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Policies to strengthen diaspora investment and entrepreneurship: Cross-national perspectives

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“No gold did they find,
Underneath any stone
They touched and turned,
Yet
Every stone they touched,
Into solid gold they turned.”

(Vishwamitra Ganga Aashutosh)

Reciting a quote by the renowned Mauritian poet in an address on Pravasi Bharatiya Divas (Non-Resident Indian Day) in New York City in 2007, Mr Vayalar Ravi, India’s Minister for Overseas Indian Affairs, eloquently described the economic development expectations he holds for diaspora investment and entrepreneurship in his country. But India is not alone in holding high hopes for diaspora involvement in home-country development. In a 2005 survey conducted by the International Organization for Migration (IOM), 92 per cent of countries indicated they possess policies and programmes targeting their diasporas abroad for home-country development purposes (IOM 2005: 205). The challenge for governments, utilizing the metaphor from the above quotation, is successfully to encourage the diaspora to “touch and turn the stone” by stimulating interest in economic involvement in their country of origin and to help them “turn the stone into gold” by providing diaspora investors and entrepreneurs with the tools necessary to transform their ideas into successful economic initiatives.

Many governments wish to improve the scope and effectiveness of
their diaspora-oriented development policies and are seeking examples of “good practices” to follow (IOM 2005). The goal of this chapter is to outline a policy framework for strengthening diaspora investment and entrepreneurship and to identify key examples of innovative policies enacted by governments to cultivate, facilitate and develop diaspora investment and entrepreneurship. First, we identify the ways in which diaspora investors and entrepreneurs differ from their non-diaspora counterparts. Second, we discuss the development potential of diaspora investment and entrepreneurship for migrant-sending countries (countries of origin). Third, we provide examples of specific, successful policies that governments have implemented to encourage and nurture diaspora investment and entrepreneurship in countries of origin. Finally, we outline several issues that governments must consider when designing policy frameworks to strengthen diaspora investment and entrepreneurship.

Characteristics of diaspora investors and entrepreneurs

Diaspora investment and entrepreneurship assume many forms in the country of origin. Some diasporans create manufacturing facilities in their home country, producing goods for local and/or export sale, or establish subsidiaries for businesses based in other countries. Others set up service operations, such as restaurants, retail chains, consulting companies or tourism-oriented enterprises. In some cases, these investments are made by “diaspora investors”, or diasporans who already own and operate a business based outside their country of origin. In many other instances, however, the manufacturing or service operation established by the diasporan is a new venture or an example of “diaspora entrepreneurship”.

Increasingly, investment vehicles are becoming available that allow diasporans an opportunity to invest in their country of origin without ever leaving their country of settlement. For example, diasporans can lend money to firms back in the home country at below-market rates of interest through organizations such as Kiva and Investors without Borders. Some diaspora organizations have established venture capital funds that purchase equity in businesses in the country of origin (Gillespie and Andriasova 2008). Some governments, such as Israel and India, have targeted bond offerings to their diaspora communities abroad (Ketkar and Ratha 2001). In some cases, diasporans invest in companies listed on the stock exchange of their country of origin or purchase mutual funds consisting of companies from their home country.

Diaspora investment and entrepreneurship offer numerous economic benefits to the home countries. But cultivating and facilitating diaspora
economic involvement poses several opportunities and challenges for country-of-origin governments (Riddle and Marano 2008). Diaspora investors and entrepreneurs differ from non-diaspora foreign investors and entrepreneurs in several key ways (see Table 13.1).

Typical foreign investors and international entrepreneurs possess considerable international experience and are fairly savvy about the investment process. Most foreign direct investments are made by medium-to-large-scale multinational enterprises (MNEs). In some cases, diasporans employed by an MNE may advocate for the company’s investment in the diasporan’s country of origin and play a catalytic role in encouraging the MNE’s investment in the country (Riddle et al. 2008). For example, HSBC, KPMG and Synopsys entered the Armenian market due to key roles played in those companies by Armenian diasporans (Hergnyan and Makaryan 2006). One of the largest investments in post-conflict Afghanistan to date is Coca-Cola’s US$25 million bottling plant, the result of the efforts of an Afghan diasporan. Diaspora investors and entrepreneurs, in contrast, often lack significant international business experience. For them, the manufacturing, sales or service operations they seek to establish in their country of origin may be the first cross-border business activity they have executed. In many cases, these operations may be small-to-medium-sized enterprises (SMEs); some may even consist of micro-level businesses.

Non-diaspora foreign investors and entrepreneurs generally know little about how to do business in the investment-destination country. They typically have access to scant information about market opportunities,
regulations and other aspects of the business environment. They also tend to lack social connections in the investment-destination country. In contrast, many diasporans – particularly those who have recently emigrated from the origin country – spend considerable amounts of time in their country of origin and may have rich and diverse social relationships there. These individuals may be more familiar with local market needs, operational norms and the business environment in their home country than the typical foreign investor or international entrepreneur. They may also have relationships with local individuals who may serve as potential buyers, suppliers or alliance partners for the activities of diaspora investors/entrepreneurs or with individuals employed in influential positions in the government or local banks (Portes et al. 1999, 2002).

But not all diasporans are well connected to their country of origin, particularly those who emigrated several years ago or who are the descendant of emigrants. These diasporans may not spend much time in their country of origin and, although they may maintain family and/or friendship-based social ties in their home country, they may not possess the connections, knowledge or power to assist diasporans with their investment or new venture (Riddle et al. in press).

Unlike the typical foreign investor or entrepreneur, diasporans often possess a strong psychological relationship to their country of origin. By definition, diasporans maintain a memory, vision or myth about their home country and are committed to the maintenance or restoration of their country of origin, and their consciousness and solidarity are defined by this continuing relationship with their home country (Safran 1991). Among diaspora communities in countries of settlement, contributing to the economic development of the home country may be perceived as an honourable and desirable activity (Nielsen and Riddle 2010). Empirical studies of diaspora communities suggest that diasporans’ economic involvement in their home country may not be motivated solely by pecuniary interests; altruistic concerns may also play a role (Gillespie et al. 1999, 2001). Some diaspora investors and entrepreneurs may become economically engaged in the country of residence also to gain social recognition from within their diaspora communities and organizations, and others may seek the potential emotional satisfaction they will receive when investing in their home country (Nielsen and Riddle 2010).

Many migrants do not wish to – or cannot – fully repatriate back to their home country. But advances in communication and transportation technologies enable them to “migrate circularly”, regularly returning home physically and virtually (Teferra 2004). Many of these migrants establish investments or new ventures in their home country and charge a family member or friend with the day-to-day operations of the organization, maintaining some degree of organizational control from afar. Although
this transnational control is similar to that of the headquarters–subsidiary relationship in a larger, multinational enterprise, the burden of transnational coordination and communication for an individual diaspora investor or entrepreneur may be quite heavy and lead to problems in firm performance or eventual divestiture.

The development potential of diaspora investment and entrepreneurship

Foreign direct investment (FDI) has long been heralded as a key driver of economic progress in developing countries, because “FDI triggers technology spillovers, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment, and enhances enterprise development. All of these contribute to higher economic growth, which is the most potent tool for alleviating poverty” (OECD 2002: 5). Developing countries also have been encouraged to stimulate growth in the formation and development of entrepreneurial new ventures to generate employment and foster innovation (Pisano et al. 2007).

Yet investments made by foreign firms and entrepreneurs are not always efficient (Krugman 1998). Foreign investors and entrepreneurs can crowd out domestic investment and displace local firms in production, service and financial markets, thereby generating a reduction in local competition and leading to lower-quality products and inflated prices in local markets (Moran 1998). Foreign investors and entrepreneurs may also crowd out domestic borrowing capital, thereby increasing interest rates and the cost of capital to business (Caves 1996).

The impact of foreign investment often depends on industry dynamics and host-country policies, as well as the degree of local ownership associated with the investment (Javorcik and Spatareanu 2008; Spencer 2008). Countries are increasingly enacting policies that are unfavourable to FDI. A report by the United Nations Conference on Trade and Development (UNCTAD) noted that in 2006 one in five FDI policy changes was unfavourable to FDI, the highest recorded number of such policies (UNCTAD 2006).

In contrast to this trend, many countries actively encourage diaspora direct investment and entrepreneurship. As a result, diaspora investors and entrepreneurs are an increasingly important subset of capital and knowledge inflows for many countries (Ramamurti 2004; Saxenian 2002, 2006). Diaspora capital has been cited as a key contributor to rapid development in China and India. Between 1979 and 1995, investment by the Chinese diaspora accounted for 80 per cent of total FDI in China. The Indian diaspora is estimated to have invested US$2.6 billion out of US$10
billion of FDI in India between 1991 and 2001 (Wei and Balasubramanyam 2006). Huang and Khanna (2003: 81) noted that, “with the help of the diaspora, China has won the race to be the world’s factory. With the help of the diaspora, India could be the world’s technology lab.”

The impact of diaspora investment and entrepreneurship has extended beyond the emerging markets of China and India. As Gillespie et al. (1999) observed, diaspora investment and entrepreneurship are particularly important for nations that might be deemed less attractive by non-diaspora investors because of small domestic market size, inadequate infrastructure or less attractive structural characteristics. For example, between 1998 and 2004, diaspora investment accounted for 25 per cent of total FDI flows into Armenia (Hergnyan and Makaryan 2006). Diaspora investment has also played an important role in the reconstruction of many post-conflict countries (Nielsen and Riddle 2010). Capital from diaspora investment and entrepreneurship has generated some of the largest investment projects in post-conflict Afghanistan. For example, Afghan Wireless, Afghanistan’s market leader in telecommunications, and the country’s first retail mall were established by members of the Afghan diaspora (Riddle and Marano 2008).

For many developing countries, individuals living in the diaspora earn relatively higher incomes compared with those earned by individuals living in the country of residence. These higher incomes increase the potential for investment and entrepreneurial activity among diaspora populations because higher incomes may result in greater amounts of disposable income available for economic investment. This is particularly true when an origin country’s “income per natural” (the mean annual income of persons born in the origin country regardless of current country of residence) substantially exceeds its gross domestic product (GDP) per capita. Clemens and Pritchett (2008) estimated that income per natural exceeds GDP per capita by 10 per cent or more in almost 30 countries. In some smaller countries with large emigration, the differential is much higher. For example, the difference between income per natural and GDP per capita is 103 per cent in Guyana, 81 per cent in Jamaica, 60 per cent in Albania and 51 per cent in Liberia.

The potential qualitative differences between investment and entrepreneurial activity by diasporans and that generated by non-diasporans may explain why many country-of-origin governments find diaspora investment and entrepreneurship relatively more attractive. For example, diaspora investors and entrepreneurs may:

- be less likely to repatriate profits and more likely to reinvest in existing firms and/or establish new operations and ventures in their country of origin;
- be less likely to extract capital in periods of political and/or economic risk;
• be more likely to invest in greenfield activities rather than merely merging or acquiring local firms, thereby creating positive employment effects;
• prefer local inputs and employees over imported products and labour;
• seek to cultivate and strengthen local supply chains;
• engage in innovative socially and environmentally responsible business practices;
• provide social capital linkages for local firms to external supply chains and markets, thus enhancing opportunities for local firm internationalization;
• enhance local human capital through knowledge spillovers and social remittances.

As mentioned earlier, diaspora investors and entrepreneurs often invest in their country of origin for reasons other than earning a profit. The social and emotional drivers of diasporans’ investment motivation may result in investments and new ventures that catalyse rather than inhibit domestic economic growth (Nielsen and Riddle 2010).

Diasporans’ emotional and social investment concerns may make them more likely to keep their capital in the investment-destination country rather than repatriate profits. They may be more likely to reinvest in their established operations or use the profits to establish additional new ventures in the country-of-origin economy. Diaspora investments may also be less vulnerable to capital flight in a time of crisis. For example, a longitudinal study of US Palestinians conducted by Gillespie, Sayre and Riddle (2001) in the 1990s – a decade during which the prospects of Palestinian peace were raised and then dashed – found that diaspora interest in homeland investment did not wane during periods of increased political or economic risk.

The emotional and social drivers of diasporans’ investment interest may inspire diaspora investors and entrepreneurs to serve as economic change agents, leveraging their investment and new venture creation to strengthen the country-of-origin economy (Brinkerhoff and Riddle 2007). One of the main goals of diaspora economic activity in the country of origin may be to generate employment – for their family, friends, local community or nation in general. Thus, diaspora investors and entrepreneurs may be more likely to establish greenfield activities rather than merely merge with or acquire existing firms in the country-of-origin economy. They may prefer local inputs and employees over imported products and labour and be more likely to strengthen and cultivate local supply chains. As the case studies included in this volume exemplify, the businesses that diasporans establish in their country-of-origin economy often engage in socially and environmentally responsible business practices, which can serve as a demonstration effect for local firms.
The presence of diaspora investors and entrepreneurs in the country-of-origin’s economy also may contribute to the internationalization of domestic firms in the country of origin by enhancing local firms’ transnational social capital (Riddle 2008). Diaspora investors and entrepreneurs often share market information about their country of settlement, such as information about import and operational regulations, consumer demand and competitive intelligence, with other entrepreneurs and firms in the country of origin (Riddle and Marano 2008). Domestic firms can utilize connections that they have with diaspora investors and entrepreneurs to tap into the transnational networks of diaspora investors/entrepreneurs to identify business leads, opportunities and financing in markets abroad (Nanda and Khanna 2007). Diaspora investors and entrepreneurs can serve as reputational intermediaries for domestic firms in foreign markets (Kapur 2001).

Migrants who venture abroad often gain knowledge and skills that are lacking in the country of origin. When they return to invest in or start a new business, they remit this acquired human capital back to the origin country, thereby turning “brain drain” into “brain gain” (Saxenian 2002; Stark 2004). Diaspora investors and entrepreneurs also serve as transnational knowledge linkages, contributing to the diffusion of technology and production know-how from individuals in the country of origin to the country of settlement (Saxenian 2002).

Government roles in strengthening diaspora investment and entrepreneurship

The unique characteristics of diaspora investment and entrepreneurship pose challenges for governments seeking to unlock their development potential. Governments can play a key role in strengthening diaspora investment and entrepreneurship through two key sets of activities: (1) nurturing and embedding diaspora direct investment and new ventures in the country of origin, and (2) cultivating a sense of connection between diasporans and their home country (see Table 13.2).

**Nurturing and embedding activities for direct investors and entrepreneurs**

Many governments focus more on “extracting obligations” from their diasporas, structuring policies around expectations of what diasporas “can do for them” instead of asking what “they can do” for diaspora investors and entrepreneurs in terms of policies or procedures (Gamlen 2006). Although many potential diaspora investors and entrepreneurs are well educated and highly skilled, many are engaging in cross-border investment
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and new-venture creation for the first time. Diaporans less familiar with and connected to the country of origin might require greater assistance with the provision of information and with relationship-brokering to decrease their uncertainty about the investment or venture and to contribute to the growth and development of the enterprise. Governments seeking to encourage diaspora investment and entrepreneurship may need to find ways to educate diasporans about the investment process and support the development of their nascent organizations.

Navigating bureaucratic red tape and establishing business operations in a country are always challenging but can be particularly daunting for diaporans who have never lived in the country of origin, have lived abroad for a number of years or know few people in the country. To decrease the complexity and opaqueness often associated with establishing business operations in a foreign country, many countries have set up “one-stop shops” for potential investors or entrepreneurs that help guide them through the requisite process and paperwork. Investment-promotion agencies, such as the Afghan Investment Support Agency or PRONicaragua, typically play this role and can be useful to diaspora investors and entrepreneurs. These types of organization also often conduct syndicated market research and disseminate studies of national industries, consumers and organizational buyers, which can be particularly useful to diaspora investors and entrepreneurs who are less familiar with the market and operational environment in the country of origin.

Various countries have taken different organizational approaches to diaspora investment promotion. For example, the Ghana Investment Promotion Centre has created a distinct office within its organizational structure that is dedicated to providing customized services to non-resident Ghanaian prospective investors and entrepreneurs. India has set up a separate entity, called the Overseas Indian Facilitation Centre, to assist potential investors and entrepreneurs from the diaspora. In China, this assistance is provided through local offices of the Office for Overseas Chinese Affairs at the municipal and provincial level (Biao 2006).

Potential diaspora investors and entrepreneurs often need more than just access to market and operational information and a one-stop shop for paperwork-processing to turn their business idea into a successful, tangible operation in the country of origin. They need trustworthy, reliable contacts, including key government officials, real estate brokers, bankers, buyers, suppliers, distributors, management and tax consultants, and individuals and organizations who can assist diasporans with their human resource management, marketing and legal needs.

Many governments have sponsored networking events to broker these critical relationships for potential diaspora investors and entrepreneurs. In some cases, such as with the Afghan-American Chamber of Com-
merce’s Matchmaking Conferences, these events are held in countries of settlement, and in others, such as during India’s Pravasi Bharatiya Divas programme, the networking programmes take place in the country of origin. China’s Offices for Overseas Chinese Affairs inside the country and in its embassies in countries of settlement maintain a database of business contacts in China that can meet the needs of diaspora investors and entrepreneurs. Scotland’s GlobalScot knowledge network of over 900 Scottish diaspora business professionals provides a way for diaspora investors and entrepreneurs to network, share information and learn from one other.

Putting information and relationship-brokering services in place, however, is often not enough. Governments must find a way to communicate the availability of these services to the diaspora. Most governments focus their diaspora marketing efforts on convening events to spread the word about their investment promotion services to potential diaspora investors and entrepreneurs. In some cases, such as Liberia’s US Investor Symposiums, these events are sponsored directly by the government, and in other cases the government co-sponsors the event with a non-governmental organization, such as Tanzania’s Mobilizing the Diaspora for Economic and Social Benefits Conference in the United Kingdom, which was co-sponsored and organized by AfricaRecruit.

These convening events can also be used to apprise the diaspora of changes in the business environment in a country of residence. For example, Jamaica utilizes its Jamaican Diaspora Conferences as opportunities to update the diaspora on steps that the government is taking to reduce crime, a major deterrent to investment in that country.

Increasingly governments are looking to the Internet as a main channel to publicize investment promotion services. India’s Overseas Indian Facilitation Centre, a public–private partnership between the Ministry of Overseas Indian Affairs and the Confederation of Indian Industry, has developed an information-rich web portal to promote diaspora investment and entrepreneurship. On the site, prospective investors and entrepreneurs can learn about current investment opportunities, conduct research about India’s FDI policies and taxation system, gain access to real estate information, read a list of “frequently asked questions” and post questions to the Centre’s staff.

Cultivating feelings of connectedness and belongingness

To attract diaspora investors and entrepreneurs, some countries, such as China, have created specific incentives for businesses owned and operated by diasporans, such as tax breaks and access to free or cheap land, to increase the economic attractiveness of the country of origin. Both China
and India have established special export-processing zones and have given diaspora investors and entrepreneurs first priority for establishing operations there.

But for many diaspora investors and entrepreneurs, their home-country business interests are not merely driven by the chance to make a profit; they may expect that they will gain social and/or emotional benefits from being economically involved in the country of origin as well. Thus, government efforts to creatively cultivate a feeling of connectedness or belongingness among the diaspora can play a key role in stimulating potential diaspora interest in investing or setting up a business in the country of origin. Governments have sought to strengthen diasporans’ psychological ties to their home country through image-building campaigns, extending voting rights or special legal status to diasporans, encouraging diaspora organizations to play a role in the advocacy process, recognizing major diaspora investors and entrepreneurs, and educating young diasporans about their country of origin and providing opportunities for them to work and study there.

Many countries, such as Armenia, Cyprus, India, Jamaica and Ukraine, have held conferences and conventions in countries of settlement to strengthen their country’s image among the diaspora and to bond diasporans emotionally to their country of origin. Governments use these events to “symbolize a willingness to listen inclusively to ‘constituents’; to meet or appoint diaspora ‘representatives’ and establish patronage relationships with them; to air state concerns and solicit feedback and help; and to broadcast messages at a captive audience” (Gamlen 2006: 7). Some countries have used these events as a way to renegotiate the diaspora/country-of-origin relationship from one of deserter/deserted (e.g. Morocco) or traitor/betrayed (e.g. Iran) to a new relationship predicated on common development objectives and partnership. Others, such as Mexico, Haiti and Ireland, have leveraged the opportunity to recast their overseas populations as “part of the national population or an extra administrative district of the state’s territory” rather than emigrants who are assimilating or have assimilated into another land (Gamlen 2006: 7).

Increasingly, governments are doing more than holding conferences to strengthen their relationship with their diasporas; they are taking steps to expand diasporans’ political voice in their country of origin. For example, many countries have extended voting franchise rights to passport-holding diasporans. Most countries allow their overseas citizens to vote in certain circumstances; only a few countries – Hungary, India, Ireland, Nepal, South Africa and Zimbabwe – deny their external citizens voting privileges during periods of non-residency. Several are making it easier for diasporans to cast their ballot in country-of-origin elections from their country of residence. Colombia, the Dominican Republic, France, Japan,
Lithuania, Peru, the Philippines, Poland, Russia, Spain, Sweden, Ukraine and Venezuela accommodate diasporans by establishing polling places in their respective embassies and consulates for their overseas citizens. Israel, Taiwan Province of China, El Salvador and Slovakia allow diasporans to vote – but they must cast their ballot within the country of origin. Some countries have granted non-resident communities representation in national legislatures. For example, France, Portugal and Colombia have allocated seats in their upper legislative chamber for citizens in the diaspora. Of the 72 delegates comprising the Cape Verde national assembly, 6 represent the interests of non-resident Cape Verdeans; 8 of 380 parliamentarians in Algeria are selected by Algerians living abroad. Croatians living outside their country of origin are discretely represented according to the level of their voter turnout (Spiro 2006).

In most countries, diasporans who lack a passport from their country of origin are considered foreigners, and therefore are limited in terms of their legal rights in that country. To encourage investment and entrepreneurship among non-passport-holding Indians abroad, India’s Ministry of Overseas Indian Affairs created a special legal status for Persons of Indian Origin (PIOs). PIOs are exempt from registering with the local police authority for any length of stay in India and are allowed multiple entries into the country. They maintain a life-long visa for visiting India, and generally are considered on a par with Non-Resident Indians (NRIs) economically, financially and educationally. PIOs are also eligible to purchase life and homeowners’ insurance at a below-market rate from the Life Insurance Corporation of India, state governments and other government agencies. India’s Right to Information Act also extends to PIOs rights equal to those of resident citizens in terms of access to information regarding investment procedures in India.

Diasporans are becoming increasingly active in home-country politics; many are mobilizing and actively lobbying their country-of-origin government (Koslowski 2005). Governments keen to attract diaspora investment and entrepreneurship often encourage diaspora groups to keep the government informed of diasporans’ economic concerns and obstacles encountered during the investment investigation or establishment process. For example, President Karzai regularly meets with representatives from the Afghan Chamber of Commerce to keep abreast of the needs and specific challenges faced by diaspora investors and entrepreneurs. When high-level officials from the Center for Exports and Investment of the Dominican Republic (Centro de Exportación e Inversión de la República Dominicana, CEI-RD) make visits to the United States, they regularly call on the headquarters of various Dominican diaspora organizations seeking their input and feedback on the government’s economic policies (Riddle et al. 2008).
Many of the activities of country-of-origin governments oriented to diaspora youth are engaged in helping to foster a relationship between the origin country and the diaspora investors and entrepreneurs of tomorrow. Currently India is actively raising donations among the diaspora to establish a university for Non-Resident Indians and Persons of Indian Origin in India. This university will open 50 per cent of its places to NRIs and PIOs, and the remaining 50 per cent will be filled by resident Indian students. The university will offer courses in medical and dental sciences, engineering and technology, business administration and management, and biotechnology and bio-informatics.

Governments are also reaching out to help educate diaspora youth who are attending institutions of learning in their country of residence. For example, the government of Israel has provided several guest speakers and class projects for Dr Dan Laufer’s “Doing Business in Israel” course, which he has taught at the University of Texas at Austin, the University of Cincinnati and Yeshiva University in the United States. The majority of students enrolled in the courses have been of Jewish heritage, and several have received job offers through government contacts they met in the course (Laufer 2004). Many African governments have worked with the non-governmental association AfricaRecruit to visit university campuses in Europe and the United States to encourage youth from the African diaspora to seek short- and long-term employment in Africa.

Government outreach to the youth in the diaspora can extend beyond educational activities. For example, the government of Dominica sponsored the travel of scores of young men (mainly the children of migrants living in the United States) back to Dominica to compete in soccer championships. This visit provided these young diasporans with an opportunity to experience their parents’ home country and to develop their own personal loyalties and connections to Dominica (Fontaine and Brinkerhoff 2006).

Policy considerations and recommendations

To fully reap the potential development rewards of diaspora capital, country-of-origin governments must consider several key policy issues before designing and implementing a policy framework to stimulate diaspora investment and entrepreneurship:

- broadly conceptualize diasporas’ economic investment potential, to include direct and portfolio investment and new venture-creation possibilities;
- target wealthy and educated diaspora segments in investment and entrepreneurship promotion activities and policies, but also seek ways to
encourage and scale up smaller amounts of diaspora investment capital from less wealthy and less educated segments of the diaspora;

- consider diaspora status issues – weak or vaguely specified legal rights and privileges may reduce long-term investment, but creating a privileged status for diasporans relative to local citizens ultimately may breed mistrust, resentment and even contempt among local citizens for diaspora investors and entrepreneurs;

- conduct market research among the diaspora to measure the market potential for diaspora investment and entrepreneurship, identify investment motivations and isolate target investment/entrepreneurial market segments in the diaspora community; develop professional, fully integrated, branding communication campaigns based on the findings of this research;

- leverage technology in marketing campaigns in efficient and innovative ways to capture the imagination, interest and engagement of the diaspora, particularly when targeting diaspora youth segments;

- consider geographical scale issues when organizing diaspora investment and entrepreneurship promotion policies and services, determining when national, state/province and lower levels of localization will have the most impact;

- develop databases of diasporas abroad and diaspora investors and entrepreneurs active in the country of residence; utilize these lists to empirically research the needs and concerns of potential and actual diaspora investors and entrepreneurs and measure policy effectiveness.

Diasporas can invest in their country of origin in many different ways, through direct investments, portfolio investments and the establishment of new ventures. Relatively wealthier and more educated diasporans may demonstrate greater rates of participation in FDI. But the existence and impact of collective remittance transfers, such as those made by hometown associations, suggest that the potential for scaling up smaller amounts of individual diaspora capital – even from less wealthy and less educated diasporans – through portfolio investments or international entrepreneurship may be possible. Governments should broadly conceptualize what is meant by diaspora investment. Broader conceptualizations enable country-of-origin governments to leverage the full range of capital-transfer potential from their diaspora communities and enable country-of-origin governments to benefit from economies of scope in their diaspora homeland investment and entrepreneurship marketing activities. Governments should not only target wealthy diaspora segments for diaspora investment and entrepreneurship, but also seek ways to scale up smaller amounts of diaspora investment capital from less wealthy and less educated segments.
Country-of-origin governments must also keep in mind that migrants move across borders at varying points in time, for different reasons, and experience different sets of circumstances and institutional arrangements in their new country of residence. Numerous differences between and within diasporas exist; therefore, a one-size-fits-all policy prescription is impractical. Governments seeking to strengthen diaspora investment and entrepreneurship within their borders face different challenges that may be difficult to overcome. Origin countries that have experienced a recent, large wave of out-migration will face different challenges when stimulating diaspora investment and entrepreneurship compared with countries whose major migration waves took place decades ago. The push and pull factors that gave rise to the out-migration – and the extent to which they created a diaspora that is presently alienated or distrustful of its origin-country government – will also shape the nature and complexity of a state’s diaspora investment and entrepreneurship promotion efforts.

Since many diaspora investors and entrepreneurs prefer to establish business operations in the cities where they or their kin have lived, the geographical origins of diasporas may influence their business location decisions, and therefore affect the dispersion of diaspora capital in the country of origin.

Nations seeking ways to stimulate diaspora investment and entrepreneurship must give serious thought and consideration to diaspora status issues. Will diaspora investors or entrepreneurs be entitled to special economic incentives and benefits that are not available to non-diasporans? Whereas this may help incentivize some diasporans to make economic commitments in their origin countries, these types of investment policies are often hard to undo once rendered. What will the legal status of diasporans be relative to their resident counterparts? Will they be allowed to vote? In what circumstances? How will their interests be represented formally and informally within the political system of the origin country? Motivating diasporans to invest without providing them with any ability to be represented politically may reduce long-term investment. However, creating too great a privileged status for diasporans relative to local citizens ultimately may backfire in terms of promoting diasporan investment and entrepreneurship, because such favouritism may breed mistrust, resentment and even contempt among local citizens for diaspora investors and entrepreneurs.

As studies of world migration demonstrate, the majority of the world’s migrants are moving from less developed to more developed countries. In developed countries, diasporans are constantly bombarded with marketing messages through numerous promotion channels. Countries of origin face a tremendous marketing challenge when seeking to capture diasporans’
“mindshare” through their marketing efforts. Governments stand a greater chance of successfully winning the hearts and minds of their diaspora communities if they spend adequate time and resources developing professional, fully integrated branding and communications campaigns for their diaspora communities. Reaching out to diasporans needs to be done through multiple promotional channels – diaspora community events, publicity, public relations campaigns, web portals, Internet blogs, and other methods. Leveraging technology to build a relationship with diaspora communities may represent a particular imperative for governments seeking to establish a role for their diaspora youth within their economic development planning.

One of the greatest challenges of governments seeking to strengthen diaspora investment and entrepreneurship is determining the best way to organize national efforts to court and connect with the diaspora. Should existing agencies be adapted or reorganized to engage the diaspora? Should new organizations be created? Some countries, such as Jamaica and India, have created separate ministries for diaspora affairs. Other countries, such as China, have taken a much more local approach, establishing diaspora assistance agencies at provincial and municipal levels. Ghana has bifurcated its national investment-promotion agency, separating the staff who deal with non-resident Ghanaians from those who focus on non-Ghanaian investors.

Specific policies and programmes aimed at strengthening diaspora investment and entrepreneurship are in their infancy in many countries. Judging the effectiveness of many of these efforts is therefore difficult. As governments develop diaspora-specific activities, they should also be devising a means to measure the effectiveness of their efforts.

Measuring effectiveness

Countries of origin want to maximize the effectiveness of their policies and programmes aimed at increasing diaspora investment. Therefore, they must focus on methods for assessing the degree to which their efforts are making progress.

An initial indication of effectiveness for diaspora-focused initiatives is the degree to which the origin country knows where diasporans live. Historically, this has been a significant obstacle to investment-promotion marketing activities (IOM 2005). Knowing the location of diasporans is vital for three reasons. First, countries of origin need to understand where to focus their efforts. This increases the efficiency and impact of investment-promotion activities. Second, the communication infrastructure within the countries of residence will determine the most effective
means for establishing and maintaining contact. For example, Internet-based efforts might make sense for more developed countries, whereas local investment events would be more logical for less developed countries. Finally, knowing where diasporans are located allows the country of residence to network better with them to promote contact, interest and investment.

Another key measure of effectiveness is the extent to which the country of origin understands the current investment behaviour of its diaspora. For example, investment patterns might indicate that the majority of diasporans in a particular location are establishing bricks-and-mortar businesses in the origin country as opposed to investing in localized equity funds. This type of information is crucial if the country of origin intends to offer valuable and specific mechanisms of support for these investors. Similarly, if current information indicates that diaspora members are largely not investing, then different measures can and must be taken to increase activity. One additional aspect to accurately understanding diaspora investment behaviour involves a “quality” dimension. Diaspora members may be more likely, compared with other investors, to maintain their investment in the long term, even in the face of significant obstacles. This knowledge of the “quality” dimension can be invaluable when establishing efforts to fully understand the investment behaviour of diaspora members. Only when origin countries understand the unique needs of their diaspora will they be able to offer effective services that support, promote and sustain origin country investment.

Once there is a good understanding of where diasporans are located and what their investment patterns are, countries of origin should identify the key obstacles investors face initially and the obstacles they encounter while attempting to sustain long-term investment. The functional method for assessing the impact of any policy or programme change includes measuring the variables of interest (investment interest, perceived barriers, etc.) before changes are implemented and then again after the changes have had a chance to work. This type of pre-test/post-test process is invaluable for better understanding what is working and what is not. Whenever possible, a randomly selected control group should be used. The inclusion of a control group would enable policy-makers to evaluate whether observed differences between pre- and post-test measures resulted from policy or programme changes or are merely attributable to changes in the macro environment. This process would be applicable for assessing the impact of policy changes, investment information events, and other activities. The other tangential benefit of this practice is that it communicates to potential diaspora homeland investors that they have support and that their involvement is desired and appreciated. However, this benefit will be erased if the country of origin does not act
on the information it receives from diaspora members. It is unnecessary to implement everything suggested, but the country of origin must signal that it has heard the feedback and has a plan for making appropriate changes. Otherwise, it risks alienating the very investors it hopes to cultivate.

Finally, another approach for measuring effectiveness is to initiate and maintain an understanding of the “investment climate” within the diaspora. Investment climate represents the overall level of support, interest and engagement of diasporans, which is most commonly measured with a climate survey and is conducted on a regular basis. This type of information allows the origin country to understand the pulse of diaspora investment, often indicating the need for different or additional efforts.

Conclusions

Strengthening diaspora investment and entrepreneurship is vitally important and fraught with challenges. Those seeking to facilitate investment must understand the unique characteristics of diasporans to better develop more customized policies focused on stimulating investment. Diaspora investors and entrepreneurs differ from their non-diaspora counterparts in terms of international experience, enterprise size and scope, market knowledge, strength of social networks, investment motivation and the locus of organizational control. These differences necessitate that country-of-origin governments:

1. create policies and programmes that provide investment-related information;
2. connect potential investors to a reliable network of local officials and financiers;
3. cultivate feelings of connectedness by developing specific incentives for investment such as local investment events, voting rights, participation in local politics and other means of instilling a true sense of belonging in diasporans; and
4. implement specific practices aimed at measuring the effectiveness of their efforts.

Without a customized and comprehensive approach, the optimal growth of diaspora investment and entrepreneurship will be stunted.

Note

1. For Kiva, see <http://www.kiva.org> (accessed 17 August 2010); for Investors without Borders, see <http://investorswithoutborders.wordpress.com/> (accessed 17 August 2010).
REFERENCES


