, they have to trust that the observations that the local CBOs share with them concerning the progress of the projects are true.

Theory predicts that the information and search costs might be so high that the HTAs decide not to provide public goods, or that the monitoring costs are so high that violation of contracts is unavoidable.

Figure 1 (An Institutional Perspective of Collective Remittances with a Principal-Agent Approach) illustrates CR from an institutional perspective. The supply of CR for financing projects providing public goods, and the effectiveness of these projects, are the dependent variables explained. The existing information-search and monitoring costs are the independent variables. The goods being "transacted" are CR for the provision of public goods. The HTAs in USA are the principal; they supply funds or CR for carrying out projects whose aim is to provide public goods in the hometowns. The hometowns organised in Patronatos or other CBOs are the agents; they manage CR used for executing these projects.

Existing institutions provide the framework to understand how collective remittances work. They explain why migrants decide to send CR, why local CBOs would be interested in working with HTAs, why agreements are reached between these two groups; and they might also provide the means for such agreements to be enforced. However, before a contract of CR is established, adverse selection problems may arise. The search and information costs are the first two sets of independent variables determining the dependent variable that is provision of public goods through CR. No relation will be established if the HTAs perceive it to be too costly to contact and select an appropriate local CBO to manage the CR, or to select the project to be financed.

Once the contract is established, moral hazard problems may occur. The monitoring costs are the second set of independent variables that determine the dependent variable that is effectiveness in the provision of public goods through CR. Effectiveness is defined as the completion of the project as was planned when it was originally started. If monitoring the use of CR or obtaining information about the state of the project results is extremely costly for the HTA, the HTA will not be able to prevent CBOs from violating the contract. When the search-information and monitoring costs present are not prohibitively high for the HTAs, then an effective provision of public goods via CR will occur.



2.4 Theoretical Hypotheses

There are two hypotheses to be tested:

Hypothesis No. 1

Adverse selection in the interaction between the HTAs and the Hometowns CBOs leads to no provision of public goods via collective remittances.

Hypothesis No. 2

Moral hazard in the transacting of CR between HTAs and the hometown CBOs leads to an ineffective provision of public goods via collective remittances.

Sub-hypotheses

Sub-hypothesis No. 1

Search-Information Costs

1. High search-information costs for selecting a capable and trustworthy local CBO to manage CR and execute projects prevents HTAs from supplying CR for the provision of public goods in their hometowns.
2. High search-information costs for selecting the project to be financed by HTAs prevents HTAs from supplying CR for the provision of public goods in their hometowns.

Sub-hypothesis No. 2

Monitoring Costs

1. In a contract for supplying CR to finance projects that provide public goods, high monitoring costs relating to the disbursement of CR may prevent sufficient monitoring by the HTA, and therefore result in an unsuccessful project.
2. In a contract for supplying CR to finance projects that provide public goods, high monitoring costs relating to the project's execution may prevent the HTA from overseeing the project sufficiently, and therefore result in an unsuccessful project.

3. Methodology

3.1 Data Needs and Indicators

Due to the exploratory nature of this study, two types of data are required. On one hand data is needed to describe, from an institutional point of view, how CRs are currently working in the Garífuna Case; and on the other hand, data is needed to test the hypothesized factors that prevent CR distribution from occurring, or that reduce its effectiveness.

3.1.1 Descriptive data of the CRs working mechanisms

The first set of data is necessary to describe the actors involved in the transacting of collective remittances, and the characteristics of the established contract. In order to understand the behaviour of the contracting parties, their motives and some of their organisational aspects are considered.

- *The Principal's (HTAs) Motives* can only be understood as a function of the motives of the individual members of the organisation. Therefore, this indicator establishes the incentives for a migrant to cooperate with the hometowns and to join an HTA. Furthermore, the stated goals of the organisation are also considered and compared to those of its members.
- *The Organisational Structure creates* constraints on individual members' behaviour. It is related to the rules regulating how decisions will be taken within the HTAs. This structure might determine how decisions are taken concerning the use of CR in the hometowns.
- *Fund-raising Activities* define the financial scope of the organisation. These activities are the means through which an HTA obtains the CR that it later transacts with the CBOs. They define the size of the projects they might be able to finance.
- *The Workload of decision-making and fund-raising* establishes whether the level of difficulty of these activities is perceived to be so high by the members that they would rather not participate in them. Even though fund-raising and decision-making rules exist to facilitate the functioning of the HTA, they can also represent a constraint if they are viewed as requiring too much effort from members.

- *Local CBOs* are analysed in a similar way to the HTAs, based on methodological individualism - their motives are considered to be a function of the individual members' motives. Their structure limits their scope of action but can also demotivate individuals when too much effort is seen to be necessary.
- *The Contract of CR* indicates what institutions are behind the existence of CR, how the compromises between the HTAs and the CBOs are enforced, and what the role of each party is.

Table 1 (Indicators for an institutional description of collective remittances) summarises the indicators used to describe how CR remittances work in Honduras.



Table 1: Indicators for an Institutional Description of Collective Remittances	
Indicator	Description & Measurement
IA. HTAs	
<i>IA1.</i> HTA motives	<ul style="list-style-type: none"> * Reasons why a migrant should contribute to hometown well-being by financing the provision of public goods: Open Answer * Reasons why a migrant should join an HTA: Open Answer * Reasons why an HTA is created: Open Answer * HTA's list of goals: Open Answer * Reasons why an HTA should send CR to a CBO for providing public goods: Open Answer
<i>IA2.</i> Organisational structure and decision-making procedures	<ul style="list-style-type: none"> * Description of Organisational Structure: Open Answer * Description Board Members Election Procedure: Open Answer * Description Decision making: Open Answer
<i>IA3.</i> Fund-raising mechanisms for CR	* Description of: Open Answer
<i>IA4.</i> Workload in decision-making	* Perceived level of difficulty: easy/fair/difficult/too difficult
<i>IA5.</i> Workload in fund-raising for CR	* Perceived level of difficulty: easy/fair/difficult/too difficult
IB. CBOs	
<i>IB1.</i> CBO motives	<ul style="list-style-type: none"> * Reasons why an inhabitant should join a Patronato or other CBO: Open Answer * Reasons why a CBO is created: Open Answer * CBO's list of goals: Open Answer * Reasons why a hometown's CBO should cooperate with an HTA in a project for the provision of public goods: Open Answer
<i>IB2.</i> Organisational structure and Decision-making process	<ul style="list-style-type: none"> * Description of organisational structure: Open Answer * Description of board member election procedure: Open Answer * Description of decision-making: Open Answer
<i>IB</i> Workload in decision-making	* Perceived level of difficulty: easy/fair/difficult/too difficult
The Contract of Collective Remittances between HTAs and local CBOs	
IC. CR Contract	<ul style="list-style-type: none"> * Description of the contract established: Open Answer describing the type of agreement reached * Role of the contracting parts: Open Answer * Sanctions for members of an HTA that doesn't fulfil its promise to provide CR as agreed with the CBOs: Open Answer * Sanctions for members of an CBO that doesn't fulfil its promise to use CR as agreed with the HTA: Open Answer

3.1.2 Explicative Data

The second sets of variables needed are those that explain the causal relationship between the costs associated with ex-ante and ex-post asymmetric information and the existence and effectiveness of CR.

- *Variables*

In order to verify the proposed hypothesis, two sets of variables are considered. The independent variables are the costs associated with the adverse selection and moral hazard problems.

Search and Information Costs (SIC): TAC related to adverse selection that occur in the interaction between the HTAs and the hometown CBOs, which are present previous to the establishment of a contract to supply CR for the execution of projects providing public goods in the hometowns.

Monitoring Costs (MC): TAC related to moral hazard that occur in the interaction between the HTAs and the hometown CBOs, which are present during the implementation and enforcement of the established contract for supplying CR for the provision of public goods in the hometowns.

The independent variables explain the final outcome in the Garífuna Towns, that is, whether projects financed with CR are started, and once started, whether they are completed.

The provision of public goods via CR (PPG): The establishment of a contract between the HTA and the hometown's CBO in which the former agrees to supply CR and the latter agrees to use the financial resources in a project for the provision of public goods in the hometown.

The effectiveness of the provision of public goods via CR (EPPG): A project is considered effective if it is completed as initially agreed or planned, that is, the public good is provided in the hometown.

- *Adverse Selection Indicators (AS)*

These are factors related to the lack of CR due to ex-ante asymmetric information. They can determine whether the market will break down.

- *Screening by the Principal (AS1A)* refers to the criteria the HTAs use in selecting CBOs and projects to be financed, and to all the activities they carry out in order to prevent adverse selection.
- The *Signalling (AS1B)* activities initiated by the local CBOs are a second set of variables. They include all those actions that the CBOs carry out to convince HTAs to supply them with funds for their projects and thus also overcome adverse selection.
- *Information and Search Costs (AS1C)* are a measure of the members of the HTA's perception of the level of difficulty in contacting and communicating with the local CBOs. The market will break down if they are perceived to be too high. This means if decision-makers consider it too difficult to find an adequate partner, then they would rather not start looking for one at all.
- *Project Selection (AS2A)* is also an activity where information asymmetry exists. The local CBOs possess more information concerning town needs than the HTAs, therefore activities need to be carried out by the HTAs in order to obtain information regarding the "investment" opportunities available for CR. Discriminating one project from another also takes effort.
- *Search and Information Costs (AS2B)* will also occur in relation to the activities necessary to choose a project. Here, the perception of the decision-makers concerning the difficulty of these activities is also used to determine whether the search and information costs are too high and will therefore demotivate decision makers from selecting any project at all.

Table 2 (Adverse selection indicators) presents the ex-ante factors that are related to adverse selection, and their effect on the establishment of a CR contract.

Hypothesis	Indicator	Description & Measurement
1. High search-information costs for selecting a capable and trustworthy local CBO to manage CR and execute the projects prevent HTAs from supplying CR for the provision of public goods in their hometowns.	AS1A. Screening mechanisms for selecting adequate hometown CBOs	* Existence of defined and known selection criteria: Yes/No * Description of selection criteria: Open Answer * Description of selection process: Open Answer
	AS1B. Signalling mechanisms from the hometown CBOs	* Existence of mechanisms for demonstrating to the HTAs the hometown CBOs' capacity for undertaking the project: Yes/No * Description of signalling mechanisms: Open Answer
	AS1C. Search and Information Costs	* Perceived level of difficulty: easy/fair/difficult/too difficult
2. High search-information costs for selecting the project to be financed by HTAs prevent HTAs from supplying CR for the provision of public goods in their hometowns.	AS2A Project Selection Process	* Existence of projects list developed by hometown CBOs: Yes/No * Existence of defined and known selection criteria: Yes/No * Description of selection criteria: Open Answer * Existence of defined and known selection procedure: Yes/No * Description of selection process: Open Answer
	AS2B. Search and Information Costs	* Perceived level of difficulty: easy/fair/difficult/too difficult

- *Moral Hazard Indicators (MH)*

Are those that are related to the impossibility of enforcing the contract and therefore of assuring its effectiveness.

- *Process of supplying CR (MH1A):* Since the contract of CR involves sending money to the local CBOs, the transferring mechanism used can open the way for opportunism to occur in the form of hidden actions. A portion of the money sent by the HTA might not reach the CBOs. If the transferring

mechanism itself is too costly or complicated, then resources might be used up in the process. The CR might not be raised or sent when most needed, preventing the project ending as planned.

- *Monitoring Costs related to the process of supplying CR (MH1B)* are the costs that should be incurred in order to prevent hidden opportunistic action during the disbursement of CR. If it is perceived as too high, no monitoring will be put in place concerning the transfer of CR, and the hidden actions will result in the projects not ending as planned.
- *Monitoring Mechanisms (MH2A)*: these refer to the mechanisms put in place to control the execution of the works financed. Since the HTAs cannot directly verify the work's execution, they have to rely on the information provided by the partner CBOs. Hidden information means that the HTAs will not reveal the truth about project progress or its real needs.
- *Monitoring Costs (MH2B) related to monitoring mechanisms* are the TAC of monitoring the execution of the work. They are necessary to prevent information being hidden. If HTAs perceive that it is too costly to monitor the execution of the work done by the local CBOs, no monitoring mechanism will be put in place, and it becomes possible to hide information. If moral hazard occurs then the projects may be executed differently to what was planned. If they are not concluded as agreed, then ineffectiveness has occurred.

Table 3 (Moral Hazard Indicators) presents the ex-post factors that are related to moral hazard problems and their effect on the effectiveness of the projects financed by CR.

Table 3: Moral Hazard Problem Indicators		
Hypotheses	Indicator	Description & Measurement
1. High monitoring costs prevent projects from being completed.	<i>MH1A</i> . Process of supplying CR	* Description of the process of supplying CR to the hometown CBOs: Open Answer
	<i>MH1B</i> . Monitoring costs	* Perceived level of difficulty easy/fair/difficult/too difficult
2. High monitoring costs in the CR finance projects prevent them from being completed.	<i>MH2A</i> . Monitoring Mechanisms	* Description of reporting mechanism from the hometown CBOs to the HTA: Open Answer
	<i>MH2B</i> . Monitoring Costs	* Perceived level of difficulty easy/fair/difficult/too difficult

3.2 Case Study Description

In order to achieve its goals the study required the analysis of specific migrant communities in the USA and their corresponding hometowns. The Garífuna communities living on the Honduran Caribbean coast provide the necessary conditions.

The Garífuna are an ethnic group descended from marooned African slaves and indigenous peoples of the Caribbean. After they suffered defeat at the hands of the British, alongside the French, in a series of 18th-century colonial wars, the remaining Garífuna were banished from their home island of St. Vincent in 1797. Exiled to the island of Roatan, they settled the coasts of Belize, Guatemala, Nicaragua and Honduras.

Garífuna migration has a much longer trajectory than that of the rest of the Honduran population. Its history dates back to World War II, when the US government recruited them for jobs left vacant by workers serving in the army. Additional migration took place through the American-owned banana plantation companies working in Honduras. As economic conditions worsened in Honduras, starting with the banana company strikes in the 1950s and resulting in the eventual withdrawal of these employers, migration intensified. The economic shocks of the 1970s drove increasing numbers of

Garífuna to migrate⁹⁷. By the 1970s, Nancie Gonzalez concludes that “migration to New York has become an essential part of the Garífuna culture without which they could not now survive⁹⁸”.

The Garífuna population in Honduras is concentrated along the Caribbean coast in 36 towns, called *Morenales*. The largest contingent of Garífuna is thought to reside in 21 communities in the department of Colón. In the USA, migrants predominantly live in New York City (NYC). The Garífuna population in Honduras is estimated to be close to 200 000, or less than 5% of the country’s total population. It is estimated that around 100 000 Garífuna live in the USA⁹⁹.

Most of the CR experiences in Honduras are to be found among Garífuna HTAs. According to Andrade: “At least since the ‘60s, Garífuna transmigrants in the US have formed hometown associations concerned with the development of their villages through the building of infrastructure, mutual aid societies and the celebration of Garífuna culture”¹⁰⁰. For this reason, and because both the demand and supply side actors of CR are concentrated in a clearly defined geographical area, the study focused on this particular ethnic community. Four Garífuna towns (Limón, Santa Fé, Sangrelaya, Santa Rosa de Aguan) and their corresponding HTAs in the USA (Organisation of Ladies from Limón in NYC, Ladies from Santa Fé in NYC, Organisation for the Development of Aguan, and United Sangrelayas in NYC (SUNY)) were studied. Table 4 presents the general characteristics of the sample hometowns. All the hometowns belong to the Department of Colón, located on Honduras’ Caribbean Coast. Each town belongs to a different municipality, which is the smallest political division in the country.

⁹⁷ Cantor, Eric (2004), pp. 18.

⁹⁸ Gonzalez, Nancie (1979), pp. 261.

⁹⁹ Cantor, Eric(2004), pp. 16 and 18.

¹⁰⁰ Andrade and Silva (2003), pp. 8.

Municipality	HDI ¹⁰¹ *a	Number of households ¹⁰²	Towns Visited	Estimated population	Estimated number of households	Estimated % of households receiving remittances
Limón	0.657	1,592	Limón	8,000	1,300	70-80%
Santa Fé	0.665	1,261	Santa Fé	4,500	780	70-75%
Iriona	0.694	3,170	Sangrela ya	1,500	300	80-85%
Santa Rosa de Aguan	0.659	843	(Santa Rosa de Aguan) ¹⁰³	3,500	750	80-85%

Source: UNDP Human Development Report on Honduras, 2003, Cantor (2003), pp.17, & estimates from interviewed informants.

*a: Honduras HDI was 0.657 in 2003.

3.3 Data Collection and Analysis

The research was conducted during the months of August and September. Four weeks were spent in New York City, USA and 4 weeks in Tegucigalpa, Honduras, and in three sample hometowns: Limón, Santa Fé and Sangrelaya (see Appendix A2: Timetable of Field Research). Face-to-face interviews were carried out by the researcher using two different interview guidelines (see Appendix A1: Interview Guidelines) for two types of informants: decision-makers in the HTA, and in hometown CBOs which have worked or are currently working with the interviewed HTAs (see List of Informants). Interviews allowed the informants to express their opinions in a conversational situation, rather than answering a fixed-structure questionnaire. Due to the exploratory nature of the study, and the limited number of informants, the research concentrated on qualitative data such as the informants' anecdotes of their personal experiences and their own perceptions. Interview guidelines included mostly open questions. Open questions provided greater insight of the factors that are behind the provision of public goods via

¹⁰¹ UNDP Human Development Report on Honduras, 2003, p. 225.

¹⁰² Honduran National Institute of Statistics Census, 2001.

¹⁰³ Santa Rosa de Aguan Town was not visited during the field research; however on the return trip to NYC, board members of the Santa Rosa de Aguan's HTA were interviewed. (see Appendix A2: Timetable of Field Research).

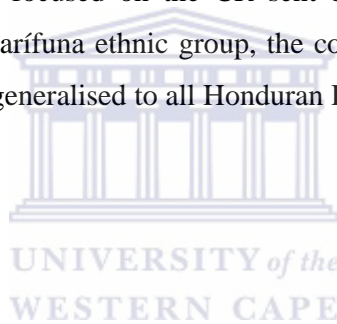
CR in the Garífuna case, and they highlighted the existence of previously unpredicted factors. A text analysis of the open questions and answers identified common categories and concepts, in order to verify the proposed hypotheses. Measurement of the level of search-information and monitoring costs is based on the informants' perceptions. Those questions reliant on perception used a Likert scale to produce ordinal variables. The research was also enriched with the views of experts from the Remesas Network and the Honduran Commissioner for Honduran Communities living abroad, during meetings carried out in Honduras, and further documents on CR in the research network were revised.

3.4 Limitations of the Study

1. Local governments in Honduras are not present as an intermediary actor between the hometowns' inhabitants and the HTAs. The research thus concentrated on the hometowns organised in Patronatos or other CBOs. To evaluate whether the lack of such partnership explains the CR underdevelopment in the country in relation to other countries where such partnerships exist would call for a comparative analysis with another country such as El Salvador or Mexico - such analysis is beyond the scope of this study.
2. The research was limited by time and resources available, as well as access to appropriate informants. In New York the Garífuna communities, unlike other migrant communities, are not concentrated in a single block or limited area. The dispersed nature of the Garífuna community in New York, and the fact that migrants work long hours, constituted a challenge to carrying out the research and limited the number of informants available. Research in NYC was originally planned to last two weeks, but it was later extended by two weeks after the trip to Honduras. Members of the Santa Rosa de Aguan HTA were contacted on the second trip to NYC, and thus the corresponding hometown and CBOs in Honduras were not interviewed.
3. Since the major projects for the provision of public goods financed by the interviewed HTAs were executed more than 10 years ago, in many cases it was not possible to find informants in the HTAs or in the hometowns who had

worked on these projects. Those that had, could not recall many details. The findings on these experiences, and therefore the discussion of the ex-post factors, were not as complete as they were desired to be.

4. Information on the current Patronatos is also not as detailed as was planned, due to the fact that in Limón and Santa Fé, even though members of the Patronatos were contacted, the Patronatos are currently not active, or seldom meet. In Sangreleya no member of the Patronato was contacted, but a (recent) former member provided the information. All the Patronatos of the visited towns are constituted legally. It was, however, not possible to obtain a copy of the statutes or any documentation from them. Evaluating the effectiveness of projects on other criteria besides their completion was not possible.
5. Since the research focused on the CR sent by HTAs composed of migrants belonging to the Garífuna ethnic group, the conclusions derived from it should not necessarily be generalised to all Honduran HTAs in the USA.



4. Determinants for Hometown Associations Provision of Public Goods in Honduran Garífuna Towns - Research Results

4.1 An Institutional Perspective explaining CR in the Garífuna case

4.1.1 Hometown Associations

- *HTA Motives*

The members of each of the HTAS interviewed shared a common cultural and ethnic background - each interviewed HTA was composed of members who came from the same hometown, and all of them belong to the Garífuna ethnic group. It is common to find that the boards of these organisations include cousins or brothers, as was the case with the Sangrelaya HTA. This characteristic of HTAs can be explained by the migration pattern followed by the Garífuna. Puerta's observation that migration to the USA follows a group behaviour pattern was confirmed in conversations with HTA members. Migrants from a particular community of origin tend to attract other family members and friends. They may decide to travel in groups and follow a common route to the USA. Once in the USA, they may even look for jobs together, often finding employment with the same employer¹⁰⁴.

Migrants do not lose contact with their hometowns and country of origin. They assume responsibility for the family members left behind. It is seen as the "right thing to do" not only to help relatives, but also the community as a whole. In the hometowns, it is expected that those that migrate will not only send remittances to their immediate relatives, but will also bring gifts to their extended family and friends when visiting the town during vacations. HTA members identify themselves as "*hijos del pueblo*" (sons of the town) and consider that they continue to belong to their hometowns, even though their place of residence is now the USA. The internalisation of this ethical rule is clearly shown in the words of a lady interviewee: "*It is my duty as hija del pueblo to help my town and share my luck with my relatives and friends back home.*"

¹⁰⁴ Puerta (2002), pp. 19.

Board members of the interviewed organisations answered that Garífuna migrants organised themselves to improve the living conditions in their hometowns, given the fact that traditionally these communities have received little aid from the central authorities and that the local authorities lacked the resources to satisfy the communities' overwhelming needs. One informant expressed the migrants shared idea: that "it is easier to answer our town's necessities when working as a group".

It was observed that the interviewed HTAs were all founded to carry out a specific project in the community, either as an answer to a request for aid from the community or as a self-help initiative from migrants to satisfy a particular need in their hometown. In the 1970s a committee of citizens from the town of Santa Rosa de Aguan was organised to pave the town's main access road. The migrants from Santa Rosa living in New York responded to the community's request for financial help by establishing the Organisation for the Development of Aguan. In the case of Limón the HTA was also born as a result of the organised inhabitants' request for help to the *hijos del pueblo* in New York. The Organisation of Ladies from Limón in New York started in 1989 as a group of migrant women from Limón that carried out activities to raise funds to be used in the potable water project in their hometown. Two HTAs were organised in order to construct a community centre in their respective hometowns: in the beginning of the 1980s, the Ladies from Santa Fé in New York, and a couple of years later, the Sangrelayas Unidos in New York (SUNY). In the opinion of one informant: "Without the financial aid of HTAs in NYC to the Patronatos our town would have never had electricity or water." He concluded that "without our help the town would simply not develop."

Membership in the HTAs also provides private benefits for the migrants, however. One of the HTA goals (as expressed in the Ladies from Limón Statutes), is to preserve Garífuna traditions. All the interviewed HTAs had one or more traditional dance groups, which perform at parties and other activities. Such groups and activities are a way to "preserve our roots and teach our children our traditions", as an interviewed member of an HTA said. An additional goal of all of the HTAs interviewed is the possibility of helping to repatriate the bodies of members or their relatives to be buried in their hometowns, and of providing financial aid to the deceased's relatives in NYC or in Honduras.

- *Organisational Structure - Election Procedures*

Even though attendance of HTA activities, such as the yearly parties, can sometimes be in excess of 200 migrants, and in the interviewed HTAs all migrants coming from the same hometown have the right to participate in their general assemblies, active members usually total no more than 20 persons. The Boards are usually composed of eight to ten persons elected in a general assembly. They include the positions of President or Coordinator, Vice-president, Secretary, Fiscal, Treasurer, Vocals, in many cases assigned to particular issues like women or children, and one or more advisors. The exact period of duration of the directives in the interviewed organisations was not clearly delimited, but general assemblies are held on a yearly basis and, depending on the need, may be called more than once a year. Some HTAs group themselves in Federations, such as the Garífuna Coalition. This federation was organised in 1998 for the celebration of the 200-year presence of the Garífuna in Honduras, and currently includes 13 organisations, 7 of which are non-profit HTAs and the rest Garífuna-owned business corporations. The HTAs from 5 different villages of the municipality of Iruña (including the interviewed SUNY) constitute the Organisation of Groups from Iruña (OGI). Recently, Garífuna HTAs have started claim legal status in the USA, incorporating themselves as Domestic Not-for-profit Corporations in the State of New York. Some have obtained or are currently applying for recognition from the Internal Revenue Service as Tax Exempt Organisations. This status allows the HTAs to receive donations from the public and foundations, while the donors obtain tax relief for the amount donated.

- *Decision-making*

Board meetings are held once a month, as in the case of SUNY, or more sporadically according to necessity, as in the case of the Ladies from Limón. Routinely, decisions for coordinating fund-raising activities scheduled since the beginning of the year are taken by majority vote during the board's meetings. The decision to undertake a large project in the community, however, is usually discussed after inviting more members of the migrant community to a general assembly.

Clarifying the decision-making procedures and the responsibilities of each of the board members of the HTAs seems to be a critical factor in reducing the level of difficulty required to carry out the activities necessary to raise and send funds to the hometowns.

A former member of an HTA stated that he perceived that “too much time was spent in the meetings... we gathered every month for almost three years and I saw no concrete action taken for the benefit of the town”. He added that “even though different positions existed within the board, all financial decisions were taken by the coordinator”.

Informants observed that many former members left the HTA after conflicts rose concerning the responsibility of each member within the board. Such conflicts have led many HTAs to remain inactive for long periods of time, or even to cease to exist. With the exception of the Aguan organisation, all interviewed HTAs had previous predecessor organisations, with different names, also constituted to help the hometowns. The Ladies from Limón were originally a supporting group within the Frente Social Limóneño, an organisation that has long ceased to exist. No active board member of the Santa Fé HTA was to be found in New York during the field research, but the President of the Garífuna Coalition (see Appendix A5.1) commented that the group had resigned from its membership of the federations, and a member of the HTA interviewed in Santa Fé described the situation of the group as “a weak one”. After working in its hometown at the end of the 1980s, SUNY didn’t operate for about 10 years. A new group of Sangrelaya migrants started to meet again about 3 years ago. It is only within the last 5 years that HTAs have sought to be legally constituted and to explore the possibility of receiving tax exemption status. According to SUNY’s coordinator of the last few years “we have concentrated on an organisational strengthening... working to incorporate our organisation legally, and to be recognised with tax exemption status”. Such legal procedures force the organisations to record their objectives and consider formal rules for regulating their procedures. The Aguan Organisation and Ladies from Limón have also recently been incorporated legally (see Appendices A3.1 and A3.2).

- *Fund-raising*

HTAs raise funds by carrying out activities planned since the beginning of the year, for example tours to amusement parks, raffles and selling tickets to annual parties (see Appendices A3.3 and A3.4) where their dancing groups perform. Deciding on which activity to carry out is not particularly difficult since the HTAs usually do the same events on the same dates every year. The only HTA interviewed that charges a membership fee is SUNY. According to a former president and another former member, many migrants from Sangrelaya perceive this fee (currently U\$50 per month) as a burden on their limited budgets. The reluctance to pay the fee has resulted in many

migrants leaving the HTA. The current coordinator, however, argues that in the future the HTA will arrange activities both in the town and in NYC that will produce profit for the members. Such for-profit activities, however, are not available to non-profit and tax exempt organisations under American law.

The interviewed HTAs estimated they can raise between US\$2 000 and US\$3 000 with their annual activities. Any project within the community that requires more funding than this involves the execution of extraordinary activities and takes more than a year to raise the funds; it is therefore viewed as more difficult to assist. Tax exemption status offers the possibility of as yet unexplored sources of project finance, besides the traditional raffles and parties.

4.1.2 Hometown CBOs

- *Hometown CBO Motives*

HTAs usually don't carry out work in the hometowns directly, but send the funds raised to the organised inhabitants in the community. The interviewed HTAs have no experience of working with the local municipalities, but instead have cooperated with the Patronatos or with committees of citizens organised for a particular project. They have also worked with the Catholic Church's groups of laymen known as Pastorales.

Patronatos are local volunteer development organisations that are organised in Honduran towns and villages to address public issues and work for the execution of social projects in the communities. The smallest units of government in Honduras are the municipalities; each municipality may include many villages. In isolated villages or neighbourhoods, where the presence of the municipal authorities is not felt, Patronatos assume the functions of the local authorities. Within the Patronatos, committees for particular projects can be constituted, such as a committee for electricity, for potable water, for road construction, etc. The goal of a Patronato, as expressed by the informants, is "to improve the living conditions in our towns" by "organising the community for cooperating in those works that develop the town and by demanding the attention of the authorities in supplying necessities for our people".

Pastorales are constituted for religious works and for maintaining and improving the church's temples. Their goal is that of "taking care of the brothers and sisters in the

community... looking after the needs of the temple and organising activities to counsel and orient”.

Prestige, and the possibility of running for a political position, seems to provide some of the reasons for joining a Patronato. It is common that mayors in the hometowns have some experience working in the Patronatos or public works committees. The current mayor of Limón was the treasurer of the committee for electricity, which managed CR from the Ladies from Limón. The current president of Santa Fé’s Patronato ran for the mayoral candidacy position during one party’s primary election campaign.

Since the *hijos del pueblo* are still seen as part of the community, when the state and international cooperation-aided projects require the town’s partnership, inhabitants find that “the *hijos del pueblo* in NYC earn dollars and can raise more money”. Pastoraes also consider that the migrants are in a better economic condition to contribute financially to its projects.

- *Organisational Structure-Election Procedures*

Inhabitants of the interviewed hometowns recognise the Patronatos as “the organisation responsible for representing our interests”. Municipal and central authorities in Honduras see in them a link to the community. When a project requires the help of the towns` inhabitants, Patronatos are usually contacted by the authorities. Patronatos are elected in general assemblies to which all the town’s inhabitants are invited. Their board is made up of a Coordinator or President, a Vice-president, a Treasurer, a Fiscal, a Secretary and one or more Vocals. In the cases of the projects where the interviewed HTAs participated, committees for each specific project were constituted within the Patronatos. Each committee had a board of its own and is responsible for carrying out the activities of the project.

Even though all the Patronatos in the visited towns are constituted legally and some of them have written statutes, all of the interviewed board members admitted they didn’t know or had not read the statutes. The period of duration of the Patronatos is also not clear. Some members indicated it was two years and others four. In Santa Fé, the deputy mayor commented that the current Patronato “is not operating and it is not recognised by the majority of the inhabitants”, despite the fact that its members were elected four years previously. He thought a new assembly should be arranged to elect a new

Patronato. The mayor of Limón commented that during his four years in office, three different Patronatos had resigned after showing poor results. The previous president left for the USA without informing the rest of the board members. When referring to the committees that worked with the HTAs in the 1980s and beginning of the 1990s he stated that “the problem with committees is that they stop after achieving their goal.”

In the construction of the Temple in Limón, the Pastoral organised a daughter group of “Ladies from Limón in Limón” to assist the church in the projects financed by the HTA.

- *Decision-making*

Routine decisions of the Patronato are taken during board meetings, but most important issues that require the cooperation of the whole community are raised in general town assemblies. The committees for the projects that execute the HTA-financed projects are also constituted in a general assembly. Since carrying out general assemblies is perceived as “difficult” or “highly difficult”, unless members of the community are interested in constituting a new Patronato or an urgent issue arises, it is most likely that many years will pass before an assembly is held. The board might consider it a difficult task to call for an assembly, but it seems the very lack of such assemblies, such as in the case of Santa Fé, leads to a lack of recognition from the community. In Limón, each of the assemblies carried out during the last three years resulted in the resignation of the few remaining board members and the election of new ones.

4.1.3 The Collective Remittances Contract

In migrant-producing Garífuna towns, members of the Patronato have relatives in the USA who visit them regularly, or members of the Patronato themselves then move to the USA to work. Such is the case of the former President of the Limón Patronato. Both the current President of the Sangrelaya Unidos in New York and the Coordinator of the Ladies from Limón were part of their hometown’s Patronatos when living in Honduras.

It is a common practice among Honduran municipalities, central government, and national and international development organisations to ask for partnership with the community in social work projects. This partnership is coordinated by the Patronato. When a new project is started and the community’s partnership is required, the community turns to their relatives in the USA for financial help. Usually they request

help from an organised group of migrants in the USA, or an HTA member becomes aware of the project during one of his visits to Honduras and then suggests that the HTA should cooperate with it.

The contracts established between the HTAs and the Patronatos or Pastorales are of an implicit nature. Since all the projects are usually executed by the local CBOs, the HTAs limit themselves to providing funds, and are usually not strongly involved in programming the activities to be carried out in the hometowns. In the studied cases of CR, programming the activities needed for project execution was not a particularly difficult task for the HTAs. They devoted their time and effort to carrying the fund raising activities. Local CBOs, on the contrary, were not as much concerned with fund-raising as they were with coordinating the local work, particularly in planning the volunteer labour force. No documents are created in this process, and therefore social sanctions serve as an enforcement mechanism.

HTA members with relatives in the partner CBOs expect their relatives to work honestly. In the words of an informant, “Who but our relatives should be most trusted?” He added that “we expect them to honour our trust and appreciate the hard work of the *hijos del pueblo*”. The same is true from the hometowns’ side. A member of a Pastoral expressed that he and his family felt “proud when visiting the church’s temple, which was constructed thanks to my sister’s work as coordinator of a committee of ladies in NYC, and mostly to her personal monetary contribution”. A plate with the names of the members of the HTA is displayed in the entrance of the Catholic temple.

If an inhabitant member of a partner CBO doesn’t manage resources adequately, it would provoke social sanctions against his relative who is a member of the HTA. It is possible that the relative in NYC would be considered to have betrayed the migrants’ trust in his family, and would therefore be viewed as responsible as well.

A Patronato or committee that doesn’t manage resources adequately would lose the confidence of the HTA in NYC. A Patronato with a bad reputation cannot expect the HTA to supply additional requests for aid for new projects.

Table 5 (An Institutional Explanation of CR in the Garífuna Case) summarises the findings on the contractual actors of collective remittances, and the characteristics of the contracts established between them.

Table 5: An Institutional Explanation of CR in the Garífuna Case		
Indicator	Description	Finding
IA. HTAs		
<i>IA1. HTA Motives</i>	<ul style="list-style-type: none"> * Reasons why a migrant should contribute to their hometown's wellbeing by financing the provision of public goods * Reasons why a migrant should join an HTA * Reasons why an HTA is created * HTA's list of goals * Reasons why an HTA should send CR to a CBO for providing public goods 	<ul style="list-style-type: none"> * Ethical rule: "My duty as <i>hijo del pueblo</i> is to help my town and share my luck with my relatives and friends back home." * Share point of view: "It is easier to answer our town's needs when working as a group." * Members of HTAs have private benefits: financial aid in case of need, and transmitting the Garífuna traditions to future generations. * All HTAs were founded to carry out a specific project in the community. * Contribute to the hometown's development * Help in repatriating dead migrants and comforting their relatives. * Preserve the Garífuna traditions in the USA . * Shared point of view: "Lack of state interest or budget for the needs of the <minority group> Garífuna towns." * "Without the financial aid of HTAs the town would simply not develop."
<i>IA2. Decision-making procedures</i>	<ul style="list-style-type: none"> * Description of organisational structure * Description of board member election procedure * Description of decision-making 	<ul style="list-style-type: none"> * 10-20 Active members. General assembly, open to all migrants from the hometown, elects 8 to 10-member board. * 5 years ago started process to be constituted legally in USA: write goals and basic rules * Routine decisions: board meeting, monthly or as the necessities rise. * Decision to undertake large project: Assembly.

IA3. Workload in decision-making	* Perceived level of difficulty	* Difficult when institutions are not clearly set and known * Lack of clear written rules of board's responsibility led to conflicts in the past. Members left and previous HTAs ceased to exist.
IA4. Fund-raising mechanisms for CR	* Description of way funds are raised	* Raffles, yearly parties. Same activities every year, and special ones for larger projects. Fees in one of the interviewed HTAs * Normal activities - US\$3 000 per year
IA5. Workload in fund-raising for CR	* Perceived level of difficulty	* Deciding on normal activities easy: same events on same dates every year * Difficult to finance projects that require more than US\$3 000: Requires several years and extraordinary fund-raising activities. * Membership fees perceived as a burden. Not sustainable
IB. CBOs		
IB1. CBO Motives	* Reasons why an inhabitant should join a Patronato or other CBO * Reasons why a CBO is created * CBO's list of goals	* Patronato membership provides prestige and permits pursuance of a political career * Patronatos: Address the inhabitants' needs, especially in isolated villages or where state presence is scarce (Garífuna towns). * Committees for special projects (electricity and water) constituted within Patronatos. * Pastorales: Created for religious works and maintaining/improving temples. * Patronatos: - Improve the living conditions in towns - Organise community cooperation in public works. - Demanding the attention of the authorities. * Pastorales: - Care of Catholic community - Maintain temple - Organise religious counselling activities

	<ul style="list-style-type: none"> * Reasons why a hometown's CBO should cooperate with an HTA in a project for the provision of public goods 	<ul style="list-style-type: none"> * Local inhabitants lack resources for the required partnership in state-financed projects. Migrants are in a better economic position to contribute
<i>IB2. Workload in decision-making</i>	<ul style="list-style-type: none"> * Perceived level of difficulty 	<ul style="list-style-type: none"> * Difficult due to lack of clear institutions * Current Patronatos: inactive or not recognised by inhabitants * Uncertainty on the "legal" length of the Patronato's term leads to conflicts in town * Difficult to arrange town assembly. Requires too much effort * Lack of assemblies can cause a loss of recognition of the Patronato
The Contract of Collective Remittances between the HTAs and the local CBOs		
<i>IC The contract of CR</i>	<ul style="list-style-type: none"> * Description of the contract established * Sanctions for members of an HTA * Sanctions for members of an CBO 	<ul style="list-style-type: none"> * Implicit Contract. No documents. Social sanctions- kinship: enforcement mechanism * Role of HTAs: To provide financial resources. Little intervention of HTAs in the activities executed. * Role of the local CBOs: To plan and execute all the works in the hometowns * Disgrace/pride for family of contributing migrant * Shame for the relatives in NYC. Reputation is lost. No trust for further projects

4.2 Factors in the Interaction between the HTAs and Local CBOs previous to the Transacting of CR – Adverse Selection Problems

- *Screening Mechanisms*

The Ladies from Limón's Statutes declare that the organisation "... will support and work jointly with any organic body constituted in a general assembly for the development of Limón's town".

All of the interviewed HTAs considered that they should support those groups in the hometowns that are more representative of the town, that is those legitimately accepted by the hometown inhabitants as representing the town's needs. Patronatos and their committees are therefore seen as ideal partners. Since priests are perceived as trustworthy within each of the communities, the Pastorales under their supervision are also considered reliable partners. However HTAs work with these groups only in those projects with religious aims, such as the improvement of temples. A unique case occurred in the building of the communal centre in Santa Fé, where a daughter group was constituted as "The Ladies from Santa Fé in Santa Fé". The group's function was to assist the HTA in supervising the works during the project's execution, and to manage the centre once it was completed.

If the HTA considers it highly difficult to find a reliable partner it will not agree to supply CR. Such is the case in Limón, where one informant stated: "We want to contribute to our town's well-being, but at the moment we are not able to find a Patronato capable enough to run projects". The Coordinator of the Limón HTA sent a letter urging the President of the Patronato to strengthen their organisation, and has offered their help in doing so. Unless they perceive the Patronato to be capable, the organisation's board has decided it will not support projects in the town. Similarly, since the Patronato of Santa Fé is not recognised by a large proportion of the inhabitants, board members of the HTA consider it highly difficult to find reliable partners and are not willing to support new projects in the town.

- *Signalling Mechanisms*

According to the informants (with the exception of Santa Fé), in all the HTA-financed projects, the initiative came from the Patronatos and its committees for particular projects. Committees for the projects in the hometowns were constituted before the HTAs were contacted. Members of these committees spoke with their relatives in the HTA, or when those members of the HTA visited the town they were invited to committee meetings to hear about their projects. Members of committees that travelled to the USA to visit their relatives would motivate the HTA to cooperate with the project. Since the contact between migrants and local inhabitants is continuous, informants in Honduras consider it easy to contact HTAs and present them with new projects.

It is the opinion of HTA informants that when a Patronato presents a definite idea for a project, which is strongly supported by the community, to the HTA, the HTA will probably support it financially.

- *Selecting the Project*

Negotiating which project should be financed is currently perceived as a “highly difficult” task by both the HTAs. Selection of projects is a potential source of conflict between the local and migrant community. This is more likely to happen when the local inhabitants lack a strong organisation, or committees with clearly-defined projects to be carried out, and the initiative comes unilaterally from NYC. In Limón, the HTA has defined as its next priority project the construction of a funeral home. The list of future projects was compiled by the board members and then discussed with the general assembly. Majority vote was defined as the criterion to discriminate one project from another. The hometown inhabitants, however, seem not to share the points of view of the HTA concerning the town’s needs. All of the interviewed local inhabitants expressed their disagreement with this project. Some of them said it was too expensive to train personnel and manage a funeral home, others that holding funerals in their houses has always been part of the Garífuna culture and that the migrants were trying to “impose” American customs on the Honduran towns. An informant in Limón concluded: “If they in New York would bother to ask the town’s opinion on the funeral home, they would realize we have more urgent needs here”.

In all the previous experiences in which the HTAs participated, the hometowns usually proposed one project at a time. Each proposed project was seen overwhelmingly by the local town as the community's immediate need, and one to which all the inhabitants were strongly committed. In a letter to the Patronato the Ladies from Limón in NYC urged them to develop a list of the town's most urgent needs.

Figure 6 (Findings on Adverse Selection) presents the findings on the search and information costs incurred in the interaction between HTAs and local CBOs which determine whether or not CR are transacted for the provision of public goods.

Hypothesis	Indicator	Description	Finding
1. High search & information costs for selecting a capable and trustworthy local CBO to manage CR and execute projects prevent HTAs from supplying CR for the provision of public goods in their hometowns	<i>ASIA</i> . Screening mechanisms for selecting adequate hometown CBOs	<ul style="list-style-type: none"> * Existence of selection criteria * Description of selection criteria * Description of selection process 	<ul style="list-style-type: none"> * Selection Criteria: Groups elected with inhabitants participation and accepted by inhabitants as representing the town's needs = Patronatos - Committees - More trustable groups = Priest - Pastorales * When Patronatos / Pastorales present a concrete project that is strongly supported by the whole town, HTA decides in an assembly to finance it.
	<i>ASIB</i> . Signalling mechanisms from the hometown CBOs	<ul style="list-style-type: none"> * Existence of signalling mechanisms * Description of signalling mechanisms 	<ul style="list-style-type: none"> * In all the HTA-financed projects, initiative came from the Patronatos * Local Committee starts working on the project on its own, relatives in USA are telephoned, visiting HTA members are invited to local meetings or committee members present idea when visiting the USA.

	ASIC. Search and Information Costs	* Perceived level of difficulty	*When HTA consider it highly difficult to find a reliable partner it would not agree not supply CR. * Currently all interviewed HTAs perceive it highly difficult. HTA from Limón sent a letter to the Patronato urging it (and offering help) to strengthen its capacity in order to finance new projects.
2.High search-information costs for selecting the project to be financed by HTAs prevent HTAs from supplying CR for the provision of public goods in their hometowns	AS2A Project Selection Process	<ul style="list-style-type: none"> * Existence of projects list developed by hometown CBOs * Existence of defined and known selection criteria * Description of selection criteria * Existence of defined and known selection procedure * Description of selection process 	<ul style="list-style-type: none"> * No projects list currently elaborated in the hometowns due to inactive Patronatos * Current lists of future projects in Limón and Sangreleya: developed by the HTA. Majority vote is the criterion used to discriminate one project from another. * Previous experiences: town presented 1 project at a time. Each had the town's strong commitment.

	AS2B. Search and Information Costs	* Perceived level of difficulty	<p>* Currently seen as highly difficult by both sides. In Limón the HTA sent a letter urging the Patronato to write list of the town's needs. Patronato and local inhabitants disagree with current HTA list. Migrants perceived by locals as imposing their ideas, disregarding locals' opinions, and therefore ignoring town's real needs.</p> <p>* Currently highly difficult in the case of Sangreleya. HTA proposes a different contract to the traditional unwritten one. HTA will not provide cash, and wants to buy materials directly. Patronato perceives it to be difficult and time-consuming. It refuses to work with the HTA in this way.</p>
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4.3 Factors in the Interaction between HTAs and Hometown CBOs during the Transacting of CR - Moral Hazard Problems

4.3.1 HTA Participation in the Provision of Public Goods in the Garífuna Hometowns

- *Limón*

At the beginning of the 1980s a committee for the construction of a potable water system was constituted in Limón. The committee travelled several times to the capital city, until around 1989 it obtained the support of the National Water and Sewage Service (SANAA) and the Inter-American Development Bank (IADB). SANAA performed the necessary technical studies, created a budget and agreed to finance 20% of the project. IADB would finance 40%, and 20% was left to the local inhabitants, being the contribution of the labour force used for digging the holes for the pipelines.

Members of the committee with relatives in the then Frente Limón HTA sent a letter asking for financial help. A group of women from Limón living in the USA offered help to the Frente and the “Ladies Committee for Limón’s Potable Water” was constituted. The ladies organised food sales and parties during three years, raising approximately L80,000 (US\$16,000). Local inhabitants provided the labour force. The community’s contribution, including the value of the labour force, was estimated to be L130,000 (US\$26,000). The water system was inaugurated in 1992. A water administration board was constituted by local inhabitants, and managed the system until it was replaced around 1999. Technical mistakes attributed to SANAA’s engineers, and damage caused by Hurricane Mitch, led to the system’s collapse, and a new one was built with USAID funds.

A committee for the town’s electrification, which, unlike the potable water committee, was constituted legally independent from the Patronato, was elected in a general assembly at the end of the 1980s. After requesting support from the central authorities for several years, the National Enterprise of Electricity (ENEE) was able to budget funds for the project. The town, however, was required to finance the electrical posts and the work necessary for their installation. The treasurer of the committee presented the idea to the Ladies of Limón when visiting relatives in USA. The Ladies agreed to help, and a Committee for the Electrification of Limón in New York was constituted in 1994. In two years the committee raised funds toalling about L70,000 (US\$11,000). Funds were used to buy lamps, but also to finance the trips of local inhabitants to the capital city for meetings with ENEE. The local inhabitants’ contribution consisted of the labour force used for clearing paths and installing the posts. The electricity project was finished around 1996.

The ladies in NYC sent an additional L25,000 (US\$4,000) to the electricity committee, which in the end was not used on the project. Since some of the ladies knew about the Pastore’s project to reconstruct the temple, they decided that the funds should be employed in the church’s reconstruction. HTA’s financial contributions were used for buying materials, and the labour force was provided by the community. A group of women in the Pastore decided to form the “Ladies from Limón in Limón” (see Appendix A5.2) as a counterpart to the HTA contribution. Their work consisted of providing food to the volunteer workers in the temple. The group still exists today.

Whenever needs in the church arise, usually for equipment or for financing religious youth camps, aid is requested from the Ladies in New York.

On their own initiative, the Ladies from Limón in NYC have bought books for the local schools during the last two years. When visiting Honduras HTAs, members give the books to the school principals (see Appendix A4.1).

- *Santa Fé*

In New York a group of migrant women from Santa Fé noticed, during their visits to their hometown, that Santa Fé, unlike most Garífuna towns, lacked a community centre where traditional and religious festivities could be held. They came together to raise funds for its construction. The HTA decided that an engineer cousin of one of the boardmembers would be responsible for managing the project. To assist the engineer and to manage the centre once constructed, a filial group of “Ladies from Santa Fé in Santa Fé” (see Appendix A5.3) was constituted. Responsibility for the project’s execution, however, remained with the engineer. Conflicts arose between the engineer and the local committee and, after about three years of fund-raising, the HTA stopped sending funds. The community centre was only partially completed - doors, windows and the like were missing. The local Ladies assumed its management and carried out additional activities for purchasing the doors and windows. The centre is currently in use, although not completely finished.

The Ladies, upon request from the Pastorate, continually donate or finance equipment for the temple and contribute financially to religious youth camps (see Appendix A4.2).

- *Sangrelaya*

The local Patronato in Sangrelaya asked the “*hijos del pueblo*” in NYC for financial aid to construct a community centre in the 1980s. The Sangrelaya Unidos in New York was organised, and sent funds to the Patronato. The centre was completed in the mid-1980s.

In 2002 a member of the HTA received a donation of 20 used computers, which were sent to the local school. Though repairs were attempted in the town, only eight worked (see Appendix A4.3).

- *Santa Rosa de Aguan*

The Organisation for the Development of Aguan is, according to its Fiscal, one of the oldest and perhaps one of the most stable Garífuna organisations in the USA. It has worked continuously since the 1970s on various social projects in the town of Santa Rosa de Aguan. During that time it cooperated with the local committee on the paving of the main access road. In the 1980s it also partially financed the construction of the community centre. In 1986 it contributed to an electricity project, and in 1997 it financed the construction of a kiosk in the town's recently renovated central park. The town was severely damaged by Hurricane Mitch, and access has become difficult. The town's Central Business District is currently moving to a new location, and the HTA is contributing financially to the local committee for the construction of a paved road to the new CBD. It is estimated that the HTA has sent a total of between US\$6,000 and US\$7,000 during the last three years. The funds were used for preliminary work in the construction of the road. However, the project has been stopped, due to the lack of budget from the authorities for installing a hanging bridge, and because of disagreement with moving the CBD and access road coming from a group of inhabitants living close to the old CBD.

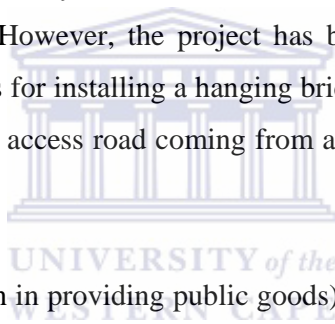
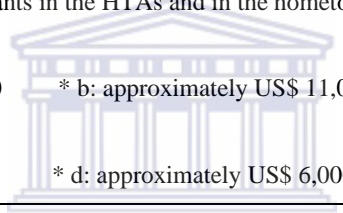


Table 7 (HTA participation in providing public goods) presents the main characteristics of the projects executed or those still being executed by the sample HTAs.

Hometown	Project	Recipient Hometown CBO	Funds raised, sent and used (L1000)	Year funds were first sent	Project Duration	Final Result
Limón	Financial contribution to Potable Water System	Committee for Water	80 ^a	1989	3 years	Completed
	Financial contribution To the Electrification of the streets	Committee for Electrification	70 ^b	1994	2 years	Completed
	Financial contribution to the Catholic Temple Reconstruction	Pastorale-Ladies from Limón in Limón	> 25 ^c	1994	1 year	Completed
	School Books Donations	Local Schools	n/i	2003 2004	Yearly activity	Completed
Santa Fé	Communal Centre construction	Ladies from Santa Fé in Santa Fé	n/i	1980s	3 years	70% Completed
	Catholic Temple equipment	Pastorale	n/i	2003 2004	Done regularly	Completed
	Financial contribution to access road construction	Patronato	n/i		N/i	Completed
Sangreleya	Community Centre construction	Patronato	n/i	1980s	n/i	Completed
	Computers donated to school	Local school	Donated to the HTA	2002	-	40% Completed 8 of 20 computers worked

Santa Rosa de Aguan	Financial contribution to access road construction	n/i	Committee for road construction	1970s	n/i	Completed
	Financial contribution to the electrification of the streets	n/i	Patronato	1986	n/i	Completed
	Kiosk in Park construction	n/i	Patronato	1997	n/i	Completed
	Financial contribution to the new access road construction	Committee for Road Construction	120 ^{*d}	2002	n/i	Not completed: currently stopped
<p>Source: Interview with informants in the HTAs and in the hometowns.</p> <p>n/i : No Information available</p> <p>* a: approximately US\$ 16,000 * b: approximately US\$ 11,000</p> <p>* c: more than US\$ 4,000 * d: approximately US\$ 6,000- US\$ 7,000</p>						



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4.3.2 Working Mechanisms for Supplying CR

In all of the studied projects the provision of funds by HTAs was done as the necessity arose. No calendar for sending CR was written, and no compromise on the periodicity and quantity of the disbursements was established. Patronatos or committees telephoned the HTAs when more funds were needed. Usually it was not necessary to wait for the funds to be raised, because the HTAs continued with their regular activities and, when involved in larger projects, would work in additional ones. Receiving the funds was only a matter of the time needed to make them available to the local CBOs. The funds were usually sent in cash with members who travelled to the hometowns in order to visit relatives. In the case of the electrification project in Limón, a bank account was opened with the signature of the coordinator of the local committee and that of the Ladies from Limón in NYC. Signed withdrawal forms were sent by courier or mail to the local committee with the requested amount. In the case of Santa Fé, the activities were programmed and carried out by the contracted engineer. He would request funds from the HTA, and receive them when members visited the hometown, or via bank transfers.

Since receiving the funds for most of the projects usually required waiting for HTA members to visit Honduras, the process could sometimes be perceived as time-consuming from the local CBO side. The HTAs would argue that sending the money through a member saved bank commissions and, more importantly, giving the money “face to face” would oblige the CBOs to demonstrate to the visitor the concrete uses for previous disbursements and to explain the planned use was for the new ones. In current projects, such as the Aguan access road project, similar practices still persist. Funds are requested by the HTAs via telephone or when visiting New York, with no plan of disbursement previously agreed upon.

4.3.3 Monitoring Mechanisms of the Supplied CR - Monitoring Costs

Since the nature of the contract established between the CBOs and the HTAs was of an implicit nature, no monitor mechanisms were previously agreed, much less written down. “We trusted the Patronato knew how best to use the money, since they were the ones doing the work” answered a former member of an HTA. Copies of the bought materials’ bills were usually sent to New York or given to HTAs members on visits to the town. For some uses, however, no bills were made available, for example the funds spent when the committees travelled to the capital city to meet with state enterprises performing the work, or those used by the Ladies from Limón in Limón to feed the volunteer workers. Monitoring mechanisms also relied more on personal (and therefore unplanned) visits of HTA members. After a project was concluded, or during its execution, accusations from inhabitants would usually arise concerning the use of the funds made by the local committees’ board members. Such accusations led to conflicts between the Ladies of Santa Fé in Santa Fé and the engineer and, as a result, the town’s commitment to and collaboration with the project decreased. Some local inhabitants argue that the building was not concluded because the engineer used the funds to move and live in the USA, and some migrants claimed it was the lack of cooperation of the inhabitants which forced the work to a halt. Monitoring was therefore perceived by the HTAs as a difficult task. In the case of Sangrelaya, the HTA refused to assist the local electrification committee with cash, but offered instead to send the required materials. The HTA Coordinator argued that, unlike previous migrant organisations, they are not willing to send money, as they considered that they lack the mechanisms to monitor its use. The committee argued, however, that such a process would be time-consuming

since materials would be bought only when members visited the town. As a result, no working relationship was established between the two. The village continues to this day without electricity.

Table 8 (Findings on Moral Hazards) summarises the findings on the monitoring costs between HTAs and the local CBOs, which determine the effectiveness of the projects using CR for the provision of public goods.



Table 8: Findings on Moral Hazards			
Hypothesis	Indicator	Description	Finding
3. High monitoring costs prevent projects from being completed.	<i>MH1A.</i> Process of supplying CR	* Description of the process of supplying CR to the hometown CBOs	<ul style="list-style-type: none"> * CR sent as CBOs necessities arose * No agreed calendar of disbursements and amounts * Most cases cash sent with HTA members visiting the towns.
	<i>MH1B.</i> Monitoring Costs	* Perceived level of difficulty	<ul style="list-style-type: none"> * Some cases time-consuming for CBOs to wait for HTA visit. * Fair for HTAs: it served as a monitoring mechanism.
4. High monitoring costs in the CR finance projects prevent them from being completed.	<i>MH2A.</i> Monitoring Mechanisms	* Description of reporting mechanism from the hometown CBOs to the HTA	<ul style="list-style-type: none"> * No agreed mechanism. * Some of the bills were sent to USA or shown during visits. * Based more on visits of the HTA
	<i>MH2B.</i> Monitoring Costs	* Perceived level of difficulty	<ul style="list-style-type: none"> * Highly difficult * Accusations of improper use of HTA funds usually arose in the community. In Santa Fé accusations of the executing engineer demotivated town and led HTA to end its contribution. * In Sangrelaya, the lack of monitoring mechanisms is argued as reason for the decision not to provide cash any more.

5 Conclusions and Recommendations

5.1 Discussion of Findings- Conclusions

5.1.1 Internal Institutions in the Contract of CR: The *hijos del pueblo* Duty

Homogeneity, in the form of a shared hometown, ethnicity, and often kinship and religion, allows migrants to come together and establish an HTA. The Ethical Rule of the “*hijos del pueblo*” duty partly explains the motives behind migrants’ willingness to cooperate with the hometowns. HTAs’ motivations, however, are not exclusively the provision of public goods in the hometowns; private benefits are tied to their existence, such as “insurance” in case of death and the transmission of traditions to the sons of migrants. Patronatos members are a group whose incentives are derived from the private benefit of prestige and of the possibility of pursuing a political career.

Customs, in the form of reputation, pride or disgrace for the HTA and CBO members and for their “foreign” family (the one living in Honduras or in the USA, as the case may be), provide the enforcement mechanisms for the establishment of an agreement.

On the one hand internal institutions are the explanation behind the HTA and local CBO incentives to work for the provision of public goods in the hometowns. But, paradoxically, when analysing the working mechanisms within the organisations and in their transacting process, the very informal nature of institutions seems to be insufficient to prevent the possibility of adverse selection and moral hazards from occurring. As a result, high search- information and monitoring costs occur, and contracts are not established or, when established, they are implanted ineffectively.

5.1.2 Organisational Factors Lead to No Provision of Public Goods via Collective Remittances.

Looking within the organisations, the lack of clear rules, especially in defining the board members responsibilities and the basic procedures to be followed, are responsible for conflicts arising between the members. Members perceive that the effort required to run the HTA in order to raise funds for the hometowns is just too high. They prefer to leave the organisation and let it die. On the hometown side the story is quite similar, only that here, the basic rule of the board’s term of duration is not clearly established or understood. Carrying out the general assemblies is perceived as particularly difficult.

The board would rather let time run, but as time passes the legitimacy of the Patronato is questioned more and more. Finally, people no longer recognise the existence of the Patronato. At the other extreme, every time a group of inhabitants dislikes the current Patronato to such a degree that they call for a new assembly, a new Patronato is established, regardless the old one's age, and nothing prevents this from happening. Without an HTA to raise funds, or with one that spends time on arguing how things should be run, and with a Patronato that no-one in the town or outside it recognises, it cannot be expected that CR will be available to finance the provision of public goods.

5.1.3 Adverse Selection Leads to No Provision of Public Goods via Collective Remittances.

HTAs have in the past participated successfully in providing public goods to the Garifuna hometowns, but it seems that they are no longer working. Conditions in the migrant communities and in the hometowns have not changed that much, and that is probably the reason why CR participation in the provision of public goods doesn't work today. The social customs are the same, relatives continue to travel from one country to the other as before. Agreements are still expected to be based on trust and reputation. The HTAs are still willing to finance the urgent needs of the community as they did before. The difference is that now it is not so clear what those needs are. The HTAs have developed their own lists of needs, and expect the inhabitants to agree with them without involving them. Representation and knowledge of the town's needs are still the criteria used to select the partner groups. A visit from a member of a locally recognised group to the USA or of a migrant to one of the group's meetings is sufficient for the town's proposed project to obtain the HTA's support. The Patronatos, however, are not recognised by the inhabitants any more, and they seldom hold meetings to which migrants can be invited. If the HTAs are now unable to find a reliable partner to signal them as to where funds should be employed for improving living conditions of family and relatives back home, and if the inhabitants feel their opinion is not taken into consideration by the HTAs any more, then it is no longer possible to establish a contract in which the HTAs agree to supply CR, and the local CBOs to employ CR, in providing public goods. *The first hypothesis is proved true.* Adverse Selection problems prevent HTAs from establishing a contract to provide CR for financing projects providing public goods in the hometowns.

5.1.4 Moral Hazards lead to an Ineffective Provision of Public Goods via Collective Remittances.

Since many projects have been completed in the past, it could be thought that their working mechanisms were the most appropriate ones. But many of the problems faced today have brought to light some of the weaknesses present in projects of the past. Disbursement calendars were not agreed because the Patronatos could rely on asking the HTA for funding every time the need arose. But the lack of such a plan increases uncertainty from both sides, since the CBOs can request funds when the HTAs are lacking them, and the HTAs might find alternative uses for the funds in NYC or for other necessities in the community. One project in a hometown was so successful that at the end the local CBO had more money than needed. The project ended and the CBO didn't know what to do with the additional funds. It could be questioned whether that could really be considered a success. The funds were transferred to another CBO for the execution of an additional project. But funds could have been used for that since the beginning of the second project. If the second CBO had received the funds a year or a couple of months before, it would have actually had more funds available. In a country where the local currency depreciates quickly, the first CBO actually transferred fewer dollars than it received from the HTA.

It was (and is still) assumed that the unwritten role of the HTAs was to provide money, and that of the local CBOs was to plan and execute the activities. Monitoring was largely dependent on visits from the HTAs. In fact, no real monitoring system was ever agreed. Social sanctions were left as enforcing mechanisms. But, since the new SUNY board consider the informal character of monitoring was not enough to prevent moral hazard problems, they decided to unilaterally change the rules of the contract, without considering the local CBO's point of view. The Patronato in Sangrelaya was informed that an international agency had donated an electric generator for the town's electrification, and that only the cost of its instalment was still necessary. The *hijos del pueblo* in New York were called, as always, to give their aid. The HTA agreed, but to the Patronato's surprise the HTA refused to provide the money, wanting to buy the materials itself. The Patronato considered this impractical, if not impossible. The project was not started, and the flaws of the previous monitoring mechanisms were made evident. *The last hypothesis has been proved true.* Moral Hazard leads to ineffectiveness in the financed projects.

The generator is still stored somewhere, probably deteriorating from lack of use; the town inhabitants that cannot afford to buy gas for private generators are still using candles; some members of the HTA are beginning to resent contributing every month while no major projects are financed in the community. Yes, the duty of the *hijos del pueblo* provides the justification for migrants to raise money in a group and finance projects back home, but it seems it takes more than a good “hijo” to provide public goods in the Morenales.

5.2. Overcoming the Factors Limiting Collective Remittances

5.2.1 Limiting Determinants to the Provision of Public Goods via CR - The Implicit Nature of the Contracts

- *The Unclear or Unwritten Institutions within the HTAs (D1)*

As a result of the unclear rules within the HTAs (D1), conflicts between and demotivation of the HTA’s members occur. Members perceive it to be difficult to run the HTA and thus will not be willing to carry out additional activities for supplying CR for the hometowns’ public goods provisioning. In other words, this limiting factor can reduce the incentives, so that the HTAs decide that supplying CR to the local CBOs is just not worth the effort. In extreme cases the migrants perceive that the benefits derived from establishing and belonging to an HTA are lower than the costs. In this case the HTA ceases to exist, and no more CRs are then available to be transacted with the local CBOs.

- *The Unclear or Unwritten Institutions within the Patronatos (D2)*

The situation is similar with the Patronatos. The uncertainty from the unclear internal institutions is such that the inhabitants question the legitimacy of the Patronato. They are not longer willing to cooperate with it and as a result the Patronato remains inactive, its board members are demotivated and they might let it die. When the HTAs use screening in search of partners in the hometowns, these partners don’t exist, or don’t fulfil the HTA’s criteria for being selected.

- *The Lack of Signalling Mechanisms for the Hometowns' Needs (D3)*

One additional consequence of an inactive Patronato is that, even though the other side of the transaction is willing to provide CR, it is not able to determine in which project the CR should be invested. The Patronato doesn't signal the hometown's needs to the HTA, and the resulting uncertainty raises the level of the search and information cost for the HTA. Even if a partner in the community was to be found, it is not possible to bargain on the project to be executed. No contract is established.

- *Non-existent or Unwritten Institutions for Supplying CR (D4)*

As previously discussed, the internal institutions that create the incentives to transact CR are sometimes insufficient for allowing the contract's implementation and enforcement. Since no agreement is written down, and the parties trust the socially accepted way of working, no plans are drawn. The generated uncertainty from both sides increases the level of the TAC. Unnecessary time and resources can be wasted just because the parties were not able to coordinate with each other's strategy. The HTA might send CR when not needed (for example, the electricity case), or the CBO might need funds at a time the HTA has none available. The result is not a transaction cost-efficient contract. The project for providing public goods has wasted resources.

- *Non-existent or Unwritten Institutions for Monitoring CR (D5)*

The process of monitoring the use of CR is also based on good faith. But the case of Sangrelaya shows that trust is not perceived by the HTA as a sufficient guarantee against possible opportunism from the local CBO. SUNY's rationality is limited; it couldn't predict whether the funds were really going to be used in the best way. Just because projects had worked several times in the past was not enough for SUNY to be sure they would work in the future.

- *General Conclusion*

Figure 2 (Delimiting Determinants to the Effectiveness in the Provision of Public Goods financed by CR) summarises all the research conclusions. It illustrates the existence of limiting determinants both within the actors and in their interaction, for the transaction of CR financing the provision of public goods. Some of them prevent the transaction from taking place at all, while others reduce the effectiveness of the financed projects.

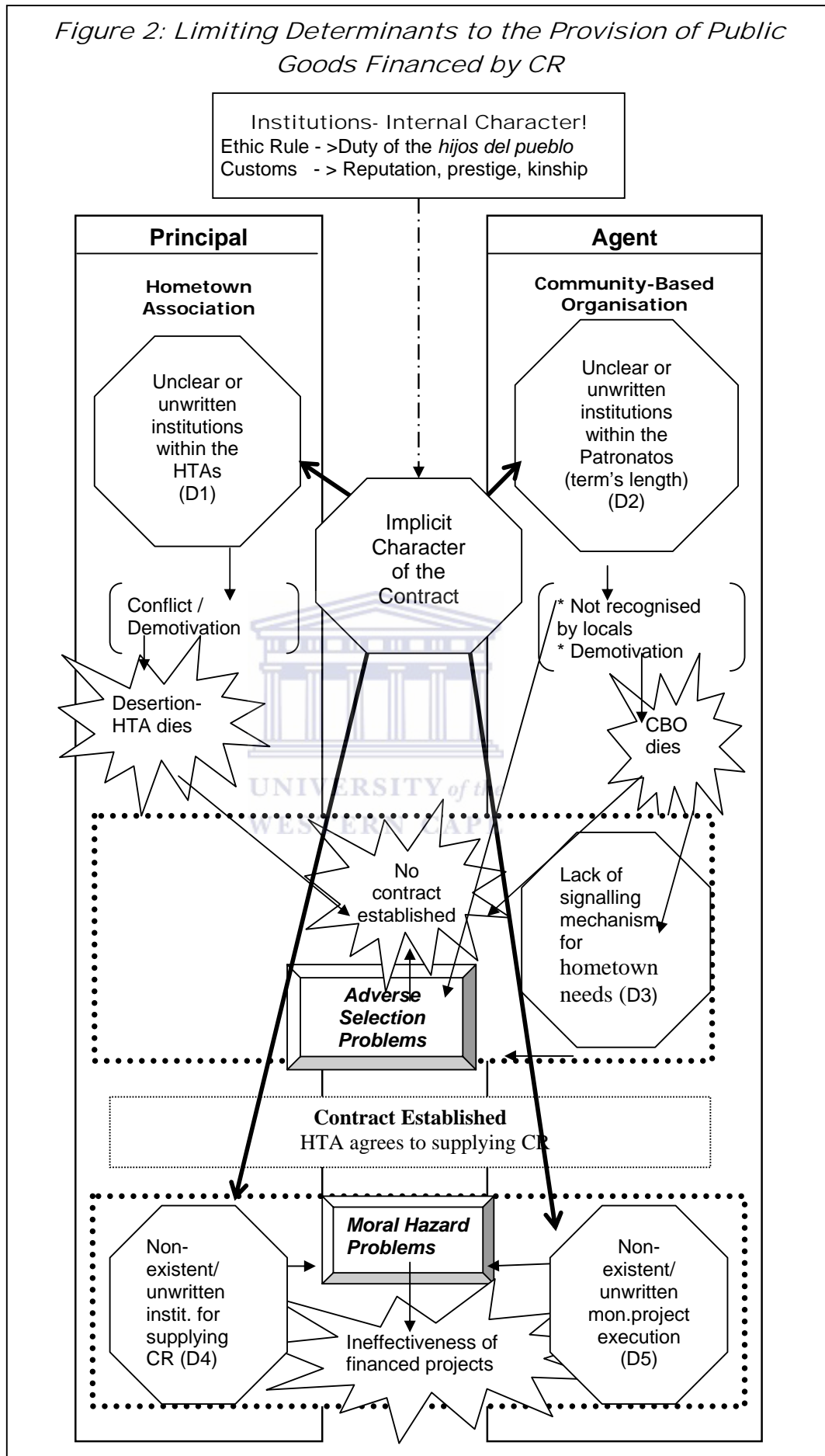
The five determinants that have been identified are the unclear or unwritten institutions within the HTAs (D1), the unclear or unwritten institutions within the local towns' CBOs (D2), the lack of signalling mechanisms of the hometowns' needs (D3), the non-existent or unwritten institutions for supplying CR (D4), and the non-existent or unwritten institutions for monitoring the use of the CR (D5)

Each Octagon in the figure represents a limiting determinant, and an arrow indicates a causal effect. For example, the lack of a monitoring mechanism for the projects' execution (D3) results in hidden information, and this moral hazard means that the contract is not implemented as agreed, therefore the projects are ineffective.

All five determinants can be summarised into the central octagon: The Implicit Character of the Contract, which itself relies on the internal institutions of the *hijos del pueblo* duty to help the community and the prestige of CBO members. The contract between the HTAs and the local CBOs is unwritten and unarticulated, and the internal contracts regulating the Patronatos seem also to be unarticulated. HTAs are in the process of formalising these contracts, as they have started to write down statutes and rules, but such was not the case in the past.

All past collective remittances experiences in the hometowns studied have relied on an implicit contract. The HTAs lacked formal monitoring mechanisms and thus enforcement was left in the hands of the customs sanctioned by society. Because Patronatos worked continually with the HTAs, as was the case in the two projects in Limón, the price of losing prestige was high. The lost of trust in the Patronato meant no future CRs were to be expected. Such is the current situation. HTAs do not accept any more that relying on the informal institutions of the past is enough guarantee to prevent opportunistic behaviour from CBOs. Because the TAC of monitoring CBOs are so high and the HTAs find no enforcing mechanism other than breaking the contract, the CR market breaks down. Therefore the internal institutions seem not to be working any more.

Figure 2: Limiting Determinants to the Provision of Public Goods Financed by CR



5.2.2 Recommendations - Effectiveness-Enhancing Alternatives

The determinants that generate the TAC in the transacting of CR are mostly of an institutional character. The current institutions are not TAC efficient. Changing the nature of such institutions could prove useful.

- *Organisational Strengthening and Formal Institutions in the HTAs*

The HTAs have taken positive steps by concentrating on strengthening their organisations. Being legally constituted gives them a more formal character and allows them to apply for tax exemption status. This alternative will force them to become an even more formal organisation, but it opens the possibility of increasing their financial capacity.

- *Organisational Strengthening and Formal Institutions in the Patronatos & New Partners for the HTAs*

The current inactivity of many Patronatos and committees represents an obstacle for any plan of using remittances in the hometowns with more developmental impact. It is crucial that the Patronatos decide and divulge their basic rules, including those concerning their term of duration. It is useless to have statutes and legal structures if members ignore them or the rules are not applied.

Even though all the interviewed HTAs have previous working experience with (and consider that their partners should be) the Patronatos, local committees and Pastorales, the possibility of working with NGOs and other organisations in the hometowns could be a convenient alternative to the inactive Patronatos. During the field research the presence of several NGOs was observed in the hometowns. Cantor mentions two additional types of organisations operating in or with interests in the Morenales. They include the pan-Garífuna or African heritage and cultural groups that address the needs of multiple communities, like ODECO and OFRANEH, as well as business-related organisations that invest or encourage investment in the communities, like the Afro-Honduran Chamber of Commerce in Tegucigalpa.¹⁰⁵

¹⁰⁵ See Cantor (2004), pp. 38.

Since these NGOs may have a well-defined structure and management capacity, they could be adequate partners for the HTAs. NGOs also have greater likelihood than the Patronatos of finding financing partners to complement the funds of the HTAs. Although many of the migrants interviewed knew of the existence of these NGOs, they have not tried to establish formal contact with them.

- *Locally Defined Projects and the Municipal Government's Participation*

Experience has shown that those ideas which have worked for the execution of projects usually come from the local inhabitants. Even if an HTA is truly driven by the desire to help the community, the local inhabitants are the ones more able to execute the work. Orozco considers that two of the criteria for evaluating the developmental impact of projects carried out by HTAs are ownership by local inhabitants and the sustainability of the work¹⁰⁶. Once the projects are concluded, a lack of ownership from the hometown would probably mean that the projects would not be adequately maintained. Thus, it is necessary that the community generates a mechanism to propose realistic projects to the HTAs.

Even though the municipal authorities have not yet been involved in CR-financed projects, the government's participation might prove useful. Local authorities could play a role in helping the Patronatos to organise projects. Members of one interviewed HTA have already started discussing the possibility of working with the municipality. An interesting finding during the research was the fact that the municipalities in the hometowns have strategic development plans for the towns. These plans are written with the assistance of NGOs and the participation of the entire town. One of their goals is to prioritise the needs of the community to improve living conditions in the coming 10 years. Such plans could be a solution to the lack of signalling mechanisms in project selection.

- *Formal and Written Implementing and Monitoring Institutions*

In future projects involving CR it would be useful to formally create a calendar for disbursements and a system of monitoring. Planning the periodicity of funds and the form in which they will be made available to the CBOs will reduce uncertainty and the possibility of conflict. In the beginning, resistance from either side might arise.

¹⁰⁶ See Orozco and Welle (2005), pp. 2.

Agreeing on more formal terms presupposes changing the way things have traditionally been done. But it is likely that if contracts continue to work in the same way they have in the past, the full potential of HTAs and Patronatos will not be used and the practice of CR might come to an end. Once a formal system of disbursement and monitoring is used in a particular project, it can be reproduced in future ones.

Table 9 (Effectiveness-enhancing alternatives in the transacting of CR for the provision of public goods) suggests some measures for overcoming the determinants that limit the effectiveness of the provision of public goods via CR.

Table 9: Effectiveness-enhancing Alternatives in the Transacting of CR for the Provision of Public Goods		
Causing Determinant	Pro-Efficiency Alternative	Description
1. Unclear or unwritten institutions within the HTAs (D1)	Organisational Strengthening Formal and known institutions	* Legal & Tax Exemption Status * Divulging and application of Statutes
2. Unclear or unwritten institutions within the Patronatos (D2)	Organisational Strengthening Formal and known institutions New Partners	* More Active Patronatos (Committees) * Legal Status * Written and community-known institutions (Statutes and election rules) * Partnerships with new actors: NGOs working in the hometowns?
3. Lack of a signalling mechanism for the hometowns' needs (D3)	Locally driven definition of projects Local Government participation	* Development and implementation of locally-based mechanism for the prioritisation of the towns' needs and the proposal of projects ideas. * Municipal Strategic Development plan?
4. Non-existent / unwritten institutions for supplying CR (D4)	Formal and written implementing institutions	* Calendar of Disbursements * Formal System of CR transfer
5. Non-existent / unwritten institutions' use of CR (D5)	Formal and written monitoring institutions	* Formal System of monitoring

5.3 Some Questions left to be answered, and Final Remarks

It would be rather simplistic to assume that the mere introduction of formal rules will solve all the obstacles stopping CR from serving as a financing tool for the provision of public goods in the hometowns. One of the central assumptions of NIE is precisely that setting up institutions is costly. Answering whether or not the introduction of formal institutions, and the participation of the state in CR contracts, would be more TAC-efficient than the informal rules of society is a question that requires further study. A comparative analysis of the efficiency of the CR experiences under different contractual arrangements would be of great use. It would be particularly interesting to compare the different programs that countries such as Mexico and El Salvador are currently implementing, and by doing so perhaps proposing a program for the Honduran Case. CR in Honduras is still an unexplored subject. A census of Honduran HTAs is a good departure point for studying it. Certainly, CR experiences are to be found in other parts of the country, but they have not been documented.

In this study the donations of HTAs are seen to be financing public goods in the hometowns. An interesting approach, and one with useful applicability, would be to use strategic games to study HTAs as a form of spontaneous collective action for providing public goods. The range of activities in which HTAs can be involved is broad, and when considering all the different ways their funds are used, the very concept of designating a particular type of remittances as “collective” is questionable. The possibility of HTAs investing in profit-generating and job-generating projects in the hometowns, although not strictly resulting in collective remittances as defined in this study, is an alternative with promising developmental impact. Some HTA investment experiences have already occurred in Mexico¹⁰⁷ and one is currently starting in Honduras. New Horizon Investment, a private Garífuna migrant-owned firm, has received a loan from the IADB for investing in tourism projects in the Morenales. The investment of a migrant group in private projects that generate profit to the migrants, while at the same time contributing to their hometown’s development, is a topic of research with useful applicability. It could suggest new development opportunities for the Garífuna and it is one in which the TAC and Agency problems could also be studied.

¹⁰⁷ See Orozco and Welles (2005), pp. 12-13, 19-20, 24-25, 26-27.

Finally it should be borne in mind that, although the HTAs have contributed significantly to alleviating many of the hometowns' problems, they have a limited capacity. It cannot be expected that they finance costly projects by themselves. Their participation should be seen as complementary to the inhabitants' work, and to the responsibilities of the central authorities.



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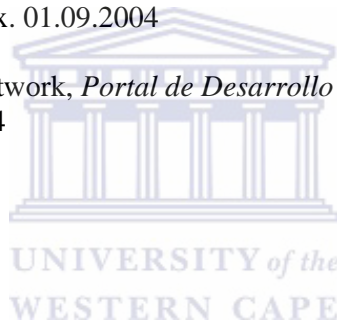
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List of Informants

Name	Organisation	Position	Place of Interview
1. Regil Solis	Garífuna Coalition (GC)	President	New York
2. Ernesto Martínez	Organisation of Ladies from Limón in New York (GC)	Coordinator	New York
3. Marcia Gómez	Organisation of Ladies from Limón in New York (GC)	Fiscal	New York
4. Inés Tróchez	Ladies from Santa Fé in New York	Former member and President	Santa Fé
5. Isabel Guerrero	Ladies from Santa Fé in New York	Member	Santa Fé
6. Felícito Cacho	Organisation for the Development of Aguan (CG)	Fiscal	New York
7. Marvin Centeno	Sangrelayas Unidos in New York (SUNY)	President	New York
8. Gustavo Batiz	SUNY	Coordinator	New York
9. Sandra Guitiérrez	SUNY	Former member	New York
10. Florentino Arriola	SUNY	Former member and President	Sangrelaya
11. José Francisco Àvila	NEW Horizons Investment Club (GC)	President	New York
12. Mirta Colon	Hondureños contra el Sida NGO	President	New York
	GC	Former Member	
13. Eric Cantor	Author of Work on “Remittances and Development: Lessons from the Garífuna Transnational Community”	Researcher	New York
14. Sixto Pastor Oviedo	Municipality of Limón	Major	Limón
	Former Local Committee for the electrification of Limón	Former Treasurer	
15. Vidal Armando Castillo	Municipality of Santa Fé	Major Deputy	Santa Fé
16. Leonor Guerrero, Irene Martínez	Group of Ladies in Limón	Members	Limón
17. Berta Meléndez	Group of Ladies in Santa Fé	Coordinator	Santa Fé
18. Irvin Bernández	Patronato of Limón	President Deputy	Limón

Name	Organisation	Position	Place of Interview
19. Vicente Loredó	Patronato of Santa Fé	President	Santa Fé
20. Eusebio Centeno	Water administration Committee	President	Sangreleya
	Patronato of Sangreleya	Former Secretary	
21. Bernardo Ramírez	Former Local Committee for the electrification of Limón	Former President	Limón
22. Víctor Molina	Former Committee for Potable Water in Limón	Former Treasurer	Limón
23. Manuel Manaiza	Pastoral de la Iglesia Católica en Limón		Limón
24. Bernardo Batíz	Patronato of Santa Fé	Former President	Santa Fé
	Pastoral de la Iglesia Católica en Santa Fé	Member	
25. Ricardo Velásquez	APROSA- Local NGO Asociación de Profesionales de Sangreleya	Project Manager	Sangreleya
26. Ricardo Puerta	Remittances Group Private Consultant on Remittances	Researcher	Tegucigalpa, Email communication
27. Leticia Zúñiga	UNISA- Unidad de Apoyo de Servicios a la mujer- NGO Member of Remittances Group	Director	Tegucigalpa
28. Melisa Ochoa	ANDAR-NGO member of Remittance Group	Project Officer	Tegucigalpa
29. René Becerra	Presidential Commission for Honduran Communities Living Abroad	Presidential Commissioner	Tegucigalpa

APPENDICES



A1. Interview Guidelines



A.1.1 Interview Guideline HTA





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A.2.1 Interview Guideline Local CBO





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WESTERN CAPE

A2. Time Table of Field Research

		Weeks							
		First week: 1st August, 2005 Last Week: 26th September,2005							
		Total No. of working weeks: 8							
Activities	Location	Week 1 Aug. 01	Week 2 Aug. 08	Week 3 Aug. 15	Week 4 Aug. 29	Week 5 Sep. 05	Week 6 Sep. 12	Week 7 Sep. 19	Week 8 Sep. 26
Flight to NYC		x							
Initial Contact with HTA members	NYC	xx							
Interview with HTAs	NYC	xx	xxxxx						
Meetings with experts of the remesas network and the Presidential Comissioner	Tegucigalpa			xxxxx					
Document Research at the remesas network	Tegucigalpa				xx				
Initial contact with Community leaders in Morenales	Tegucigalpa					xxx			
Trip to the Morenales						x			
Interviews with local CBOs, municipal authorities and inhabitants	Morenales					xxxx	xx		
Return Trip to Tegucigalpa and Flight to NYC	Tegucigalpa							xxx	
Interview HTAS	NYC							xxxxx	xxxx
Return Trip to Germany									x

A3. HTA Documents

A3.1 Membership Identification- SUNY



A3.2 Ticket for Raffle Organised by SUNY *the* WESTERN CAPE

A3.3 Certificate of Incorporation as a Domestic Not-for-Profit Organisation of
the Ladies from Limón in Limón



A3.4 Certificate of Incorporation as a Domestic Not-for-Profit Organisation of
the Organisation for the Development of Aguan



A4.1 LimónTown

Church constructed with support of HTA

Electricity installed with support of HTA



Communal Centre Financed by HTA

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A4.3 Sangrelaya Town

Communal Centre build with support of HTA



A5 Actors of Collective Remittances

A5.1 Home Town Associations: *Suppliers of Collective Remittances*

***Barbecue organised by Honduran HTA members of the Garífuna Coalition for raising funds to help Katrina Hurricane Victims, Crotona Park, Bronx, NYC**

A5.2 Groups in the Home Towns: *Recipients of Collective Remittances*

***Ladies of Limón in Limón and Researcher in front of the Temple constructed with support of the HTA in NYC.**



A5.3 Transacting of Collective Remittances: *HTAs & Their Local Partners*

***On the Left: Mrs. Isabel Guerrero, Member of Santa Fé's HTA in NYC & on the right: Mrs. Berta Melendez, Member of the Ladies from Santa Fé in Santa Fé**

A5.4 Home Towns' Inhabitants: *Beneficiaries of Collective Remittances*

*** Young inhabitants of Sangrelaya sitting in front of the Communal Centre built with support of the HTA in NYC.**