United Nations University Press is the publishing arm of the United Nations University. UNU Press publishes scholarly and policy-oriented books and periodicals on the issues facing the United Nations and its peoples and member states, with particular emphasis upon international, regional and transboundary policies.

The United Nations University was established as a subsidiary organ of the United Nations by General Assembly resolution 2951 (XXVII) of 11 December 1972. It functions as an international community of scholars engaged in research, postgraduate training and the dissemination of knowledge to address the pressing global problems of human survival, development and welfare that are the concern of the United Nations and its agencies. Its activities are devoted to advancing knowledge for human security and development and are focused on issues of peace and governance and environment and sustainable development. The University operates through a worldwide network of research and training centres and programmes, and its planning and coordinating centre in Tokyo.
Realizing the development potential of diasporas
Realizing the development potential of diasporas

Edited by Krishnan Sharma, Arun Kashyap, Manuel F. Montes and Paul Ladd
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figures</td>
<td>viii</td>
</tr>
<tr>
<td>Tables</td>
<td>x</td>
</tr>
<tr>
<td>Contributors</td>
<td>xi</td>
</tr>
<tr>
<td>Foreword</td>
<td>xv</td>
</tr>
<tr>
<td><em>Alexander Trepelkov</em></td>
<td></td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>xvii</td>
</tr>
</tbody>
</table>

1 Introduction: Opportunities and challenges for mobilizing the potential of developing country diasporas ............................. 1

*Krishnan Sharma, Arun Kashyap, Manuel F. Montes and Paul Ladd*

**Part I: Setting the stage** ........................................ 17

2 Understanding diaspora diversity and its impact on development ................................................................. 19

*Jennifer M. Brinkerhoff*
Part II: Diaspora funds and the poor ........................................... 39

3 Remittances, diaspora and inclusive micro-finance: What have we learnt? .................................................... 41
   Arun Kashyap and Kai Schmitz

4 Fostering economic opportunity for transnational families .... 63
   Barbara Span

5 Citibank’s experience serving the unbanked and under-banked through retail remittance services ............................ 81
   Ryan Newton, Trang-Thien Tran and Marcela Ramirez

6 Strengthening national policies for engaging diasporas as a development actor: Lessons from learning-by-doing activities ................................................................. 96
   Manuel Orozco

7 Developing capacity: Diasporas as transnational agents of development .............................................................. 125
   Chukwu-Emeka Chikezie

Part III: Diaspora entreprenuers and development .................. 143

8 Strengthening the business sector in developing countries: The potential of diasporas ........................................... 145
   Krishnan Sharma and Manuel F. Montes

9 Why is diaspora potential so elusive? Towards a new generation of initiatives to leverage countries’ talent abroad .... 171
   Yevgeny Kuznetsov

10 Venture capital and fixed-income markets in developing economies ............................................................... 188
    Parag Saxena

11 A Kenyan diaspora entrepreneur creating social value through tea: A case study .................................................... 202
    Wanja Michuki

12 ChileGlobal: A talent network for innovation ....................... 212
    Molly Pollack
13 Policies to strengthen diaspora investment and entrepreneurship: Cross-national perspectives . . . . . . . . . . . . . . . 230
   *Liesl Riddle and Tjai M. Nielsen*

Index . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 253
# Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>Diasporas and development</td>
<td>68</td>
</tr>
<tr>
<td>6.1</td>
<td>Remittances paid by L@Red de la Gente</td>
<td>105</td>
</tr>
<tr>
<td>7.1</td>
<td>The 4Cs of diaspora capital</td>
<td>129</td>
</tr>
<tr>
<td>7.2</td>
<td>Capacity-building model and trade-offs</td>
<td>133</td>
</tr>
<tr>
<td>8.1</td>
<td>Financial and non-financial aspects of diasporas’ business engagement</td>
<td>157</td>
</tr>
<tr>
<td>8.2</td>
<td>Interconnected underlying drivers of diaspora business engagement</td>
<td>159</td>
</tr>
<tr>
<td>9.1</td>
<td>A hierarchy of diaspora impact</td>
<td>175</td>
</tr>
<tr>
<td>9.2</td>
<td>A diagnostic monitoring framework for diaspora initiatives: The trade-off between a decentralized initiative and organizational support</td>
<td>181</td>
</tr>
<tr>
<td>10.1</td>
<td>Venture capital drives US economic growth by creating jobs and revenue</td>
<td>189</td>
</tr>
<tr>
<td>10.2</td>
<td>Companies backed by US venture capital have outperformed their non-venture counterparts</td>
<td>190</td>
</tr>
<tr>
<td>10.3</td>
<td>Companies backed by US venture capital have driven revenue and employment growth even during economic slowdowns</td>
<td>191</td>
</tr>
<tr>
<td>10.4</td>
<td>India’s venture capital investment levels are still well short of those in the United States</td>
<td>192</td>
</tr>
<tr>
<td>10.5</td>
<td>Developing economies tend to have “shallow” fixed-income markets</td>
<td>196</td>
</tr>
</tbody>
</table>
10.6 Shallow fixed-income markets tend to have a high cost of money ................................................. 197
10.7 Several interrelated levers to consider in strengthening markets for long-term capital ...................... 198
10.8 “Supranational debt” illustration: The European Union .................................................. 199
11.1 The Highland Tea Company’s approach to adding value to the small-scale tea-farming sector .................. 204
12.1 Global competitiveness indicators for Chile .......................................................... 215
12.2 Educational level of Chileans residing in the United States and Canada ......................................... 216
12.3 Phases of ChileGlobal’s development .......................................................... 218
12.4 The distribution of ChileGlobal’s members .......................................................... 219
12.5 ChileGlobal: Public–private partnerships .................................................. 222
### Tables

2.1 Individual characteristics influencing diaspora contributions ........................................... 27
2.2 The respective contributions of diaspora types ............................................................... 31
3.1 Examples of financial institutions combining remittances with other products for the immigrant market .................................................. 50
5.1 Some of Citibank’s remittance services ................................................................. 87
6.1 Three dimensions of diasporas’ links to development ........................................ 98
6.2 Cases of diasporas and development activities .............................................. 99
6.3 SEDESOL’s 3×1 initiatives .............................................................. 115
6.4 Elements supporting a skills transfer scheme .................................................. 123
7.1 Recommended capacity development possibilities for enhancing diaspora/migrant activity ................................................................. 136
8.1 Sample of diaspora organizations and networks, 2004 .................................. 154
8.2 Absent human capital: Emigration rates to OECD countries by education level, population 25 or older, 1990 and 2000 ................................................................. 160
9.1 The institutionalization of diaspora networks as search networks .................................................. 178
10.1 Venture capital is not just about information technology ..................................... 191
13.1 Key differences between diaspora and non-diaspora investors and entrepreneurs ................................................................. 232
13.2 Government roles in strengthening diaspora investment and entrepreneurship ................................................................. 238
Jennifer M. Brinkerhoff is Professor of Public Administration and International Affairs at The George Washington University, USA. She holds a PhD in public administration (with a development administration emphasis) from the University of Southern California in Los Angeles, USA, and an MA in public administration from the Monterey Institute of International Studies, USA. She teaches courses on public service, international development policy and administration, development management, and organizational behaviour.

Chukwu-Emeka Chikezie is the Executive Director of the African Foundation for Development (AFFORD). AFFORD is a social enterprise that works to expand and enhance the contributions that Africans in the diaspora make to Africa’s development. Before AFFORD, Chikezie was a senior industry analyst for a consulting firm; a lecturer in media studies at a London university; an administrator establishing an international institute for telecoms regulators at another London university; a freelance journalist; and an IT systems analyst.

Arun Kashyap is Officer-in-Charge of the United Nations Development Programme (UNDP) in the Maldives. He has led and managed the UNDP Maldives Office to meet the needs of a young democracy through activities in democratic governance, socioeconomic equity, combating HIV-AIDS, and energy, environment, and climate change. Earlier, as Senior Advisor for Private Sector Development in the Private Sector Division of UNDP he led the programme on Facilitating Investments in Pro-Poor Goods and Services through public–private partnerships. Formerly, as UNDP’s Climate Change and Clean Development Mechanism Advisor,
he led UNDP’s engagement in the Clean Development Mechanism and issues of adaptation to climate change in partnership with diverse stakeholders including the private sector.

**Yevgeny Kuznetsov** joined the World Bank in 1995 from the Brookings Institution. A specialist in technological innovation, he focuses on the political economy of reforms in innovation and higher education systems in middle-income economies and India. He has acquired a unique perspective on reforms that blends the insights of a practitioner and a scholar.

**Paul Ladd** joined the United Nations Development Programme (UNDP) in 2006, and heads up the team working on issues related to “inclusive globalization” – including trade, development finance and migration. Before moving to New York, Ladd was a policy adviser on international development for the UK Treasury, including the period building up to and through the UK’s Chair of the G8 and the European Union in 2005. Previously he had been Chief Economist and acting Head of Policy with UK charity Christian Aid, the UK Department for International Development’s economic adviser for South Africa, Botswana, Lesotho, Namibia and Swaziland, and a financial adviser in the Central Bank of Guyana. Ladd received his BSc in Economics and his MSc in Quantitative Development Economics from the University of Warwick, UK.

**Wanja Michuki** is the CEO and co-founder of the Highland Tea Company, which imports, manufactures and wholesales Kenyan specialty teas in the United States. She has been responsible for product development, sales and marketing, and the current distribution of the Highland Tea Company’s products in the United States. She obtained her BA in 1996 from Bryn Mawr College, USA, where she majored in Economics and minored in Political Science.

**Manuel F. Montes** (“Butch”) is Chief of the Policy Analysis and Development Branch at the Financing for Development Office of the United Nations Department of Economic and Social Affairs. Immediately before this, he was Regional Programme Coordinator, Asia-Pacific Trade and Investment Initiative, UNDP Regional Centre in Colombo, Sri Lanka, an initiative that seeks to assist developing countries in the Asia Pacific incorporate poverty reduction objectives in their trade policies and negotiations.

**Ryan Newton** is Director of Business Development at Credit Where Credit Is Due, Inc. (CWCID), a non-profit organization that financially empowers low-income communities across New York City. Through its close partnership with the Neighborhood Trust Federal Credit Union, one of over 200 community development credit unions in the United States, CWCID has a unique model of combining financial education with access to affordable financing and formal asset-building opportunities.

**Tjai M. Nielsen** is an Assistant Professor of Management at The George Washington University,
USA. He holds a PhD in Industrial and Applied Psychology from the University of Tennessee-Knoxville, USA, and a BA in Psychology from Virginia Tech, USA. His area of expertise is in correlates of work team effectiveness, the dynamics of team leadership, international investment motivations, levels of analysis, and cultural intelligence.

Manuel Orozco is Senior Associate and Director of Remittances and Development at the Inter-American Dialogue. He has conducted extensive research, policy analysis and advocacy on issues relating to global flows of remittances and to migration and development worldwide. Dr Orozco is chair of Central America and the Caribbean at the US Foreign Service Institute.

Molly Pollack serves as the Executive Director of ChileGlobal, a non-profit venture capital firm dedicated to promoting and facilitating the development of the Chilean economy by strengthening the ties between Chile and its talented nationals abroad. Before joining ChileGlobal, Pollack worked for 10 years as an economist with the United Nations Economic Commission for Latin America and the Caribbean (ECLAC).

Marcela Ramirez is Senior Vice President and Director of Remittances, Transfers and Global Initiatives at Citibank North America, where she leads cross-border programmes with Ecuador, Mexico, the Philippines, India and Poland and develops banking products for immigrant and under-banked communities in the United States and Mexico. She has expertise in business and product development and the marketing of remittance products.

Liesl Riddle is an Associate Professor of International Business and International Affairs at The George Washington University, USA. She holds a BA and an MA in Middle Eastern Studies, an MBA in Marketing/International Business, and a PhD in Sociology from the University of Texas at Austin, USA. Dr Riddle has written extensively on the topics of international entrepreneurship, trade and investment promotion, and diaspora roles in homeland economic development.

Parag Saxena is the founding partner of Vedanta Capital. Previously, he was the founder and CEO of INVESCO Private Capital, one of the oldest and largest venture capital firms in the United States. During his 23-year tenure, over 300 investments were made, including Alkermes, Amgen, ARM Holdings, Shopzilla.com, Costco, CompUSA, Intuit, MetroPCS, PictureTel, Polycom, Starbucks, Staples and VeriSign.

Kai Schmitz is Executive Vice President of Microfinance International (MFIC) where he manages the company’s remittance system, ARIAS. ARIAS offers financial institutions and mobile and online payment providers an automated and highly compliant money transfer solution with payment capabilities in over 90 countries. Prior to joining MFIC, Schmitz co-founded a remittance software company in London and a company that develops digital
imaging software. Originally a lawyer, he worked for law firms in Hamburg, Germany, and in London, UK.

**Krishnan Sharma** is an Economist in the Financing for Development Office of the United Nations Department of Economic and Social Affairs. He is the lead economist for analysing developments relating to private capital flows to developing countries and providing policy recommendations. His recent achievements include collaborating with the World Economic Forum to devise ways to mitigate the risks faced by private investors in infrastructure projects in developing countries.

**Barbara Span** is Vice President of Public Affairs for Western Union, based in Washington DC, USA. Public Affairs/Government Relations at Western Union is responsible for managing key legislative, regulatory and consumer issues and strategic relationships, serving as subject matter experts and communications liaisons, managing community relations and advocacy programmes, and conducting issues research analysis.

**Trang-Thien Tran** will be joining Russell Investments as part of its Global Rotational Program. Prior to Russell, Tran was the Business Development Manager and Vice President at Citi Microfinance, a Citi business group launched to develop innovative financial products and channels to reach the unbanked around the world. She also worked at PCG International, an investment management firm investing in private equity funds and co-investments outside the United States, and at Mekong Economics, an economic consulting company focused on Southeast Asia. Tran holds an MBA from Harvard Business School and a BA from Harvard College, USA.
This volume represents the outcome of a successful collaboration between the Financing for Development Office of the United Nations Department of Economic and Social Affairs and the Bureau of Development Policy of the United Nations Development Programme on a very topical issue. In addition, it draws on a range of perspectives from experts and practitioners who belong to other multilateral organizations, as well as academia and the private sector.

In analysing the development potential of diasporas, the authors look at various financial and non-financial contributions made by expatriate communities, including migrant remittances. A unique feature of this book is the attention that it devotes to examining the impact of diaspora entrepreneurs on private sector development. Indeed, the contribution made by certain diaspora communities towards promoting the growth of businesses and entrepreneurships in their homelands has become increasingly noticeable. In turn, it generates growing interest in the circumstances behind success stories and in lessons to be learnt. In addition, the book seeks to assess how the potential of diasporas can be leveraged to serve the poorest and marginalized segments of society and to further inclusive development.

This book should be of particular interest to policy-makers and practitioners, at both the national and international levels, who work in the area of international migration and development. We also hope that it will serve to inform a broader range of interested readers from the aca-
demic community, civil society, the private sector and the general public at large.

Alexander Trepelkov  
Director  
Financing for Development Office  
Department of Economic and Social Affairs  
United Nations
Acknowledgements

We would like to thank several people who provided assistance in the preparation of this book. We began this project with endorsement from Oscar de Rojas, former Director of the Financing for Development Office in the United Nations Department of Economic and Social Affairs, and Selim Jahan, Director of Poverty Practice in the United Nations Development Programme. Subsequently, Alexander Trepelkov, who replaced Oscar de Rojas as Director of the Financing for Development Office, supported us at every stage of the publication of this book. To all these people, we would like to convey our sincere appreciation. We also wish to thank Michael Lennard, Tun Htet and Ann de Lima for their valuable assistance in the preparation of this book. The views presented in this book belong to us and the other contributors. In addition, we, the editors, take full responsibility for any errors.

Krishnan Sharma, Arun Kashyap, Manuel F. Montes and Paul Ladd
New York
August 2010
1

Introduction: Opportunities and challenges for mobilizing the potential of developing country diasporas

Krishnan Sharma, Arun Kashyap, Manuel F. Montes and Paul Ladd

Increasing attention is being given in both public and private forums to the issue of how the growing diasporas from the developing world could promote development in their homelands. Indeed, diaspora involvement in development opportunities in the homeland has increased significantly during the past decade. When discussing diaspora contributions to development, most observers tend to refer to the impact of remittances. Yet the influence of diasporas extends well beyond remittances. In particular, diaspora entrepreneurship has witnessed dramatic and exciting developments in recent years, with successful entrepreneurs in the North expanding their business reach to their home developing countries, bringing along with them capital, technology and market knowledge. This has been most visible in certain high-technology sectors and in other areas such as pharmaceuticals.

Experiences of diaspora contribution to development are growing around the world and this seemed an opportune moment to gather a sample of them and think about how best to use this phenomenon to accelerate development and reduce poverty. In light of this, both the Financing for Development Office of the Department of Economic and Social Affairs of the United Nations and the United Nations Development Programme (UNDP) decided in 2007 to collaborate on a follow-up programme of work centred on identifying and analysing policies that would better enable developing countries to realize the potential of their diasporas to reduce poverty, with a particular focus on ways through which they could facilitate entrepreneurship and private sector development.

and replicate successful projects and best practices. One key outcome is this volume, which highlights policy proposals and recommendations grounded in the experiences of diaspora groups. The chapters contained herein examine the role of diasporas in supporting development, particularly through promoting entrepreneurship. These papers were prepared by international experts – academics, policy-makers, practitioners in the private sector and diaspora members themselves. An expert group meeting was organized at the Rockefeller Foundation in New York in May 2008, during which each paper was discussed and critiqued by other specialists in the field and subsequently underwent a round of revision before being presented to the publishers for peer review.

The book is divided into three parts. Part I sets the stage for the remainder of the book. Chapter 2 by Jennifer M. Brinkerhoff establishes a framework for understanding the diversity of diaspora communities across the world. Part II focuses on the impact of diaspora funds on the poor, including looking at ways to enhance the impact of remittances on poverty alleviation, to strengthen the intermediation of remittances and their channelling to the poor, and to leverage the impact of hometown associations. Part III is concerned with the potential of diasporas to further entrepreneurship in their country of origin and includes lessons drawn from case studies of the activities of diaspora entrepreneurs and networks.

This introductory chapter highlights and brings together some of the key findings and proposals of these chapters. The first section outlines the increasing and changing contributions that diasporas have been making to development. The second section outlines the key messages and ideas emerging from the chapters. The third section sets the stage for the subsequent chapters with some final thoughts.

The increasing contribution of diasporas

The international community’s appreciation of the role of diasporas in financing development through investment and remittances has grown significantly during the past decade. This increased recognition has been correlated with the significant recent growth in net remittances for all developing countries. Recorded remittances are estimated to have totalled US$316 billion in 2009, in comparison with US$113 billion in 2002 (Ratha et al. 2010). Furthermore, the growth in recorded remittances to developing countries has outpaced that of private capital flows and official development assistance over the past decade. Indeed, in absolute terms, remittances have in recent years become almost as large as foreign direct investment (FDI) and more than twice as large as the official aid received
by developing countries; yet their true size, including unrecorded flows through formal and informal channels, is much larger.

For several small economies, remittances account for more than 20 per cent of their gross domestic product (GDP). In 2008, remittances accounted for 50 per cent of the GDP of Tajikistan, 38 per cent of the GDP of Tonga and 31 per cent of the GDP of Moldova (Ratha et al. 2010). Remittances are usually private flows within families and cannot be appropriated and aggregated by governments to finance development-oriented public expenditures on physical or institutional infrastructure. Nevertheless, their development impacts may be felt through increasing access to schooling, nutrition or health. Where financial services are well developed, remittance flows can also be collateralized to support the acquisition of family or business assets. Remittances flow mainly to middle-income countries, which may have pockets of deprivation but are not the poorest. In 2007, remittances to low-income countries represented only 8.5 per cent of those sent to all developing countries, although this accounted for a greater share of their combined GDP – 5.8 per cent, compared with 2.0 per cent for all developing countries (World Bank 2009).

Despite signs that, in the wake of the global economic crisis, remittance flows to developing countries have moderated significantly, it is important to note the resilience of remittance flows compared with other types of private flows, which are expected to fall by greater magnitudes. In this sense, remittances are likely to become even more important as a source of external financing for many developing countries. In fact, remittances differ fundamentally from other financial flows in that they represent a private transaction based on social ties and networks of responsibility and affection. In Chapter 3, Kashyap and Schmitz argue that, although migration and remittances by themselves do not enable a country to escape poverty, they can serve to stimulate equitable development. The nature and magnitude of remittance inflows provide the government of the population receiving remittances with the opportunity to create public goods and services by leveraging private transactions. By ensuring that unbanked households have convenient access to money transfer and receipt facilities as well as financial options and instruments to leverage their resources, governments can create greater entrepreneurial opportunities for them and also further greater equity through enhanced access to inclusive financial products and services that cater for the unmet needs of the poorer and vulnerable population.

However, as mentioned earlier and illustrated in the various chapters in this book, remittances are only one facet of diaspora communities’ contribution to development in their homeland. There is in fact an increasing appreciation of the contribution that diasporas can make – and
have made – to their home countries, over and above the provision of remittances. On their own initiative, diaspora communities have been able collectively to mobilize their financial, human and social capital to set up and implement development projects that are most often directed at their community of origin. These projects include investing in home communities by starting businesses, providing investment capital to companies, transferring skills and knowledge, and playing an important role in strengthening the foundations of entrepreneurship in their countries of origin. These contributions are both financial and non-financial and their impact has been particularly visible in some high-technology sectors and in areas such as pharmaceuticals.

Indeed, the expanding magnitude and range of diasporic contributions – and their associated dynamism – can be related to the evolving broader global economic and technological context. As described in Chapter 8 by Sharma and Montes, the trend of globalization – expressed through technological breakthroughs in transport and communications and the liberalization of trade and financial flows – has provided a stimulus to the activities of diasporas. For a start, the explosion in communications technology and reduction in transport costs have made it possible for multiple and dense links to develop between the diaspora and the homeland and for networks to form within diasporas. The growth of the Internet has in particular provided a new mechanism linking professionals in a diaspora with their counterparts in the country of origin. The liberalization of trade and financial flows has on the other hand provided them with the market opportunities to undertake business engagement in the home country. At the same time, the environment of liberalization and economic reform has also made a number of countries more open towards engaging with their diaspora. This breakthrough in transport and communications has moreover gone hand in hand with the fragmentation of mass production and the replacement of corporate hierarchies and vertical integration with horizontally networked organizations that flexibly recombine resources by drawing on the specialized and complementary capabilities of producers located in distant regions. Such changes have also provided diasporas with a valuable niche whereby they are able to build partnerships between local suppliers and foreign producers that tap overseas expertise, cost savings and markets.

Looking ahead, there are powerful long-term trends that are likely to rekindle the demand for skilled workers from overseas in developed countries, which will, in turn, increase the numbers and potential of skilled diasporas from the developing world. Among these trends is the ageing of rich-country populations, which, through increasing the demand for healthcare and other services needed by the elderly, is likely to create pressures to “import” taxpayers from overseas.
This growing relevance of diasporas as agents of development has been increasingly recognized in the major multilateral organizations, including the United Nations. Yet the agenda of improving the effectiveness of international resource flows needs to be expanded to better reflect the potential contributions that can be made by expatriates. It is important that attention should be given not only to remittances but also to diasporas’ other developmental assets. And, even though the current literature highlights considerable scope for leveraging diaspora resources, including remittances, for the benefit of developing countries, there still exists a gap in our understanding of the possibilities and processes. Moreover, evaluating a diaspora community’s contribution to local and national development is made more complex by the need to account for the economic and social costs for the migrants, for their families and for others left behind in the country of origin, as well as for destination countries.

Thus, while acknowledging that increasing diaspora financial inflows should not reduce receiving governments’ development and social protection responsibilities, or be confused with developed-world commitments and responsibilities to increase overseas development assistance, it is important to better understand the impact of contributions from diasporas as transnational agents of development – both financial (remittances, investments and philanthropic contributions) and non-financial (ideas, technology transfer, expertise, and so on). This book attempts to throw greater light on these nuances behind the increasing contribution of diasporas and to emphasize the role that public policy can play in strengthening their impact on poverty reduction and private sector development.

Messages from the book

Chapter 2 by Jennifer M. Brinkerhoff (“Understanding diaspora diversity and its impact on development”) sets the stage for the following chapters of the book by reviewing the characteristics of diaspora communities that influence their ability and inclination to engage in development activities. These characteristics could either encourage or diminish engagement with the homeland, depending on the context and circumstances of the community and country of origin. For example, in some instances, culture and family engagement may inspire significant engagement whereas in others it could discourage engagement. At the same time, Brinkerhoff addresses features of the receiving society that may affect diasporans’ inclination to engage in development activities as well as the qualities of homeland support. These can be influenced by host-country policy and
cultural environment as well as the degree of integration and success of the diaspora community, which can contribute to their capacity to contribute. Indeed, the higher the cost of a particular agenda to diasporans’ status and security in their adopted country, the greater the likelihood that the diaspora community may split and/or fail to mobilize.

Brinkerhoff’s chapter proceeds to develop a framework for understanding diaspora diversity and its impact on development. It distinguishes three general types of diaspora (labour diasporas, entrepreneurial diasporas and skilled diasporas) and associates these with various financial and human capital contributions, organizational formations and examples. Labour diasporans remit small amounts that in the aggregate represent the bulk of diaspora remittances. Some entrepreneurial diasporans may also be remitters, though they are likely to focus on investment of these remittances. Beyond the household, they may support economic development at the micro level. Skilled diasporans from the non-business sectors may contribute their technical knowledge through direct philanthropic activities or more formalized partnerships with other actors. These include associations of teachers and health professionals. Many efforts combine members of labour, entrepreneurial and other high-skilled diasporas. Brinkerhoff’s analysis also suggests that income differentials affect potential outcomes in complex ways. At lower levels, income may enhance the capacity to do more, but at higher levels the inclination to contribute may wane for a variety of reasons. At still higher levels, a limited number of diasporans may choose to make targeted, yet quite substantial contributions that may have less to do with philanthropy than with business ventures.

Having outlined the different categories of diasporas and the factors and circumstances that could influence their inclination and ability to contribute to development in the country of origin, the book proceeds to discuss the impact of diaspora finance on the poor and ways to enhance this.

In this regard, Kashyap and Schmitz (Chapter 3) stress the importance of financial intermediaries in strengthening the impact of remittances on development. They argue that remittances not only reach very poor households but also have the ability to put otherwise unbanked poor people in contact with financial institutions. Key to achieving this linkage is the ability of national governments to facilitate the efforts of financial institutions not only to offer remittances but to extend this to the provision of remittance-based financial products that are affordable and attractive to under-banked or unbanked consumers. Kashyap and Schmitz point out that, at both the originating and receiving ends of remittances, banks have so far made limited efforts to offer other financial services to
the underprivileged, and the impact on increasing access to banking ser-

vices by the unbanked has been minimal. In this context, according to the
authors, the role of micro-finance and community-based financial or eco-
nomic institutions such as rural banks, thrift banks, cooperatives and
postal savings banks is critical in linking remittances to development.
However, although these institutions reach millions of financially under-
served people and have self-regulatory mechanisms, they are not fully in-
tegrated in the financial system.

Chapter 5 by Newton, Tran and Ramirez, on the other hand, highlights
the role of larger financial institutions such as Citibank in generating best
practices to lower the cost of remittance transactions, engender innova-
tive partnerships with third-party beneficiary banks and develop new
products that bundle remittances with inclusive deposit and credit prod-

ucts. The authors point out that, although Citibank is committed to pro-
moting financial education in immigrant communities, its efforts, as well
as those of other banks, need to be more widespread. They emphasize
that financial institutions should continue to work with community or-
ganizations to support financial education programmes, as well as provide
financial education curriculums that adapt to the changing needs of dia-
spora communities. There is also a need, according to them, for more
industry-wide and coordinated efforts so that remittance products at
banks are presented in a straightforward and clear manner to the cus-
tomer. Coordination among banks and with international institutions
such as the United Nations and the World Bank and with payment net-
works such as SWIFT (Society for Worldwide Interbank Financial Tele-
communication) can help to define product, service and disclosure
standards. In addition, government endorsements of the benefits of chan-
nelling funds through the formal financial sector can help raise public
awareness and education about financial services. These efforts will serve
to improve the reach and scalability of the measures undertaken by
larger financial institutions, which, at the same time, need to generate ac-
cessible financial products, attract remittance senders and build long-term
relations with them as customers. Overall there needs to be an increased
emphasis on the part of these institutions on doing business with the
poor, complemented of course by an appropriate enabling environment,
policies and capacity-building.

In Chapter 6, Orozco takes the analysis to a broader scale that goes
beyond remittances. He categorizes the various types of diaspora activi-
ties (including family remittances, consumption of goods and services, in-
vestment of capital, and cash and in-kind donations) into a three-pronged
framework involving: (a) development in the diaspora, (b) development
through the diaspora and (c) development by the diaspora. Development
in the diaspora refers to the use of networks in the host country, which includes the formation of ethnic businesses, cultural ties and social mobilization. Development through the diaspora refers instead to “how diasporic [sic] communities utilize their diffuse global connections beyond the locality to facilitate economic and social well being” (Robinson 2002: 113). Development by the diaspora applies to the ramifications of “the flows of ideas, money, and political support to the migrant’s home country” (Robinson 2002: 123). Orozco moreover classifies 20 successful experiences, where diasporas have contributed to development, into this framework and, from this, distils a number of varied lessons that depend heavily on the context. For example, the successful use of the mobile phone infrastructure to facilitate remittance flows in the Philippines depended on six factors: strong relationships with regulators, strategic partnerships, understanding of the target market, channel flexibility, involvement in developing the entire value chain, and grassroots education. Orozco also documents cases where crucial public policy intervention was implemented in the host country, an example being the micro-enterprise development support provided for migrants in Italy. Orozco concludes by identifying several areas where policy can be of critical importance in promoting the leveraging of remittances, investments or donations through funds and migrant capital management. These include measures to improve the money transfer market through reducing informality, improving competition and reducing costs; to accelerate financial intermediation projects with credit unions and micro-finance institutions; to engage banking institutions to provide broad financial services, including financial literacy programmes aimed at remittance recipients; to support projects to improve investment opportunities at home and among the diaspora; and to develop a knowledge transfer scheme.

The hometown associations (HTAs) are a classic example of collective action by specific diaspora communities to develop a locality/region in their homeland. Nevertheless, their scalability and impact can be enhanced through partnerships between migrant communities, governments and the private sector. This is the focus of Chapter 4 by Span, who outlines the lessons drawn from Western Union’s experiences as the private sector partner contributing to HTAs. To elaborate, the 4+1 Program brings together four funders – national government, state government, local government and the private sector – each of which contributes one dollar for every dollar that migrants invest through HTAs in municipalities in Zacatecas in Mexico. In this instance, the private sector is represented by Western Union, which was looking to invest in innovative new forms of community support. Although the 4+1 Program – an example of a cross-sector partnership – highlights the leverage possibilities for development funding potential in cooperation with the hometown associations,
the challenge is to scale up and replicate similar opportunities globally to
fulfil the diaspora’s potential to contribute to national development that
is tailored to local realities. Span asserts that future cooperation between
the public and private sectors represents the most successful way to lev-
erage diaspora resources for economic opportunity and, whereas in the
past the focus had been simply on funding infrastructure improvements,
it needs now to be on a more sustainable framework of job training and
investment in local communities.

Chapter 7 by Chikezie examines the question of capacity development
in the context of enhancing the role of diasporas as transnational agents
of development. It emphasizes that capacity development can be particu-
larly effective when it serves to enhance the contribution of diaspora re-
sources to private sector development. At the same time, in order to
unlock the diaspora’s potential, it is important to create an appropriate
enabling environment, particularly with regard to establishing institu-
tions that facilitate diaspora engagement in the economy. According to
Chikezie, this is an area where both host- and sending-country govern-
ments have important roles to play. He also outlines how diasporas can
utilize their financial, intellectual and physical capital to have an impact
on development. However, for this to be meaningful, Chikezie stresses
that governments need to map out an overall development strategy for
their country that is beneficial to their citizens, at home and abroad.

The final section of the book is concerned with the potential of dia-
sporas to further entrepreneurship in their countries of origin. As such, it
includes lessons drawn from case studies of the activities of diaspora en-
trepreneurs and networks. Sharma and Montes set the stage in Chapter 8
with an analysis of the financial and non-financial contributions that dia-
sporas have made to enhancing business development in their countries
of origin. The authors point out that the most successful instances of dia-
sporas generating business development come from a selected set of
economies, primarily in Asia. On the other hand, there are diaspora com-
unities that have not been so economically successful or made signifi-
cant contributions back home in the area of business development. This
diversity in diaspora contributions can be explained by their varying ex-
eriences and circumstances, including their socioeconomic characteris-
tics, the nature of their ties with their country of origin, conditions in the home
and host countries, and the ability to network. There are distinct differ-
ences both within and between a number of diaspora groups in terms of
these factors. Sharma and Montes contend that it is important to recog-
nize the limitations of policy in this area. Past experience suggests that it
may be more viable for policy-makers to support rather than initiate dia-
spora business engagement, i.e. to encourage projects and groups that
elicit evidence of potential rather than to initiate or impose development
agendas on diaspora networks and organizations. At the same time, the authors emphasize the urgent need to enhance the information, analysis and data that underpin policies and to promote best practices and cross-fertilization of ideas relating to diaspora entrepreneurship. In that regard, they propose, among other things, the setting up of an information portal that showcases interesting case studies, experiences and lessons.

Chapter 13 by Riddle and Nielsen focuses more closely on how governments can strengthen diaspora investment and entrepreneurship. In doing so, the authors consider how diaspora investors and entrepreneurs may differ from their non-diaspora counterparts, whether diaspora investment is able to yield greater development benefits, and what successful policies have already been used by governments to promote diaspora engagement in their economies. They point out that 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 locus of organizational control. These differences necessitate that country-of-origin governments create policies and programmes that provide investment-related information; connect potential investors to a reliable network of local officials and financiers; 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 among diasporans; and implement specific practices aimed at measuring the effectiveness of their efforts. The authors conclude that, without a customized and comprehensive approach, the optimal growth of diaspora investment and entrepreneurship will be stunted.

At this stage, the book delves into more specific considerations of how diaspora search networks can identify talented segments of the expatriate population who have the willingness and ability to contribute to the homeland and connect them with equally dynamic segments of institutions in the country of origin. Kuznetsov’s focus in Chapter 9 is on first- or second-generation diasporans who have achieved extraordinary success in their new country of residence and look to their home country for new professional opportunities. Diaspora overachievers tend to undertake ventures in their home country despite obstacles such as a poor investment climate and corrupt governments, have unusually long planning horizons and have above-average capabilities that allow them to innovate and sometimes facilitate institutional change. Even within this sub-category of overachievers, it is rarely an easy task to identify those who are willing and able to engage with the homeland and connect them to what is often only a small, better-performing segment of a home country’s institutions that is interested and capable of developing joint projects with diasporans. According to Kuznetsov, networks such as
ChileGlobal and GlobalScot have performed this role well. However, these are still a rarity and the author provides suggestions for initiatives to create institutionalized and focused search networks with diaspora participation, including the idea of country-wide diaspora contests that would provide matching funds to organizations interested in articulating and running diaspora and global knowledge networks that would advance their own missions and objectives.

Whereas the chapters by Sharma and Montes, Riddle and Nielsen, and Kuznetsov provide an analytical and empirical assessment of issues relevant to diaspora entrepreneurship, Chapters 10–12 are devoted to gleaning lessons from the experiences of practitioners. Molly Pollack writes from her experience as head of ChileGlobal, one of the successful networks referred to by Kuznetsov, and Parag Saxena and Wanja Michuki are both examples of successful diasporan entrepreneurs.

In Chapter 12, Pollack focuses on the Chilean experience of creating a diasporan talent network. ChileGlobal is an active international network of Chilean business owners and high-level executives interested in contributing to the success of the Chilean economy through creating and promoting a mechanism of technology transfer and knowledge exchange. Its members are influential individuals with an active role in industries central to Chile’s development who contribute by supporting businesses, leveraging contacts and expertise, and promoting entrepreneurship. The specific objectives of the network are, firstly, to support the development of highly skilled human capital, secondly, to enable public policies relating to innovation and, thirdly, to promote business development. Pollack cites a number of lessons that can be learned from the experience of ChileGlobal. The first is the need to have better statistical information on the number of qualified people and the direction of their mobility. The second is the importance of assessing the sustainability of a network. The third is the value of starting a network based on quality and not on quantity, as most networks are usually organized. Previous Chilean experiences with networks had failed owing to the diversity of members. Partnerships with public and private institutions from the innovation world are one of the key factors explaining ChileGlobal’s success. It is also crucial to ensure long-term financial support for the operations of networks. One of the lessons emanating from the case study on ChileGlobal’s experience is the fact that it maintained strong connections in both the public and private sectors through its partnership with Fundación Chile (a non-profit entity created through an agreement between the Chilean government and the ITT Corporation, a global diversified manufacturing company). Moreover, the fact that ChileGlobal’s objectives were kept in line with key development priorities was important in assuring it critical government support.
Parag Saxena writes in Chapter 10 from his experience as a diaspora entrepreneur as well as a senior representative of perhaps the most successful network of expatriate entrepreneurs – The Indus Entrepreneurs, known widely by its acronym TiE. TiE consists primarily of Indian-origin entrepreneurs and has undertaken significant efforts to promote entrepreneurship and industrial development, especially in the technology sector in India. Saxena builds on this example, as well as his broader experience as an influential representative of the Indian diaspora, to highlight the role of expatriates in developing institutional capacity and contributing to policy-making. By forging partnerships between entrepreneurs, policy-makers, professional service providers, academics and the media, the diaspora can significantly enhance the entrepreneurial climate in its country of origin. Saxena furthermore provides examples showing how the highly skilled diaspora can galvanize investments in appropriate areas in their country of origin by providing venture capital as well as intellectual capital.

In Chapter 11 Wanja Michuki writes in the context of her experience as the US-based co-founder and owner of the Highland Tea Company, which imports, manufactures and wholesales Kenyan speciality teas in the United States. She discusses the practical challenges faced by a diaspora entrepreneur in developing trade linkages to export and distribute branded Kenyan teas in the United States. Using her company as a case study, she makes suggestions about the areas in which policy could facilitate the growth of entrepreneurial activity amongst diaspora members, resulting in employment, knowledge and skills transfer, and social investment. Like Sharma and Montes and like Pollack, Michuki emphasizes the importance of enhancing information about diasporas and their activities. She argues that the starting point for tapping into the potential of a diaspora is to properly identify and target it. In this regard, Michuki calls for the formation of centralized and publicly accessible databases of diaspora professionals; a parallel and comprehensive database of local companies is important to facilitate cross-border linkages and to enable diaspora entrepreneurs to network with local companies that can supply products for export. Such an initiative could be spearheaded by government ministries, for example the Ministry of Foreign Affairs. Alternatively, private professional associations such as the Kenya Association of Manufacturers could develop databases. Other recommendations made by Michuki include establishing state-sponsored competitions for business plans tailored to create sustainable enterprises in partnership with members of the diaspora; creating marketing divisions within the trade missions of overseas embassies that would help establish trade and networking links between the diaspora and entrepreneurs in the home country; and ensuring the participatory inclusion of diaspora members in trade assistance programmes.
Some final thoughts

The previous section walked the reader through the book, distilling and synthesizing some of the key messages and ideas emanating from the chapters. Although these are many and varied, it is important to recognize some of the broader strands of thought running through, or providing context to, the book.

A key theme that cuts through the book is that the word “diaspora” covers a huge diversity, in terms of both the characteristics of expatriate communities and the forms of their engagement with their country of origin. The chapters in the book illustrate the heterogeneity of diaspora communities and outline the full range of their actual and possible contributions to their homeland as well as the policies and conditions that underpin these efforts. This diversity of diasporas also implies that policies aiming to encourage productive and development-enhancing activities by them will need to be selective, nuanced and targeted, taking into account their varying experiences and circumstances, including their socioeconomic characteristics, the nature of their ties with their country of origin, conditions in the home and host countries, and the ability to network.

Given this diversity, there are many reasons why diasporas are motivated to support the development process (family ties, national ties, cultural ties); and there are a number of ways in which they can do so (remittances, investment, return migration, establishing businesses, engaging with national policy-making and political processes, and so on). In this regard, it is worth emphasizing that the potential contribution of diasporas to their home countries goes well beyond remittances and includes a wide range of issues, including knowledge and skills transfer and the facilitation of trade. The book covers these various channels of contribution and policies to facilitate them.

Furthermore, the heterogeneous nature of diasporas renders essential the availability of much better information on the size, characteristics, activities and impact of individual diaspora communities. In fact, this is a field in which information, analyses and data are extremely sparse, as a result of which policy-making is running ahead of knowledge. There is therefore an urgent need to create an analytical framework for properly understanding and evaluating the contribution of diaspora communities, thereby providing a solid foundation for policy-making. Specific proposals to strengthen information relating to diasporas and/or provide an analytical base for evaluating their contributions are made in a number of the chapters, including those by Sharma and Montes, Pollack and Michuki.

The book also gives considerable space to an analysis and discussion of development-enhancing diaspora investment and entrepreneurship and to policies to facilitate this. At the same time, it is important at the outset
to ask whether diaspora entrepreneurs should be treated differently from other foreign investors. It is our view that on occasions they may need to be specifically targeted by policy-makers owing to evidence that they are often driven by a broader set of motivations. To elaborate, there is considerable anecdotal evidence that, unlike other foreign investors, diasporans focus in their investment decisions not just on the rate of return but also on broader non-pecuniary and emotional factors related to their ties to the homeland. Such factors probably play a role in diasporans’ apparent greater willingness to take risks, in their longer-term horizons and in their more altruistic considerations. Diaspora entrepreneurs tend to go beyond pure investing and are involved in activities relating to mentoring, training and the transfer of skills and knowledge. It is likely therefore, as pointed out in Chapter 8 by Sharma and Montes, that the social capital generated per unit of diaspora investment is greater than that generated by other foreign investors. This, in our view, provides the rationale for targeted policy intervention on occasions.

Nevertheless, careful consideration is needed to ascertain and distinguish circumstances in which public policies need to target diasporas specifically from those in which a broader framing of policy would be more appropriate. More generally, public policy has an important role to play in facilitating capacity development, including through partnerships. The various chapters also give consideration to the possibilities for enhancing and building capacity in diaspora networks and relevant home-country institutions (via seed money, technical support, and so on). These include programmes – both public and private – that aim to identify and then support viable entrepreneurs and business projects. Having said this, donors have to make careful decisions regarding how and when to support diaspora organizations, and often the aim should be to support viable ventures rather than initiate them. Moreover, capacity-building to strengthen relevant home-country institutions is of importance. Home-country institutions often determine the degree to which a diaspora’s strength and talent are utilized and the extent to which a process of diaspora engagement is sustained. Institutional arrangements in the home country (such as diaspora/migrant associations, development-oriented non-governmental organizations working with diasporas, chambers of commerce that link up with diasporas, twinning and exchanges between professional associations based in the host country and the home country) are essential in promoting diaspora engagement.

We would like to end by stressing the importance of widening and mainstreaming the role of the diasporas in contributing to development, especially with respect to strengthening entrepreneurship and business development. The recommendations made in a number of the chapters touch upon this issue. At one level, this would entail ensuring the participatory inclusion of diaspora members in trade assistance and aid pro-
grammes and in policy dialogue, as pointed out by Saxena (Chapter 10) and Michuki (Chapter 11), among others. This has been recognized by some policy-makers and donors; for example, the United Kingdom’s Department for International Development has in countries such as Sierra Leone enabled the participation of diaspora groups in public–private dialogues on policy reforms. More broadly, it is a fact that the role of the diasporas in business has in many cases been limited to a few high-value-added sectors such as, for example, information technology and pharmaceuticals. The challenge is to promote diaspora skills and entrepreneurship in order to widen the impact of diaspora entrepreneurship on the rest of the economy. As in the case of FDI, fostering better backward production linkages may be one policy angle. Perhaps more deeply integrating and involving diaspora business networks in the development policy process may have wider-ranging effects. For example, TiE is taking an increasing interest in the issue of rural development and the key here is to see whether business and altruistic interests can be sufficiently married for a meaningful contribution to be made in this area.

In conclusion, although the issue of diasporas’ contribution to development is increasingly being discussed, this book aims to make a difference in two ways. The first is through the categorization of diasporas and their activities, illustrating the increasing importance of non-financial activities relating to institutional reform, policy dialogue and knowledge transfer, while also assessing ways to better leverage the financial flows being supplied by expatriates to home countries. The second key contribution of this book is that it combines analyses by noted academics and other experts in the field with lessons from case studies written by practitioners from the world of financial institutions, diaspora networks and entrepreneurship. Through all this, we hope that a balanced mix of experiences, lessons and recommendations can be gleaned for the benefit of policy-makers and all others who have an interest in this increasingly relevant field.

REFERENCES


Part I

Setting the stage
2

Understanding diaspora diversity and its impact on development

Jennifer M. Brinkerhoff

This chapter analyses the contingencies that lead to different development outcomes. Such analyses can inform projections of diaspora development contributions and suggest data needs for better understanding diasporas and development. Diasporas’ contributions to homeland development include economic remittances, homeland economic investment, skills transfer, diaspora philanthropy, and political influence. My focus is on diasporans’ financial and human capital contributions.

In the first part of this chapter, I review the state of our knowledge regarding the characteristics of diasporans that influence their ability and inclination to contribute to the development of their homelands. First, I discuss diaspora characteristics, including education, skills and income levels, and types of organizations in the diaspora. Second, I address features of the receiving society that may influence diasporans’ inclination to engage in development activities. Third, I explore the extent to which qualities of the homeland support or inhibit diasporans’ development contributions.

In the second part of the chapter, a framework for understanding diaspora diversity and its impact on development is developed. It distinguishes three general types of diasporan and associates these with various financial and human capital contributions, organizational formations and examples. The framework represents a set of hypotheses that could inform experimental policies and programmes by governments and donors, and points to the type of data needed to evaluate their success and corroborate policy design for replication more broadly.

Diaspora diversity and development: What do we know?

Esman (1986: 336) identifies three factors conducive to effective diaspora contributions to homeland development: the availability of material, cultural and organizational resources; “opportunity structures” available in host countries; and “their inclination or motivation to maintain their solidarity and exert group influence”. The first of these corresponds to characteristics of the diaspora and its members. Opportunity structures in both the receiving country and the country of origin may help or hinder. And all three sets of characteristics (of diasporas, host-country opportunity structures and home-country opportunity structures) may influence a diasporan’s inclination to contribute.

Diaspora characteristics

Although increases in income enable a broader range of potential homeland contributions, the influence on remittance behaviour is complex. Organizational resources affect the ability to mobilize for development activities and to access host-country and international decision-making structures. The most commonly identified factor necessary for effective mobilization is the creation of a sense of solidarity and community identity, which are manifested in the social capital created in the diaspora’s organizational landscape. Given sufficient resources and strong motivators, individual diasporans may also contribute to homeland development independently from other diasporans, perhaps with support from heterogeneous professional, business and political networks. The origins of the diaspora may influence diasporans’ inclination to contribute to the homeland beyond family remittances. Finally, individual diasporans’ command of particular skills and knowledge levels influences the type of contributions they may make, as well as the organizations they participate in to do so. Skills and knowledge may create access to broader professional and technical networks to enable more targeted investments and human capital contributions.

Characteristics influencing remittances

The bulk of remittance resources consists of family transfers targeted to household expenditures (for example, home improvement and consumption), though diasporans also direct their remittances towards particular investments, including education and support for family micro-enterprises. Individual, family and community characteristics can affect diasporans’ inclination to remit and the volume and frequency of remitting, as well as the targeting of those remittances (see, for example, Mora and Taylor 2005). Some diasporans choose to remit funds with no questions asked.
The culture and/or family mores may dictate duty and define respect as responsiveness without intrusion. In other instances, diasporans may place conditions on their funding support and/or bypass family members altogether for direct purchasing to support the household. During the Liberian conflict, remittances were viewed as necessary for subsistence; in the post-conflict environment, diasporans are paying more attention to dependency issues and sustaining investments, for example by remitting in kind to support micro-enterprises (Lubkemann 2008). The Internet business Thamel.com represents an innovative vehicle for diasporans directly to support education and home mortgages through partnerships with local banks in Nepal (Brinkerhoff 2009).

The impact of individuals’ characteristics on behaviour towards the homeland is complex. The survey of black and minority ethnic households by the United Kingdom’s Department for International Development (Boon 2006) revealed that Black Africans are more likely to remit than other ethnic groups (34 per cent of remitters), but the average value of their remittances ranks sixth among other ethnic groups. The highest average-value remitters are Pakistanis, followed by Bangladeshis. Access to economic resources does not explain why diasporans of South Asian descent remit larger amounts than those of African or Caribbean descent, or why there is a higher percentage of remitters among Black Africans. In the Office for National Statistics’ data on employment rates and occupations (ONS 2008) and average age (ONS 2002), Black Africans, Pakistanis and Bangladeshis are quite similar (Black Caribbeans show slightly higher unemployment rates; ONS 2008). These findings suggest two cautionary points. First, one cannot assume that cultural differences determine remittance frequency and volume. The greater proportion of Black Africans among remitters may reflect inclinations related to integration into British society and/or intention of return to the home country. Without further data, one can only speculate. These potential motivators may derive from a diaspora’s origins (discussed below).

Second, these findings cannot be taken to confirm that higher earning potential (for example based on gender, age and skills level) may lead to larger volumes remitted. Some studies find that remittances may decline with increases in income, as Marcelli and Lowell (2005) found for Mexicans in Los Angeles and Du et al. (2005) found among remitters to the poor in China. Relatedly, the highly skilled are not necessarily the highest remitters (Faini 2006; Lowell et al. 2004). These findings suggest a bell curve relationship between income and remittance volume. At the lower ends, increases in income may enhance remitters’ capacity to send higher volumes. At a certain point, with increasing income and perhaps integration into the host society, remitters may retain fewer links to the homeland that would inspire increasing remittances or may seek other means
for linking and contributing to the homeland. Perhaps the diasporan has supported the migration of family members (the reunification effect); successfully supported their self-sufficiency in the homeland; been influenced by the success of her/his own initiative and self-sufficiency, possibly reflecting a values orientation from the host society experience; and/or become interested in other forms of diaspora contribution to the homeland that may promise greater impact, sustainability or personal reward (for example prestige). In fact, Hunte (2004) finds evidence to support the “remittance-decay hypothesis”, whereby remittances decrease as receiving household income increases; when household income increases by 1 per cent, remittances to that household decline by 0.8 per cent. The relationship between income levels and remittance volume is also mediated by other factors that influence diasporans’ inclination to remit.

Organizational landscape

Moving beyond family-to-family remittances requires an organizational base to bring diasporans’ material resources, skills and capacities together for a common purpose. A networking base enables diasporans to reach beyond their own capacities to pursue heterogeneous networks, where individual actors operate as bridges between diffuse sources of information and resources. Organizations frame issues in order to focus individuals’ attention and energy and enable effective coordination of their efforts (Snow et al. 1986). To sustain motivation, organizers must also generate a sense of efficacy and subsequent impact (see, for example, Klandermans 1997).

Immigrants tend to create many and diverse associations. Moya (2005) credits this “association mania” to the diaspora experience, where organizing is rooted in the functional needs of migrants. Civic or cultural organizations are the most common diaspora organizations, and this holds across diaspora characteristics, including origins, reception in the host society and relative dispersion of settlement (Portes et al. 2005). Small associations are significant to the daily lives of immigrants, representing “the most common form of immigrant sociability outside of the family” (Moya 2005: 835). These include hometown associations, which may be active in improving the quality of life in both homeland and host land. Generally, participation in community organizations may be associated with remitting behaviour (Marcelli and Lowell 2005). Diaspora organizations are highly varied; most tend to be volunteer based and relatively unsophisticated, and they achieve results, if any, on small scales through very personalized networks. A comparative study of diaspora organizations from Colombia, the Dominican Republic and Mexico found that fewer than half were registered as formal non-profits and four-fifths had no paid staff. Still, 45 per cent did have legal status and some of the
diasporas were more organizationally sophisticated (Colombia, followed by the Dominican Republic) than others (Mexico) (Portes et al. 2005).

More established immigrants prefer more formal and institutionalized initiatives (Portes et al. 2005). Sometimes these are reflections or extensions of traditional American non-profit organizations, such as Lions and Kiwanis clubs. Historically, the growing variety of diaspora associations led to increased organizational specialization (Moya 2005). More generally, as grassroots organizations increase in age, in size and in their purposive activities, there is a tendency for such organizations to become more complex in their structure and function (Smith 2000). Along with the specialization of a diaspora community’s organization sector, as immediate needs related to the migration experience decrease, diaspora organizations may turn their attention more towards the homeland.

Diasporan characteristics inform diasporans’ selection and roles in immigrant/diaspora organizations. According to the literature on voluntary associations, membership increases with education, income and professional employment (Moya 2005). As diasporans progress educationally and economically in the adopted homeland, they may join more associations. Education, income and professional affiliations may lead diasporans to create related specialized organizations, such as alumni associations, investment clubs and professional associations. These may be diaspora specific, represent sections of multi-ethnic organizations, and/or may collaborate with other specialized organizations for targeted purposes. With increasing integration, diasporans may still join associations for the benefit of the homeland (see, for example, Guarnizo et al. 2003; Portes et al. 2005). The more educated among these diasporans are also more likely to organize for homeland interventions (Lowell et al. 2004) that are national in scope (Portes et al. 2005).

_Diaspora origin as an influencing factor_

Diaspora origin may inform diasporans’ motivation and sense of potential efficacy, that is, their perceived ability to assimilate in the host country and/or influence the home country. Research (Portes 2003) suggests that immigrants originating from urban areas in conflict countries (for example, Colombia; Guarnizo et al. 1999) are more likely to seek immediate integration into the host country and to sever ties with the homeland, whereas those from rural areas in relatively peaceful countries tend to engage in support of their homelands (for example, El Salvador; Landolt et al. 1999). Origins also determine demographic composition and illuminate religious, ethnic and political differences both within the diaspora and between the diaspora and its compatriots remaining in the homeland. These may influence a diaspora’s ability to mobilize for collective action and to be effective in the homeland.
Esman (2008: 144) roughly divides diasporas into two types: (1) labour diasporas, consisting primarily of unskilled individuals with little formal education and no business experience; and (2) entrepreneurial diasporas, which include “substantial numbers of people with business experience and skills”. With some caveats, Esman’s distinction may be useful in assessing the type of contributions each group might make. First, both labour and entrepreneurial diasporans may exist within a particular country’s diaspora. Many diasporas consist of different waves of migration, whose destination may be determined accordingly. For example, the Afghan diaspora includes segments that can be characterized as a labour diaspora, and those that correspond to an entrepreneurial diaspora (Hanifi 2006). Second, differences in education and material wealth are a matter of degree that, realistically, are best seen on a continuum. Third, diaspora origins are much more complex than a simple dichotomy would suggest. These origins are “akin to the traumas of childhood; they mark the diasporan group and inform the direction of its development” (Butler 2001: 203). Origin yields a particular myth, which forms the basis of the diasporan’s identity as distinct from the homeland and as a partial determinant of the diasporan’s motivation to embrace the host land. For some, the myth is return and/or re-territorialization; for others, it is economic prosperity in the host land. The origins of some diasporas may lead members to sustain greater linkages with the home country, owing either to inability to integrate into the host society and/or to an intention eventually to repatriate.

For the purpose of exposition and hypothesis generation, I treat these types as if they were dichotomous. The complexity of origins suggests a need to qualify expected correlations between individual characteristics and potential homeland contributions, making them diaspora specific.

Skills and knowledge

Most classifications of migrants are highly oversimplified and not very helpful for grasping the full range of potential contributions that various diasporas may make. For example, Kuznetsov and Sabel (2006) divide migration streams into the high skilled and the low skilled. The high-skilled stream is made up of highly educated, entrepreneurial diasporans who participate in diaspora networks – networks that “let members find and collaborate with those who already know what they need to learn” (Kuznetsov and Sabel 2006: 8). They characterize the low-skilled stream as mostly illegal and “perceived as draining the budget for social expenditures” in the country of residence (2006: 10). This dichotomy does not account for highly skilled diasporans who may not be entrepreneurial, nor does it acknowledge the many low- and medium-skilled diasporans who remit to their home countries and participate in various forms of
diaspora philanthropy (for example, hometown associations). Building on Esman’s (2008) similar distinction, in the second part of this chapter I elaborate on the potential contributions of the lower-skilled diasporans and I add a third category – the highly skilled, non-business-oriented diasporans. The highly skilled within a diaspora represent a broad range of expertise and, therefore, different types of potential human capital contributions.

To underscore the significance of this potential resource, consider that, in the United States, 25.7 per cent of all doctorate holders and 37.6 per cent of science and engineering doctorate holders are foreign born (Regents 2007). Among the highly skilled, expertise may or may not translate into relatively greater material wealth. The incidence of brain waste, where a highly skilled individual cannot find employment in the receiving society in her/his chosen profession, is well documented. Engagement in support of the homeland is greater, the higher the education and skills of diasporans (Portes 2003). Those with a high school diploma are 173 per cent more likely to engage in transnational political activities, and each additional year of education increases the likelihood of transnational entrepreneurship by 1 per cent (Portes 2003).

Diaspora interest in contributing knowledge and skills is high. For example, of the African health professionals who participated in a conference on mobilizing the diaspora for healthcare capacity-building in Africa, 95 per cent were prepared to serve temporarily as a consultant or expert (Blanchet et al. 2006). Knowledge transfer schemes can be found within most professions, such as engineering, education and medicine. Examples include the Korean-American Scientists and Engineers Association, the Association of Filipino Teachers of America and the National Arab American Medical Association. University twinning arrangements are also possible. Beyond technical knowledge and skills, diasporans may contribute new understandings acquired in the host country, cultural competencies and associated intermediary roles, and tacit knowledge that encompasses transnational experience. The most significant contributions in terms of innovation and economic impacts do not derive solely from entrepreneurial diasporans, but are the products of the networks they create and bring to the endeavour (see Zhou 2004). These skills, knowledge and networks may be applied through targeted professional activities in the home country and/or be channelled through philanthropic activities. Entrepreneurial diasporans may also contribute through their influence on their multinational corporation employers. For example, Coca-Cola’s investment in Afghanistan is largely attributable to the efforts and advocacy of an Afghan-American employee.

Beyond their particular fields of expertise, skilled diasporans may also contribute economically to the homeland through philanthropic activities,
independently or with their professional associations or other diaspora organizations, or through household remittances or directed investments. The highly skilled are not necessarily the largest remitters, but they are more likely to make productive investments (Lowell et al. 2004). This may occur on four levels:

1. they may direct the use of their household transfers to specific investments, whether educational or business oriented;
2. they may also seek to connect their resources to micro-finance institutions that can provide training and support for the creation of micro-enterprises;
3. they may seek to create their own businesses in the homeland and/or invest in existing businesses, sometimes through diaspora investment clubs;
4. they may participate in portfolio investment.

The second, third and fourth levels of financial investment may represent profit-seeking, philanthropic inclination, or both. Those who are interested in diaspora homeland investment are not necessarily remitters; their ties may be beyond specific family members and have more to do with profit motives or other prestige benefits. For example, among the diasporans attending a Sierra Leone Consultative and Investment Forum in London in 2005, only 53 per cent were remitters (AfricaRecruit 2005). A survey of the Kenyan diaspora revealed that 82 per cent remit for sustenance and approximately half of those are supporting businesses; 24 per cent of those who do not remit still send money for business and investment purposes (AfricaRecruit 2007).

A summary of diaspora characteristics

Table 2.1 summarizes the above discussion, associating various diaspora characteristics with the direction (positive or negative) of their influence on homeland contributions. In some cases, although it is clear that the characteristic influences contributions, it could either encourage or diminish engagement with the homeland, depending on the particulars of that characteristic. For example, in some instances culture and family relations may inspire significant engagement, whereas in others diasporans may be discouraged by them. These associations remain hypotheses in need of further confirmatory research. Furthermore, they must be qualified by the experience in the receiving society (below) and the origins of the diaspora.

The receiving society

Diasporans may choose destination countries based on economic and political factors, which in turn affect their ability and inclination to mobilize on behalf of the homeland. The highly skilled, in particular, may elect
to migrate to countries where their pay is in stronger currencies, thus intentionally enhancing their remitting potential (Lapper 2008).

Choosing to mobilize based on one’s diaspora identity depends upon perceptions of what may be gained – benefits less costs – and whether or not one might be effective – a sense of efficacy (Brinkerhoff 2008). Diasporans’ experience in the receiving or host society significantly influences this implicit cost/benefit analysis. The higher the cost of a particular agenda to status and security in the adopted country, the greater the likelihood that the diaspora community will split and/or fail to mobilize (Esman 1986). Those who are undocumented or otherwise lack security of residence and freedom of movement are less likely to engage in contributions that require hands-on oversight in the homeland (for example, some forms of business investment and philanthropy) and may focus primarily on remittances. The degree of integration and success in the host society contributes to diasporans’ capacity to contribute and also influences a diasporan’s sense of efficacy (Brinkerhoff 2008). For example, in the Mexican diaspora community in Los Angeles, home ownership is positively correlated to remittances, whereas public assistance is not (Marcelli and Lowell 2005). Contrary to conventional wisdom, contributions to the homeland are not a short-term phenomenon of relatively new arrivals.

Table 2.1 Individual characteristics influencing diaspora contributions

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Direction of influence</th>
<th>Contribution influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culture and family relations</td>
<td>+/-</td>
<td>General inclination</td>
</tr>
<tr>
<td></td>
<td>+/−</td>
<td>Remittances (volume, frequency, degree of directedness)</td>
</tr>
<tr>
<td>Diasporan income</td>
<td>+</td>
<td>At lower levels (capacity)</td>
</tr>
<tr>
<td></td>
<td>−</td>
<td>Remittance volume and frequency (inclination)</td>
</tr>
<tr>
<td></td>
<td>+</td>
<td>Remittance directedness and other productive contributions</td>
</tr>
<tr>
<td>Household income (remittance receivers)</td>
<td>−</td>
<td>Volume</td>
</tr>
<tr>
<td>Intention to return to homeland</td>
<td>+</td>
<td>Directedness</td>
</tr>
<tr>
<td></td>
<td>+</td>
<td>General inclination</td>
</tr>
<tr>
<td></td>
<td>−</td>
<td>Remittance behaviour</td>
</tr>
<tr>
<td>Linkage to the homeland</td>
<td>+/-</td>
<td>Diaspora origin</td>
</tr>
<tr>
<td></td>
<td>−</td>
<td>Reunification effect</td>
</tr>
<tr>
<td>Degree of integration</td>
<td>+</td>
<td>General engagement, esp. beyond remittances</td>
</tr>
<tr>
<td></td>
<td>+</td>
<td>Productive contributions and investments</td>
</tr>
<tr>
<td></td>
<td>+</td>
<td>National in scope</td>
</tr>
<tr>
<td></td>
<td>+</td>
<td>Skills/knowledge exchange</td>
</tr>
<tr>
<td></td>
<td>−</td>
<td>Remittance volume</td>
</tr>
<tr>
<td></td>
<td>+</td>
<td>Remittance directedness</td>
</tr>
</tbody>
</table>
Engagement may increase over time, as diasporans become further integrated into the host society and further develop their skills and knowledge (see also Guarnizo et al. 2003; Portes et al. 2005).

Diasporans mobilize for the expression of their identity, for maintaining or acquiring power or other resources, or both. The expression of homeland identity may be based on a sense of belonging, in response to feelings of marginalization in their adopted society, or on a sense that the homeland identity will be lost without proactive expression. Marginalization in the host society can lead to disempowerment and a failure to mobilize, or it may be a catalyst for group identity and mobilization in support of the homeland, perhaps feeding a dream of return and/or reinforcing a social prestige that is not accessible in the host society. Some research suggests engagement on behalf of the homeland provides “a source of solace against external hostility and protect[ion of] personal dignities threatened by it” (Portes 2003: 880).

The host-country policy and cultural environment can influence diasporans’ perceived potential gains and risks to mobilization, sense of perceived efficacy (for example, psychological empowerment) and capacity to mobilize and be effective. Beyond solidarity among diasporans, Grosfoguel and Cordero-Guzmán (1998: 355) emphasize the importance of “broader social structures that constrain or enable access to capital, information, and resources by members of a specific community’s micro-networks”. Several studies have contrasted, for example, the relative assimilation and economic success of Cuban immigrants compared with Haitian immigrants (see, for example, Portes and Sensenbrenner 1993). Haitian immigrants did not have the same access as Cuban immigrants to targeted public policies designed to support their success in the United States (for example, access to small business and home-ownership loans and to educational grants). Immigrant-receiving countries are increasingly focusing on policies and programmes to support immigrant integration into their societies, including programmes for improving linguistic and vocational competence, policies to combat discrimination and reforms to facilitate naturalization (United Nations 2004).

The host-society experience thus affects diasporans both psychologically and materially (see Brinkerhoff 2008), subsequently influencing their potential contributions to the homeland. The effectiveness and scope of contributions will also benefit (or not) from the social networks that diasporans are able to establish in the host society, both among fellow diasporans and as they integrate into the broader society and economy.

The homeland

Diasporans’ inclination to contribute to the homeland may be partially influenced by characteristics of the homeland itself. These include the
homeland government’s attitude towards its diaspora and factors related to the general sociopolitical and investment climate (for example, democratisation, legal frameworks, political stability). Home governments may consider their diasporas a nuisance, may be indifferent or may see them as important contributors to social, political and economic development. In the last case, these governments may network with their diasporas, offer various incentives to contribute to homeland development and/or seek to integrate them politically (Lowell et al. 2004).

Poor socioeconomic and political conditions in the home country may not always deter diaspora contributions. Based on research from Armenia, Cuba, Iran and Palestine, Gillespie et al. (1999) found that diasporans may be more likely to invest in economies that others would consider high risk, simply because they have better knowledge and relationship opportunities than other investors. However, this interest may not always lead to actualized investment, as documented in follow-up research on Palestine (Gillespie et al. 2001). The absence of social networks in the country, as well as persistent perceptions of a risky investment climate, still may inhibit diaspora homeland investment. Diaspora economic investments may require attention to investment climates in ways similar to foreign investors more generally, though governments’ solicitation and facilitation of these investments will need to be adapted to the particular motives and cultural advantages that diasporas represent (Riddle and Marano 2008). Diasporans’ drivers for investment versus philanthropic activity may vary (Gillespie and Andriasova 2008). In the case of Armenia, diasporans are more tolerant of “bad investments” or disappointing results from philanthropic efforts than from business investments.

Challenging conditions in the homeland may foster greater philanthropic interest within the diaspora. The absence of control of corruption, government effectiveness and rule of law does not necessarily deter remittances (see Abdih et al. 2008); remittances in these circumstances may reflect the perceived needs of family members. During natural disasters and other emergencies, diaspora support in the form of cash and transfers to families and institutions increases to compensate for local loss, for example in Haiti (Fagan 2006). One Pakistani diaspora organization in the United Kingdom raised US$25 million for relief in the aftermath of the 2005 Kashmir earthquake (Özerdem 2006). Homeland crisis may also inspire renewed interest among later diaspora generations, as seen in post-conflict societies. The end of the Taliban regime in Afghanistan spawned the creation of new diaspora organizations to support its reconstruction (Kerlin 2008) and mobilized many second-generation Afghans for the first time (Brinkerhoff 2004).

Longer-term commitments of financial and human capital are likely to require feedback that the results of past efforts are meaningful. In other words, some evidence of improvements as a result of diasporan
Contributions may be necessary to sustain commitments. This need for a sense of efficacy also implies that diasporans expect improvements in democracy and development over time, and the lack of progress in these areas may weaken interest and commitment.

Labour, entrepreneurial and highly skilled diasporans: Potential respective contributions

The framework in Table 2.2 builds upon our state of knowledge and represents a series of hypotheses regarding diasporan characteristics and potential homeland contributions. Although factors related to diaspora origin, integration in the host society, and home-country diaspora engagement and sociopolitical and economic development all influence the likelihood of these hypothesized contributions, their inclusion is beyond the scope of this particular framework. As a theory-building exercise, the framework is necessarily targeted in its scope. Subsequent research could take up each of these suggested correlations as well as qualify them with those relevant factors from the host and home countries.

Each of the diaspora types will be discussed in turn. However, these should be seen as a continuum rather than a strict typology, as the examples will illustrate. There is a plethora of examples that could be mentioned; each of those selected represents a potential type of engagement that may be widely implemented by other groups representing different diasporas.

Labour diasporans

Labour diasporans remit small amounts that in the aggregate represent the bulk of diaspora remittances. For example, the 34 per cent of UK remitters who are Black Africans probably represent a labour diaspora. Because of their lower skill levels, labour diasporans are unlikely to earn enough income to send larger amounts, and may or may not seek to direct the application of the money they do send. Depending on the income of the family as a whole, remittances may contribute to subsistence or household maintenance only, or they may extend to support education investments and micro-enterprise start-up for household members. The application and direction of remittances may evolve as the household income improves.

Contributions may also extend beyond the household. Labour diasporans increasingly organize into hometown associations (HTAs) and other types of diaspora organization that make philanthropic contributions not only in financial terms, but also in human capital terms through project
<table>
<thead>
<tr>
<th>Diaspora type</th>
<th>Financial capital</th>
<th>Human capital</th>
<th>Organizations</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour</td>
<td>Remittances</td>
<td>Through philanthropic projects</td>
<td>Individuals</td>
<td>Comunidad Unida de Chinameca (El Salvador)</td>
</tr>
<tr>
<td></td>
<td>Directed investments 1 and possibly 4</td>
<td></td>
<td>Hometown associations</td>
<td>Flood relief to Viet Nam</td>
</tr>
<tr>
<td></td>
<td>Philanthropy through hometown associations (collective remittances)</td>
<td></td>
<td>Church groups</td>
<td></td>
</tr>
<tr>
<td>Entrepreneurial</td>
<td>Remittances</td>
<td>Management skills; business-sector-related expertise; financial management</td>
<td>Investment clubs</td>
<td>US Liberians</td>
</tr>
<tr>
<td></td>
<td>Directed investments 1–4</td>
<td>Professional networks</td>
<td>Professional associations</td>
<td>New Horizon Investment Club</td>
</tr>
<tr>
<td></td>
<td>Business start-up and investment</td>
<td>Corporate social responsibility</td>
<td>Businesses/corporations</td>
<td>DIR Foundation, Ethiopian coffee-processing project</td>
</tr>
<tr>
<td></td>
<td>Other financial investment</td>
<td>Professional networks</td>
<td>Business networks</td>
<td>Highland Tea Company (Kenya)</td>
</tr>
<tr>
<td></td>
<td>Corporate social responsibility</td>
<td>Corporate social responsibility</td>
<td>Non-governmental organizations</td>
<td>Afghan Wireless</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Political networks</td>
<td></td>
<td>Ramón García, Biogenetic (Chile)</td>
</tr>
<tr>
<td>Highly skilled (non-business)</td>
<td>Remittances</td>
<td>Management skills</td>
<td>Professional associations</td>
<td>Association of Filipino Teachers of America</td>
</tr>
<tr>
<td></td>
<td>Directed investments 1–4</td>
<td>Technical skills and expertise</td>
<td>Educational institutions</td>
<td>Ethiopian North</td>
</tr>
<tr>
<td></td>
<td>Philanthropic donations</td>
<td>Professional networks</td>
<td>Formal networks with recruitment agencies, governments, foundations, international organizations</td>
<td>American Health Professionals Association</td>
</tr>
<tr>
<td></td>
<td>Corporate social responsibility</td>
<td>Corporate social responsibility</td>
<td>Businesses/corporations</td>
<td>Coptic Orphans</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Non-governmental organizations</td>
<td>Nedsom</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>AgriMix PLC</td>
</tr>
</tbody>
</table>
delivery (see Orozco with Lapointe 2004). For example, Comunidad Unida de Chinameca grew out of the efforts of a village priest in El Salvador who contacted former parishioners, now in the United States, as he tried to raise money for a local school. The members created an HTA, with projects ranging from US$1,000 to US$150,000, including building homes in the aftermath of the 2001 earthquake (Hudson Institute 2007). Church groups are well known for supporting relief efforts after natural disasters. In 2000, one Vietnamese church in California raised over US$20,000 to support flood relief in Viet Nam; the pastor travelled to Viet Nam to directly distribute the money through churches in the Mekong Delta. Similar efforts were made by Vietnamese-American church groups across the United States (Sidel 2007).

As their income improves and their family members in the homeland become better off, some labour diasporans may also participate in portfolio investment in the homeland, especially if they are specifically targeted in marketing efforts.

**Entrepreneurial diasporans**

Some, not all, entrepreneurial diasporans may also be remitters. Business-oriented diasporans are likely to focus on directed investments of remittances, emphasizing education and vocational training and the setting-up of household micro-enterprises. Beyond the household, they may also support economic development at the micro level (for example, supporting micro-finance and micro-enterprises), through broader investment clubs that support sector-wide investments and through the start-up of their own small businesses. Diasporans have also pioneered their own finance institutions to support diasporan homeland investment. Members of the Liberian diaspora in Philadelphia created a Community Credit Union to finance both small and large investments by Liberians (Lubkemann 2008). These directed investments may be primarily philanthropic in orientation and/or emphasize long-term self-sufficiency for family members.

Entrepreneurial diaspora activities include members of the labour diaspora who extend their knowledge and skills through experience, cooperative ventures between labour diasporans and entrepreneurial diasporans, and the more conventional understanding of those with extensive business knowledge and skills, or entrepreneurs. In the first instance, Lubkemann (2008) documents US-based Liberians’ pursuit of “not-just-for-profit” businesses, including an individual who works seasonally in the United States in order to support his Liberia-based business, which he knows is employing more people than could be otherwise sustained. As they join with other labour diasporans, some of the rela-
tively higher-skilled diasporans may inspire entrepreneurial ventures. The New Horizon Investment Club in the United States evolved from a more typical HTA effort. Members of the informal group were interested in making a more significant contribution by both pooling resources and exploring the possibilities for a region-wide impact. It was the inspiration of a Certified Public Accountant among them that led to the creation of an investment club. Other labour diasporans may become more entrepreneurial as they integrate. The DIR Foundation’s Ethiopian coffee-processing project illustrates how labour diasporans can pool their resources, extend their knowledge and skills, partner with other actors, including specialized businesses, to create a transnational business (a coffee shop in Amsterdam and sales to other Dutch coffee purchasers), improve profit for local farmers and employ at-risk populations (former prostitutes) (Mohamoud 2007).

Entrepreneurial diasporans may also start businesses, frequently for import–export with the homeland, and invest in the homeland for profit motives. Motivations may derive from a combination of altruism based on homeland loyalty, profit and prestige benefits (for example, social and political power). Even as these diasporans seek profit and other self-interested benefits, they may pursue additional important development contributions through corporate social responsibility. The Highland Tea Company in Kenya, discussed in detail in Chapter 11, represents a profitable business with a strong corporate social responsibility orientation.

Some diasporans may use their successful business ventures, as well as their socioeconomic backgrounds, to access key policy-makers with whom they can negotiate supportive policy frameworks for both business development and philanthropy. They may fund the latter, but their engagement, or doing, may not be as intensive as that of diasporans who are relatively less well off or lower skilled.

**Skilled diasporans**

Skilled diasporans from the non-business sectors may contribute their technical knowledge and skills through direct, philanthropic activities or through more formalized partnerships with other actors. The Association of Filipino Teachers of America implements a large-scale teacher training programme in cooperation with the Philippine government’s Commission on Filipinos Overseas, which matches proposals to needs and produces the required materials. Overseas Filipino teachers cover their own expenses and schedule trainings during their summer vacations. The Ethiopian North American Health Professionals Association collaborates with the Ministry of Health in Ethiopia for human capital development, which includes the creation of a distance learning programme for training-of-
trainers in HIV medicine and malaria. It also plans to introduce web-based consultation.

These diasporans may also organize their own non-governmental organizations and/or businesses, either with the explicit aim of helping the homeland or with a significant commitment through corporate social responsibility. Nermien Riad, an engineer by training, founded Coptic Orphans, with offices in the United States, Egypt and Australia, to support the quality of life of orphan children in Egypt. She brings professionalism and American ways of thinking to maximize impact in Egypt and to develop her Egyptian staff, volunteers and partners (Brinkerhoff 2009). Nedsom, a Dutch-Somali organization, partnered with Care Netherlands to match skilled Dutch-Somalis with identified capacity needs in Somalia for temporary knowledge exchange with local personnel in civil society and government (Mohamoud 2007). AgriMix PLC, founded by the Dutch-Ethiopian diaspora, set up FAMIX Farm in Ethiopia. The project aims to modernize agricultural practices in Ethiopia by introducing advanced technologies and equipment (for example, irrigation systems and tractors). FAMIX Farm is a commercial venture with a heavy emphasis on social responsibility; it employs the local poor and engages in knowledge and information exchange with local farmers (Mohamoud 2007).

Conclusion

The typology of diasporans is a convenient way of better understanding the different contributions to the homeland one might expect. The reality is that these are most easily distinguished at the extremes, and many efforts combine members of labour, entrepreneurial and other highly skilled diasporas. Still, the framework suggests a broad range of possibilities, refuting expectations of limited interest and potential within each category, particularly among labour diasporans. This review suggests that income differentials affect potential outcomes in complex ways. At lower levels, income may enhance the capacity to do more, but at higher levels the inclination to contribute may wane for a variety of reasons. At still higher levels, a limited number of diasporans may choose to make targeted, yet quite substantial, contributions, and these contributions may have less to do with hands-on philanthropy than with profit-seeking business ventures, policy influence and philanthropic funding.

As Portes (2003: 889) has already indicated with respect to transnationalism more generally, better understanding the linkages between diaspora characteristics and potential homeland contributions will require “a combination of methods – ranging from the analysis of existing official and census data, to longitudinal surveys, to ethnographic work”. Tables 2.1
and 2.2 present a series of hypotheses worthy of further data collection and analysis. Such investigation will enable policy-makers to better design and target policy and programmes to achieve the desired diaspora contributions.

Notes

1. Thamel.com is a diaspora-founded Internet business that primarily serves Nepalese who live in diaspora by enabling their purchase of gifts and other goods, mostly produced in Nepal, to be delivered to their family members in Nepal.
2. Although there are probably distinctions between men and women and their homeland contributing behaviour, these may vary from culture to culture and may contradict standard assumptions. Men are significantly more represented among transnational entrepreneurs than are women, as is the case in the Colombian, Dominican and Salvadoran diasporas in the United States (see Portes 2003). For a review of the literature relating to gender and migration, as well as a theoretical framework for informing these dynamics, see Pessar and Mahler (2003).
3. For examples of all three organizational types (from the Chinese and Filipino diasporas), see Wescott and Brinkerhoff (2006); for examples of knowledge networks that partner with multi-sector actors (e.g. governments, donors and the private sector), see Kuznetsov (2006).
4. For an insightful description of these dynamics within the US-based Liberian diaspora, see Lubkemann (2008).

REFERENCES


Part II

Diaspora funds and the poor
Remittances, diaspora and inclusive micro-finance: What have we learnt?

Arun Kashyap and Kai Schmitz

Introduction

The benefits of migration are mostly through remittances to the country of origin. Poor or uncertain economic prospects in developing countries result in part of the family living and working in an industrialized nation and sending money to support family members who remain in their home country. Remittances characterize the most tangible contribution of migrants to poverty reduction. Migration is not only a South–North phenomenon as commonly believed; South–South migration is just as large. South–South remittance flows make up 30–45 per cent of total remittances received by developing countries (Ratha and Xu 2008).

Over the past few decades, remittances have become increasingly prominent. Officially recorded remittance flows worldwide are estimated to have been around US$414 billion in 2009, with those to developing countries expected to have been around US$316 billion (Ratha et al. 2010). This amount, however, reflects only transfers through official channels, and even officially recorded remittances are known to be measured with error. The balance-of-payments statistics produced by developing countries often neglect remittances received via money transfer operators and almost always exclude those transferred via informal means such as hawala operators, friends and family members, carried by travellers or sent by mail or money orders. These informal transfers may range anywhere from 20 per cent to 100 per cent of the official statistics on remittances and would significantly enlarge the volume of remittances if they...
were recorded. The true size of remittances received by developing countries is believed to be well in excess of US$400 billion (Ratha et al. 2010). The latter figure, although an estimate, when compared with the official development assistance amount of about US$120 billion in 2009 clearly reflects the changing landscape of external financing in developing countries (United Nations 2010).

A vital associated issue to consider is if and how the changing financial landscape as a result of remittances affects the development characteristics, both actually and potentially, of the receiving countries (also termed countries of origin). Although the current literature highlights considerable scope for leveraging remittances and other diaspora resources for the benefit of developing countries, there exists a gap in our understanding of the possibilities and processes. An essential element of apparent logical complexity stems from the fact that migrant remittances fundamentally differ from other financial flows in that they represent a private transaction and are mainly a family affair based on social ties and networks of responsibility and affection. Moreover, migration has economic and social costs for the migrants, for their families and for others left behind in the countries of origin, as well as for destination countries.

This chapter suggests that, although migration and remittances by themselves do not enable a country to escape poverty, they can stimulate equitable development. The structural problems behind the persistence of poverty have to be addressed by the national governments. However, sizeable remittance inflows in a country of origin provide the government with opportunities to create public goods and services by leveraging private transactions. In addition to creating efficiency in money transfers and in the use of the received amount at the household level, such a strategy can assist governments to create greater financial access and equity by catering for the unmet needs for financial goods and services of the poorer and more vulnerable population. In focusing mainly on voluntary migration, the chapter presumes that migrants take into account the social costs of separation prior to choosing to seek their livelihood in a country of destination. It is also assumed that a more developed financial infrastructure leads to greater access to financial products and services that are needed by the poorer households (termed “inclusive”).

In what follows, we will first build upon lessons from the existing literature on remittances and development, while highlighting market opportunities and barriers to linking them to the creation of inclusive financial goods and services. After underscoring the need for access to financial services for a better quality of life for the poor and the disadvantaged population, we provide a framework that includes a discussion on the business case for how remittances can leverage inclusive financial services. We then analyse some major projects, with an emphasis on the critical constraints to be addressed to ensure their success and sustainability.
Finally, we draw conclusions and make recommendations relating to policies, regulation and an enabling environment, capacity diagnostics and development, as well as public–private partnerships that can ensure the design and delivery of strategic financial products and services for households with unmet demand.

Remittances and development

A lack of reliable data, analysis and practical insights from the migration–remittances–development linkage has impeded developing countries from fully leveraging the development impact of remittances. However, the situation is improving. For millions of households, remittances support the daily needs of families as a key part of family maintenance and typify an important way to improve their welfare. Evidence from sub-Saharan Africa indicates that cross-border migration to neighbouring African countries and further afield, as well as from rural to urban areas, plays a vital role in the livelihood strategies of the poor communities (Vargas-Lundium and Lanly 2007). Studies by the World Bank indicate that remittances cut the poverty rate in Uganda and Bangladesh by 11 per cent and 6 per cent, respectively, and raised education levels in El Salvador and the Philippines. Despite complex economic and political circumstances in Nepal, the country’s poverty headcount ratio declined by 11 percentage points between 1995 and 2004, and one-third to one-half of this poverty reduction may be attributed to remittances (Ratha 2008).

A number of studies have highlighted the positive role of remittances from migrants on various types of household investment in developing countries (Mesnard 2004). Given that the remittances – particularly by migrants with low skills – improve the welfare and quality of life of their recipient households, we believe that this impact can be further reinforced. This would require generating livelihood opportunities by improving access to financial services, alleviating risks and vulnerabilities, and enhancing financial literacy among the remitters as well as the recipients. The emphasis on livelihoods is vital. Increased access to financial services is not a solution to poverty alleviation. It must go together with ensuring that the recipient households have the capabilities to exercise their options to access the services they need to build assets. A survey of self-employed workers and small firms in urban Mexico concluded that remittances account for nearly 20 per cent of the capital invested in micro-enterprises in urban Mexico (Woodruff and Zenteno 2001). In Egypt, returning migrants in the late 1980s set up a number of enterprises in greater Cairo, using funds brought back from abroad (McCormick and Wahba 2002). These funds can affect economic growth positively by
serving as insurance against the risks associated with new enterprises (Taylor 1999).

Some research contends that remittances encourage consumption rather than productive investments. However, remittances may promote development even when they are spent on consumer goods. A study of Mexico concluded that a dollar of remittance generates three dollars of spending power (The Economist 2002). In addition, consumption and/or investment decisions are influenced by the impacts on remittances of macroeconomic external shocks such as exchange rate fluctuations. Remittance-receiving households, when faced with favourable exchange rates, increase their investment-related activities in such things as children’s education, self-employment and launching capital-intensive entrepreneurial activities (Yang 2006).

The propensity to save out of remittances has been consistently found to be nearly 40 per cent across studies. Even though some studies have determined that in economies with underdeveloped financial systems remittances may increase recipients’ access to savings (World Bank 2006) and alleviate credit constraints (Giuliano and Ruiz-Arranz 2005), the outcome is strictly less than efficient. Higher transaction costs, particularly in the rural areas, have deterred both reliability and access to financial goods and services (Kashyap and Ahmed 2007) that meet the demands of recipient households. Accordingly, investment, however limited, has mainly been in real assets – namely the building of schools and clinics (Orozco 2000), housing and land – and secondarily in business activity, including machinery and shops (USAID 2004), rather than in formal financial instruments. Poorly developed financial markets and institutions have impeded access to financial goods and services by the remittance-receiving families. Moreover, inadequate financial infrastructure in sub-Saharan Africa has contributed to the widespread use of informal channels for money transfers by migrants (Kashyap and Ahmed 2007). When accompanied by a lack of financial literacy, a weak enabling environment, limited capacity and poor economic governance, the impact of remittances on the welfare of households and on equitable development is suboptimal (Kashyap 2007).

Making financial services inclusive

It is important to better understand the dynamics of remittances, ranging from receipt volumes, to the costs of and access to efficient mechanisms to transmit/receive money, to the usage preferences of remitters and receiving households. Equally important is the need to comprehend the options available and the ability of the less privileged households to access
financial products and services to meet their unmet needs for improved welfare and a better quality of life and then to examine the mechanics of the possibilities afforded by remittances to accomplish that objective.

Nearly 4 billion people globally are currently irrelevant to the banking system. A study by the Asian Development Bank (ADB) found that rural financial markets in Asia were ill prepared for the twenty-first century (Meyer and Nagarajan 2000). Moreover, nearly 95 per cent of some 180 million poor households in the Asia and Pacific region had little access to institutional financial services. It is mostly low-income and rural individuals and micro- and small-sector enterprises that are under-serviced by the financial industry.6 The unmet demand for micro-finance services is estimated to be nearly US$300 billion, of which the existing micro-finance institutions (MFIs) supply nearly US$15–25 billion.7

In West Africa, in most savings-based MFIs such as credit unions, village banks or savings and credit cooperatives, nearly six times as many people make deposits as take out loans at any one time (ILO 1998). Despite the prevalent recognition that the poor have a high propensity to save and that there is a considerable demand for savings instruments as a result of increased remittances, even in Latin America fewer than 10 per cent of remittance recipients are estimated to have access to savings accounts, loans or other financial services (Kashyap 2006). Access to commercial banks by low-income and rural populations is limited in terms of physical distance to the closest branch of the bank, thresholds in account fees or minimum required balances, and a lack of assets and collateral opportunities for entrepreneurs.

That poor people are bankable and creditworthy is an important lesson learnt after nearly three decades of micro-credit activities. Despite the progress of micro-credit initiatives, real involvement by the world’s largest financial institutions in this market or in leveraging their successes is anecdotal. There are currently examples of large private sector banks entering into risk-sharing partnerships with non-governmental or state-run MFIs that merge social mobilization skills and a rural presence with the capital resources and financial credibility of a bank. Remittances provide a seamless opportunity to leverage such partnerships. The larger banks diversify their market opportunity by venturing into micro-finance at lower transaction costs by partnering with MFIs that know their customers very well. Simultaneously, the existence of larger numbers of recipient households provides profitable prospects for MFIs, which can diversify their product platform by leveraging the expertise of larger institutions into tailored products to meet the needs of their clients.

Along with the enhanced availability of savings and credit options, equally important are the terms on which these services are available and whether they are within the reach of the clients and entrepreneurs. With
remittance-led increases in income levels, households have a need for services that allow them to manage their livelihood risks better – through, *inter alia*, access to micro-insurance products – while reducing their vulnerabilities to external shocks and stresses. MFIs would also have an opportunity to meet emerging demands for taking micro-enterprises to a bigger scale, particularly by using evidence of remittances available to finance such ventures. This would strengthen the niche of MFIs, since a good number of small and medium-sized enterprises (SMEs) need small loans, which banks, in general, are either unable or unwilling to provide because the transaction costs are relatively higher and result in lower profits per loan.

Framework: Leveraging financial services through remittances

Despite survey estimates indicating that remittances are used both for one-time payment of bills, medical emergencies, food costs or school fees, and for generating livelihoods, there continues to be inadequate information on the amount of remittances that are leveraged.\(^8\)

The private sector is a vital change agent for creating inclusive financial products and services linked to remittances. The involvement of private sector financial institutions is guided by recognition of a market opportunity to cater for unmet demand. Also required are the creation of differentiated products for these new customers, the establishment of brand recognition and ensuring financial returns along with social returns. Although the offering of a remittance service leads to new customers and enhanced developmental possibilities, the long-term viability of business models for financial products anchored in remittances will require political and policy support. Moreover, apart from meeting the demand of remitters or recipients, the products should provide high margins to assure profitability in a market that is guided by high volumes and low margins.

Accordingly, even though savings products, home financing, insurance and small business loans are identified as financial services that generate these benefits and have been offered alongside remittances to either remitters or recipients, the practice has been limited. This is evidence of barriers to entry in this market segment that represent significant challenges for the private sector. These include: unfamiliarity with the products required by the poorer segment of the population, inadequate expertise to interact with this new client base, an inability to leverage new technologies for the provision of financial goods and services, and emerging regulations in the money transfer market.
Making a business case

Financial services related to remittances can, in principle, be provided to either the remitter or the recipient. The sender, with a larger financial capacity and usually control over the usage of the remitted funds, would be a prime target for financial product offerings by the private sector.

In many developed countries with otherwise ageing populations, migrants represent the fastest-growing younger population. They create more small businesses, which have been found to grow faster than the average small business when compared with the general population.9 A large proportion of migrant communities with disposable income are yet to achieve life milestones such as purchasing a home, financing children’s education or planning for retirement and have an unmet demand for such financial products and services.10 However, despite the compelling market opportunity to service this consumer segment, only a few banks in developed countries, and particularly in the United States, are actively pursuing this market. As a result, many migrants continue to be unbanked.11

The basic financial service needs of most migrants – cheque-cashing, money transfer, bill payment and money orders – are characterized by low values, high volumes and small margins. These services are generally provided by non-bank financial institutions, often through retail agents, and in fact may exist only because of the lack of involvement by banks. Commercial banks find these activities unattractive because they generate income of only a few dollars per transaction.12 The commercial banks lack efficient systems to deliver these transactional services and they are unable to cover their overheads from the transaction.13 Also, unlike most money transfer companies, which make payments immediately or within a day, the banks transfer money through SWIFT (Society for Worldwide Interbank Financial Telecommunication). SWIFT processes payments through a network of correspondent banks and it takes two to three days for the money to reach the recipient.

Furthermore, the asymmetrical policy environment between the banking and non-banking institutions distorts the benefits to the consumer.14 Whereas money transfer companies are unhappy at being labelled “high risk” by the regulators, the banks believe that regulation in the areas of customer identification15 and international currency exchange rates places them at a disadvantage compared with non-bank financial services providers. In addition, there is a regulatory environment disconnect between the countries of destination and origin. Although money transfers do not constitute deposits,16 regulation often does not take this into account and limits remittance services to deposit-taking institutions. The efficiency of
remittances as a platform for inclusive finance is subject to the ability of both banking and non-banking institutions to participate in the market for financial products and to provide consumers with a greater choice. However, at present this is not the case.

Even though banks typically are a part of the distribution channel for remittances at the receiving end in the developing countries, few of these banks make efforts to sell the recipients other financial services. Traditionally, the business model of many banks is targeted at the A–C segment of the market, so that the products and their cost structures are targeted at more advantaged customers. The poorer recipients of remittances are unable to make deposits or investments at a similar level. They are incapable of benefiting from risk management choices or opportunities to take loans that could assist them in strengthening their livelihoods while staying within their ability to repay.

Some proactive banks in countries of origin create their own remittance companies. They have branches in key migrant locations to target the remitters whose higher developing-country incomes fit the profile of the bank’s target customer. Such a strategy enables these financial institutions to capture some of the benefit of remittances. The remitter, although not deemed a profitable consumer by the banks in the country of origin, is an attractive target in the country of destination because of a relatively higher income and a derived demand for financial services.

Increasingly, MFIs are participating in the remittance market through their branch network as remittance payment points for money transfer operators. Because the recipients are part of their core target consumer segment, this provides an opportunity for MFIs to cross-sell other services in addition to generating additional income through fees and foreign exchange. The lower cost structure of the MFIs’ branch operations and their presence in areas where banks do not offer services, combined with their focus and interest in creating products for low-income consumers, create a viable business case that is not easy for commercial banks to replicate.

MFIs levy relatively high interest rates – annual percentage rates (APRs) of 25–70 per cent – because of the higher overheads required for servicing unsecured small loans to people on the margins of society and occasionally in remote locations. The sometimes lower cost of capital available to MFIs running as a double bottom line business through subsidized loans from private, government and multilateral lenders brings greater sustainability to the micro-finance business model. The micro-finance market arena is an amalgam of commercial enterprises vying with social enterprises. However, even though greater competition and scale should reduce the costs of micro-finance services, many MFIs have not translated their efficiency and profitability into lowering the costs of ser-
The role of Compartamos Banco in Mexico in evolving from a not-for-profit institution to a for-profit business aroused great controversy because it continued to charge very high interest rates (Epstein and Smith 2007). The issue of transparency and disclosure around the rates is vital, particularly as MFIs are empowered to provide a broad range of financial services, including through linkage to remittances, rather than only small loans. The limited range of financial services offered by many smaller MFIs restricts the potential benefit to both recipients and the MFI.

This shows that, with the still very limited involvement of MFIs and banks offering services to remitters and recipients, money transfer currently is mainly a single-service offering that is processed separately from mainstream financial services, even if provided by financial institutions that have other products. There may be important links between microfinance and micro-insurance, but the “mantra” that the poor are uninsurable still persists. Nevertheless, there are examples to demonstrate that opportunities to connect these services exist and that a combination of micro-finance with remittances can create viable business models and increase development benefits. These cases also show, interestingly, that innovative products and services, although based on the progress of the financial sector in developed countries, are led by developing countries.

There are currently several ongoing initiatives by different countries, development agencies and private sector institutions, and the learning is evolving. The next section will review insights gleaned from some of these initiatives.

Learning from ongoing projects

This section examines a small number of actual business models (i) to identify financial services that can be combined with remittances to leverage money transfers to benefit household recipients and (ii) to examine approaches that have produced sustainable success from both a commercial and a social/development perspective. Currently, the landscape of business models that link remittances to inclusive financial models is, at best, mixed, ranging between extremes of success and failure. However, an increasing number of experimental models are being tried at the grassroots level and particularly in Latin America.

A small number of financial institutions combine remittances with other products for the immigrant market (some prominent examples are shown in Table 3.1). On the one hand, we have success stories from some banks in Spain. Following a surge of immigrants from Latin America and, more recently, from Eastern Europe (particularly Romania), several
banks in Spain have started to offer remittance and other financial services targeted to them.\textsuperscript{18} Banco Popular, the fourth-largest bank in Spain, approaches this market through its partner, MundoCredit, which operates small branches in immigrant neighbourhoods and offers affordable, simple financial services such as current accounts, small loans, remittances and insurance products. Caja Madrid launched a remittance product in

<table>
<thead>
<tr>
<th>Type of service</th>
<th>Example</th>
</tr>
</thead>
</table>
| Consumer loans  | (1) Banco Azteca, a subsidiary of a white goods retailer in Mexico, pays remittances for Western Union. The bank offers white goods for sale with financing in the remittance branches.  
(2) CrediMundo, a subsidiary of Banco Popular, a Spanish bank, offers banking services through dedicated low-cost neighbourhood branches in immigrant communities. |
| Housing finance | (1) Mibanco, a micro-finance bank in Peru, has become one of the largest payers of remittances in Peru. It cooperates with various remittance companies in Spain and the United States and has a successful track record of offering housing and micro-loans to recipients.  
(2) Microfinance International Corporation (MFIC) brokers housing and construction loans on behalf of MFIs in Latin America through the remittance locations of its partner banks. MFIC offers partial credit guarantees for these transnational mortgage loans through a partnership with the United States Agency for International Development. |
| Insurance       | The National Bank of Pakistan has teamed up with AIG, the US insurer, to offer short-term life insurance linked to remittances. |
| SME loans       | Alante Financial, a network of micro-finance service centres in the USA owned by MFIC, works with Technoserve, a non-governmental organization that runs business plan competitions and provides technical assistance to entrepreneurs, to enable remitters to set up a business in their home country. |
| Micro-loans     | Banrural (Banco de Desarrollo Rural), a Guatemalan bank in operation since 1998, focuses on providing micro-loans, remittances and other financial services to a population of 1.3 million Guatemalans, primarily in rural areas. The bank’s average micro-loans of US$280 serve the very poor segment and do not have a prerequisite of property collateral. As a remittance provider, Banrural provides cost savings of up to 85 per cent over Moneygram, and its successful business operations led to its becoming profitable and achieving 40 per cent growth in 2006. |
partnership with a money transfer company and in 2007 processed 100,000 remittances. La Caixa, a savings bank, partnered with the microfinance bank Banco Solidario in Ecuador to offer remittance services and housing loans to Ecuadorian immigrants.

At the other extreme, we have examples from Mexico where the banks are not delivering their optimum potential in this area. Since its inception in 2002, Banco Azteca has built up a consumer loan portfolio of US$2 billion and a rather impressive 22.3 per cent return on equity (Epstein and Smith 2007). Banco Azteca’s branches are located inside Grupo Elektra stores, where the parent has long offered instalment-plan financing for merchandise purchases and gives Banco Azteca access to a database with the credit records of 3 million customers. Azteca also inherited Grupo Elektra’s 830,000 savings account customers, who have limited or no access to credit at Mexico’s conventional banks. The Elektra network of stores effectively provided Azteca with a ready-made branch system and greatly facilitated the bank’s launch. However, its annual profit of nearly US$1 billion has generated significant controversy relating to the high interest rates charged to poor clients and the unregulated microfinance industry in Mexico. Banco Azteca’s consumer loans carry APRs of up to 100 per cent per annum, which the bank is not legally obliged to disclose, in addition to a government-imposed 15 per cent tax on financial services. These result in high finance charges on the poor in comparison with mainstream consumer lending rates. The higher level of indebtedness amongst the poor in Mexico because of consumer lending means the poor are in a debt trap, which is worsened by the aggressive practices of Banco Azteca collection officers. Although the issue of transparency in the disclosure of interest rates is important and the use of force to recover loans is of concern, the bank’s lack of initiative to develop remittance-based products is perplexing, given its high profits.

**Linking remittances and micro-finance**

Remittances from developed countries are directed through the financial retail branches of Microfinance International Corporation (MFIC) or through other financial institutions that license MFIC’s money transfer software, ARIAS. In the country of origin, the remittances are paid out by MFIC’s diverse network of partners with a strong presence in rural areas, including micro-finance institutions, credit unions, cooperatives and banks.

The provision of remittance services offers the partners tangible benefits in developing countries by adding a new revenue stream of commissions, attracting new clients and enhancing loyalty with their existing clientele, cross-selling other financial products and services such as
deposits and insurance, and developing remittance-based products such as transnational housing loans utilizing the remittance transaction history. Remittances also offer MFIC’s partner institutions the opportunity to reach out to the remittance senders in developed countries through retail branches\textsuperscript{20} in the Washington DC region and in Delaware that target unbanked immigrants.\textsuperscript{21} MFIC has linked remittances to micro-finance in the United States by providing a host of financial services to the predominantly unbanked immigrants such as micro-loans, cheque-cashing, bill payment and other services. The tangible benefit for these customers ranges from access to low-cost money transfer services to credit to meet their business and consumption needs while building a credit history in the United States.\textsuperscript{22}

Despite the significant advances made by the company, it faces several challenges in the marketplace. The low brand recognition of MFIs compared with the well-known brands of commercial banks makes it necessary vigorously to promote delivery through MFIs. More importantly, MFIC has to ensure that its MFI partners have the capacity to handle a growing volume of remittances with sound cash management and compliance procedures. This requires ongoing capacity-building training alongside the enhancement of technical infrastructure in order for the MFIs to be competitive and offer high-quality customer service in their remittance delivery.

\textit{Housing finance for remitters and recipients: Examples from Latin America}

Housing micro-finance is a nascent subsector within micro-finance. Operational challenges include a lack of absorptive capacity of loan capital for longer-term lending by most MFIs, a lack of technical expertise in providing housing micro-finance or mortgage lending, and a dynamic and risky housing market that fluctuates in response to national economic conditions. Increasing demand from remitters as well as recipient households and the potential opportunity to have larger financial flows directed through the banks are encouraging the MFIs to seek partnerships with both the private sector and the public sector to diversify their portfolios while meeting the demand of a new segment of consumers.

\textit{Transnational housing loans for remitters}

A survey conducted by the Inter-American Development Bank (IADB) in 2007 highlighted that purchasing a home and starting a small business are the two most common investment aspirations of Latin American remittance senders in the United States (IADB 2007). More than three-fifths of remittance senders are considered to be “working poor”. With an
annual income of less than US$30,000, they have limited or no access to financial services in the United States. Many migrants who wish to construct or purchase houses in their home country face a variety of hurdles. For example, access to capital is usually very limited or unavailable in the home country. For instance, less than one-quarter of all housing in Latin America is financed through formal mechanisms. The burden of financing construction out of cash flow or savings makes construction more expensive and frequently delays the ability of the households to purchase a house.

Building upon its experience in providing remittances and micro-loans to the Hispanic market in the United States, MFIC designed a transnational loan product from its MFI remittance partner in El Salvador to facilitate access by its immigrant clientele in the United States to finance the purchase of land or property, to fund home construction or to invest in the growth of a business. In its transnational loan programme design, MFIC serves as a broker in the United States and undertakes an in-depth credit assessment of the borrower using the remittance transaction and credit history. Based on its assessment, MFIC submits loan applications to its MFI partners, which complete the property valuation, undertake the final assessment and underwrite the loan. All transnational loans are disbursed in the home country and in the loan portfolio of the MFI, with loan administration services provided by MFIC. In a nine-month pilot programme, out of 112 applications MFIC was able to broker only seven loans, with a disbursement value of US$146,800, i.e. an approval rate of 6.25 per cent.

The transnational loan programme provides benefits to both the remitters and their family members. Remitters are able to utilize their credit and transaction history built up in the United States through MFIC to gain access to financing in their home country. Clients can make the full transaction without having to travel back to their country, thus significantly reducing the time and transaction costs that they would otherwise incur. A portion of their monthly remittances is dedicated to loan payments for an asset-building activity, providing an alternative to consumption. The family members in the home country enhance their living standards and financial security. For the MFI, the transnational loans offer multiple benefits, including the rapid growth and diversification of their loan portfolio, the addition of a large revenue stream and access to a big immigrant customer base in the United States.

A key lesson relates to the importance of financial education for the remitters on household budgeting, building and maintaining a good credit history in the United States, home construction costs in El Salvador, etc. Among the operational constraints, the need for a management information system customized to manage the complex, cross-border mortgage
loans emerged as a priority for achieving efficiency. There is also a need for market demand research to offer products more suited to the preferences of potential clients, and to provide an understanding of competition in the market and more precise data-mapping of remittance flows and uses. To ensure that a partnership meets its objectives, it is vital to be clear about the expectations from the partners and to have clear revenue and risk-sharing models that define its objectives, liabilities and incentives to ensure that legal and regulatory issues do not hinder the enforcement of loan and security agreements, given that the borrower and the collateral are geographically separated.

Su Casita, Mexico’s first specialized mortgage finance company, was set up in 2001. It has established 107 offices in 28 of Mexico’s 32 states to offer low-cost housing and financing. By 2009 it had a portfolio of over US$1.6 billion in mortgage loans.

In 2004, Su Casita entered into the business of transnational mortgages with the launch of a pilot programme backed by a US$5 million loan and technical assistance from the IADB’s Multilateral Investment Fund. It works with Mexican consular authorities to facilitate cross-border mortgages and to simplify procedures and thus reduce the closing costs for borrowers. The company promotes its transnational mortgages in the United States through four subsidiaries in Denver, Dallas and Chicago and through agents in other states with a large Mexican population, such as New York and California.

Transnational mortgages at Su Casita average US$41,000. Clients make a down-payment of 10–20 per cent and pay interest at 11 per cent with a repayment period of 20–25 years. The interest on transnational mortgages in dollars is 9.5 per cent. In 2009, Su Casita had to file for bankruptcy because its general local mortgage portfolio had a default rate of over 10 per cent. However, the transnational mortgage portfolio continued to perform well, with a default rate of under 3 per cent in spite of the economic downturn in the United States.

Mibanco’s home improvement lending

In 2001, Mibanco, a pioneer micro-finance bank and a leading remittance payer in Peru, launched a home improvement product, Micasa, targeted at poor clients. The loans entailed financing for construction or home improvements in phases based on clients’ capacity to pay. To make the product attractive to its poor clientele, Mibanco provided these loans at lower interest rates than for its micro-enterprise loans, for a longer term than its normal loans, and without any physical collateral. After 25 months, Mibanco had built up a clientele of 7,000 with a default rate of barely 1 per cent and an active portfolio of US$8.1 million as of September 2002 (Brown 2003).
Mibanco’s approach represents a viable business model where increasing remittance payouts encouraged the bank to provide home improvement loans to the poor without any direct government subsidy. Mibanco’s ability to undertake this initiative was strengthened by a five-year credit line provided to it by a government second-tier lender, COFIDE (Corporación Financiera de Desarrollo), which covered its long-term risk and need for medium-term funding. The institutional impact on Mibanco has been positive, based on the diversified risk of its traditional portfolio of working capital loans, increased revenues and lower administrative costs. An initial study highlighted the positive development impacts of the initiative: it led to increased income flows to clients who utilized the home improvement loans to expand a micro-enterprise, including through rentals, and to clients who were able to improve their living conditions and therefore living standard through the repair of leaking ceilings or bathrooms (Brown 2003).

Remittances and small business loans

Increasingly, banks, insurance companies and civil society organizations are making use of MFIs to leverage remittances to develop micro and small businesses and to create inclusive financial services for unbanked emigrants and the families they leave behind in the country of origin.

In August 2007, MFIC and TechnoServe – a non-profit organization that provides technical assistance for the growth of SMEs in developing countries – launched an innovative pilot programme to match remittances with business creation/expansion investments in El Salvador. The 12-month initiative (with grant support from the International Fund for Agricultural Development) sought to (i) improve access to remittances in rural areas using the MFIC remittance distribution network; (ii) link remittances to additional investment products in combination with the pipeline of projects of TechnoServe and other MFIs, and (iii) develop investment channels that leverage alumni businesses from TechnoServe’s business plan competitions requiring access to finance or value chain assistance. MFIC provided the skills, essential information, collection and repayment services to micro-finance institutions and worked with them to leverage remittances into loans for establishing micro and small businesses. TechnoServe worked with remittance-receiving business owners who were seeking credit to expand their businesses by helping to facilitate relationships with local lending institutions using remittance money as collateral to secure loans.

It was anticipated that the pilot programme would benefit local economies in El Salvador by creating employment opportunities through SME development, developing the market for ethnic products and increasing
the local flow of capital. Remittance senders would be integrated into the business development process by qualifying for SME financing through an MFIC remittance partner and TechnoServe. El Salvador provided direct technical assistance to the individual businesses through the 12-month period.

The programme started with surveys and focus groups to identify potential SMEs and clients. Following the first quarter of activities, a potential pool of 5–7 participants was identified. Based on feedback from the initial pool of participants, it was obvious that many of the SME owners lacked a concrete business plan and the technical know-how to grow their business. Remitters supporting a family business have limited knowledge about the business’s performance and sustainability. Although nearly three-quarters of the survey respondents expressed a desire to launch a new business and/or had identified a good business opportunity in El Salvador, a significant number of them lacked reliable partners to run a new business. The year-long pilot programme would, *inter alia*, be a knowledge base to share insights and solutions to challenges to establish a sustainable programme for SME development linked to remittances.

The innovativeness of the project was recognized and MFIC was awarded the first Legatum Fortune Technology Prize for its use of innovative technology in building financial infrastructure for the poor. Although an analytical assessment of the lessons learnt from the programme is still awaited, apparently “only a handful of small and medium-sized enterprises with capital needs greater than a few thousand dollars have been chosen to take part in this pilot project” (Subasinghe 2008).

MFIC recently entered into strategic partnerships with various additional financial institutions and real estate developers in order to offer housing finance and the acquisition of real estate for Bolivian, Guatemalan and Salvadoran migrants living in the United States. The different partnerships have helped MFIC expand the offering to a broader Hispanic community through MFIC’s retail network of Alante Financial. With the expansion and entrance into new markets for Latin America, MFIC expects to meet the demand from migrants to purchase a house in their home country. MFIC is relying heavily on the community it has created through its retail branches and a strong marketing campaign in the media to promote and create awareness of the financial products and services being offered.

The experience of MFIC clearly shows that, although technology is a facilitator for addressing the unmet demand for financial services by the under-banked population, it must be synchronized with the provision of adequate systems, capacities and processes to make the delivery of innovative products seamless and efficient.
Conclusion

Remittances have the ability to put otherwise unbanked very poor people in contact with financial institutions. Key to achieving this linkage is the ability of national governments to facilitate the efforts of financial institutions to offer remittances and remittance-based financial products that are affordable and attractive to cater for the unmet demand of the under-banked or unbanked consumer. Banks on the receiving side are playing a significant role in money transfer, but they have made limited efforts to offer other financial services to the underprivileged. On the originating end of remittances, banks still play an insignificant role and are having minimal impact on increasing access to banking services by the unbanked.

Given that micro-finance represents an entire range of financial products from credit, savings and insurance to payment and transfer services for the underprivileged population, the role of community-based financial institutions such as rural banks, thrift banks, cooperatives, postal savings banks and MFIs in linking remittances to development is critical. Although these institutions reach millions of financially under-served people and have self-regulatory mechanisms, they are not fully integrated in the financial system. Mainstream private banks could play a vital role to enhance access by the poor to the benefits of inclusive financial services.

The discussion has highlighted that the role of the private sector as an important change agent has to be complemented by effective government policies. These are necessary to create an enabling environment for attracting investments, ensuring competition, augmenting equity, inclusiveness and social protection, and facilitating new markets. Public–private partnerships can widen the consumer base and create and enhance access to basic goods and services through appropriate delivery mechanisms and a transparent, accountable, participative and competitive environment.

Simultaneously there is a vital need to develop capacities at the human, institutional and system-wide levels to implement and enforce policies effectively for inclusive markets. Capacity development efforts have to be directed at (i) offsetting the risk of new products for the commercial sector, (ii) creating greater access to unreached consumers, (iii) introducing new technology, (iv) enhancing consumers’ financial and technical education, (v) bringing in private sector entrepreneurial skills to improve the financial infrastructure, and (vi) setting service and credit standards.

Complementarities and synergy in the efforts of the governments of countries of origin and destination can accelerate the leveraging of remittances to reduce inequities in access to financial services by the unbanked population. Multilateral and bilateral organizations in partnership with
the private sector, diaspora and other stakeholders can assist in creating toolkits and knowledge management systems to maximize the development benefits of remittances by linking them to money transfers, savings and credit, micro-insurance and micro-pension schemes. By removing the barriers to link remittances to financial services – namely, a lack of trust in banking, financial illiteracy, and a lack of access to money transfer services – such partnerships can create opportunities for productive investment by migrants, recipients or local entrepreneurs. Although transnational social analysis can bring the micro, meso and macro perspectives together, greater learning-by-doing research is required to better understand the multiple layers of this apparently simple but intricate relationship.

Notes

1. In 2005, South–South migration, estimated at 47 per cent of the total, was almost as large as South–North migration. Migration to countries in the South is larger than migration to the North in South Asia (50 per cent), Europe and Central Asia (64 per cent), and sub-Saharan Africa (69 per cent). However, developed countries are the main remittance source, led by the United States (World Bank 2006).

2. Official World Bank statistics provide marginally varying estimated amounts of total remittances in 2009 (US$420 billion vs US$414 billion) as well as of those going to the developing countries (US$317 billion vs US$316 billion). As also highlighted in the chapter, this is, in part, a reflection of the complexity of accurately estimating remittances flowing into developing countries in the absence of a strong financial infrastructure.

3. Nearly 80 per cent of the remittances to Latin America are spent on consumption; that leaves nearly US$12 billion for investment. At the same time, consumption among the poor is good for the economy, not to mention for improving their quality of life. The experience of the United Nations Development Programme (UNDP) in The Gambia indicates that the pattern of remittances being used by receiving family members to increase their lavish consumption rather than invest the amount as prescribed by the remitter leads to family tensions and can adversely influence the money flow in the country.

4. This is corroborated by the Albanian experience, where the absence of a suitable policy and governance regime did not allow remittances into the country to properly stimulate domestic production (UNDP and Soros Foundation 2003).

5. Albeit this is more common in countries with sound economic policies (Ratha 2003).

6. Nearly 741 million Indians in rural areas are poorly served, despite a huge demand for financial services, including an estimated annual credit demand exceeding US$10 billion (Gamser 2005).

7. Micro-finance institutions are estimated to hold nearly US$35 billion globally (Subasinghe 2008).

8. “An Inter-American Development Bank survey estimates that about 30 percent of remittances in Latin America are used for purposes other than the one-time payment of bills, medical emergencies, food or school fees. But the exact amount of remittances that are leveraged is still unknown” (Subasinghe 2008).
9. According to the US Census Bureau, in 2002 there were 1.6 million Hispanic-owned businesses, a 31 per cent increase from five years earlier – in comparison with all US companies, which grew by 10 per cent during the same period (Washington Post 2006). These businesses generated US$221.9 billion in annual revenue (CMG Partners 2008).

10. For instance, in the United States, of the 3.3 million households in the Hispanic market with annual incomes between US$50,000 and US$100,000, 56 per cent have a head of household aged 25–44. This is a much higher proportion of the population than for other ethnic groups who wish to have access to financial products to meet their lifecycle needs.

11. The American Bankers Association estimates that 50 per cent of retail banking growth in the next 10 years could come from migrants.

12. Money orders and bill payments generate gross income of usually less than US$1.

13. Including the cost of branch space, teller time, salaries, etc. Cheque-cashing requires an efficient system to control risk and reduce processing time, but banks want to have cheques credit into accounts to increase their deposit base. Money transfer and cheque-cashing require the handling of large amounts of cash. Managing cash, however, is expensive and creates a security risk, and the banks try to reduce cash in their branches rather than increase it.

14. An increase in competition for money transfers would lead to greater choice for customers and would lower the cost of money transfer.

15. Requirements by bank regulators for the identification of customers have been substantially tightened since 11 September 2001. However, no specific rules are provided on what forms of identification are acceptable, nor is there any guidance on whether and how migrant customers with an unproven legal immigration status can be served.

16. State regulators and bank examiners in addition have varying interpretations of the requirements, so that it is unclear to many banks in the United States if they can provide a deposit product to, for example, an immigrant with a home-country passport but without a social security number.

17. Despite micro-finance having the status of a multi-billion-dollar industry, micro-insurance is yet to reach the US$1 billion mark and continues to lag micro-finance by nearly 10 years.

18. “WSBI (World Savings Banks Institute) is partnering with CECA (Confederación Española de Cajas de Ahorros), Microfinance International Corporation (MFIC), and Money Express to establish its international remittance switch which will support the execution of ‘Fair Value Remittances’…. The interconnection of the money transfer solutions of all 3 providers participating in the switch will enable Member banks to originate or receive international remittances from both Members and possibly non-Members, thus facilitating transactions among institutions that operate in diverse social and regulatory environments with different technological capabilities…. ‘Having regard to the Spanish Savings Banks’ mission to favour financial inclusion and bank usage, CECA has actively participated in all WSBI’s initiatives that contribute to financial education, social responsible investment and access to financial services’ said José Antonio Olavarrieta, General Manager and CEO of CECA” (European Savings Banks Group 2010).

19. MFIC originally handled remittances from the United States to Latin America. In 2008 it began offering remittance services from Europe to Latin America, Africa and Asia, and currently covers 60 countries in the three regions.

20. As of May 2008, MFIC had 14 branches and kiosk locations.

21. In less than four years, MFIC’s client base grew to over 50,000, in part because of the attractive low cost of sending remittances (the cost per transfer to El Salvador from
the Washington DC market has been lowered to 5 per cent for an average transfer of US$339). MFIC has nearly 20 per cent of the market share in the Washington DC region for remittances sent to El Salvador, where it makes payment exclusively through MFIs (Inter-American Dialogue 2007).

22. Since October 2006, MFIC has lent over US$1.4 million to over 1,100 immigrants, enabling greater financial inclusion.

23. This lack of access to housing loans is compounded by the fact that Latin American economies often have a weak domestic savings base with which to capitalize long-term mortgage credit. For instance, deposit interest rates are 5.3 per cent (compared with 1.6 per cent in developed countries), increasing the burden of loan repayment by making borrower-required outflows relatively unpredictable in the face of limited inflows (Ferguson 2008).

24. In total, 29 applications were denied and 76 applicants were ineligible for a multitude of reasons: instability or loss of their job owing to the subprime housing market crisis, significant discrepancies between the property sale price and valuations, and a lack of savings to meet the down-payment requirements.

25. The use of this alternative credit-scoring is gaining prominence in the United States as credit bureaus begin to obtain and analyse non-traditional credit data such as deposit account records, cheque-cashing history, and payments of rental and utility bills.

26. Immigrants have particular circumstances and needs that do not necessarily match the offerings and requirements of the available standard mortgage programmes. Many migrants wish to acquire financing for property improvements, construction on rural land or the acquisition of lots, whereas available mortgage programmes are often focused on the financing of new houses in professional developments within larger cities. It is necessary for MFIs to create offerings that balance their needs for risk management and appropriate collateral with product offerings suitable for migrants. MFIC has advised a number of MFIs on how to structure products and terms for both mortgage and straight unsecured loans.

27. Interest rates of 50–70 per cent per annum; loan terms up to 36 months; and the collateral of guarantors as co-signers.

REFERENCES


The Economist (2002) “Outward Bound: Do Developing Countries Gain or Lose When Their Brightest Talents Go Abroad?”, 26 September.


Fostering economic opportunity for transnational families

Barbara Span

Introduction

The world is being transformed by globalization. Although globalization is not a new phenomenon, a number of political, economic and technological developments have facilitated an increasingly integrated global economy (Gilpin 2000: 7) through unprecedented interaction and growing interdependence between nations, people and cultures. The Economist Intelligence Unit classifies the three main components of globalization as the movements of goods, capital and labour (EIU 2008b). These dimensions are all closely interrelated, but particular attention has been focused on the movement of goods and capital, and fewer comparative studies are available on the movement of people. This global movement of people now affects countries at every level of economic development: “Migrants now depart from and arrive in almost every country in the world, making it increasingly difficult to sustain the distinction that has traditionally been made between countries of origin, transit and destination” (GCIM 2005b: 789). A leading academic in the field of migration, Professor Marcelo Suárez-Orozco, estimates that, every second, 25 people cross a national border, accounting for more than 1 billion international journeys in 2007 alone.¹ The United Nations estimates that 1 out of every 10 people worldwide is either a diaspora member or linked to them as families left behind.² These growing global networks, cross-border links and, perhaps most notably, economic factors are predicted to result in even greater numbers of migrants in the future (Martin 2003: 6).

However, although the processes of globalization have created wealth and opportunity, broad global issues remain, such as the disparity between the world’s rich and poor. These global challenges and the issues surrounding global migration will require increased cooperation at the local, national and international levels.

This discussion examines the people component of globalization and the potential for diasporas to create economic opportunity. The first section of this chapter will provide a review of perspectives on diasporas to provide a framework for this discussion. The second section will highlight how diasporas can serve as an economic engine for both host and home countries. The remaining sections in the chapter will explore a case example that exemplifies the structural requirements necessary for leveraging the power of diasporas for economic opportunity, examine lessons learned and conclude with applications for future initiatives. The literature on diasporas and development provides an emerging area of research that has broad application; this discussion specifically emphasizes the role of partnerships in promoting innovative ideas related to diasporas and development. Recognizing that governments and non-governmental organizations play a vital role in contributing to these global challenges, this chapter provides concrete examples of the ways that multi-party, cross-sector partnerships, including consultation with the private sector, can offer significant opportunities based on the private sector’s unique perspective, reach, understanding of migrant populations and partnership approach.

A framework for conceptualizing diasporas

The concept of a diaspora is applied in a variety of contexts related to discussions on international migration. For the purposes of this discussion, I reference Shain and Barth, who define a diaspora as “[a] people with a common origin who reside, more or less on a permanent basis, outside the borders of their ethnic or religious homeland” (Shain and Barth 2003: 452). In addition, this discussion will expand this definition of a diaspora to include those migrants who live in a country for a number of years, return to their home country and then may continue their journey to the original or a new host country. Sabel and Kuznetsov characterize diasporas as “[m]irrors of national development, reflecting the migratory pushes of national crises and the pull of the global economy”, which co-evolve with the political and economic contexts within which they operate (Sabel and Kuznetsov 2006: 5).

Diaspora is not a new phenomenon. According to the Global Commission on International Migration (GCIM), “[m]igration has been a constant and influential feature of human history. It has supported the
process of global economic growth, contributed to the evolution of states and societies and enriched many cultures and civilizations” (GCIM 2005a: 788).

As Phillip Martin highlights, migration is as old as humankind wandering in search of food, but international migration is a relatively recent development, based on an increasingly interconnected state system (Martin 2003: 6). James Clifford outlines some features of the modern diaspora as a history of dispersal, memories of the homeland, ongoing support of the homeland and collective identity defined by this relationship (Clifford 1994: 305). Shain and Barth define the impact of diaspora as “[b]eing felt as part of the process of migration” and as a force in identity formation: “Because they reside outside their country of origin, but claim a legitimate stake in it, diasporas defy the conventional meaning of the state” (Shain and Barth 2003: 450). According to Hans van Amersfoort from the University of Amsterdam, one challenge for diaspora members is “[m]aintaining cultural boundaries while at the same time participating successfully in such areas as the labor market and the educational system of the host society” (Van Amersfoort 2004: 363). Yet, diaspora members who once were separated from their homelands by oceans and political barriers find themselves increasingly connected to their home country owing to technological advances in transport and communications (Clifford 1994: 304). This brief overview of diasporas in the modern context will provide a framework for this discussion regarding the diaspora as an economic engine.

Migrants are those individuals who are prepared to look beyond their own communities and country to create new opportunities for themselves and their children (GCIM 2005b: 788). Diaspora members migrate based on a number of push factors, such as lack of employment opportunities, or pull factors, which include the hope of better opportunities across international borders (Wei and Balasubramanyam 2006: 1602) and, increasingly, in different locales within their home country. In 2007, Gallup conducted its first global world poll to learn more about migration from migrants themselves; the findings are relevant to framing this discussion. The poll found that, whereas at one time the primary individual goals worldwide included such intangibles as love and peace, things have changed (Clifton 2007). Simply put, according to the Gallup world poll: “What the whole world wants is a good job” (Clifton 2007). According to the Gallup analysis, this “is the new current state of mind, and it establishes our relationship with our city, our country and the whole world around us” (Clifton 2007), highlighting a root cause and motivation for global migration. Although economic opportunity is a key motivator for many prospective migrants, United Nations Secretary-General Ban Ki-Moon noted that “[p]eople move to the pull of a better life, to the push
of danger or despair, to the forces of the market, to the call of the human heart”.

If decisions to migrate are as varied as the individuals making them, the form of migration also varies in each region of the world. In Asia, for instance, many migrants move on the basis of temporary labour contracts, while traditional destination countries for migrants, such as the United States, Australia and Canada, continue to accept migrants primarily for permanent settlement and citizenship, and questions around migration to Europe have been perhaps disproportionately weighted toward asylum-seekers (GCIM 2005b: 790). Migration patterns vary widely based on the context in the host country, which, in turn, can have a large impact on migrants’ relationships with their home countries. As transnational citizens, migrants seek new opportunities across borders, contribute to their host societies through innovation and as a needed labour force, and play a role in supporting their home country through financial flows and “social remittances”. The following discussion will explore the way in which countries’ migrant populations abroad increasingly stimulate positive economic advancement in both host and home countries.

The diaspora-driven economic engine

Human mobility has become an integral part of the global economy (GCIM 2005b: 788). As the forces of globalization shift the economic landscape, evidence suggests that migration patterns now reflect a back-and-forth movement of individuals and the development of a diaspora network (Kuznetsov 2008: 264). Technological developments in communication and cheaper transportation mean that migration no longer represents a definitive break with the past. Today’s transnational families are dispersed across international borders, with different members spending time in one country or another, but in effect living in both worlds. Today, diaspora members promote transnational ties and continue to act as bridges or mediators between their host and home countries, promoting an exchange of capacity between the two (Shain and Barth 2003: 450). These patterns offer distinct advantages for both host and home countries, some of which are explored below.

A mobile labour force that can respond relatively rapidly to areas experiencing the greatest unmet need for both skilled and unskilled workers, migrants help drive the economy of host countries by “filling gaps in the labor market, providing essential skills and by bringing social, cultural and intellectual dynamism” to their new communities (GCIM 2005a: 23). There appears to be little financial downside, because low unemployment rates in high-migration destination countries such as Ireland, Sweden, the United Kingdom and the United States suggest that mi-
grants do not take away jobs, but spur growth, since a strong labour supply encourages capital investment. As Papademetriou notes: “There is now widespread agreement that immigration benefits employers, consumers and a country’s economic position” (Papademetriou 1997/98: 18). Further, migrants support the prosperity of their host country as sources of new ideas (Papademetriou 1997/98: 20). Migrants supply their host countries with tangible gains connected with innovation, new business creation and the acquisition and development of skills (Sabel and Kuznetssov 2006: 10). Kuznetssov cites the example of members of the Indian diaspora in the United States who became technology chief executives, spurring the development of entire sectors in their host country. They also played a central role in outsourcing work to India, where a strong opportunity for R&D and knowledge process resulted in significant gains for companies in their host country (Kuznetssov 2008: 269) as well as their home communities. In these ways, “[t]he global circulation of high-skill labor from developing economies to developed ones and back is opening new possibilities for economic development” (Kuznetssov 2008: 264).

**Intellectual capital**

Diasporas provide a wide range of benefits to their home countries, with emerging scholarship suggesting that migrants help fuel a *brain gain* in developing nations, as expatriates who return after some time abroad typically bring new skills and education subsidized privately or by their former host country (Sriskandarajah 2005). Additionally, emerging scholarship suggests: “In some cases, those who leave have been unemployed or underemployed at home, so their departure [is] not . . . a huge loss to the sending country. For instance, the Philippine government continues to support its temporary contract-worker program so that unemployed, skilled workers can find work abroad” (Sriskandarajah 2005). In Figure 4.1, the global diaspora network is visually depicted, indicating the variety of exchanges that occur between host and home countries through transnational migrant networks.

As Peggy Levitt (2007) reports:

Immigrants who maintain close ties to their home countries . . . are often, in effect, our development workers, sending skills and ideas . . . back to their homelands. They are also . . . diplomats . . . overcoming ignorance and suspicion among people in the countries they come from. And immigrants, having seen what is possible, can be forceful, grassroots advocates for change.

The growing number of linkages between migrants and their home communities helps maintain local, national, ethnic and religious ties and fosters “social remittances”, or the transfer of ideas, information, knowledge,
attitudes, behaviour patterns, identities, culture and social capital from one culture to another (UNFPA 2006).

This dynamic cross-fertilization of ideas and culture positively affects both developing and developed nations. Yet, as Dilip Ratha (2007) states, “[m]igrant [financial] remittances are the most tangible … link between migration and development”. An estimated 1 out of every 10 people in the world today is affected by migration, with many depending on money that diaspora communities send home. The United Nations International Fund for Agricultural Development (IFAD) reports that approximately 90 per cent of those funds are spent on necessities such as food, clothes, housing, education and health (IFAD 2007) – core elements of the UN Millennium Development Goals (MDGs) and building blocks for a better future.

**GDP and the multiplier effect**

As migration increases globally, remittances, or the portion of migrants’ salary sent home to their family, represent an increasingly significant source of capital for development (IFAD 2007). Although quantifying worldwide remittance flows is difficult, it is estimated that in 2009 migrants sent home approximately US$414 billion (World Bank 2010). According to a study by IFAD, remittances now “exceed the combined volume of overseas development assistance and foreign direct investment” (IFAD 2007). Dilip Ratha underscores this point, noting that, when informal money transfer networks are included in global estimates, remittances may be as much as 50 per cent larger than official estimates (Ratha 2007). Remittances account for more than 30 per cent of gross
domestic product (GDP) in countries ranging from Eritrea to Kyrgyzstan, Laos to Grenada and Tajikistan to Moldova (IFAD 2007). They account for more than 10 per cent of GDP in nearly one-quarter of the world's countries. In Guinea Bissau, the estimated US$148 million received in annual remittances contributes 49 per cent of the country’s economic output (IFAD 2007). Remittances bring Morocco more money than tourism. They bring Sri Lanka more money than tea (DeParle 2007).

This money also has a “multiplier” effect on economies (UNDP 2005). For example, the US$2 billion in yearly remittances sent to Mexico in the early 1990s increased overall annual production by US$6.5 billion (Rena 2008). Mexico now receives more than US$24 billion a year in remittances, which are responsible for fully one-quarter of the start-up capital for all small business (IFAD 2007). Another example of the multiplier effect is illustrated in the Filipino municipality of Pozorrubio, a town that relatively recently lacked basic infrastructure such as street lights. Remittances sent home by migrants abroad contributed to the creation of a new library, hospital, high school and Internet cafes (EIU 2008a). After all, “[r]emittances are the expression of profound emotional bonds between relatives separated by geography and borders, and they are the manifestation of a profound and constant interaction among these relatives regardless of the distances between them” (Suro 2003: 4).

Therefore, as Sriskandarajah (2005) states: “When all the other impacts of migration – such as remittances, inward investment, technology transfer, increased trade flows, and charitable activities of diaspora communities – are taken into account, the net impact may actually be positive.” As described, migration brings tangible economic benefits for both host and home country (Stark et al. 1997). However, for the most part, remittances are transferred across borders through informal channels to bring benefits to the families left behind in the home country. There could be the potential for more sustainable contributions to communities in the home countries if there were more structures in place. The following section will provide an overview of a case example in Mexico that illustrates many of the structural components necessary to foster economic development through diasporas by building partnerships between the public and private sectors.

The leveraging power of diasporas for development

The previous section outlined the benefits that migrants bring to host and home countries. This section will provide a brief overview of global examples of initiatives by migrant associations, followed by an in-depth look at the 4+1 Program model in Mexico as a case study that demonstrates a
promising approach to harnessing diasporas to drive economic opportunity and to contribute to development.

*Global examples of migrant associations*

In the past, some asserted that the goals of migrants were to remit as much money as possible to their families at home while working abroad, and to return as soon as possible to their home countries, with little interest in skill acquisition because their stay was seen as temporary (Sabel and Kuznetsov 2006: 11). Today, as transnational networks grow, there is a new emphasis on the connection between diasporas and longer-term socioeconomic development in home countries, as well as an emphasis on skills development for migrants themselves. This shift is exemplified by the emergence of hometown associations (HTAs), or voluntary organizations in host countries made up of migrants, typically from a common geography, who join together for a common goal – such as the Association for Engineers from Latin America and the HTAs from the state of Zacatecas in Mexico. According to the Economist Intelligence Unit, HTAs “help to preserve ties and identity for migrants while providing them with valuable information, such as obtaining jobs and housing, as well as learning the ropes of living in their new country” (EIU 2008a: 14). The associations mentor diaspora members and identify new opportunities for individual professional advancement (Sabel and Kuznetsov 2006: 12). These HTAs and diaspora organizations participate in the political, social and cultural affairs of both their host and their home country (GCIM 2005a: 29). However, participation rates differ widely among migrants in various host countries. For example, in Asia, whereas one-quarter of Malaysians living in Japan contribute to an HTA, only 4 per cent of Malaysian migrants in Singapore participate (EIU 2008a: 15). In contrast, Filipino migrants exhibit a stronger tendency to form migrant associations, such as the Ivory Charities Foundation of Southern California, which was formed to improve life in Butuan City in Northern Mindanao in the Philippines (EIU 2008a: 16). Although these HTAs play a significant role in providing social support for migrants, the leaders are normally volunteers, who additionally hold primary jobs and are not formally trained or experienced in the organization, implementation or evaluation of development projects (EIU 2008a: 15). This makes it difficult to establish and utilize formal tracking systems to monitor and report on participation rates, impact and the ways that donations to the home country are being invested in local projects. The following example, of the 4+1 Program in Zacatecas, Mexico, will outline one exception to this rule and may provide a model for the success of efforts that focus diaspora support along with engagement from the broader community
toward development in communities experiencing high levels of migrant outflows. This section will focus on the initial development of the 4+1 Program in Mexico to exemplify a successful partnership approach to harnessing diasporas for economic opportunity.

The 4+1 Program in Zacatecas

Birth of a model

At the end of the 1990s, the Economic Commission for Latin America and the Caribbean (ECLAC) did a major study on the impacts of international migration in Central American countries. The study focused primarily on the positive influence of remittances to improve the lives of hundreds of thousands of poor families, as well as the potential multiplier effect of remittances (Garcia Zamora 2005: 8). The study included an extensive review of HTAs in the region and concluded that collective remittances offer the potential to contribute to development, though this called for the cooperation of government, civil society, migrant organizations and local non-political counterparts in the region to implement local projects funded by remittances (Garcia Zamora 2005: 9). As far back as the 1960s, migrants from Zacatecas, Mexico, began forming HTAs (2005: 10). The next phase began with community infrastructure projects, such as repairs to local churches, plazas, sports fields and cemeteries (2005: 10). The Zacatecan migrant leaders named this initial programme the 0×1 Program, since the sole instrument for funding these projects was migrant remittances (2005: 10). In the next 15 years, this initial infrastructure project would develop into one of the most significant migrant networks financing development projects in their country of origin (2005: 11).

By 1993, the 0×1 Program grew into the 2×1 Program, which was intended to institutionalize the Zacatecan HTA community investment vehicle through additional funding from the state and federal governments, which each contributed one dollar for every dollar that migrants invested through HTAs. According to Rodolfo Garcia Zamora from the University of Zacatecas, the growth of the 2×1 Program was facilitated by the long history of Zacatecan migration to the United States, the emergence of major transnational social networks, the migrants’ long-term support of their hometowns, increased international migration and the increasing amount of remittances (2005: 10).

In 1999, the 2×1 Program was intensified to become the 3×1 Program, which brought together a group of three funders – national, state and local government – and Mexican HTAs. The 3×1 Program continued to focus on infrastructure needs. By the end of 1999, 310 basic infrastructure
projects had been completed in more than 35 municipalities in Zacatecas (Garcia Zamora 2005: 11). Between 1999 and 2003, the 3×1 Program contributed in excess of US$20 million to be invested in 758 community projects (2005: 11). Although the expansion in funding for the community development projects was significant and brought local communities enormous benefits, Garcia Zamora cites the relatively modest budget compared with community need as one of the most frequent challenges facing the further expansion of the 3×1 Program (2005: 11).

In 2005, Western Union was looking to invest in innovative new forms of community development, and saw an opportunity to engage and expand on the initial efforts of the 3×1 Program through new contributions, adding a fourth component – the private sector – to the partnership, making it the 4+1 Program. Western Union pledged to contribute a dollar to match each dollar contributed by the migrant community through the HTAs. The company also undertook to reassess the needs of the local community through in-depth interviews with members of diaspora communities to determine how the 4+1 Program should evolve. The diaspora communities identified “economic opportunity” as a greater concern than the projects previously prioritized by the initial stages of the programme. To address that need, the 4+1 cross-sector partnership of funders applied a revised “root cause” approach, which shifted the focus of funding away from infrastructure toward sustainable job creation.

Collective decision-making

To determine individual projects relevant to the new approach, HTAs are engaging in collective decision-making that is participatory and transparent; similarly, funding requests must fulfil clear, pre-agreed requirements in order to receive programme support. Composed of designated HTA members and representatives of other 4+1 partners, a Committee of Validation meets across the United States every few months on an as-needed basis to determine the programme’s grant-making priorities. This process equips diaspora communities with a remarkable level of control over the ways the money they raise – as well as matching funds – is invested. This grassroots participation provides beneficial insight from diaspora members into the real needs of the local community as well as an added level of accountability.

Locally driven job creation

Through engaging the diaspora community, the first phase of the 4+1 Program has supported eight projects in the state of Zacatecas, Mexico. Efforts range from a new eco-tourism park in Guadalupe, benefiting 3,000 local residents, to the creation of higher-value-added jobs such as computer assembly, farm construction and fruit and vegetable processing
and equipment – for example, an investment in processing with Mezcal Agro-Industry, which was anticipated to create 1,163 jobs combined. The funds are also supporting a novel project in Nochistlán, which is spurring sustainable development by engaging 20 people in cultivating prickly pear to be used for both food and medicinal purposes. These projects pay particular attention to honouring indigenous cultures and ensuring the programme supports local traditions. The initial stages of the project engaged diaspora communities to more effectively identify and understand the unmet needs of local communities.

Research assessment

With the learning from the Gallup world poll in hand, Western Union also looked to other research for an evidence-based assessment of programme focus. In March 2008, the Tomás Rivera Policy Institute conducted a survey of more than 1,000 Mexican citizens in 10 states to assess awareness of programmes supported by Mexican HTAs in the United States and to measure support for the 3×1 and 4+1 programmes (Tomás Rivera Policy Institute 2008). Mexicans who were surveyed rated “jobs and the economy” as the most pressing issues facing them and their communities, with social issues and infrastructure ranking a distant third. Jobs and wages also were considered the most important problem for friends and family in the United States, with more than half of respondents citing it as a concern. Significantly, 93 per cent of those surveyed were in favour of a programme that matches dollars to help communities, with 97 per cent indicating that they favour a 4+1 type programme to provide jobs in their communities. Of those surveyed, 34 per cent reported awareness of the philanthropic efforts of Mexican HTAs in the United States, and 32 per cent awareness of matching programmes by the Mexican state and local governments. The public endorsement, combined with 4,268 jobs supported in the initial phase, encouraged the 4+1 partners to bring the programme to additional Mexican states, with support for 27 small businesses through expansion in Zacatecas as well as new projects in Michoacán, Veracruz, Guerrero and Guanajuato – where migration rates are estimated at more than 50 per cent of all adults over the age of 16.

Observing the willingness of Mexican migrant associations to contribute to community development, Garcia Zamora states: “Absent of their collective remittances and projects, their communities of origin would be considerably worse off” (2005: 12). The impact of the 4+1 Program can be seen in the general well-being and revitalization of the communities it has touched (2005: 13). The evolution of the 0×1 to the 4+1 Program provided a number of opportunities to learn from the successes of the initial programme projects and to build on findings to shift the overall focus of the programme from infrastructure towards job creation. The programme
grew organically from migrants themselves and has been expanded based on partnerships and contributions from the national, state and local governments, as well as from the private sector. The following section will highlight some of the key learnings from the development of the 4+1 Program and how this programme may be used as a model for future partnerships that engage the diaspora community to encourage economic opportunity.

Transnational learnings from the 4+1 Program

The 4+1 Program provides an example of cross-sector partnerships that have enabled diasporas to successfully harness their contributions for economic opportunity. In the expansion from the 0×1 to the 4+1 Program, the objective shifted from community infrastructure projects to those focused on long-term community benefits. As Garcia Zamora states, the significance of the programme is not related to investment alone, but lies in its ability for the “transnational organization of migrants, which materializes in community projects that elevate the population’s standard of living and which have affected local development positively” (2005: 13). The 4+1 Program provides the cross-border infrastructure that enables migrants to work alongside their home communities across distances; to facilitate cooperation between the HTAs, government and the private sector; and to finance local community projects in regions that were previously under-served (2005: 13). Although this new approach to cross-sector partnerships has yielded an early and sustainable impact through job creation, the 4+1 Program has also met challenges along the way.

Built-in flexibility

The first challenge is related to the complexities of multi-party, cross-sector collaboration. In bringing together an even more diverse group of funders, 4+1 partners learned that it is imperative to cultivate clear, shared expectations from the start and to formalize mechanisms that tap the inherent strengths of each partner, allowing for and even capitalizing on significant organizational differences. Without sufficient flexibility in project selection and funding timetables, organizational differences could become stumbling blocks. For instance, the programme may benefit from additional flexibility to allow funding by a core group of two or more partners when support is needed for smaller projects or in cases when all partners do not share the same interests or are not ready to distribute funds at the same time. Structuring additional flexibility into the funding model may enable the core funders to engage additional partners on a
project-by-project basis, potentially increasing impact while ensuring necessary oversight. It would also be advisable to develop pre-set mechanisms that provide the capacity to leverage existing programmes – such as those sponsored by the United Nations, the United States Agency for International Development, IFAD and others – where those existing efforts align with the goals of the 4+1 Program and the interests of diaspora communities.

**Defined partner roles**

Another learning from the 4+1 Program is the importance of clearly defining primary and secondary goals around participatory partner engagement. For example, the engagement of the migrant communities as part of the local needs assessment process provided invaluable insights and served as a mechanism for capacity-building. Although the insight from the migrant communities was crucial to the success of the 4+1 Program, this extremely high level of community involvement and directional decision-making necessarily involves programmatic processes that may challenge participants to make hard choices between the pre-agreed funding mechanisms and promising emerging opportunities. For example, in evaluating the feasibility of replicating the programme in other countries, Western Union was approached by political representatives of a district that included a cocoa cooperative made up of 43 families as well as a tilapia fish hatchery. Both businesses were in need of equipment to increase the production of their operations. However, these projects, which could have been well served by loans for small and medium-sized enterprises (SMEs) or by direct investment, did not attract the interest of diaspora communities, which predominantly represented other provinces. This placed the decision between the competing priorities of unilateral support for a project and sustained investment in the multi-partner funding model. The primary options for the decision were to change the model, granting funding to initiatives that did not generate widespread diaspora community support, or to refer project representatives to other funding sources, such as institutions providing micro-finance or SME funding, which might offer a solution. The company honoured its commitment to give a meaningful voice and decision-making power to diasporas as a force in shaping community development.

**Time for evolution**

Finally, the 4+1 Program revealed the importance of a true partnership with the local communities, beyond simply giving, which becomes more challenging across distances. For example, the 4+1 Program showed the value of investment in associated on-site capacity-building, such as job
training and regionalized small-to-medium enterprise support. Working together, programme partners are considering options for not only integrating new micro-enterprise elements but mentoring and small business support to ensure that 4+1 not only helps start businesses but helps them thrive. For example, local farmers and the people they employ would benefit from knowing up-front that it is difficult to succeed financially when raising 50 head of pork, and that start-up plans should include financing for 500 pigs – the minimum threshold for success given the local climate, production costs and markets. It will therefore be necessary in the successful implementation of the projects to have local insight and training support. In addition, this type of highly collaborative, partnership-based approach not only takes time to develop but requires ongoing employee time and attention to maintain the programme’s success.

Translating lessons learned

From this case study on partnerships to harness economic opportunity for development, there are a number of lessons that can be applied. The first is the need to look at global examples of migrant-initiated associations to promote support to local migrant communities and to foster continued cultural, economic and social connections with their home country. The 4+1 Program is a case of a cross-sector partnership to expand the funding potential in cooperation with the HTAs. This case study also highlights not only the importance of applying funding towards infrastructure but the ability of the programme to generate jobs and provide continued training for the local community. This sustainable model facilitates long-term flows of economic, social and cultural benefits from the money that migrants invest in their communities back home.

The relevance of this case study is in finding new ways to replicate similar partnerships globally to fulfil diasporas’ potential to create economic opportunity. To implement future cross-sector partnerships to leverage the diaspora role in development, programmes need to be tailored to the local realities. For instance, Western Union has incorporated these key learnings into a programme called Our World, Our Family, a five-year, US$50 million commitment designed to facilitate greater economic opportunity for those in the bottom sections of the economic pyramid – migrants and the communities they leave behind – for sustainable change on a global level. The programme was developed after 18 months of research and assessments, integrating key learnings from the 4+1 initiative, and paving the way for other small business development initiatives such as the 2009–2010 African Diaspora Marketplace competition, which engaged diaspora communities from 19 countries in sub-Saharan Africa. As similar programmes unfold in the future, a global comparative outlook
will be required on the successful components to creating sustainable economic opportunity between diaspora members and local communities in their country of origin.

The future of diaspora and development

The discussion in this chapter has focused on migration as the human component of globalization. Advances in technology and communication are creating a vast array of means for individuals to look beyond their borders for new opportunities. As the processes of globalization facilitate the movement of people across borders, they are also leading to an expansion of the global network of migrants and the families left behind in their home country. These growing linkages between individuals across borders are revealing new opportunities for economic, social and cultural transfers. This discussion has highlighted the numerous benefits and exchanges that occur between migrants and their host and home countries as having the potential to generate new economic opportunities. The increasing financial support provided by migrants to their families back home can be the key to investment in the local community to contribute to development. Although the increasing potential is leading to an emerging area of study linking diasporas and development, this new focus on the linkage also raises the question of how infrastructure can be developed to foster economic opportunity not only for individual families but for societies as a whole. This discussion has offered insights into the potential of cross-sector partnerships to achieve these goals through the 4+1 Program model. It has asserted that future cooperation between the public and private sectors represents the most successful way to leverage diaspora resources for economic opportunity. Whereas, in the past, the focus has been simply on funding infrastructure improvements, the focus now needs to be not only on job creation but on a more sustainable framework of job training and investment in the local communities left behind. In this way, the global community can work to make migration a choice, not a necessity.

Notes

3. For the purposes of this discussion, although there is a significant distinction between the terms “immigrant”, “emigrant” and “migrant”, for consistency this discussion will
use the term “migrant”. Throughout this discussion, migrants are to be understood under the United Nations definition as “persons who live temporarily or permanently in a country of which they are not nationals” (UNESCO 2005: 25).


5. For the purposes of this discussion, the term “transnational” will be defined as “the process by which immigrants forge and sustain multi-stranded relations that link together their societies of origin and settlement ... Immigrants who develop and maintain multiple relationships – familial, economic, social, organizational, religious and political – that span national borders” (Basch et al., quoted in Van Amersfoort 2004: 366).

6. This idea of transnational families living in two worlds is taken from an in-person discussion with Alvaro Lima, Director of Research, Boston Redevelopment Authority.

7. For the purposes of this discussion, hometown association will be used as an umbrella term to include hometown associations within the various diaspora communities.

8. This case was selected because it illustrates the benefits of formal structures to focus diaspora support and the benefits and challenges of cross-sector multi-party partnerships, and it allows for reflection on a track record of success while also providing key learnings that are potentially instructive to others interested in undertaking a similar programme.


REFERENCES


Introduction

Remittances represent an important link between migrants and their communities at home, by providing beneficiaries in many countries a regular and dependable flow of financial support. Of remittances sent through formal channels, the majority are sent through money transfer operators (MTOs) such as Western Union, MoneyGram or post offices, and a smaller part through banks. Banks have now entered the remittance market, but only about 5 per cent of remittances were sent through this channel in 2004 (GAO 2005), though the percentage may now be higher. However, banks are additional channels for migrants to send and receive remittances and can help promote the development impact of these funds by increasing access to more financial products and financial literacy. Given the growing and significant volume of remittances (despite some decline because of the global economic recession), banks have an opportunity to offer more choices for remittance customers and to gain a larger share of the market, reduce transaction costs and further link diasporas with development.

This chapter will discuss the approach of Citibank North America’s Consumer Bank to diaspora communities through remittances and financial literacy: a comparison with other money transfer business models used by other banks; the development of remittance products that are competitive and convenient; the barriers faced in the process; and the lessons learned, with insights on how banks can succeed at creating more
inclusive financial products for diaspora communities. Although a large part of these communities are unbanked or under-banked, Citibank North America’s products also reach a wide spectrum of segments, such as professionals and students. Citi is a global bank that can provide a variety of products and services from emerging to mass and affluent markets.

Different bank models in money transfers

Two main MTOs dominate the global market, but more players have entered the money transfer market – from banks to post offices to mobile phone companies – and the dominant players vary in different regions of the world depending on government regulations, the country’s incoming or outgoing flow of remittances, government roles in the remittance market, the distribution network/infrastructure in the country, and the habits and socioeconomic profiles of the senders and beneficiaries.

During the past decade, as banks enter the remittance market, they have taken on “niche” roles. Some banks that are only national banks may send remittances only from their country; some only distribute remittances on the receiving side; and others have a wholly owned remittance service, with a few international banks sending funds through their own branches in their home country. Generally, banks have tended to focus on a country, corridor or region and have created partnerships with other banks or money transfer organizations to leverage each partner’s capabilities, whether it be to send or to receive transfers.

The MTOs hold the major market share with a vast network of originating agents – corner stores, cheque cashers, supermarkets, local grocery stores, retailers, etc. – across the sending nations connected to many payment locations in the beneficiary countries. These MTOs offer convenient locations and the existing technological infrastructure to enable efficient cross-border money transfers. Although MTOs dominate the sending market, in many of the beneficiary countries the major distributors of remittances are banks because some MTOs partner with banks for their large branch networks and extended disbursement networks or are required by law to partner with licensed financial institutions.

In El Salvador, for example, banks are the dominant remittance distributor for the MTOs, having 70 per cent of the market (Orozco 2006). In the United States, a major remittance-originating country, banks have a very small market share for sending transfers, whereas in other countries, such as Japan, only banks are allowed to send wire transfers because of government regulation (ADB 2006). Some national banks have opened international branches or created their own money transfer subsidiary with international offices to target migrant workers to transfer funds home and cross-sell other financial products. The banks in the Phil-
Philippines have opened such offices in some major destination countries for Filipino migrant workers and offer cross-border transfer products for those workers (ADB 2006). In cases like these, the immigrants have relationships with the banks in their home countries and continue to maintain those ties while abroad. In other countries, some migrants have limited banking experience in their home countries and, therefore, their initial banking relationship would not be as easy to form. There are barriers, which will be discussed later in the chapter, for banks to overcome to reach those migrant segments.

Overall, banks do offer funds transfer through their wire services, such as SWIFT (Society for Worldwide Interbank Financial Telecommunication), CHIPS (Clearing House Interbank Payments System) and ACH (Federal Reserve Automated Clearing House), and some have created their own proprietary money transfer platform to connect to their international branches or to other correspondent banks. However, banks traditionally offer account-to-account and account-to-cash transfer services, which make up only 5–7 per cent of the market, and this greatly limits the market opportunity. Therefore, MTOs still dominate the market, offering sending and receiving remittance services, and, more importantly, offering cash-to-cash services, which make up approximately 87–89 per cent of the transactions (Gillen 2008).

The banks that enter this market need to decide on their strategy for this space and the type of roles they want to play – whether it be to offer money transfers only, full banking services, sending only, receiving only, etc. – because the market universe for that bank would vary accordingly.

Citibank’s approach to the remittance market:
Segment focus

Citibank has focused its attention in the last several years on providing remittances as part of banking services for traditionally unbanked or under-banked diaspora communities in the United States. Because the remittance sender must be an account-holder at Citibank, remittances often become the first entry point to a financial relationship. The remittance sender can then also begin building a credit history, open a savings account, secure insurance and access a mortgage. Offering relevant financial products, such as remittance services, to diaspora communities helps integrate these communities into the formal financial sector and familiarize them with the US banking system.

Thus, in entering the remittance market, Citibank does not view itself as a direct competitor to the MTOs that currently process the majority of remittances. Instead, formal financial institutions such as Citibank are able to offer an array of financial services for unbanked/under-banked
markets, of which remittances form an integral part. Banks become a “one-stop shop” for financial services that are available for a wide range of income levels.

Citibank offers competitively priced and efficient remittance products, which are designed and marketed on the basis of segment needs. Remittances are bundled with other products tailored for new-to-banking segments, such as cheque accounts with no minimum balance and secured credit cards that report to credit bureaus more frequently than usual in order to build a credit history in a short amount of time. Cheque accounts can be used to pay bills, instead of using expensive money order services, and cheque-cashing through banks is free of charge.

Barriers to the remittance market

Despite remittance product improvements at formal financial institutions such as Citibank and the increased focus on unbanked and under-banked segments, barriers to entering this market still exist, which have slowed down the use of banks for remittance transactions. These barriers include misperceptions about banks, remittances not being considered a financial service, inaccessible financial products, and lack of financial education.

Misperceptions about banks

Remittance senders have been slow to send their funds through banks for a variety of factors, primarily from a demand standpoint. Many remittance senders are cautious about opening a bank account and fulfilling identification requirements; senders are often wary about sending funds through an unfamiliar institution; banks are perceived to provide expensive services, especially cumbersome and expensive means of funds transfer, because wire transfers are the traditional form of funds transfer for banks all over the world; and banks are not always trusted, often because people have had negative experiences in their home country, such as bank bankruptcies as a result of economic crises and the nationalization or privatization of banks.

All senders must hold a Citibank account in order to send a transfer and, when opening an account, Citibank – as well as other banks – accepts identification such as the Matrícula Consular (Consular Identification Card) and foreign passports. Since 2004, Citi has made certain types of financial products available to recent immigrants as long as proper identification that meets US federal guidelines is presented and is able to be verified. There may be additional requirements, such as all appropriate tax documents having been filed with US tax authorities.
Moreover, MTOs can sometimes provide a service that is more in line with the needs of the remittance senders, such as extended hours, more convenient locations, bilingual staff and a trusted reputation. Even if banks can provide lower-cost remittance services and have accessible financial products and identification requirements, senders continue to be accustomed to MTOs for funds transfer needs. This convenience, combined with the various misperceptions about banks, has made it difficult for banks to be larger remittance players.

**Remittances not considered a financial service**

Although remittances are one of the most important financial transactions for immigrants and their families, remittance services are primarily associated with local agents and neighbourhood operators that have been offering transfer services for decades, are well known in the community and are recommended by word of mouth. Banks, on the other hand, are not often associated with remittance services, but rather with deposit and loan products, credit cards and insurance, which many unbanked and under-banked populations do not feel they are eligible for. Remittances are not perceived as a formal financial service, but instead are seen as a transaction that is performed alongside cheque-cashing, money orders, travel booking and long-distance phone call services.

**Inaccessible financial products**

Citibank has striven to create accessible financial products for unbanked and under-banked segments – such as the Basic Checking account, which has no opening deposit and no minimum balance – but not all products are geared to unbanked or under-banked populations. The business model for conventional banks is not always conducive to serving lower-income customers, in that the responsibility for profitability “can lead to situations in which products are inappropriately promoted to maximize revenue, with little concern about the impact of such products on the asset-building opportunities of low-income customers” (Berenson, cited in Seidman and Tescher 2005: 339).

Moreover, many banks do not even offer remittance services and/or have chosen not to focus on the unbanked market. At this time, only some large, national banks offer their own remittance services, and some local credit unions and local/regional banks have remittance services to several countries through IRnet (International Remittance Program through the World Council of Credit Unions) or to Mexico through the “Directo a México” programme, which is sponsored by the Federal Reserve banks and Mexico’s central bank, Banco de México. Through the
“Directo a México” programme, local and regional banks can reduce the costs of transfer by using the Federal Reserve’s FedACH International Mexico Service (see Federal Reserve Bank of Atlanta 2005).

Financial education needs

Financial education is greatly needed to address some of the barriers mentioned above. Remittance senders are primarily unbanked or underbanked and thus rarely go to banks to seek out general financial services, remittances included. In order to channel more remittances through banks, behavioural change is needed to address apprehensions about initially approaching a bank, opening a bank account and learning about the benefits of formal financial services. Financial education would help in framing remittances – a financial transaction that senders are already familiar with – as an important financial service that can and should be linked to other financial products that contribute to asset-building, productive investment and credit establishment.

Citibank’s experiences

Funds transfer product development

As a global bank, Citibank offers funds transfer capabilities to all clients, which provide interconnectedness within Citi around the world. In 2002, Citibank developed Citibank® Global Transfers (CGTs), a proprietary platform that provides immediate transfers to other Citibank accounts around the world, as well as a cash pick-up option for Mexico only. CGTs can be sent from Citibank North America accounts to Citibank accounts in 24 countries, as well as to domestic Citibank accounts. For international transfers, CGTs can be used only between countries with a Citibank retail presence. The remittance business always has two sides – the originating and receiving ends. The receiving side requires a local business with a strong distribution network and a focus on the unbanked/under-banked markets. In order to develop remittance products for countries without a Citibank retail presence, Citibank connected to third-party banks in Ecuador (2005) and the Dominican Republic (2007) through the SWIFT platform.

Over 80 per cent of CGTs are sent to Mexico, India and the Philippines, which reflects data trends showing these countries to be three of the top remittance-recipient countries (Ratha et al. 2009: 3). Thus, Citibank directs its marketing focus to these funds transfer destinations, as well as to Ecuador, the Dominican Republic and Poland (see Table 5.1).
Table 5.1 Some of Citibank’s remittance services

<table>
<thead>
<tr>
<th>Destination</th>
<th>Platform</th>
<th>Fee</th>
<th>Delivery options</th>
<th>Delivery time</th>
<th>Beneficiary bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>Citibank® Global Transfers</td>
<td>No transfer fee</td>
<td>Account-to-account</td>
<td>Immediate</td>
<td>Banamex</td>
</tr>
<tr>
<td>India</td>
<td>Citibank® Global Transfers</td>
<td>No transfer fee</td>
<td>Account-to-account</td>
<td>Immediate</td>
<td>Citibank India</td>
</tr>
<tr>
<td>Philippines</td>
<td>Citibank® Global Transfers</td>
<td>US$8</td>
<td>Account-to-account</td>
<td>Immediate</td>
<td>Citibank Philippines</td>
</tr>
<tr>
<td>Poland</td>
<td>Citibank® Global Transfers</td>
<td>US$8</td>
<td>Account-to-account</td>
<td>24–72 hours</td>
<td>Citi Handlowy</td>
</tr>
<tr>
<td>Ecuador</td>
<td>SWIFT</td>
<td>US$5</td>
<td>Account-to-cash</td>
<td>24–72 hours</td>
<td>Third-party partner banks</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>SWIFT</td>
<td>US$5</td>
<td>Account-to-account</td>
<td>24–72 hours</td>
<td>Third-party partner bank</td>
</tr>
</tbody>
</table>
Unlike traditional funds transfer services at banks, Citibank’s remittance services are competitively priced and the funds arrive quickly. The total costs of a transaction, which include the transfer fee and the applicable foreign exchange rate on the date of the transaction (when the transaction involves a currency conversion), are disclosed to the customer. Also, depending on the receiving country, Citibank customers can send remittances from an ATM, from a teller or through Citibank Online, thus making the services convenient and tailored to different sender preferences.

Citibank North America partnered with Citi Microfinance to develop its remittance products for Ecuador and the Dominican Republic, where Citibank does not have retail presence, and to partner with beneficiary banks interested in offering deposit products to the recipients. For Ecuador and the Dominican Republic, Citibank customers can send account-to-account transactions for US$5 to accounts at two third-party partner banks and account-to-cash transactions for US$8 to be picked up at these partner bank branches or at one of the credit unions in their extended networks.

**Banking remittance beneficiaries**

Cash pick-up options for transfers to Mexico, Ecuador and the Dominican Republic allow recipients without a bank account to access remittance services. These cash-based transactions have been the dominant model for MTOs; however, Citibank’s focus on access to financial services happens not only on the sending side but also on the receiving side. Efforts are made to bank the recipients and move to more account-based transactions because, if the remittances are received in an account, they are more likely to be saved and used productively:

> Encouraging remittances through banking channels can improve the development impact of remittances by encouraging more saving and enabling better matching of saving with investment opportunities. Remittances received as cash are less likely to be saved than those received through a bank account. (Ratha 2007: 8)

When recipients of cash-based remittances from Citibank pick up their remittances at a bank branch, credit union or micro-finance institution, they can learn about the benefits of banking and receiving account-based transactions at the moment of pick-up.

Account-to-account options are faster and often less expensive, because the funds need only to be posted to the beneficiary account. In
having a bank account, the beneficiary can integrate more into the formal financial sector and have access to credit, and is thus likely to make more productive use of the remittances received. Moving towards account-based transactions may encourage more saving and better matching of available saving with investment opportunities, resulting in the benefits of financial deepening.

As seen on the sending side, many remittance recipients currently do not have bank accounts, which limits the number of account-based transactions received. According to several surveys conducted by Manuel Orozco in 2005, only 29 per cent of remittance recipients in Mexico and 46 per cent of remittance recipients in Ecuador have a bank account (see Inter-American Dialogue 2007: 6). Other sources have reported even lower percentages. At the same time, remittance recipients in other countries, such as India, have higher percentages of recipients with bank accounts.

Although remittance recipients are more likely than non-remittance recipients to have a bank account (in Ecuador, 34 per cent of non-remittance recipients have bank accounts – Inter-American Dialogue 2007: 6), barriers still exist to further banking remittance recipients, such as the lack of financial education on the receiving side and the absence of bank branches in rural or remote areas.

A response to the high number of unbanked remittance recipients has been to work with beneficiary credit unions and micro-finance institutions, which have a more extended network of branches in more rural and remote areas. By having more accessible locations, financial services – including remittances – are more available to remittance recipients. For remittances sent from Citibank to the two partner banks in Ecuador, for example, beneficiaries can receive remittances from Citibank at credit unions that work in partnership with these banks and have a more extended network into the rural areas of Ecuador.

Financial education

To address the financial education barriers mentioned above, Citibank has worked on providing more financial education to increase knowledge about financial services and the benefits of banking, as well as to dispel myths about banks’ services and requirements. Citibank provides financial education to remittance senders in the United States, as well as to remittance beneficiaries in destination countries. Regarding specific financial education around remittances, Citibank also focuses on explaining the fee and foreign exchange rate breakdown of the cost of a transaction so that remittance senders understand how to compare costs between providers.
In the United States, the Citi Foundation makes grants each year to community organizations to support financial education initiatives across the United States. The Citi Office of Financial Capability provides financial education curriculums across a range of subjects and for different audiences. The curriculums are openly available for use by community organizations for the financial education initiatives that the Citi Foundation supports, as well as for use by the public. The Citi Office of Financial Capability also provides train-the-trainer sessions for community organizations, which can then in turn provide financial education programmes to their organization members.

Outside the United States, for example in Mexico, Ecuador or the Philippines, remittance beneficiaries are educated about the different financial products available to them and about the benefits of banking and making more productive use of remittances received. Also, Citibank in the Philippines has taken an innovative approach to financial education by providing financial education seminars in the Philippines for departing Filipino emigrants. These seminars familiarize emigrants with the US banking and credit systems so they are prepared upon arrival, and they discuss remittance options through Citibank.

Lessons learned and next steps

Citibank has increased its presence in the remittance market, significantly lowered the cost of remittance transactions and developed new inclusive remittance products and remittance destination countries. Best practices include innovative partnerships with third-party beneficiary banks, the acceptance of foreign-issued forms of identification for account opening, an increase in bilingual staff, a reduction of transaction costs, the development of inclusive deposit and credit products that are bundled with remittances, and an emphasis on financial education.

Financial education

Financial education programmes are currently provided to increase knowledge about financial services and the benefits of banking, as well as to address misperceptions about banks’ services and requirements, which are barriers that have slowed down the entry of banks into the remittance market. However, more financial education for low-income communities is needed on a more continuous basis and across a wider network of organizations. Although comprehensive financial education
curriculums are already available, behavioural change is slow, making it even more important that financial education programmes are funded long term and that branches make continuous financial education contributions to local community organizations.

**Beneficiary banks**

Because Citibank North America is part of a global financial institution, the US bank has been able to leverage Citibank retailers around the world to become beneficiary banks. One example is between the United States and Mexico, where Citi has branch presence on both sides. Banamex, a unit of Citigroup, has developed a model that extends its distribution network in Mexico to meet the needs of the remittance customers. Banamex has over 3,000 non-bank locations called Banamex Aquí that bring financial services closer to people in more remote areas where traditional bank branches are not located or where longer working hours are needed. Local businesses, such as gas stations or small, independently owned stores, can become agents ("corresponsales") that share the Banamex brand, have longer hours than a bank branch and earn additional income through commissions on the transactions. These agents can cash Banamex cheques, provide cash withdrawal with Banamex debit cards, provide Banamex debit cards, make deposits to Banamex cheque accounts, make payments to Banamex credit cards, make bill payments, pay out remittances, cash money orders and provide information about other Banamex financial products (Sánchez-Mejorada 2004). Thus, when Citibank customers send remittances to Banamex, beneficiaries can access the funds from account-based transactions at Banamex Aquí locations, as well as pick up funds in cash at these locations.

In countries where Citi does not have retail presence, Citibank has created bilateral agreements to leverage the distribution capabilities of other retail banks in the receiving country, such as in Ecuador and the Dominican Republic, where Citibank has partnered with a couple of banks to distribute Citibank’s remittances. Similar to Banamex, both of these banks have created extended networks with “cooperativas” (i.e. credit unions) in order to extend their distribution network and make their services available to remittance recipients in more remote areas.

In order to increase the volume of account-based remittance flows through banks, the banks on the sending side and the beneficiary side need to cater to remittance customers and offer appropriate financial products and services that meet the needs of remittance customers, in order to “bancarize” them. This requires careful selection of the partner banks’ capabilities, reach, knowledge and strategy within these markets –
on both the sending and receiving sides – in order to be able to provide compelling value propositions for transnational families. To participate actively in the global market of cross-border payments from anywhere to anywhere requires more collaborated efforts across many countries and banks.

*Streamlining and coordination among banks on remittance processes*

Offering a global remittance service – cross-border payments from anywhere to anywhere – is even more needed in today’s context of globalization and migration. According to the United Nations, the number of international migrants is expected to grow from 191 million in 2005 to over 230 million in 2050 (UN DESA 2005).

As a global financial institution, Citi has been trying to better understand the needs and demands of these customers and build the technology to meet those needs – a fast, convenient and economical cross-border transfer service to many locations around the world. Much time and collaboration is needed between the partner banks to establish the usual bilateral arrangements, including those of Citibank, for each remittance corridor. Citi has been working actively to move towards integration and more innovation in order to meet the ever-changing needs of the remittance customers and to increase account-based transactions.

In order to offer global transfer services, Citi has been enhancing and expanding its originating and distribution networks, because money transfer is a network business. Citi is leveraging its own internal funds transfer systems, infrastructure and global footprint, as well as expanding its connectivity to external networks and entities – from correspondent banks to telecommunications companies to other payment networks – to move towards this global transformation. This integration, consolidation and standardization of its transfer networks with other players and networks will allow Citi to offer its capabilities and core competencies while leveraging its partners’ capabilities. Partnerships with much cooperation and collaboration will be critical to drive banks towards a global cross-border transfer network.

*Competitive cost and cross-selling opportunities*

Banks’ entrance into the remittance market has helped to greatly reduce the costs of transactions for senders, because they provide a competitive and efficient infrastructure and distribution network. In fact, remittance services tend to be less expensive at banks than at MTOs and are often provided free or for a low fee (as a “loss leader”) by banks because they
gain the migrants as clients for their deposit, credit and other financial products.

Citibank has been successful in providing competitively priced remittance services. In addition, data analysis of remittance sender profiles has improved to better understand the type of customer who sends remittances and the additional financial products that remittance senders acquire.

Conclusion

This chapter has discussed the innovative approach of Citibank North America’s Consumer Bank to remittance services by developing remittance products that are competitive and convenient, addressing the barriers faced in the process, and providing an example of how banks can succeed at creating more inclusive financial products for diaspora communities.

Citibank has moved forward in the remittance industry, and other national banks are also developing remittance products and addressing underserved segments. However, the bilateral arrangements with correspondent banks limit the scalability of the transfer corridors to other countries and regions. With greater collaboration between the bank community and multilateral networks with standard service, communication and efficiency, banks can offer a better service for remittances and provide more choices for the remittance consumers.

Although Citibank has increased its presence in certain transfer corridors, improved its product offering and lowered transfer costs, the nature of the remittance services provided at financial institutions such as Citibank has limited the reach banks can ultimately have in remittance-sending communities. Citibank requires that remittance senders be account-holders, so transactions are always either account-to-account or account-to-cash, never cash-to-cash as offered by many MTOs. Also, in many cases with remittances sent through formal institutions, the receiver must also be an account-holder. Thus, continued and increased efforts to reach out to unbanked and under-banked communities are needed, because the majority of remittance flows are currently outside the formal financial system.

Furthermore, in addition to offering competitive remittance products, banks must at the same time provide inclusive and accessible financial products that attract remittance senders to formal financial institutions and help keep them as customers, by challenging conventional bank profitability models. Inclusive financial products would include free or low-cost cheque and savings accounts with low or no minimum balances, and secured loan or credit card products that allow clients to establish and
build credit. Given smaller transaction sizes, bank costs on a per-transaction or per-account basis would need to be evaluated (Seidman and Tescher 2005: 341). Banks would also need to invest in marketing efforts to raise awareness about these products in unbanked and underbanked communities, as well as build community partnerships.

In addition, more industry-wide and coordinated efforts are needed so that remittance products at banks are presented in a straightforward and clear manner to the customer. Coordination among banks and with international institutions such as the United Nations or the World Bank, and with national payment networks such as SWIFT, can help to define product, service and disclosure standards. Similarly, government endorsements on the benefits of channelling funds through the formal financial sector can help raise public awareness and education about financial services. For example, the Mexican agency CONDUSEF (Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros) provides financial information for remittance senders on its website “Remesamex”.4 One of the services on this website is a portal that publishes competitive pricing information on remittances from the United States to Mexico sent through different MTOs and banks. The site also provides a remittance calculator that calculates the cost of a transaction through different institutions. The United Nations could assist in working with other countries to develop similar models, so that senders and recipients are publicly informed about their options.

Finally, Citibank is committed to promoting financial education in immigrant communities, in order to increase awareness of the benefits of sending funds through formal channels. Financial institutions should continue to work with community organizations to support financial education programmes, as well as provide financial education curriculums that adapt to the changing needs of diaspora communities.

Notes

1. Remittance flows to developing countries are estimated to reach US$334 billion in 2011, according to the Development Prospects Group at the World Bank (Ratha et al. 2009).
3. For details of the Citi financial education programme, see <http://www.citigroup.com/citi/financialeducation> (accessed 17 August 2010).
REFERENCES


6

Strengthening national policies for engaging diasporas as a development actor: Lessons from learning-by-doing activities

Manuel Orozco

Introduction

This chapter provides an analysis of the relationship between practices in development by diasporas at various contexts. There exist a range of initiatives resulting from diasporas participating in some form of economic activity that results in positive development outcomes. These activities include issues relating to remitting, investing and donating by diasporas or through diasporas. These initiatives do help to establish a policy agenda that can be operationalized by governments and international institutions. The first section provides a matrix of the interplay between diaspora economic activities and dimensions of diaspora development. The second section looks at concrete practices and experiences of diaspora engagement. These experiences are either the result of an organic process of engagement with the home country resulting in some impact on development, or policy-driven initiatives that drive development approaches. The third section presents 10 policy initiatives emerging from lessons learned in the activities identified.

A matrix of best practices to leverage diaspora economic activities

The policy and business options to overcome barriers encountered in leveraging remittances are now better understood in many societies,
particularly in relation to a range of migrants’ and their families’ economic activities in the home country. An immigrant’s economic linkage with the home country extends to at least four practices that involve spending or investment: family remittance transfers; demand for services such as telecommunications, consumer goods or travel; capital investment; and charitable donations to philanthropic organizations raising funds for the migrant’s home community. Remittances are the first and most important economic activity.

These economic linkages have motivated governments, the private sector and development players to consider the potential role of migrants and remittances in the development of their countries. In some cases, other development players and diasporas have realized that they are indeed in a position to become partners, though not much analysis exists regarding the link between diasporas and development. Here it is important to argue that this link lies at a point where the economic activities of migrants intersect in a way that transforms the material base of migrants, their relatives and their societies. This transformation takes place along various dimensional spaces.

We use Jenny Robinson’s approach, which categorizes the relationship between diasporas and development as being three-pronged: (a) development in the diaspora, (b) development through the diaspora and (c) development by the diaspora. The first refers to the use of networks in the host country, which includes the formation of ethnic businesses, cultural ties and social mobilization. Development through the diaspora refers instead to “how diasporic [sic] communities utilize their diffuse global connections beyond the locality to facilitate economic and social well being” (Robinson 2002: 113). The third applies to the ramifications of “the flows of ideas, money, and political support to the migrant’s home country” (Robinson 2002: 123).

Looking at the intersection between economic practices and development with diasporas, a series of activities and solutions can be identified. Table 6.1 offers a matrix of migrant economic activities and their three dimensions. These activities associated with development in the diaspora produce different dynamics. For example, “in the context of remittances, development in the diaspora means to leverage the funds as a mechanism to provide financial access to migrants; whereas through the diaspora, remittances play an instrumental role in providing financial access to remittance recipients. Finally, the relationship between remittances and development by the diaspora is associated with the role of ethnic minorities in providing resources and services on remittances, such as establishing money transfer operations (MTOs)” (Orozco 2008a: 212).

Table 6.2 structures the relationship between development activities and diasporas. The policy and business options vary depending on the
realities of each society, as well as on the players involved. In thinking about remittances, the policy options and experiences in this regard have been associated with strategies that link people into the financial system. Another area of importance is community donations. What follows is a review of more than 20 cases and experiences of successful approaches to leverage remittances through development. The section also looks at the factors that triggered success, the challenges and future expectations. The cases are organized according to the activity and diaspora relationship as illustrated in the matrix and focus predominantly on remittance-related issues.

Learning-by-doing activities on development with diasporas

Practical experience demonstrates how various activities result from the interplay between economic engagement and areas of development. This section reviews some cases that incorporate both organic and policy-induced efforts at leveraging remittances, investment and donations.

Remittances and the diaspora

There are lessons learned and best practices in the area of remittances and financial access that could offer replicable practices as solutions to challenges faced by many countries. Some of these practices relate to
Table 6.2 Cases of diasporas and development activities

<table>
<thead>
<tr>
<th>Development activities</th>
<th>In the diaspora</th>
<th>Through the diaspora</th>
<th>By the diaspora</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family remittances</td>
<td>G-Xchange (Philippines); Wells Fargo (US); Directo a México (US/Mexico)</td>
<td>Atikha Foundation (Philippines); BANSEFI (Mexico); Salcayá (Guatemala); Financiera El Comercio (Paraguay); AMUCCS (Mexico); ADOPEM (Dominican Republic); Banco Solidario (Ecuador); Banco Salvadoreño (El Salvador); Fedecaces (El Salvador); JNBS (Jamaica)</td>
<td>Thamel.com (US–Nepal); MFIC (Latin America and the Caribbean)</td>
</tr>
<tr>
<td>Consumption of goods and services</td>
<td>Association for the Promotion of Immigrant Entrepreneurship in Milan (ASIIM)</td>
<td>IntEnt; ERCOF</td>
<td>New Horizon Investment Club; Por Mi Jalisco; Construmex (US/Mexico)</td>
</tr>
<tr>
<td>Investment of capital</td>
<td>DIR Foundation; HIRDA; Sankofa; IME</td>
<td>SEDESOL; Oxfam Novib</td>
<td>South African Reconstruction &amp; Development Bond</td>
</tr>
</tbody>
</table>

Source: The author.
financial literacy, technology, alternative financial institutions or product-offering by different entities.

In the diaspora

As mentioned above, development in the diaspora refers to a condition where migrant transfers are the source of development. The objective is to provide cost-effective financial access to migrants. The cases analysed below are in countries where migration between two corridors is strong and opportunities to introduce alternative payments for money transfers and financial access are important. These are: G-Xchange, Wells Fargo, Directo a México and Construmex.

G-Xchange, Inc., Philippines–Japan

Mobile transfers have become an attractive and feasible payment alternative in developing countries where mobile phone infrastructure exists and regulations are open to incorporate financial transactions through phone companies and/or telecommunication providers (Casanova 2007). Though some of the experiences are seen in Kenya, South Africa and the Philippines in particular, these transfers are only commencing.

G-Xchange, Inc. (GXI), a wholly owned subsidiary of Globe Telecom, has pioneered the effort to introduce global remittance services through GCash – its electronic payment system. Migrants in Japan and other Southeast Asian countries use GCash as a means to send money to their relatives in the Philippines, where GCash has a large presence. GCash enables any Globe Telecom subscriber to send and receive money and make payments through text messages. It is most commonly used for sending and receiving money locally or internationally since it is a faster, cheaper and more secure alternative to traditional money transfer services. The prepaid reloading feature offers the convenience of being able to load money anytime and anywhere. The system currently transfers US$100 million in remittances per month through over 400 commercial subscribers. Recently, rural banks in the Philippines have introduced mobile banking technology and adopted the GCash platform to provide payroll deposits and international transfers.

The product’s triggers of success consist of six factors: strong relationships with regulators, strategic partnerships, understanding of the target market, channel flexibility, involvement in developing the entire value chain, and grassroots education. Understanding the target market has been particularly important in prompting consumers to use the device. The company developed technology to credit remittances to mobile phones and ensure these are incorporated into the formal financial system, while simultaneously performing payments and withdrawals. Fur-
thermore, the fact that there is no minimum balance requirement is another characteristic designed specifically for the target market.

**Wells Fargo, United States–Mexico/Philippines**

Wells Fargo is one of the largest banks involved in the US outbound money transfer market. The company has two basic remittance products, along with options to bundle these products with additional financial services, such as cheque accounts and insurance: (1) “Sweep accounts” transfer funds overnight and (2) international ATM-remittance accounts for transfers to the Philippines. In the second product, the Wells Fargo account-holder is issued with an ATM card that they send to their authorized beneficiary in the Philippines. The individual deposits money into their Wells Fargo International Remittance Account and, the next day, their beneficiary can withdraw the funds from any of 4,000 Expressnet or MegaLink ATMs in the Philippines.

Wells Fargo currently performs more than 25,000 transactions per month to Mexico and other parts of the world by providing money transfers and other banking services. Wells Fargo’s remittance services can be distilled into seven contributing factors: a holistic, people-centred approach emphasizing relationship-building, demand-led product design, cultural specialization, investment in education – for the target market and for Wells Fargo staff, grassroots participation, and full support of company leadership.

The flexibility of the product allows consumers to evolve into using additional financial services. Wells Fargo’s bundled service option, Gold Pack, is intended as a relationship-building product that includes a remittance account, a cheque account, discounted money orders, cheque-cashing, and insurance services. In fact, its remittance customers use more products than non-remitters: a typical remittance customer uses seven products whereas a non-remitting Wells Fargo customer uses an average of five products. Its strategy for linking the product with Mexican migrants is to accept the migrant Consular Identification Card as a valid proof of identification to send money and open a bank account. As a result, more than half a million migrants have opened accounts.

Another key success of the bank has been in providing financial literacy. Wells Fargo learned that financial literacy programmes help mitigate migrants’ distrust of banks and its approach is to offer information without simultaneously marketing its products. The bank also works with non-profit organizations that publish materials on consumer education. For example, Wells Fargo contributed a remittances section to a financial literacy guide that explains topics such as cheques and ATMs. Wells Fargo buys volumes of these guides and gives them to consulates, so they can
be picked up free with the Consular Identification Card. The bank also provides a free, multi-generational financial literacy programme accessible online.

**Directo a México**

Directo a México is a joint financial access effort between the US Federal Reserve banks and the Banco de México – the central banks of the United States and Mexico, respectively. The programme is designed to help US financial institutions increase their share of the rapidly growing United States to Mexico remittance market by encouraging and assisting their customers to use the Federal Reserve banks’ FedACH (Federal Reserve Automated Clearing House) International Mexico Service to transfer funds to individuals in Mexico. The Directo a México programme is being implemented with the support of a number of organizations, including the Federal Deposit Insurance Corporation (FDIC), the Mexican consulates in the United States, Banco de Servicios Financieros (BANSEFI) and Instituto de los Mexicanos en el Exterior (IME).

Aimed at increasing financial access for migrants and their families, Directo a México is endorsed by Mexican President Felipe Calderón Hinojosa as the solution to help reduce the cost of transfers to Mexico. The programme processes an average of 28,000 payments per month through over 220 banks. By spot-trading the peso rather than hedging its exchange rate payout, Directo a México consistently offers a higher foreign exchange rate than its competitors, resulting in savings of more than US$5 per transfer, referred to as a “banked bonus”.

Directo a México positions itself on the low-cost component of its transfer system and its ability to promote financial inclusion. Furthermore, its account-to-account service exhibits a high degree of transparency for regulatory concerns. In areas with weak financial systems, the programme stresses the need to create incentives for banks to update their capabilities, as well as the government’s responsibility to provide low-cost entry for such banks to facilitate their transition into a more developed and interlinked system. An important consideration for success is the design and implementation of a proactive plan that in essence asks consumers and corporate players to change their banking behaviour to include account-to-account transfers and enhance financial system literacy and usage.

**Construmex, Mexico**

Construmex, a subsidiary company of CEMEX, provides financing to any Mexican citizen living in the United States who wishes to buy a new home or construction materials to remodel or construct their own home in Mexico. Construmex is supported by Mexican consulates throughout
the United States as well as by the over 900 agencies of DolEx Dollar Express (an MTO), where clients can pay their monthly loan instalments. Between 2002 and 2008, Construmex successfully financed the acquisition of construction materials and home purchases, serving over 60,000 Mexicans in the United States and over 8,000 Mexican families. Construmex offers two programmes: credit for new homes (up to US$20,000) and credit for construction materials (up to US$8,000). At the end of 2006, sales from construction materials increased by 30 per cent compared with the previous year.

The company has also been working in close cooperation with Mexican embassies throughout the United States to raise awareness of its products among Mexican migrant communities. However, establishing an image of trustworthiness and reliability remains a challenge in attracting more customers. Despite having the ability to build homes or provide construction materials to over 200 cities and towns throughout Mexico, Construmex and its partners have limited access to some remote rural areas, so Construmex is reaching out to more construction companies in Mexico in order to expand its coverage and provide customers with more options to build their homes.

In the alliance between the company and DolEx, Construmex has further focused on efficiency and access to remittances, given DolEx’s extensive network of over 922 branches in the United States and 10,000 distribution points in Mexico. In turn, DolEx offers its clients financing for the purchase of building materials or a new home.

**Through the diaspora**

Leveraging remittances for development through the diaspora essentially means to support financial access in the home country for migrants and their families, as well as to identify non-financial projects and products, such as in health and education, that can enhance the condition of transnational families. Here we present some exemplary initiatives by the Atikha Foundation in the Philippines, BANSEFI in Mexico, the Dominican Association for the Development of Women, Inc. (ADOPEM) in the Dominican Republic, Banco Salvadoreño in El Salvador, and the Jamaica National Building Society, as well as a pilot financial literacy programme for remittance recipients in Moldova.

**Atikha Foundation and Koop Balikabayan International, Philippines**

Atikha is a non-governmental organization (NGO) that provides economic and social services to overseas Filipinos and their families in the Philippines; it currently reaches approximately 5,000 individuals. The organization aims to address the social cost of migration and to tap the development potential of migration through a holistic approach that
involves families of migrants. Some of Atikha’s initiatives include counselling to families of migrants, financial literacy, social enterprise development, business training and facilitating financial services through a credit cooperative.

Family and Peer Counseling helps families understand the realities of migration and the social costs. Batang Atikha Savers Club is for the children of the overseas Filipinos and other members of the community. The Coco Natur Overseas Filipino Worldwide and Producers’ Cooperative provides an investment opportunity for overseas Filipinos that offers a strong return on investments. Atikha helps develop and manage micro and small enterprises, assists in environmental scanning and feasibility studies, provides seed funding for viable enterprises, mobilizes overseas Filipino investment and assists in the management of enterprises it helps to establish. Through Koop Balikabayani International – a credit cooperative organized by overseas Filipinos, returnees and their families – members are able to save and access credit at low interest. Atikha also conducts research on migration issues such as the feminization of migration, the social cost of migration and reintegration. Its research includes diaspora philanthropy and its impact on community development.

All of Atikha’s programmes embrace the concept of sustainable development. It looks for “triple bottom line” initiatives: profit, social impact and environmental protection. Atikha’s executive director, Mai Anonuevo, believes that partnerships forged with national entities are driving success and that government, the private sector, NGOs and diaspora organizations have all been important players. Atikha formed a technical working group on enterprise development that includes the chamber of commerce, which is working at the local level and achieving success.

**BANSEFI’s L@Red de la Gente, Mexico**

The Banco de Servicios Financieros (BANSEFI) is a programme of the Mexican government whose mandate is to increase the financial products and services available to the Mexican population, particularly Mexicans with low incomes. BANSEFI created a pool of popular banks, microfinance institutions and credit unions to act as remittance distributors and established arrangements with several MTOs, including GiroMex, DolEx Vigo, MoneyGram and US banks. This has resulted in ties with over 50 credit unions and micro-banks in Mexico, 22 remittance payment companies, and 2 commercial banks in the United States.

Together with BANSEFI, 69 savings and credit institutions (SCIs) have created a commercial alliance called L@Red de la Gente that enables SCIs to participate in the distribution network of remittances through contracts negotiated by BANSEFI. Under this scheme, members of L@Red de la Gente can offer financial services in their communities,
mostly low-income urban and rural areas where the formal financial system has no coverage and where migration originates. Once a remittance is paid, member institutions of L@Red de la Gente have the incentive to open savings accounts for migrants and their families, knowing they have an income source.

BANSEFI’s extensive distribution network is well positioned to serve Mexicans in areas where commercial banks have no presence or knowledge of the local market. L@Red de la Gente has grown to a network of 1,385 branches throughout Mexico that services over 700 municipalities. Only two banks, Bancomer and Banamex, boast more coverage. Despite its relatively recent start-up, L@Red de la Gente has managed to capture 2 per cent of the US–Mexico market, processes 120,000 transfers per month, and has experienced 28 per cent transaction growth (see Figure 6.1).

BANSEFI has been actively promoting Directo a México as a faster and cheaper method of sending remittances because of its significantly low transfer fees and next business day account-to-account deposits. It is currently in the process of expanding its reach by connecting more of its banks to the system as well as attempting to expand the number of participating banks in the United States.

As a method for “banking on both sides of the border”, BANSEFI has recently introduced the Beneficiary Account Registration (BAR) system. This innovative tool allows US financial institutions to pre-open an account at any BANSEFI or participating L@Red de la Gente credit union branch for a third-party beneficiary in Mexico, who then has 10 days to go to the selected branch, formalize the account and receive their money. By increasing financial access in Mexico and promoting bank usage,
BANSEFI has removed the obstacle to account-to-account remittances from the United States to Mexico. Banking individuals on both sides of the border will facilitate the reduction in the cost of sending remittances. In turn, migrants will have access to needed financial products so their income and remitted funds can be used to improve their standard of living.

BANSEFI also emphasizes the importance of customer service. Most bank officials are from the local community and seek to treat their clientele with understanding and respect for the vital role they play in Mexico’s development. BANSEFI seeks to expand its product line to include stored-value cards and has embarked on a pilot programme in Orlando, Florida.

**ADOPEM, Dominican Republic**

The Dominican Association for the Development of Women, Inc. (ADOPEM) is a micro-finance bank based in the Dominican Republic that is committed to empowering women and helping them become economic actors.

In 2006, ADOPEM Savings and Loan Bank – with financial support from the Inter-American Development Bank Multilateral Investment Fund (IDB-MIF) and the International Fund for Agricultural Development (IFAD) – launched a remittance programme specifically designed to deepen the financial system with an emphasis on low-income sectors. ADOPEM acts as both a remittance receptor and a remittance payer and has developed five products that are financed by programmed savings of “banked” remittance recipients. These products are: credit for business start-up, credit for the purchase of a new home or for the construction or remodelling of an existing home, credit for schooling or vacation, life insurance, and micro pensions. Furthermore, ADOPEM clients receive technical assistance and training and community development workshops designed to enhance clients’ understanding of business administration and the creation of new businesses, as well as vocational training to enable young men and women to enter the formal labour market.

Banco ADOPEM has formed an alliance with La Quisqueyana, Inc., an MTO based in New York, where 60 per cent of Dominicans abroad live, and Banco Hipotecario Dominicano, the second-largest bank in the country. The major challenge that ADOPEM faces is to make both remittance recipients and senders aware of the long-term growth potential and benefits of having Banco ADOPEM receive, distribute and pay their remittances rather than the traditional system of merely receiving cash payouts from money transfer operators. ADOPEM’s experience of managing micro-credit for low-income customers has shown that greater success is achieved by simplifying the tax requirements for those targeted through
this project. Finally, ADOPEM credits its success to its close ties to and visibility amongst its predominantly female customer base.

**Banco Salvadoreño, El Salvador**

Banco Salvadoreño, the second-largest commercial bank in El Salvador, is an important example of the link between alliances with money transfer companies and banks and financial intermediation in El Salvador. Banco Salvadoreño has a presence in most US states through its MTO BancoSal, and strategic alliances with some of the biggest MTOs, including Western Union and Bancomer Transfer Services. In 2005, Banco Salvadoreño made over 1 million remittance payments, totalling US$256 million. Of these payments, US$90 million were transfers from its own BancoSal, and 63 per cent of BancoSal transfers were deposited directly into the accounts of at least 13,000 remittance recipients at Banco Salvadoreño.

The bank offers remittance recipients the opportunity to borrow up to 80 per cent of their last six months’ remittance flows. It has also opened more than 29,000 savings accounts for recipients and distributed nearly 9,000 “Salvadoreño Emprendedor” debit cards to small business owners and more than US$10 million in loans to Salvadorans living abroad. In addition, Banco Salvadoreño is the only bank in El Salvador that has an Internet-based remittance service that enables clients to use the bank’s website to send money from any account in the United States. The bank also offers a personalized service to its customers through a welcoming staff (Señoras de Bienvenida) who provide financial education on the spot to the families retrieving their remittance and encourage them to open bank accounts.

**Jamaica National Building Society, Jamaica**

An important lesson from the Jamaican experience is that the “bancarization” of small businesses, such as convenience stores that install ATMs or accept debit cards, is feasible and promotes economic development. In Jamaica, remittance transfers have been accompanied by the distribution of debit cards by banks and some micro-finance institutions (MFIs). Meanwhile, banks and MFIs have also offered ATMs and electronic points of sale at a low cost to their small business clients, many of which offer goods and services demanded by typical remittance recipients.

The Jamaica National Building Society (JNBS), through its subsidiary JN Money Services Ltd, serves Jamaicans living abroad by offering remittance services in Canada, the United States and the United Kingdom. In partnership with the United States Agency for International Development, JNBS has automated the process of sending and receiving money transfers through swipe card technology; JNBS now has over 70,000
money transfer card users. Its Computers in Schools project applied one-third of the cost savings accrued from the money transfer card to education, donating approximately 250 computers to schools across the island. In turn, 50 per cent of remittance recipients in Jamaica have been brought into the formal banking system, with 25 per cent of those receiving remittances through a card product that can be used for purchases at small businesses that accept debit cards. These small businesses, clients of JNBS, are benefiting from their relationship with remittance-receiving customers. Savings ratios have increased considerably through direct deposits to savings accounts, a reduction in the amount of cash in circulation and the increased use of electronic transactions.

The JNBS experience with “bancarizing” both recipients and merchants provides an adequate example that could be envisioned in a practical model in other countries. Donor cooperation can target the distribution of point of sales terminals among several participating merchants (clients of banks paying remittances) and market debit cards among recipients of remittances. What makes this approach a success is the distribution of these devices to merchants who regularly cater for recipients.

### Financial literacy in Moldova

From November 2007 to May 2008 the International Organization for Migration and the International Labour Organization established a pilot project on financial literacy for remittance recipients in collaboration with financial institutions in Moldova. The project consisted of setting up financial literacy educators at selected bank branches across the country in cooperation with five banking financial institutions and savings and credit associations. The pilot achieved three goals: to educate remittance-recipient clients at the depository location; to indicate to clients the various financial products the local bank offers to consumers like them; to invite them to establish a financial relationship with this bank or any other institution (open a bank account, obtain credit, set up a direct remittance deposit, request a debit card or establish another available financial service).

Results from the sessions show an increase in the clients’ general knowledge and understanding about banks, financial services and budget management. Clients learned that banks are accessible for everyone, bank deposits can be in very small amounts, and their capacity to save small amounts can yield large results. Educators have seen that the sessions also lead to an increase in the clients’ self-confidence, sometimes reflected by a client returning to a session with their own family’s financial plan. Educators have confirmed that not all people fit the same profile, but there are seemingly three different groups: those who cannot afford to save and budget (can be as high as 30 per cent of all recipients); those who are saving and may have assets in cash totalling €700 (can be
as many as 50 per cent of all recipients) and who may be investing in housing; a wealthy group comprising those who are both saving and investing, most likely in the formal financial system (about 20 per cent of all recipients).

Moreover, results of the intake form that evaluates the learning comprehension of migrants before and after their educational session show that, prior to arriving, people exhibited very poor knowledge of finance, from budgeting to savings or credit. Although a lack of literacy does not preclude people from saving, only one-quarter have a formal financial relationship. A closer look at the data showed that people with budgeting experience were more likely to own deposit accounts. In addition, the results show that, after the session, a larger percentage of people demonstrated an interest in establishing a financial relationship with a banking institution. This experience is significantly important and replicable with support from government and donor institutions.

By the diaspora

Remittance transfer initiatives have also emerged from entrepreneurial diasporas seeking to strengthen their links with the home country and they often go global. Two successful examples are Thamel International and Microfinance International Corporation.

**Thamel International, Nepal**

Thamel International is a global company set up by the Nepalese diaspora in the United States. The company offers a unique business model that combines money transfers with services that allow migrants to convert cash remittances into products and services. This practice is what Thamel calls “productizing” remittances and is defined as a “diaspora for development” (d4d) approach. Thamel International has five mutually reinforcing business divisions: the Gift Shoppe, the IT Chemist division, the Export division, Thamel Remit and Thamel International (this division is still being developed and has yet to replicate the model beyond the United States). Thamel International’s clients include financial institutions that attract remittances and capital, multinational businesses engaging in emerging markets and diaspora purchasing power, development organizations that catalyse economic development and building capacity, government agencies supporting diaspora interests, and educational institutions that nurture sustainable development.

The success of the Thamel.com model is due to its focus on trust and relationship-building, cultural specialization, innovative use of technology, a strong customer service orientation, and strategic partnerships. The company started by offering “nostalgia” items that the diaspora was familiar with and interested in purchasing. Bob Granger, a Thamel International executive director, believes that entering the market with this
“soft sell” approach was crucial in building trust between the company and the diaspora. Thamel focuses on meeting the specific cultural interests of the market, as evidenced by nostalgia items offered to migrants. Furthermore, Thamel has developed ways to use information technology (IT) to bring together transnational communities in a manner that reduces costs and increases safety, choice and convenience. It recently established a partnership that allows money transfers from diaspora bank accounts abroad to an account at a partner bank in Nepal – this has reduced transfer costs by 80 per cent. Lastly, partnerships with banks have been important in reducing costs and offering channel flexibility, and relationships with local businesses form the basis of the gift shop division.

Microfinance International Corporation
Microfinance International Corporation (MFIC) is one of the few businesses worldwide operating with MFIs in both the originating and the paying destinations. The company is set up to expand affordable and professional financial services to markets where such services have previously been unavailable or overpriced and disconnected from mainstream banking. The company believes that a combination of micro-finance methodology and a commercial banking approach in a for-profit model enables it to make financial services available in a socially responsible manner and ensure scalability. Three main components make up MFIC’s business model: Alante Financial, ARIAS Remittance Settlement Platform and its MFI financing facility.

Alante Financial is a network of wholly owned and operated microfinance service centres in the United States that offers affordable and professional financial services in communities where banks typically do not reach. These services range from basic transactions such as money transfers and cheque-cashing to micro-finance loans. In turn, Alante Financial outlets help clients to establish a credit history, become responsible borrowers and support their family back home. ARIAS is a turn-key remittance platform solution that allows financial institutions, such as banks, credit unions and money transmitters, to offer a fast, reliable and compliant money transfer service under its own brand with complete control over prices and customers. MFIC offers credit facilities to MFIs on attractive commercial terms to support their lending and remittance programmes. Representative institutions include NGOs, cooperatives, regulated financial institutions and target-group-oriented banks.

MFIC sends money to more than 80 countries through 15 MFIs through various programmes and offers lower-than-average remittance costs. More than 60,000 migrants receive its various services, such as small loans and creating a credit history.

MFIC has a solid understanding of both the micro-finance industry and the banking industry and has experience serving immigrants. The com-
pany has expertise in the value chain of banking from international settle-
ment with banks to cheque-cashing services. This understanding allows
MFIC to be more creative and efficient, offer lower costs and engage in
better product development.

**Investments and the diaspora**

*In the diaspora*

Local governments in Italy and other countries in Europe have set up
programmes to strengthen the capacity of migrants to develop their en-
trepreneurial skills. In Milan, the local government created a programme
to give more opportunities to migrants, through the Association for the
Promotion of Immigrant Entrepreneurship in Milan (ASIIM), which
works in cooperation with migrant associations to provide information
about business development, training in entrepreneurial skills and assist-
ance to set up a business. These initiatives have grown over time in sev-
eral cities and provinces in many countries in Europe, such as France,
Italy, the Netherlands, the United Kingdom and Spain. One key relevance
of these initiatives is that they promote integration into the local polity,
but also create the conditions for greater transnational economic devel-
opment between the present home and the home country because many
small business activities of migrants are connected by trade and com-
merce with the country of origin.

*Through the diaspora*

In this section, two experiences with investment and micro-enterprise ac-
tivities are profiled: IntEnt and the Economic Resource Center for Over-
seas Filipinos (ERCOF) Philippines, Inc.

**IntEnt, the Netherlands**

IntEnt provides entrepreneurial and business development training to
migrants interested in starting a company in their home country. It op-
erates in seven developing countries, working with migrants living in the
Netherlands. Eligibility is determined by a rigorous review process that
evaluates the likelihood of success as an entrepreneur. IntEnt provides
qualifying individuals with consultative services on concept development,
market research, business plan development and financing for up to a
year and a half after start-up. It operates as a commercial endeavour and
creates programmes in response to demand and through market analysis.

IntEnt is guided by the principles of private sector development and
treating migrant entrepreneurs as equal to any other entrepreneur. Pres-
ently, 85 per cent of IntEnt’s client businesses are still operational three
years after start-up. It has succeeded in gaining acknowledgement as a
business organization and continued to expand. In an effort to maintain
good relations with local business owners, IntEnt has started business clubs that encourage the transfer of knowledge among all members in the business community.

The key to IntEnt’s success has been in its empowerment of migrants, long-term support for its clients, commercial approach and commitment to innovation. IntEnt teaches self-determination and self-empowerment through a “do-it-yourself” approach and it is committed to maintaining an atmosphere of professionalism within the organization.

**Economic Resource Center for Overseas Filipinos, Philippines**

ERCOF is an organization focused on economic development with an emphasis on utilizing the migrant population from the Philippines to help develop their home country. It provides support to Filipino migrants by encouraging a culture of saving and the organized use of remittances, resources and human capital for more productive undertakings, employment generation and responsible citizenship. It is guided by two main principles: the trickle-up effect and the multiple bottom line.

ERCOF works with the Philippines Central Bank on a financial literacy campaign in which representatives travel to cities and lead half-day financial planning forums with migrant families and return migrants. The organization also facilitates relations between Filipino migrants and MFIs and rural Filipino banks. Its product provides a safe investment opportunity for migrants and increases the assets of the banks, which allows them to provide more loans to small borrowers.

This organization has also been successful with its dairy cow investment scheme. The programme provides revenue for dairy farmers and is a safe and profitable investment for migrants. A contract exists between the migrant investor, farmers, the processing plant and ERCOF, which advertises the opportunity to the Filipino diaspora, facilitates the process and develops the local sales. The initial investment can be recouped in three years, with a return on investment of 170 per cent for the next two years, rising to 250–300 per cent thereafter. There are currently about 50 migrants waiting to invest in one or two cows.

The keys to ERCOF’s success include its migrant leaders, who are aware of migrant issues, the network of partners that ERCOF bridges together across sectors, and the market research it performs in order to understand which products and services are needed. It is now working to get feedback from its beneficiaries and to partner with NGOs on-site whose goals overlap with those of ERCOF.

*By the diaspora*

The New Horizon Investment Club (NHIC) was founded in 2000 by 10 Hondurans with the objective of pooling their financial resources to learn how to invest in the stock market. Since then, the club has become an ac-
tive participant in the economic development of the Honduran community living in New York City; it now has 100 members. At monthly group meetings, members deposit their investments (US$25–100 each), review studies of stocks and select which stocks they want to invest in. In 2002 they decided to diversify their portfolio by investing in real estate, which they did by purchasing an apartment building in the Bronx in 2004.

NHIC’s newest endeavour is to become involved in the nostalgia trade and it is negotiating with several Honduran producers to serve as an importer and distributor in the United States. NHIC has also expanded its objectives to include strengthening pilot mechanisms in Honduras’ North Coast for channelling remittances to productive use. This project included working with the local government and Hondurans abroad.

*Donations and the diaspora*

Another important experience is community investment for social or economic activities. Migrants in different countries worldwide have engaged as community leaders to support community development back home. In some countries these groups are known as hometown associations. These are small associations that raise up to US$10,000 a year to help their hometown improve its public infrastructure and social condition through the construction of parks, school maintenance and health clinics.

*In the diaspora*

**DIR Foundation, the Netherlands**

The DIR Foundation was formed in 2000 by a group of Ethiopian friends living in the Netherlands. Its objectives are to assist Ethiopian migrants with integrating into the Netherlands, to develop Ethiopia and to encourage an Ethiopia–Netherlands cultural exchange. The DIR Foundation is guided by the following principles: human rights, sustainability, social enterprise and cultural awareness. The organization focuses on self-empowerment and poverty reduction through programmes designed to be self-supporting and sustainable, such as employment, training, entrepreneurship and social enterprise. Additionally, DIR emphasizes cultural exchange through awareness, networks, the transfer of knowledge and tolerance. The organization opened an Ethiopian branch in 2005.

DIR has been successful in many of its programmes. These include an employment and housing project for prostitutes in Addis Ababa, which transformed the lives of former prostitutes through new employment. The Bunet Bet coffee shop was DIR’s first social enterprise in the Netherlands and is now profitable. The project for disabled people was expanded and has been met with positive feedback from those involved. In general, the organization is increasing its offerings and enhancing its
organizational structure and operations; it will likely achieve its goal of self-sustainability in the short to medium term.

The keys to DIR’s success have been thinking big, strong leadership, a great understanding of the Netherlands and Ethiopia and the target communities within them, and strategic partnerships with commercial and development organizations. In order to make the transition to a sustainable commercial organization, DIR is securing partners and advisers with commercial experience and focusing on competitive improvements and strategic planning; the organization is also developing earned income initiatives.

Instituto de los Mexicanos en el Exterior, Mexico
IME is an organization within the Mexican government that functions as a consultative entity between the Mexican diaspora and the state. Its main objectives are to promote public policies in the Mexican government that address the needs of Mexican communities abroad, link those communities with their counterparts in Mexico, and support the formation of leadership in migrant communities. IME also arranges educational conferences to inform others about the programmes and services the Mexican government provides to improve the living standards of Mexicans living and working abroad and to develop their home communities in Mexico.

IME has held conferences to discuss the improvement of financial literacy in migrant communities and to facilitate development by channeling remittances to more productive ends. In addition, the organization is working to encourage migrants to sign up for the Directo a México transfer payment system discussed above in order to enter the formal financial system. It also seeks to persuade more banks to become involved with the system. IME hopes to find success stories from this experience in order to further promote financial literacy and disseminate best practices for sending remittances with major money transfer operators.

Through the diaspora
Some governments have pursued partnership initiatives with the purpose of capitalizing on what diasporas are doing. One particularly successful experience is that of the 3×1 Program of matching grant schemes sponsored by the Mexican government. This Program has created significant interest worldwide and enjoys the trust of migrant associations. Another experience to consider is that of the French co-development approach, which seeks to establish development projects in the migrant’s home country with the participation of migrants in France while encouraging return migration. The projects often are solely funded by the migrant associations with advice from the development agencies, but they appear as
government development initiatives. There is no comprehensive evaluation of these projects, but they have been in place for more than 15 years and include a migrant return component and the involvement of several government agencies (Cambrezy 2007).

Here we review the experience of the 3×1 Program of the Secretaría de Desarrollo Social (SEDESOL). SEDESOL is the entity that established an official partnership with Mexican hometown associations to provide a matching fund for projects identified by hometown associations and the local beneficiary community.

The 3×1 Program matches each dollar contributed by a hometown association with one from the local, state and federal governments. It has increased contact between these entities and aims to strengthen ties between the levels of government. When an association participates in the 3×1 Program, a committee is established to oversee the disbursement of funds and project implementation. The 3×1 Program also seeks to establish better communication between local communities and their corresponding migrant communities in the United States and Canada.

In 2007, the federal government invested over US$22 million to match the nearly US$70 million contributed by local and state governments and HTAs. The number of hometown associations participating in 3×1 grew from 20 in 2002 to 857 in 2007. There are now 26 Mexican states participating and 1,613 projects in the works (see Table 6.3). SEDESOL emphasizes the development and promotion of projects that are productive investments by improving the local economy and creating jobs.

The impact of these projects is not negligible. The effect on the local communities is significant when compared with what these rural areas

Table 6.3 SEDESOL’s 3×1 initiatives

<table>
<thead>
<tr>
<th>Types of project</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urbanization (squares, gardens, seating)</td>
<td>132</td>
<td>165</td>
<td>310</td>
<td>393</td>
<td>288</td>
<td>405</td>
</tr>
<tr>
<td>Electricity (county and neighbourhood)</td>
<td>99</td>
<td>138</td>
<td>126</td>
<td>201</td>
<td>115</td>
<td>154</td>
</tr>
<tr>
<td>Community development centres</td>
<td>127</td>
<td>143</td>
<td>160</td>
<td>308</td>
<td>294</td>
<td>228</td>
</tr>
<tr>
<td>Street paving</td>
<td>144</td>
<td>117</td>
<td>167</td>
<td>178</td>
<td>164</td>
<td>218</td>
</tr>
<tr>
<td>Drinking water</td>
<td>77</td>
<td>74</td>
<td>308</td>
<td>121</td>
<td>54</td>
<td>114</td>
</tr>
<tr>
<td>Sewerage system</td>
<td>50</td>
<td>62</td>
<td>113</td>
<td>118</td>
<td>67</td>
<td>108</td>
</tr>
<tr>
<td>Educational infrastructure</td>
<td>112</td>
<td>61</td>
<td>46</td>
<td>73</td>
<td>56</td>
<td>99</td>
</tr>
<tr>
<td>Roads</td>
<td>67</td>
<td>57</td>
<td>83</td>
<td>80</td>
<td>58</td>
<td>77</td>
</tr>
<tr>
<td>Sports infrastructure</td>
<td>50</td>
<td>35</td>
<td>42</td>
<td>47</td>
<td>40</td>
<td>68</td>
</tr>
<tr>
<td>Productive projects</td>
<td>40</td>
<td>22</td>
<td>53</td>
<td>77</td>
<td>45</td>
<td>50</td>
</tr>
<tr>
<td>Health centres</td>
<td>28</td>
<td>17</td>
<td>26</td>
<td>31</td>
<td>26</td>
<td>19</td>
</tr>
<tr>
<td>Other</td>
<td>16</td>
<td>8</td>
<td>2</td>
<td>9</td>
<td>19</td>
<td>73</td>
</tr>
</tbody>
</table>

*Source: Information provided to the author by SEDESOL in 2008.*
need, but in terms of job generation they also have an important effect. In addition to the financial contribution and the project itself, the average job creation is 8 people per project, thus keeping at least 12,000 people employed during a year cycle.

The 3×1 Program and the Inter-American Development Bank are developing a pilot programme that will involve vocational training and the expansion of technological platforms. The government will establish educational programmes to improve the capabilities of small businesspeople to run profitable enterprises that will create jobs. The programme seeks to identify best practices and replicate the successful aspects of the programme throughout Mexico.

By the diaspora

Perhaps the most common example of donations by the diaspora is the efforts that migrants make to stay connected with the families they have left behind through hometown associations (HTAs). HTAs are an important illustration of the ways in which migrants strengthen their ties with their homeland while simultaneously promoting development. This migrant engagement, which is both symbolic and material, serves to reinforce the place of the homeland in their identities.

Migrant engagement with the homeland has also shown a philanthropic turn, whereby migrant HTAs are active throughout migrant recipient regions such as the United States, Europe and parts of East Asia. HTAs allow immigrants to maintain ties with their home community and support their place of origin while at the same time creating a new sense of community among recent immigrants with similar backgrounds. These associations represent a kind of transnational identity that is rooted as much in the migrant’s country of origin as it is in the migrant’s new adopted home (Orozco 2006). As such, they are as much about symbolic identity, memory and nostalgia as they are about purpose and social development in both the adopted and native communities.

The percentage of remittance recipients who belong to an HTA may be relatively low among certain nationalities, but the activities and impact of these groups are significant. For example, on average only about 9 per cent of remittance senders of Latin American origin in the United States belong to an HTA.

Although the activities of HTAs in the diaspora are diverse, these groups have largely attracted the attention of the development community for the work they do in their countries of origin. Indeed, the majority of HTA fundraising is done to support projects or donations in the migrants’ native communities, which are often completely funded by donations through such activities. The majority of the efforts of migrant HTAs are focused on the promotion of health or educational activities. Groups working in Latin America, Southeast Asia and Africa donate school or
medical supplies to local institutions, or provide basic infrastructure through the construction of clinics, classrooms, parks and homes. HTAs are often focused on dealing with the most immediate needs of their home community, such as in the wake of a natural disaster, or if the community does have a way to meet the most basic human needs such as basic education or a reliable water supply. Groups will also donate for special occasions or circumstances, such as a religious celebration or to repaint or repair a local church. These migrant associations often liaise with local organizations in the home community in order to implement their projects. For example, in Guyana the most common local partners are local non-profits and churches. In Mexico, 80 per cent of HTAs report approaching municipal leaders to discuss their projects, coordinate efforts and distribute resources (Orozco and Welle 2005).

Lessons learned: Solutions to enhance the development impact

These experiences help shape policy opportunities for migrants, diasporas and their families associated with remittances, investments or donations. The transfer of migrant remittances experiences different problems. Solutions to some of these problems are varied and depend on the conditions in each sending and receiving area. However, two common threads in these solutions are a rural and a gender-based approach to leveraging remittances.

Here, we identify several initiatives where policy can be critically important to promote the leveraging of remittances, investments or donations through funds and migrant capital management. The initiatives are not exhaustive, but reflect the public policy debate over these issues.

Reducing informality, improving competition and reducing costs

First, policy must improve the money transfer market by reducing informality, improving competition and reducing costs, as well as offering incentives to improve money transfer technology. The existence of informal networks often results from the absence of a significant number of competitors that can pay transfers in the most remote areas. Because governments stipulate that only banks are allowed to pay remittances, many rural areas are neglected and, in turn, are adopted by small informal entrepreneurs.

Cost reductions in recent years have stemmed largely from increased competition among money transfer operators. In the Russia and Central Asia region, costs are relatively low and below international prices; however, more needs to be done. Government initiatives in Russia dealing
with preventing exclusivity agreements have been successful at reducing transaction costs resulting from price scheme gains produced by exclusivity contracts.

Further efforts to decrease costs involve greater transparency, improving the environment for MTO competition (including monitoring businesses on full pricing and service level disclosure), supporting small money transfer businesses to participate in the market and introducing alternative means to transfer money such as prepaid cards or mobile phone technology. New technologies can allow for cheaper account-to-account transactions, but all players in the market must learn how best to use these technologies. In terms of recipients, this requires increased financial education in addition to changing the way money is collected.

Moreover, banks’ small business clients also benefit from making remittance payouts through increased access both to credit and to remittance-receiving customers. Rates of saving can increase considerably, not only through direct deposits to savings accounts but also by reducing the amount of cash in circulation and through the increased use of electronic transactions. Access to technology can be expensive for financial institutions or vendors, therefore policy solutions such as tax breaks or incentives encouraging improved technology should be implemented.

**Accelerating financial intermediation projects with credit unions and MFIs**

Another area where solutions can be found is in accelerating financial access through projects with MFIs, credit unions and small banks. These alternative financial institutions have demonstrated a key role in banking the traditionally unbanked and in transforming remittance clients into clients of other financial services. Support for these financial institutions by governments and donor countries has been low despite MFI efforts to reach out to remittance recipients. The financial assistance that has been granted has typically targeted financial product design, marketing and technology. In Moldova, for example, the majority of flows go to families in rural areas where bank presence is more restricted but savings and credit associations (SCAs) have a deeper reach. However, SCAs are not allowed to offer remittance services and are not supported to reach out to recipients and migrants. Increasing the support and participation of these small financial institutions is of crucial importance to increasing access to financial services and improving financial literacy and assets. Types of assistance include financial product design and marketing, IT development, market research and regulatory compliance. Another area of assistance is in supporting savings banks, MFIs and credit unions to build networks that can allow positive negotiations with remittance transfer
companies. In this light, linking banks in the originating country to MFIs in the destination country is also a winning proposition.

*Engaging banking institutions to provide broad financial services*

In addition to incentivizing non-banking financial institutions to reach out to remittance clients, larger banks that offer remittance services should be targets for engagement. Access to banking services remains low despite the very high percentage of payments made by banks and the revenues resulting from their services – remittance transfer earnings represent 20 per cent or more of their total net income. Efforts should be made to increase opportunities for reinvestment in the community. Because of banks’ role in distributing remittances, it is particularly important that they move beyond simple remittance payments and offer financial literacy programmes aimed at remittance recipients, financial product design or marketing, and modernization of payment systems.

*Supporting projects to improve investment opportunities at home and among the diaspora*

Policy initiatives should also focus on improving opportunities for small-scale investment to create new businesses, thereby responding to the demand by migrants and their families to invest. This means, for example, linking investment opportunities for remittance recipients to transform subsistence agriculture into commercial farming and encouraging an environment favourable for migrants to invest. These enterprises in turn provide further opportunities by promoting migrant investment in tourism and the nostalgia trade. Seasonal migrants visit their home country once a year and many buy goods produced in their home country, which contributes to the growth of small businesses. Governments in the host and home countries, development agencies and the private sector could benefit by offering products or services from the country of origin in these businesses abroad. In reaching out to the diaspora, governments target a unique and important source of funds.

The achievement of these goals is contingent on governments and the private sector continuing their work to create appropriate conditions for a positive investment climate in the country of origin. No effort to promote investment will succeed if the business climate is not investor friendly.

*Design products that include education and health services*

Education and health expenses are typical investments in remittance-recipient families. Nonetheless, adequate education and health services
are often not well publicized or not available. One way to provide these services is through partnerships between banks, MFIs and health and education providers that offer financing. For education, this refers to education funds (savings and loans), tutoring, extracurricular activities and Internet lessons. These types of investment on the part of recipient families will lead to higher educational achievement and continued investment from the person sending money from abroad.

*Provide technical assistance on financial and remittance literacy*

Educating people about finances is a critical step toward development and is important among remittance recipients. Financial and remittance literacy as well as training in skills acquisition can be established in cooperation with financial institutions to reach out to remittance recipients. This technical assistance should consider information about the financial value of the transfers as a mechanism to build credit and assets and the use of alternative payments through electronic instruments such as debit and credit cards.

*Engaging governments and the private sector as environment enablers*

One of the general policy recommendations, perhaps one that should be a major priority and that can be gleaned from the majority of these issues, is that governments need to understand their role as environment enablers. This means in general promoting policies that lead to increased access to the financial system and financial intermediation for remittance recipients.

Moreover, an outreach policy towards the community residing abroad is key to any migrant-sending country’s economic strategy. Currently no such policy is in place in most countries, and governments could gain significantly from such an approach.

A first step in this direction is the creation of national Commissions on remittances and development composed of civil society organizations, migrant-based groups, MTOs, financial institutions, government officials and donors. The experience of these types of exercise has been successful in the United States–Latin American and Caribbean context.

*Macroeconomic policy*

Policy tools can play a preventive role in mitigating the adverse effects of remittances, particularly when these flows affect the productive base of
the local economy through an unnecessary or undesired appreciation of the local currency.

**Migrant outreach policies**

Establishing an outreach strategy that links with migrants through confidence-building measures is a key area of government policy (Orozco 2008b). Confidence-building is a necessary step in validating the reality of migration. To do that, however, it is important to improve contacts and relationships with the diaspora and to establish a minimum outreach programme that promotes participation among the migrant community (Orozco 2008a). Governments need to develop confidence-building tools and initiatives that make migrants recognize that they are serious and committed to working with them. Confidence-building incentives should stress at least four components: dialogue with leaders, institutional resource investment for policy outreach, institutional communication mechanisms that ensure systematic and legitimate contact with diasporas, and the joint creation of a policy initiatives agenda that affects both governments and migrants.

**Knowledge transfer: Toward a knowledge transfer bank initiative**

Opportunities for knowledge transfer are one area of attention that development cooperation can focus on when dealing with the adverse effects of migration. Diasporas often manifest an interest in transferring knowledge (in addition to material resources such as remittances, investment, donations and material goods) as part of their contribution to their homeland’s development or as a way to prevent their fellow co-nationals from migrating out of extreme necessity.

Developing a knowledge transfer scheme is a first step that includes a range of considerations (such as the resources required to achieve the transfer as well as what is being transferred). Moreover, anything that is transferable cannot be transferred unless some incentives, enabling environments, needs assessments and a critical mass of human resources are present.

Even when members of a diaspora are in a position to transfer their skills to their home country, key questions are what migrant skills should be transferred, to what purpose or end, and for how long? Migrant skills transfer may include only professionals with higher education or specialized training. However, there are other migrants with considerable acquired experience in some economic activity who would be prepared to transfer their skills. It is also important to consider here the duration of the transfer and its impact on the skill acquisition of the labour force or
on the value added of such a transfer on the productive sector where it is applied.

First, there is not one single type of skill transfer but rather a combination of at least four identifiable categories:

- Professional support is an important skill transfer that includes both input and know-how. Input skill transfer is the labour productivity provided by professionals during their stay on a given project. Know-how is the transfer of the tools that are needed to attain those skills. Professional skill transfers are not restricted to engineers, doctors, nurses or architects but include all professionals whose trades are needed back home. One important skill transfer in some countries is of academics and policy experts in political science. Nicaragua is a country with a large deficit of political scientists, with no more than five presently working in the entire country.

- Semi-skilled transfers are of people whose training and experience rather than formal education have given them the tools to be competitive and productive in their economic activities.

- Volunteer partnerships are skills transfers of unpaid labour to work in communities in need of short-term local investments in social or economic activities. Church volunteers and civic-minded volunteers (such as those organized in Habitat for Humanity) also provide important skill transfers.

- Finally, a much neglected transfer is that of knowledge networks to attract capital or other resources. Many diaspora members are directly connected to the capital markets and have not only the skills but the network connections to bring capital to work in certain markets. Other diaspora members can use their networks to bring funds or policy support in international cooperation.

However, in order to attract any of those categories of skills transfer there needs to be in place at least a set of incentives, an enabling environment that motivates and gives confidence to people to come, an assessment of the market for skills transfers, and a critical mass of individuals to draw upon. Many individuals have expressed interest in returning to their country for short- or long-term periods but there are no incentives for them to do so. These incentives include a financial stimulus as well as other kinds. But even if someone is offered to get “well paid”, they may not want to return if conditions in their home country are not satisfactory. These conditions include the presence of a fairly stable political system with a respected rule of law. In addition, governments, civil society and international cooperation need to identify what they require in terms of support and in which economic sectors, so as to avoid a saturation problem in some areas and a deficit in others. This effort can start with a diagnosis of current needs in the private sector as well as in the educa-
ional system. But it is also important to undertake local community assessments of needed skills, which can be done at the municipal level.

Finally, there is a need to develop a pool of resources to draw on, a skills bank from which to obtain the required transfers. It is important to have an accurate assessment of the size of the resources willing and available to provide their input and know-how. Once the combination of incentives, enabling environment and skills transfer market is introduced in the equation, a realistic figure can be obtained.

Table 6.4 links the conditions and resources required for skills transfers with what can be transferred. These relationships may differ across skills groups and may sometimes be the same for all segments. The situation in each case will be different, but this table offers a helpful way to consider aspects that may need including when considering a skills transfer programme.

Notes

1. It is important to distinguish migrants and diasporas as separate units of analysis. Migrants can be individuals and groups of foreign-born individuals who may or may not have a link with their homeland, whereas diasporas are groups of migrants and people of descent from a nation-state other than the one in which they reside who mobilize to engage their home country. Migrants remitting to their families are not necessarily diasporas, nor are migrant associations without a concrete agenda relating to the home country. For further discussion, see Orozco (2008a) and Shain (2007).
2. Most studies assume there is a relationship but do not specify it conceptually or methodologically. Some efforts to do so are Sørensen (2004) and Maimbo and Ratha (2005).
3. Although important, this issue will not be addressed in this chapter.
REFERENCES


Developing capacity: Diasporas as transnational agents of development

Chukwu-Emeka Chikezie

Introduction

The search for innovative ways of mobilizing financing for development has led development practitioners and officials to take increasing interest in the role of diasporas as transnational agents of development. Specifically, diaspora remittances, direct diaspora investment (DDI – a counterpart to foreign direct investment, or FDI), and diaspora philanthropy all now constitute significant flows with development implications and impacts.

This chapter examines the question of capacity development in the context of enhancing the role of diasporas as transnational agents of development. The chapter makes three main points. First, given that a key target in the fight against poverty is the creation of decent, productive jobs for all, especially women and young people, exploring ways in which diaspora resources can contribute to private sector development in developing countries is a potentially fruitful area of focus for capacity development within the overall context of harnessing diasporas as transnational agents of development.

Second, capacity development within this context is not mainly, or even primarily, about teaching diasporas how to be better development practitioners, if the broad aim revolves around private sector development. Creating an enabling environment is the much more challenging aspect of capacity development that promises significant payoff in unlocking the diaspora’s potential. Conventional discourse on “building the diaspora’s
capacity” as a development actor is typically framed as mainstream development actors doing the capacity-building, conveying the notion at least of a one-way flow of knowledge. Indeed, although not explicitly spelled out, it seems likely that much discussion about building the diaspora’s capacity as a development actor is really referring to diaspora philanthropy by default. Of the three forms of diaspora practice, the developmental intention of the diaspora matters most in the context of philanthropy. Diaspora remittances and investment can have development impacts regardless of the intentions of the remitter or investor. This points capacity development in different directions. Although there is undoubtedly a place for training and grant-making, particularly in the context of diaspora philanthropy, this chapter argues that the real gains are likely to stem from far greater attention paid to the other two forms of diaspora flows and from the institutional dimensions of capacity development that create an enabling environment for maximizing the gains from diaspora engagement.

Third, it may help to think of the diaspora’s contribution to development from a systems perspective (Whyte 2004). Thus private sector development operates as an ecosystem that connects individuals to organizations to a wider system. This has implications for how we approach capacity development. Remittances, DDI and diaspora philanthropy are distinct forms of diaspora practice that channel resources into developing countries, and they are interlinked in nuanced ways that require us to also think of the fluidity between these channels, particularly from the perspective of the diaspora individual and counterpart(s) in the target developing country who may use all of them.

The next section presents a framework for understanding diasporas’ engagement in activities related to development. After examining the question of capacity development in greater depth, I present one case study to explore the interlinkages between diaspora philanthropy, DDI and remittances. Then I consider specific capacity development interventions in the context of the three channels of interest. The chapter ends with some concluding remarks.

Diasporas and development

Diaspora/migrant organizations are characterized by considerable diversity in their form and focus. The following typology of diaspora actors illustrates this point (the roles are not necessarily mutually exclusive, and in many cases they overlap):

• Individual
• Hometown/country association
It is important to remember, of course, that diasporas are capable of fomenting divisions and even violent rebellions in their country of origin, removed as they are from the immediate consequences of such activities and often in possession of romantic and nostalgic recollections of how life was in bygone eras. In recent times, authorities have also taken an interest in the role of diasporas in financing terrorism or laundering money. Although not ignoring these realities, this chapter focuses on the undeniably positive impact that some diasporas have on their country of origin.

Hometown-type associations have a long history among migrants. For instance, the first Honduran hometown association (HTA) from the Garifuna region in the United States dates back to 1946. By contrast, diaspora-led development non-governmental organizations (NGOs) appear to be a more recent phenomenon. Capacity, of course, varies across different types of group, locations and migration context. In Europe, for instance, many of the African HTAs are relatively small self-help groups that typically raise a few tens of thousand dollars each year. The Federation of Zacatecanos Clubs of Southern California brings together several hundred individual HTAs from Zacatecano state in Mexico and has raised several hundred million dollars for development projects in Mexico (and partners with three tiers of the Mexican state and with corporations through matched funding schemes).

Few generalizations are possible across such diversity. However, it seems true to state that development NGOs modelled along conventional lines remain in the minority, although there may be a trend towards
forming such groups. What is significant is that, even among the largely philanthropic diaspora groups, the impact of their work may be developmental, even though they do not brand themselves along such lines and may indeed be unfamiliar with conventional development-speak. Capacity development initiatives need to take note of this diversity and not default to assumptions that only overtly development-oriented organizations are of interest.

Although it is vital to bear in mind the heterogeneity among diaspora/migrant groups vis-à-vis their approaches to development, for many (probably the majority) their “development” initiatives are more akin in their minds to self-help – a mix of obligation, self-interest and public-spirited concern. It is in this sense that I agree with Orozco (2003) when he asserts that “migrant associations are not development-oriented by nature”, in terms of pursuing formal development agendas. What matters is less their orientation (or indeed motivations) and more the outcomes of their activities. Nonetheless, evidence exists (Ndofor-Tah 2000) of common ground between development practitioners and diasporas/migrants around achievement of the Millennium Development Goals (MDGs).

A nuanced understanding of diasporas’ engagement vis-à-vis development is essential when we come to consider the question of the diasporas’ role in contributing to development. Fostering long-term partnerships that involve diasporas alongside other actors able to influence development outcomes will likely take a more open approach to capacity development, with scope for learning and building among all actors (De Haas 2006).

Diasporas’ 4Cs and 3Ps

Diasporas are most celebrated for the remittances they send “home” to their countries of origin. However, it is useful to think of multiple forms of diaspora capital with implications for development:

- **Financial capital**: As already noted, remittances are probably the most tangible “currency” of the migration–development debate. Recipients put remittances to a variety of uses. Some studies indicate that the bulk of remittances are used on basics such as food, clothing, housing, health and education (Boon 2006). Other studies also point to investment in entrepreneurship. For instance, a survey of small firms in Mexico found that remittances account for 20 per cent of total capital invested in urban micro-enterprises (World Bank 2006).

- **Intellectual capital**: Another topic that has generated significant interest in the migration–development debate has been the so-called “brain
drain” of skilled personnel from developing to developed regions and various strategies to mitigate the effects, given the purported skills deficits that now hamper development efforts.

- **Political capital**: Diasporas also deploy political influence on a range of issues with a bearing on development. These might be local, domestic issues, issues of national import or even global ones, as the struggle against apartheid became with considerable engagement by African-American activists.

- **Social capital**: This is not a resource per se that diasporas deploy; rather, social capital constitutes the “ties that bind” – the glue, rationale, obligations and even channels and networks are all implied by social capital.²

Figure 7.1 illustrates the interaction of the 4Cs.

The factors that motivate diasporas to engage in activities that have development outcomes matter little to those who might feel the effects of the outcomes (whether positive or negative). Although some people may engage in development activities for essentially ideological reasons, it is neither helpful nor necessary to assume that diasporas do so for similar reasons. However, some consideration of motivations is useful in the context of capacity development.

Experience suggests that diasporas are broadly motivated to engage in development-related activity by a mix of the “3Ps”:
Pecuniary interests: Many diasporas harbour intentions of returning to their country of origin and are exercised by ensuring they have remunerative activities to sustain them (this is especially true for those who are temporary migrants or whose status in the host country is irregular). Another reason for pecuniary interest may simply be to reduce the dependency of family and friends in the country of origin upon the finite resources of the sender.

Private interests: Beyond immediate pecuniary or financial gain, diasporas may also direct their resources to the private sphere of the immediate household or narrowly defined community.

Public philanthropic interests: Diasporas also engage in resource transfers and activities aimed at the public sphere for which there is no prospect of personal gain or reward.

It is important to emphasize that altruism is only one motivating factor explaining why some people may choose actions that produce development outcomes. Because development can happen even though the diaspora actor has no explicit intention in this regard, capacity development can focus on facilitating the desired actions without exhorting the diaspora to support “development”.

The next section considers a case study of one diaspora-led initiative that applies the above framework in a concrete developmental context.

Case study: Creating an enabling environment for diasporas to support systems of change

The African Foundation for Development (AFFORD) was formed in London in 1994. Its mission is to expand and enhance the contribution that Africans in the diaspora make to Africa’s development. Over the years, it has pioneered a number of initiatives to connect Africans in the diaspora more directly with their aspiration to contribute to the continent’s development. In 2006, AFFORD launched the Supporting Entrepreneurs and Enterprise Development in Africa (SEEDA) programme, following a feasibility study conducted in Ghana and Sierra Leone.

Through SEEDA, AFFORD recruited a number of African diaspora “Resource Persons” (RPs) to work directly and intensively for short, two-week stints on a pro bono basis with small-scale enterprises operating mostly in the informal sector. Broadly, clients receive a combination of five services, based upon their needs:

1. Information provision
   - Bank regulations, legal information, human resource policies, marketing
2. Capacity-building and training
   • Book-keeping and finance management, business planning, business management, human resource management skills, approaching banks
   • Literacy and numeracy training
3. Access to finance
   • Linking with micro-finance and banking institutions, mobilizing local resources
4. Networking and linkages
   • References, linking with other entrepreneurs doing similar business
   • Linking with business membership organizations
5. Advocacy support
   • Help with tabling issues faced by entrepreneurs at various policy-making forums, etc.

RPs typically deliver these services via one-to-one consulting and advice sessions, through workshops, and through training sessions. By July 2007, some 74 individuals had invested 1,166 days working in Sierra Leone (three trips) and Ghana (two trips) with over 500 businesses, some 150 of them in a deeper engagement of performance enhancement.

So far, results have been encouraging:
   • over half of the businesses supported have begun keeping books for the first time;
   • some 50 entrepreneurs in Sierra Leone have been able to open bank accounts for the first time;
   • around 3 businesses have adopted strategies of diversification and expansion;
   • some 25 businesses have been able to negotiate more favourable loan terms from a micro-finance institution;
   • one journalist covering the programme was sufficiently inspired to start a venture and secure a loan to expand operations within six months.

Additionally, because of the trust and camaraderie (social capital) established through the intense interaction between RPs and their clients, business relationships resulting in joint ventures and investment in small and medium-sized enterprises (SMEs) have emerged. In other words, some RPs have leveraged social capital to transform themselves from diaspora philanthropists utilizing intellectual capital into diaspora investors using financial capital. Indeed, some of these RPs have established a private equity venture, African Diaspora Investors in Africa (ADIIA), to invest directly in SEEDA SME clients, as well as in other promising ventures in time.

This case study suggests that having the whole system, in this case private sector or enterprise development, as the unit of analysis in view and finding ways to facilitate diaspora contribution within that system may be a fruitful way of approaching capacity development.
AFFORD’s starting point in approaching this project has been that there is added value and mutual gain in bringing together suitably skilled diaspora RPs and entrepreneurs and facilitating processes in which exchange can take place that leave both parties enriched, because the diaspora in particular traverses different roles and leverages different forms of capital. Capacity development is integral to the whole process:

- After a rigorous selection process, RPs are provided with support in the form of information and training to help them understand the context within which they will operate in order to help them maximize their effectiveness.
- RPs work with entrepreneurs in a context where the sharing of skills and experience occurs; while entrepreneurs learn how to improve the performance of their businesses, RPs learn about the business environment in the country and identify potential partners.
- RPs, entrepreneurs and their associations collaborate to shape the investment climate, through advocacy, within which the entrepreneurs operate.
- Three of the participating RPs have now returned home permanently – one is running his own business venture and the other two work for private firms but are both in the process of also establishing their own ventures. They can all point to ways in which participation in the SEEDA programme helped prepare them emotionally and/or practically for their eventual return.

SEEDA is one form of enabling environment within which diasporas can maximize their contributions to development, in this particular case to private sector development.

A capacity development agenda

Harnessing the benefits of migration for development in effect means working with diasporas as transnational actors to derive the maximum developmental impact from their engagement in and interface with the development process. Mainstream development thinking is now returning to a recognition of the importance of economic growth and prospects for poverty reduction through job creation.

As already suggested, capacity development is multifaceted. Researchers have offered a framework for thinking about capacity-building that illustrates the trade-offs that come into play as more ambitious efforts are made. As the denser area of Figure 7.2 implies, capacity development efforts tend to cluster around resource transfers – for example, establishing a project fund. Indeed, during the first Global Forum for Migration and Development (GFMD) in Brussels in 2007, a clear message...
from diaspora groups attending the civil society day was for more funds for their work under their own direct control rather than intermediaries such as international NGOs (King Baudouin Foundation 2007). However, the more profound, systemic changes require substantially more investment of time and effort to overcome the institutional complexities and barriers to create an enabling environment. For instance, in order to harness diaspora skills effectively, the SEEDA programme requires freedom of movement for diaspora members to engage in “circular migration” – policy imperatives include flexible residency and citizenship (Agunias and Newland 2007).

**Leadership and management in a transnational age**

It is worth considering the individual and organizational dimensions of capacity development in particular. Perhaps the most common observation that funders and policy-makers make is that they are confronted by a plethora of small, fragmented, uncoordinated and sometimes fractious diaspora groups all hailing from the same country or region and all demanding the ear and/or finances of the funder or policy-maker.
As argued elsewhere (Chikezie 2007), whether (African) diasporas can step up to the challenges of leadership and management in a transnational age is a critical issue. Experience demonstrates that expecting disparate diaspora groups to federate or combine forces somehow to interact in a more coherent manner with origin-country governments and authorities, as well as with official development actors, is a tall – though not insurmountable – order. It is, first and foremost, a question of political will and mindsets among diaspora actors themselves, although there is plenty of scope for training and capacity development at the individual and organizational levels to facilitate this process.

Arguably, one of the most useful capacity development interventions would be to facilitate more peer-based learning among different diasporas – Latin American (which has travelled furthest down the road of developing such leadership competencies), African, Caribbean, Asian, etc. – because the indications are that seeing similar groups overcoming what seem like overwhelming challenges is both inspiring and empowering.

Fitting into the bigger picture

It is unlikely that efforts to scale up the developmental impact of diasporas’ transnational activities will succeed unless they are an integral part of overall development strategies, particularly those of developing origin countries (though developed donor host countries need to take strategic approaches too). Although some developing country governments have made significant strides in building productive relationships with their diasporas, calls to other governments to incorporate migration into their development strategies are now routine (and apparently routinely ignored). The paradox, of course, is that such a strategic approach is itself a function of state capacity, and it is states with weak capacity that appear least likely to operate as developmental states and integrate their diaspora engagement approaches into overall plans. Nonetheless, this is a vital part of the capacity development jigsaw at the institutional level. Interestingly enough, it is quite possible that diasporas themselves would be willing and able to assist their developing country governments to devise effective strategies to integrate diasporas into development plans. This highlights the point that not only is capacity development not one-way, but diasporas themselves can be integral parts of delivering capacity development to harness the benefits of migration for development.

Innovation and entrepreneurship in development

The growing phenomena of remittances, brain drain, etc. are themselves testament to the failures of development efforts. Indeed, diasporas in
effect say, “we are over here precisely because development failed over there”. Thus, although most diasporas are unfamiliar with the jargon and norms of contemporary development practice and are versed in its ways, there is a need for humility on the side of the practitioners too. Isolated pockets of change embodied by sometimes successful projects have not generally succeeded in ushering in systemic, sustainable change.

Not all diaspora groups are necessarily inherently innovative or entrepreneurial, but there are many examples of innovation and entrepreneurship having come from diasporas. If official development practitioners intend to work with diasporas, it behoves them, therefore, to systematize the search for innovation and entrepreneurship, to be open to it rather than penalizing it (for example as not fitting current procedures, plans or guidelines), and to signal very clearly to diasporas that fresh thinking and practice are welcome.

An enabling transnational environment

I can now tease out some of the implications for capacity development in the transnational age and offer some specific recommendations for capacity development interventions.

Table 7.1 highlights a number of salient points:

- Host-country governments and sending-country governments both have vital roles to play in creating the enabling environment for diasporas/migrants to maximize the development impact of their activities. This transnational age demands more “joined-up” policy initiatives – for instance, the performance of minority-owned businesses typically located in inner-city areas with high immigrant populations is a matter equally for the trade and industry ministry as it is for the ministry (and local authority) responsible for integration as it is for the overseas development ministry keen to see poverty eradication through, among other things, increased trade and exports.

- Sending-country governments need to re-evaluate their development policy frameworks (for example, Poverty Reduction Strategies) to take full account of the opportunities thrown up by diaspora/migrant activities.4

- Challenges such as equipping whole societies with the tools and means to compete in an increasingly globalized world and to secure dignified existences in a context of depleting natural resources and climate change demand a “megacommunity” (Kelly et al. 2007) of public, private and civic sector leadership and action, with diaspora actors playing vital roles, whether from a vantage point in the civic sector or the private sector.
<table>
<thead>
<tr>
<th>Individual</th>
<th>Organizational</th>
<th>Institutional</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Remittances</strong></td>
<td><strong>Remittances</strong></td>
<td><strong>Remittances</strong></td>
</tr>
<tr>
<td>• Financial literacy training for remittance senders and recipients</td>
<td>• Encouraging partnerships between micro-finance institutions and diaspora groups to better leverage remittances</td>
<td>• Financial inclusion – banking the unbanked</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Encouraging competition to reduce transfer fees</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Validating qualifications and providing access to job opportunities commensurate with skills and experience</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Gender-sensitive policies reflecting reality that women diaspora/migrants often feel more pressured to remit, even though their finances may be more precarious</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Institution of temporary migration schemes to facilitate circular migration</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Minimal regulatory burden to enable diaspora-owned money transfer operators (MTOs) to operate on level playing-field and play to their competitive strengths</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Policy initiatives to enable multiplier effects of remittances</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Banning of exclusive agreements that enable powerful MTOs to lock up distribution channels in remittance-receiving destinations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Allowing more inclusive financial players such as micro-finance institutions to provide remittance services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Access to business support for remittance-receiving entrepreneurs – ensure women receive targeted support</td>
</tr>
</tbody>
</table>
Table 7.1 (cont.)

<table>
<thead>
<tr>
<th>Individual</th>
<th>Organizational</th>
<th>Institutional</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Diaspora direct investment (DDI)</strong></td>
<td><strong>Diaspora direct investment (DDI)</strong></td>
<td><strong>Diaspora direct investment (DDI)</strong></td>
</tr>
<tr>
<td>Investment promotion and facilitation services</td>
<td>Encouragement and support for global entrepreneurial networks</td>
<td>Banking and credit services – access to transferable credit and joined-up banking services</td>
</tr>
<tr>
<td>Leadership, entrepreneur and business management training</td>
<td>Small business development – support for accessing export markets</td>
<td>Freedom of movement through regularized residency status</td>
</tr>
<tr>
<td></td>
<td>Support for partnerships between domestic and diaspora entrepreneurs</td>
<td>Respect for property rights (including with gender dimension)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dual citizenship rights</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investment climate reforms (e.g. reducing administrative barriers to business, cutting red tape, eliminating corruption)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Incorporation of policies within investment promotion agencies of programmes to target diaspora direct investment as well as foreign direct investment</td>
</tr>
<tr>
<td><strong>Diaspora philanthropy</strong></td>
<td><strong>Diaspora philanthropy</strong></td>
<td><strong>Diaspora philanthropy</strong></td>
</tr>
<tr>
<td>Development awareness/education</td>
<td>Formation of diaspora/migrant umbrella bodies and networks</td>
<td>Allow tax relief on collective remittances/donations for international development purposes</td>
</tr>
<tr>
<td></td>
<td>Funding, training – leadership, management, advocacy, effecting change</td>
<td>Allow duty-free import of goods donated by diaspora/migrant groups for development</td>
</tr>
<tr>
<td></td>
<td>Differentiate support by gender to ensure women’s groups’ focus not lost</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Support to communities at home to ensure they drive diaspora/migrant development agendas</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provision of project identification; networking services</td>
<td></td>
</tr>
</tbody>
</table>
Conclusion

Diasporas bring something distinct and new to the development table. However, we are in the early stages of realizing the full potential development impact of diasporas’ transnational activities. This reality sets the context for the capacity development of diasporas as transnational agents of development. I take a systems view of capacity development, in which its full potential is unlocked when we attend to three interconnected levels – individual, organizational and institutional. Moreover, I see a need to pay more attention to the institutional dimension, not least because practitioners tend to put more emphasis on individual and organizational deficiencies among the diasporas themselves, and pay less attention to their strengths or to the needs of the development community itself in working effectively with diasporas.

Nonetheless, at the individual and organizational levels, competencies in leadership and management in a transnational age are critical to the success of diasporas in pursuing their agendas of contributing to change in their home regions. Given the very different places that different diasporas find themselves on a spectrum of capacity in leadership and management, peer-based learning offers great promise in addressing capacity development challenges in this area. I recommend that funders in particular take up this challenge and make available the required resources for such capacity development.

If the story of development in the twenty-first century is to be any different from that of the latter half of the twentieth century, then policymakers and practitioners will have to embrace innovation and entrepre-
neurship in development. Diasporas, coming, as many of them do, from the margins (without, of course, essentializing the diaspora experience to this one condition), often bring perspectives that are innovative and entrepreneurial, having had to hone skills and aptitudes from the migration experience, from coping with social exclusion and from adapting to the realities of a transnational experience. A strong commitment to innovation and entrepreneurship can open up spaces for productive interaction with diasporas around development agendas. A failure to do so will not only close doors but also most likely lead to disappointing results. In the first instance, it is for diasporas themselves to recognize their distinct contributions and to strive for innovative approaches that make a real difference. Simply exploring diasporas’ transnational experiences and existences and seeking ways to create a more enabling environment offer considerable scope for capacity development at the institutional level.

In spite of the significant human and financial resources they control, diasporas’ contributions to development will be limited at best if governments fail to map out an overall development strategy intended to make their country a destination attractive to their citizens, at home and abroad. Continued acceptance of disjointed, incoherent approaches will guarantee disappointment. Moreover, within this overarching framework, whole systems such as healthcare, education or indeed enterprise development set a more specific context within which development actors – governments, agencies, donors – can facilitate diaspora engagement.

Finally, we must remember that “development” itself is a social construct that means different things to different people at different times and in different contexts. Contemporary mainstream development practice is contested, not least by diasporas, who speak their own language. A starting point, therefore, is to consciously seek out a common language, based on the very real shared concerns and desired end points, while respecting the different journeys that different actors may choose to take.

Notes

1. In October 2007, the United Nations General Assembly adopted this as the main target for the first Millennium Development Goal of halving the number of people in poverty by 2015.

2. Scholars have subjected the concept of social capital to sustained criticism (see, for example, Franklin 2004) and its meaning is hugely contested. Nonetheless, it retains some utility in capturing the messy, fuzzy range of factors at play in motivating diasporas to do as they do vis-à-vis development.

3. In a report prepared in advance of the 2006 UN High Level Dialogue on International Migration and Development, the UN Economic Commission for Africa argued: “The response of African Governments to migration challenges has been very limited and
fragmentary. Few countries have implemented international conventions and related policies on migration. International migration barely features in national development plans and strategies, and has not been adequately addressed in any of the regional development frameworks such as the NEPAD [New Partnership for Africa’s Development], MDGs, and PRSPs [Poverty Reduction Strategy Papers]” (Economic Commission for Africa 2006: xvii).

4. The government of Ghana has targeted non-resident Ghanaians (NRGs) as a potential source of funds for the Ghana Poverty Reduction Strategy (GPRS) and other poverty-related programmes. The financing strategy of the current GPRS identifies innovative financing mechanisms such as contributions from NRGs through an NRG Fund for Poverty Reduction (personal communication with Michael Boampong, Young People We Care, Ghana).

REFERENCES


Part III

Diaspora entrepreneurs and development
Introduction

Diaspora entrepreneurship has witnessed dramatic and exciting developments in recent years, with successful entrepreneurs in the North expanding their business reach to their home developing countries, bringing along with them capital, technology and market knowledge. This has been most visible in certain high-technology sectors and in other areas such as pharmaceuticals. The two interrelated mechanisms through which the diasporas are playing a role in strengthening the business sector in developing countries are, firstly, inflows of financial resources (i.e. collective remittances, equity and bond finance) and, secondly, their ability to transfer knowledge, strengthen skills and facilitate trade through their networks and contacts. While illustrating the various success stories in this area, this chapter also emphasizes the diversity among diaspora groups and examines the underlying factors influencing the degree and nature of an expatriate community’s contribution to business development in the homeland.

The chapter draws on an extensive survey of the literature, interviews with diaspora entrepreneurs and discussions in an expert group meeting organized by the United Nations, in collaboration with The Indus Entrepreneurs, on “Strengthening the role of the business sector and entrepreneurship in developing countries: The potential of diasporas” (5 and 6 October 2006 at UN headquarters in New York). Throughout this chapter, we use the term “diaspora” in a wider sense to include both migrants.
and those persons who, though now citizens of the host country, are of a recognizable foreign origin. We will begin by outlining the unique qualities of diaspora entrepreneurs, as well as the driving forces behind their increasing prominence, and proceed to discuss their financial and non-financial contributions and the underlying factors behind the diverse range of expatriate activities. We will conclude with some broad policy implications.

The nature of diaspora entrepreneurship and reasons for its increased prominence

In this chapter, we take a broad definition of diaspora entrepreneurs as expatriates who are engaged in entrepreneurial activities in their home country. Whereas some of them return to set up business in their home country, others undertake or facilitate investment and entrepreneurial ventures while working and residing overseas.

According to the literature, diaspora investors tend to be different from other international investors in that they usually have a longer-term horizon, are motivated to a greater degree by altruistic considerations and also have a larger social and professional network in the recipient country that provides them with greater information and understanding of ground realities. In addition, they go beyond pure investing and are involved in activities relating to mentoring, training and the transfer of skills and knowledge, providing marketing networks to local firms and partners and facilitating connections and trade. In this sense, they may be “first movers”, in that their activities may attract foreign direct investment into a country. Finally, diaspora investors may have more specific local knowledge through family and other networks at home, which may in certain instances enable them to better identify social needs, especially in areas such as health and education.

For all the above reasons, it has been argued that the social rate of return to a unit of investment by the diaspora may be higher than in the case of non-diaspora foreign direct investment. This, in turn, provides a justification for policy-makers to encourage investment and entrepreneurship by expatriates. The evidence here is to a large degree anecdotal and focused mainly in Asia, but illustrative nonetheless. For example, some authors have argued that the Indian and Chinese diasporas have been much more conversant than non-diaspora investors with location advantages/disadvantages in their countries of origin. According to Balasubramanyam, shared culture and language have enabled the diasporas in these countries to assess the competence and ability of local partners, negotiate much more efficiently with local bureaucracy and organize and manage
local resources, chiefly labour, effectively (Wei and Balasubramanyam 2006). Devane (2006) also illustrates that members of the Chinese diaspora were well positioned to do business with China because of their widespread entrepreneurial experience, specialized knowledge and relationships which allow them to overcome the language, cultural and legal barriers that frustrate non-diaspora investors. Moreover, he points out that their non-financial motivation to reconnect with their homeland has been seen as an important stimulus for additional early stage investment.

On a broad level, the trend of globalization – expressed through technological breakthroughs in transport and communications and the liberalization of trade and financial flows – has provided a stimulus to the activities of diasporas. At the same time, the environment of liberalization and economic reform has also made a number of countries more open towards engaging with their diaspora. The desire to encourage engagement between expatriates and the home nation has been increasingly evident not just in Asia but also in parts of Africa, Latin America and even in Europe (for example Ireland). For instance, many immigrant-sending countries have adopted policy initiatives that recognize diaspora individuals’ transnational identities and thus enhance their ties with the homeland. In China, within the government’s special cabinet ministry dealing with overseas Chinese matters, an “Economic Division” has been established with a focus on returning investors and entrepreneurs. Similar encouragement has been provided in India where, in 2002, the government introduced a policy allowing persons of Indian origin living abroad to hold dual citizenship (Lin 2006). In Mexico, the “Padrino program”, which was introduced in 2002, has been targeted at successful expatriate business people residing in the United States, who are encouraged to invest in projects identified by the Presidential Office for Mexicans Abroad in consultation with local communities (Newland 2004).

Looking ahead, Kapur (Kapur and McHale 2005a) identifies three powerful long-term trends that are likely to rekindle the demand for skilled workers from overseas in developed countries, which will in turn increase the numbers and potential of skilled diasporans from the developing world. First, with continuing high demand for skills, industry is likely to lobby for more liberal immigration policies to ease cost pressures, and strong growth in skilled wages will once again dampen domestic worker opposition. Second, the ageing of rich-country populations, through increasing the demand for healthcare and other services needed by the elderly, is likely to create pressures to “import” taxpayers from overseas. Third, the broader globalization of production and trade is likely to increase the international competition for talent. Multinational companies, for example, want to be able to move their staff between locations and sometimes use the threat of moving jobs to win more flexibility
to hire foreign workers domestically. Looking forward, as trade in services becomes more liberal, the lines between trade and migration are likely to become blurred. Perhaps most importantly, as product market competition intensifies, governments will be pressed to ease immigration restrictions so as to provide domestic firms, especially those in innovation-intensive sectors of the economy, with a source of competitive advantage through improved and cheaper access to a diverse set of skills.

Having said this, globalization may ironically in the longer term also pose some threats to diaspora entrepreneurs. As technologies and improvements in transparency strengthen the quality of publicly available information, and as institutional and regulatory reforms allow business transactions to be increasingly based on formal contract relationships, diaspora entrepreneurs may lose some of their advantages over non-diasporans.

**Diaspora contributions to business development and entrepreneurship**

The relative value of the financial and non-financial contributions of diasporas has differed between countries and may depend upon the characteristics of the expatriate communities and the type of development that a country is undergoing. Nevertheless, both these aspects of diaspora activities are interrelated, and non-financial initiatives serve in the longer run to strengthen access to finance by local corporations. In addition, although there is substantial evidence of entrepreneurship and investment by the highly skilled, instances of activities by lower-skilled migrants have been less evident. Despite this, there is disagreement as to whether low-skilled or high-skilled emigrants are more likely to be involved in undertaking business ventures in their country of origin – since entrepreneurial qualities are not necessarily a function of education. This may or may not be true, but entrepreneurship combined with the requisite knowledge and financial capability may have greater leverage. Moreover, well-educated emigrants are more likely to capitalize on their skills to pursue upward mobility in well-paying jobs in the receiving country. Indeed, their advantages and contributions have been particularly pertinent in the technology and knowledge sectors.

**Financial contributions**

The universe of financing initiatives to encourage business formation and growth is broad and includes collective and individual remittances, direct investment, venture capital, equity finance, bond finance and various
existing or potential tools to finance start-ups and small businesses. Although it has been argued that diaspora investors are willing to accept lower rates of return and are often willing to assume greater levels of risk owing to various connections and/or affinities with the homeland, an important condition for their participation is an enabling investment climate. For instance, the success of diaspora financial instruments will depend on appropriate policies for investment and sound financial systems, and the success of investment funds such as SME (small and medium-sized enterprises) funds will depend on the business environment in which enterprises operate.

Remittances
The bulk of remittances are used for consumption as well as investment in human capital, though there is evidence that remittances can play a large role in supporting the growth of enterprises in labour-exporting countries with migrant communities that send large volumes of remittances. For instance, a survey of self-employed workers and small firm owners located in over 40 urban areas of Mexico found remittances to be a significant source of capital for micro-enterprises (López-Córdova and Olmedo 2006).

In recent years, a number of governments and donors have looked at ways in which they can incorporate remittances into wider SME development programmes. In this respect, the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IDB) has led development efforts to link remittances to SME development in a number of countries. For example, in Brazil it has collaborated with a local bank to set up a remittance fund for entrepreneurs. This aims to assist temporary workers overseas who want to start businesses upon their return by creating a mechanism to tap into a small portion of regularly transferred remittance accounts for more productive uses. In the Philippines, similarly, organizations such as Unlad Kabayan Migrant Services Foundation aim to mobilize migrant worker resources for job creation through sustainable businesses. Unlad Kabayan is a social entrepreneurship non-governmental organization (NGO) linking migration to community development in the homeland. It has mobilized pooled migrant savings, helped to identify appropriate investments and provided services to migrants such as savings accounts, start-up capital, skills training, logistical support and facilitation of investments in existing businesses (Johnson and Sédaca 2004).

Having said this, it is important that the initiatives to channel remittances into productive enterprises do not overreach themselves or are unduly interventionist. They should exist only to attract those migrants who have entrepreneurial qualities and intentions and not serve to divert other funds (which may be directed into building equally important social
capital). Approaches that remove barriers to and provide incentives for productive investment are in many instances more feasible.

Collective remittances

The best-known medium for channelling collective remittances is the hometown association (HTA). HTAs composed of emigrants from Mexico and Central America have concentrated on social and infrastructure projects involving health, education, recreation and other public services. However, some are also becoming more directly involved in generating businesses. Their activities have included disseminating information on investment opportunities and, even more important, serving as a vehicle to pool the collective remittances and financial resources of small-scale savers in the United States for investment in home countries. There are programmes in Mexico that encourage emigrant investments in community enterprises. Under a programme in the state of Guanajuato, members of a particular HTA, along with local investors, have become stockholders in local enterprises. With the state participating as a facilitator and the bulk of the capital being provided by expatriates and/or local investors, US$2.2 million was invested in 21 firms (each employing over 30 people) during the first four years of the programme (Johnson and Sedaca 2004).

Having said this, projects involving enterprise development can be more difficult than many of the social and philanthropic projects that HTAs are generally involved in, since they require market analysis, the development of business plans and/or the selection of proper capital goods and inputs. Moreover, it is important that such projects are demand driven and based on realistic market potential. The collective nature of HTAs and their diverse membership may not always be compatible with business generation. Instead, in many instances, HTAs can best serve as a networking mechanism for entrepreneurs to identify opportunities and establish diaspora business networks. Finally, as in all such cases, the success of collective remittances and HTAs in enterprise development is to a large degree conditional on there being an enabling investment climate and economic conditions.1

Market finance

Equity finance has been very visible in the development of the high-technology sectors in India and China. Saxenian’s survey of foreign-born professionals in Silicon Valley found that 18 per cent had invested or currently invest in start-ups or venture funds in their homeland, dominated by Indians (22 per cent), followed by People from Taiwan Province of China (17 per cent) and then by mainland Chinese (10 per cent) (Saxenian 2002). With respect to financing innovation, at least 40 diaspora
initiatives are under way in India to identify entrepreneurs and finance their projects, in the amount of approximately US$50 million per project (UN DESA 2006: para. 26). Diaspora capital has also financed start-ups in several smaller countries such as Serbia, Honduras, the Dominican Republic and Armenia (UN DESA 2006: para. 23). In Taiwan Province of China, the development of the venture capital industry has been dominated by large players and venture capital funds from Silicon Valley (UN DESA 2006: para. 10). Diaspora investment combined with government support has helped nurture industrial clusters, provide venture capital and, as a result, spin off highly successful global privately managed firms in the semiconductor sector (UN DESA 2006: para. 19). Venture capital has also played an important contribution in Israel.

Nevertheless, venture capital initiatives in developing countries remain limited in number and size. They are often a lagging indicator of investment growth and are increasingly focused on later-stage investments, to suit the institutional investors who provide most of the funds. Most funds in emerging economies tend to look for investments in companies with existing revenues of US$50 million or more (Devane 2006).

Increasingly, expatriates have been involved in setting up investment funds, dealing primarily in equity finance. These funds are often controlled by diaspora professionals, with experience in investment management, and shares are sold to outside investors. The proceeds of the pooled resources are then used for equity investments in new or existing private companies. To date, these funds are sparse and spread out and evidence as to their success and impact on incomes and employment is limited. Often, they have been set up with the assistance of donors and, in this respect, an example is the Armenia SME Investment Fund, which targets the extensive Armenian diaspora and was sponsored by the International Finance Corporation to promote the development of the SME sector in Armenia through facilitating enterprise access to capital. At the time of writing, it is not possible to draw conclusions about the success of this venture (Johnson and Sedaca 2004).

Similar initiatives have been undertaken in Africa, and the World Bank is collaborating with the African Union on a fund for investing money transferred by the sub-Saharan African diaspora. Some networks and organizations linked to Africa are developing private equity funds such as, for example, an African Diaspora Investment Facility, which makes available a €20 million investment fund to enable investments in Africa by entrepreneurial diaspora investors (Okele 2007).

Fixed income finance – i.e. bond finance – is a relatively untapped source of financing that could be of great use in channelling expatriate capital towards business development. Unlike equity finance, there are no clear instances of this being used by diaspora entrepreneurs to promote
business development in the homeland, but this is an area that is likely to see increasing activity in the coming years as bond markets continue to develop in regions such as Asia. One objective of the Asian Bond Market Initiative is to increase bond financing options for smaller companies in Asia, and the Republic of Korea has led the way by undertaking measures to encourage the issuance of bonds by SMEs (Kim 2004). As these markets grow and become established, they are more likely to be utilized by diasporas for enterprise financing.

Non-financial contributions

The less visible and intangible non-financial contributions of the diaspora can have an equally important effect on entrepreneurship and business development. This may firstly consist of the flow of ideas, including the transfer of knowledge and skills. Skilled emigrants are also well placed to act as intermediaries, enhancing information flows, lowering reputational barriers and enforcing contractual arrangements, resulting in an expansion of capital inflows from foreigners, as well as from the diaspora, and of trade links too. Finally, the diaspora has also in some countries been instrumental in promoting and advising on economic reform.

Transfer of knowledge/skills and training

The Indian diaspora has made important contributions in knowledge and skills transfer. It has taken the lead in strengthening and establishing educational institutions to increase the output of qualified professionals. Moreover, organizations such as The Indus Entrepreneurs (TiE) have provided valuable benefits to local entrepreneurs through mentoring and facilitating access to its networks. Elsewhere in Asia, Taiwan Province of China has given less attention to attracting investments from its diaspora than to making use of their skills acquired abroad, both through networking and through return migration (UN DESA 2006: para. 19).

In Latin America, ChileGlobal is a successful and “active international network of Chilean business owners and high level executives interested in contributing to the success of the Chilean economy through creating and promoting a mechanism of technology transfer and knowledge exchange. Its members are influential individuals with an active role in industries central to Chile’s development who contribute by supporting businesses, leveraging contacts and expertise, and promoting entrepreneurship” (UN DESA 2006: para. 18).

Diaspora networks can often serve to facilitate transfers of knowledge. Information-sharing is one of the central functions of these networks, which cut across borders and whose development has been facilitated by modern communications and the Internet. Brown (2000) refers to “expat-
riate knowledge networks” and identifies five distinct categories among them: student/scholarly networks, local associations of skilled expatriates, expert assistance such as the TOKTEN (Transfer of Knowledge Through Expatriate Nationals) programme of the United Nations Development Programme, developing intellectual/scientific diaspora networks, and intellectual/scientific diaspora networks. Internet-based diaspora networks are common mechanisms linking expatriate professionals to their counterparts back home, thereby facilitating the pooling of their collective knowledge and contacts. The literature has identified over 40 such networks (Johnson and Sedaca 2004). In India, Africa and Latin America, “digital” diaspora networks have transferred information and communication technologies and skills to local entrepreneurs through “virtual” training. Table 8.1 provides some examples of diaspora networks.

Facilitating investment and trade

The business diaspora can facilitate both investment and trade in the homeland through a combination of acting as a transmitter/conduit of information and lowering reputational barriers. Expatriates have in many instances played an important role as transmitters of market information both to firms in the country of origin and to foreign investors, consumers and importers. According to Lucas (2001), this role of diasporas and their networks assumes greatest importance in dynamic high-technology industries where information commands the highest premium. In such industries, products, markets and technologies are being constantly redefined, and the ability to locate foreign partners quickly and to manage complex business relationships across cultural and linguistic boundaries is of critical importance.

The information-providing role of the Indian diaspora has been important in highlighting market and outsourcing opportunities in the technology sector to a large number of overseas companies. It has indirectly brought important investments to India, including in R&D with companies such as Intel, Oracle, Texas Instruments, Sun Microsystems and IBM (Lowell and Gerova 2004). Moreover, as Kapur emphasizes (Kapur and McHale 2005a), networks also play a key role in enhancing the credibility of information, thereby reducing reputation barriers to entry.

It has also been argued that expatriate investors can attract other investors by taking a leadership role when others are reluctant to invest. This is the role of the “first movers” who succeed and create a climate of confidence that invites others to invest. According to this viewpoint, the significant amounts of diaspora investment that flowed into China in the wake of economic reforms in the late 1970s served to generate interest among foreign investors. This argument is given credibility by the fact that large overseas investors have in several important forums, including
<table>
<thead>
<tr>
<th>Country/region</th>
<th>Name of network</th>
<th>Website</th>
<th>Date of incorporation</th>
<th>Membership base</th>
<th>Headquarters</th>
<th>Level of activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>Digital Diaspora Network – Africa (DDNA)</td>
<td>Yes</td>
<td>2002</td>
<td></td>
<td>USA</td>
<td>Modest level of activity; website updated recently</td>
</tr>
<tr>
<td>Armenia</td>
<td>ArmenTech – Armenian High Tech Council of America</td>
<td>Yes</td>
<td>2000</td>
<td>20 key; fee</td>
<td>USA</td>
<td>Website updated regularly</td>
</tr>
<tr>
<td>China</td>
<td>Chinese-American Engineers and Scientists Association of Southern California (CESASC)</td>
<td>Yes</td>
<td>1962</td>
<td></td>
<td>USA</td>
<td>Has organizational structure</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>Ethiopian Information Technology Professionals Association (EITPA)</td>
<td>Yes</td>
<td>2002</td>
<td>187; fee</td>
<td>Home</td>
<td>Website updated regularly</td>
</tr>
<tr>
<td>India</td>
<td>Silicon Valley Indian Professionals Association (SIPA)</td>
<td>Yes</td>
<td>1987</td>
<td>2,300+</td>
<td>USA</td>
<td>Organizes many events; website updated regularly</td>
</tr>
<tr>
<td>India</td>
<td>Indian Investment Centre (IIC)</td>
<td>Yes</td>
<td></td>
<td></td>
<td>Home</td>
<td>A government agency directly promoting investment in India by Non Resident Indians and Persons of Indian Origin</td>
</tr>
<tr>
<td>Kenya</td>
<td>Kenyan Community Abroad (KCA)</td>
<td>Yes</td>
<td>1997</td>
<td>Fee</td>
<td>USA</td>
<td>Chapters in six US states, France, Canada, Germany, Russia, the Seychelles and Botswana</td>
</tr>
<tr>
<td>Country</td>
<td>Association</td>
<td>Membership</td>
<td>Year</td>
<td>Type</td>
<td>Country</td>
<td>Notes</td>
</tr>
<tr>
<td>----------------------------</td>
<td>-----------------------------------------------------------</td>
<td>------------</td>
<td>------</td>
<td>------</td>
<td>---------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Korea, Republic of</td>
<td>Korean-American Scientists and Engineers Association (KSEA)</td>
<td>Yes</td>
<td>1971</td>
<td>Fee</td>
<td>USA</td>
<td>56 local chapters across the United States; updated regularly</td>
</tr>
<tr>
<td>Lebanon</td>
<td>Lebanon Business Network (LBN)</td>
<td>Yes</td>
<td>2000</td>
<td></td>
<td>Home</td>
<td>Joint programme between Indevco Foundation and InfoPro; website last updated in 2003</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Association of Nigerians Abroad (ANA)</td>
<td>Yes</td>
<td></td>
<td></td>
<td>USA</td>
<td>Has organizational structure; membership in many countries</td>
</tr>
<tr>
<td>South Africa</td>
<td>South African Network of Skills Abroad (SANSA)</td>
<td>Yes</td>
<td></td>
<td></td>
<td>Home</td>
<td>Government sponsored; website updated regularly</td>
</tr>
<tr>
<td>Thailand</td>
<td>Association of Thai Professionals in America and Canada (ATPAC)</td>
<td>Yes</td>
<td>1991</td>
<td>Fee</td>
<td>USA</td>
<td>Has executed over 100 collaborative projects in Thailand; website updated regularly</td>
</tr>
</tbody>
</table>

*Source:* Adapted from Lowell and Gerova (2004).

*Notes:* The information in the table relates to that recorded in 2004 and may have changed since then.
at successive United Nations Business Hearings on Financing for Development, pointed to the importance of local business sentiment in dictating their investment decisions (Herman et al. 2001).

With respect to trade, immigrants can serve to increase business and exporting opportunities for country-of-origin companies – helping them to both attract capital and penetrate new markets. Apart from purchasing goods from their homeland, expatriates can stimulate trade through strengthening reputation, enabling importers in the host country to identify suppliers in the country of origin, and helping home-country businesses target export markets. A few econometric models support the link between diaspora activities and trade. For example, in the context of Canada, Head and Reis (1998) have found a 10 per cent increase in Canadian exports to the immigrant’s home country and a 3 per cent increase in imports. Their research also suggested that the trade impact of higher-skilled migrants may be greater than that of their less skilled counterparts. Other research has found a correlation between the number of workers with H1B visas in the United States and the import of information technology services to that country (Lowell and Gerova 2004). Additionally, it has been widely accepted that the ethnic Chinese have had an important influence on the volume of bilateral trade between China and the countries where they have settled (Newland 2004).

Figure 8.1 summarizes the discussion in this section.

Explaining the diversity in diaspora contributions

The relative value of the financial and non-financial contributions of diasporas tends to vary from country to country, and is often a function of their nature, the sectors/industries in which they are active and conditions in the country of origin. For example, one of the reasons direct diaspora investment into China has been far greater than into India (whereas remittances into India have been far greater than into China) is probably because a greater proportion of the Chinese diaspora is entrepreneurial whereas the Indian diaspora (at least in the United States) is largely professional. At the same time, the significant non-financial contributions made by overseas Indians in areas related to knowledge transfer and facilitation of investment have also been influenced by the high-technology service industries (such as software services) in which they have been involved. Diaspora members are less likely to be pioneer investors in technology industries such as software services because of the lower required levels of fixed asset investment and are more likely to be facilitators (Newland 2004). Finally, economic, social and political conditions in the home country are also crucial. The large levels of diaspora
Figure 8.1 Financial and non-financial aspects of diasporas’ business engagement.
foreign investment in China can be explained to some degree by the fact that China opened up its economy a decade earlier than India did. Moreover, China, unlike India, did not have a strong capitalist class when it opened up and hence may have initially faced little domestic opposition to incentives granted to diaspora investors (Newland 2004).

It is nevertheless a fact that the most successful instances of diasporas generating business development come from a selected set of economies, primarily in Asia, and in particular India, Taiwan Province of China, China, the Republic of Korea and Israel. There are of course also instances of diasporas encouraging business engagement in countries as diverse as Chile, Mexico, Kenya, Serbia, Honduras, the Dominican Republic, Armenia and Lebanon. In a number of these countries, the diaspora contributions have been scattered and need to be leveraged in order to have a broader impact on local economies and sectors. For instance, the Kenya Diaspora Network (KDN) was formed in 2004, at the behest of the Kenyan government in conjunction with the World Bank Institute, to assist and better leverage the efforts of existing diaspora entrepreneurs and organizations.4

On the other hand, there are diaspora communities that have not been so economically successful or made significant contributions back home in the area of business development. This diversity in diaspora contributions can be explained by their varying experiences and circumstances, including their socioeconomic characteristics, the nature of their ties with their country of origin, conditions in the home and host countries, and the ability to network (see Figure 8.2). There are distinct differences both within and between a number of diaspora groups in terms of these factors.

Socioeconomic characteristics

Socioeconomic characteristics refer to the skill levels, education and profession of emigrants (Table 8.2). Evidence on the contribution of lower-skilled emigrants is somewhat limited and much of the research has focused on the impact of higher-skilled emigrants on the higher-value-added sectors in the homeland.5 However, even within this constraining framework, divergent patterns of activity can be observed based on socioeconomic differences. The impact of socioeconomic differences is also evident within diasporas; the greater number of highly educated professionals in the US-based Indian diaspora has enabled them to have an impact on the technology sector back home to a greater degree than their counterparts in the United Kingdom and East Africa.

Nature of ties with country of origin

A diaspora's relationship to the country of origin is also of importance. One important aspect of this relationship concerns the reasons that
Figure 8.2 Interconnected underlying drivers of diaspora business engagement.
Table 8.2 Absent human capital: Emigration rates to OECD countries by education level, population 25 or older, 1990 and 2000

<table>
<thead>
<tr>
<th>Country of birth</th>
<th>1990</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Primary</td>
</tr>
<tr>
<td>Mexico</td>
<td>7.4</td>
<td>6.5</td>
</tr>
<tr>
<td>Philippines</td>
<td>4.1</td>
<td>1.1</td>
</tr>
<tr>
<td>India</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>China</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>El Salvador</td>
<td>14.4</td>
<td>8.2</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>7.9</td>
<td>3.8</td>
</tr>
<tr>
<td>Jamaica</td>
<td>25.6</td>
<td>11.0</td>
</tr>
<tr>
<td>Colombia</td>
<td>1.8</td>
<td>0.5</td>
</tr>
<tr>
<td>Guatemala</td>
<td>4.3</td>
<td>2.1</td>
</tr>
<tr>
<td>Peru</td>
<td>1.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.7</td>
<td>0.2</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Turkey</td>
<td>4.9</td>
<td>4.2</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>1.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Sudan</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Tunisia</td>
<td>4.7</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Note: For each education category, the emigration rate equals the number of emigrants divided by the domestically resident population plus the number of emigrants.

propelled the migration. Those who have been forced to leave their country for political reasons may feel less compelled to contribute economically unless there is a change in political conditions. In addition, as pointed out by Kapur (Kapur and McHale 2005a), to be influential a diaspora needs to have some sway over policy-makers in the home country, region or state. Perhaps most important is that both parties should share compatible objectives regarding the future development of the country. To illustrate this point, one only needs to contrast the Cuban diaspora in the United States (who left the country for political reasons and do not share the same visions as the ruling elite) with the emigrants from Chile, Mexico and East and South Asia, who share compatible objectives with their governments and have worked together to promote the private sector in their countries of origin. Finally, another salient factor may be the length of time that a diaspora has been away from its homeland, since this may determine the strength of its ties with the country of origin.

**Home- and host-country conditions**

Conditions in the home country may explain why the most successful contributions of diaspora communities have been in rapidly developing emerging economies. Especially key is having an enabling investment climate in the home country. By this is meant primarily a legal and regulatory system that makes it easy to start and close a business and secures contracts and property rights (rule of law), but this should also be extended to include macroeconomic and political stability. Over and above a friendly policy environment, institutional arrangements in the home country (such as diaspora/migrant associations, development-oriented NGOs working with diasporas, chambers of commerce that link up with diasporas, twinning and exchanges between host- and home-country based professional associations) are important in promoting diaspora entrepreneurship. The quality of home-country institutions and infrastructure is often cited as a key obstacle to the contribution of diasporas (UN DESA 2006). Home-country institutions may determine the degree to which a diaspora’s strength and talents are utilized and the extent to which a process of diaspora engagement is sustained. For example, Chile has had much more success than Armenia and Argentina in its interactions with diasporas as a result of its institutions, even though its expatriates have been small in number and less resource rich than those of the other two countries. Finally, legal recognition of diasporas may also be an important issue in certain countries. As mentioned earlier, flexible visa policies and accompanying institutional measures have been implemented in a number of countries in Asia, Latin America, Africa and Europe.

Host-country conditions may also interact with other factors to deter-
mine the contribution of a diaspora. A successful diaspora (in terms of wealth and education) in a dynamic economy (such as the United States or East Asia) has a greater potential to trigger business formation and growth in the homeland than one based in a less developed country. By contrast, the economic and political conditions in some Central American and African countries are less conducive to generating dynamic immigrant communities.

Ability to network

As already mentioned, diaspora professional and business networks can play an important role in transferring knowledge, transmitting information (to identify opportunities and local partners and to “winnow out” critical information at all levels), acting as reputational intermediaries, facilitating the transfer of knowledge and investment, and enforcing contracts. Table 8.1 on page 154 lists some business networks, including the Lebanon Business Network and the Armenian High-Tech Council of America (ArmenTech). A truly transnational business network is TiE, comprising Indian finance and technology entrepreneurs and professionals, which has grown from its roots in the United States and India to having 25 chapters across the world (Newland 2004).

Indeed, many of these networks have started locally and evolved to assume international roles. In fact, Kuznetsov refers to a transition from “thin” to “thick” networks (Kuznetsov and Sabel 2006). Thin search networks of simple job searches evolve first into thick search networks of professional advancement, mentoring and learning, and then into diaspora networks contributing to their home countries. In other words, as migrants advance in terms of career and pay, they acquire the confidence to think about club goods and giving back to their homeland. TiE is an example of a high-skilled thick network; the HTAs, comprising lower-skilled emigrants from Mexico, made the transition from a thin to a thick network in which diaspora members work with stakeholders at home to design, co-finance and govern projects to benefit their local communities. However, not all networks have been so successful. Very few remain stable and manage to serve the needs of their membership or home country for long periods of time (Lowell and Gerova 2004).

Their chances of success are said to be greater where they link up with other forms of professional collaboration and/or where they undertake joint projects with governments, business organizations and NGOs (Kapur and McHale 2005a) – an ideal example is the link between Chile-Global and Fundación Chile (a local business organization), which led to a successful government-supported network. The impact of business networks has tended to be especially penetrating in the dynamic knowledge
industries where the ability to identify and transmit information is critical. The Indian software industry is an example where diaspora networks based in Silicon Valley have successfully collaborated with public and private partners to trigger business development.

The instances of successful networks appear to be more prevalent in countries such as India, Chile and Mexico, whose business sectors have benefited from diaspora activity. Less clearly, Lebanon, Armenia and Taiwan Province of China are also likely to have gained as a result of networks formed by, or in alliance with, their diaspora communities. Until recently, African diasporas have not been very widely networked (with the possible exception of the South African diaspora network). A number of initiatives have been launched during the past few years, such as the African diaspora summit, and the outcome of these endeavours will become clearer with time.

Policy implications

Looking ahead, the logical question to ask is what can be done by policymakers at national and international levels to support the entrepreneurial activities of diasporas and to try to replicate success stories across countries and regions. Before addressing this, a couple of key preconditions need to be emphasized.

Key preconditions

First, it is important to recognize the limitations of policy in this area. Past experience suggests that it may be more viable for policymakers to support rather than initiate diaspora business engagement. In fact, cases of deliberate intervention to mobilize the diaspora have been relatively rare. The most successful diasporic development-oriented initiatives have been either spontaneous in nature – as exemplified by the African Foundation for Development in the United Kingdom, TiE in the United States and Migrations et Développement in France – or coincidental – as in China, where a combination of exogenous factors, such as the extremely rapid growth of Hong Kong, Taiwan Province of China and Singapore in the 1970s and 1980s, increased protectionism in the West and economic reforms, was more important in triggering diaspora business engagement than government efforts to court expatriates (Newland 2004). The key implication therefore is for policymakers to “support” projects and groups that elicit evidence of potential rather than to initiate or impose development agendas on diaspora networks and organizations.

Second, an enabling investment climate (followed by appropriate institutional and legal conditions) tends to be a necessary precondition for
the diaspora to be willing to engage in the homeland and for their activities to be successful and sustainable in spurring business development and entrepreneurship.

Possible areas for policy action

What then are the possibilities for policy action over and above the critical necessities of strengthening the business environment and facilitating the development of enabling institutions? At the outset, it is important to point out that bilateral and multilateral donors\(^6\) have only recently begun to think systematically about the actual and potential contributions of diasporas to development (beyond remittances). The countries of origin that actively court their diasporas do so in a variety of different ways and with different priorities (as mentioned earlier, these include China, India, Ireland, the Philippines, Mexico, Eritrea, Taiwan Province of China, Chile and Armenia). Some, like the Philippines and Mexico, have concentrated on remittances, others, like China, India, Taiwan Province of China and Chile, have focused less on remittances in favour of pursuing more business-oriented frameworks to enable diaspora contributions to development (Newland 2004).

It is our intention here not to go in depth into the measures that have been implemented but rather to highlight some broad areas where value can be added from government and donor support. These constitute the strengthening of information and analysis, risk mitigation and capacity-building, and the reduction of legal obstacles to the operations of diaspora entrepreneurs.

Strengthening information and analysis

This is a field in which information, analyses and data are extremely sparse, as a result of which policy-making is running ahead of knowledge. There is therefore an urgent need to enhance the information, analysis and data that underpin policies and promote best practices and cross-fertilization of ideas in the areas outlined below.

- **Solid data on the extent and impact of diaspora business contributions to the home country are limited.** Barring a few econometric models that support the contention that immigrants encourage trade ties between countries, there is a dearth of quantitative analysis of the impact of diasporas on other aspects of development such as technological innovation and entrepreneurial activity. Although the dispersed evidence and few case studies of diaspora business activity are persuasive, further analytical work is required to establish a pattern of diaspora contributions and the forces determining these.
- **There is a need for a systemic and empirical study of the impact of diasporas across skill and occupation levels.** In addition, more systematic
analyses would be helpful in distinguishing between the different types of diaspora networks (especially across skill levels), the roles that they can play and the conditions for their success. Other topics that need further investigation include the issue of diaspora investors responding to different incentives than other investors (the degree to which there is a higher tolerance for risk and an implicit discount on expected returns and the factors that influence this) and the efficacy of various kinds of incentives for diaspora investment or remittances.

- There is a viewpoint that the differences between some countries and regions are far too significant for any standard programme of policy measures in this area to be drawn up. Thus, something that would be more feasible would be to have a greater cross-fertilization of ideas through making success stories and best practices available and using the Internet as a tool for disseminating knowledge and information. The establishment of an interactive website that promotes knowledge and information exchange among diaspora groups has been suggested in various forums. De Haas argues for a central online facility, where relevant documents on diaspora organizations involved in development, projects, policies and research can be easily tracked down and retrieved (De Haas 2006). Multilaterals can have an important role in supporting this and fostering dialogue between different diaspora groups and national and international policy-makers.

**Risk mitigation and capacity-building**

As mentioned earlier, investment guarantees and other risk mitigation tools have not been targeted at diaspora groups. However, given that diaspora investors face a similar set of risks to foreign companies and investors (especially with regard to the regulatory environment), the possibilities of targeting these investors should be explored. Consideration also needs to be given to the possible roles of aid in enhancing and building capacity in diaspora networks and relevant home-country institutions (via seed money, technical support, and so on). There have already been developments in this area, with, for example, the United States Agency for International Development supporting the original design work for the Lebanon Business Network in 2000 and the World Bank funding the launch of the South African Diaspora Network in 2001. Having said this, donors have to make careful decisions regarding how and when to support and the aim should be to support viable ventures rather than to initiate them. The safest approach for donors and governments is to support the extension of already successful initiatives to a larger scale.

Other ways of building capacity within the diaspora include programmes (both public and private) that aim to identify and then support viable entrepreneurs and business projects. An example is the work done
by IntEnt in the Netherlands. An NGO that initially received support from the Dutch government, IntEnt aims to enable entrepreneurial migrants residing in the Netherlands to channel their social, intellectual and financial capital into businesses in their country of origin.7 Another initiative is the Development Marketplace for African Diaspora in Europe (D-MADE), which was launched in 2007 by the World Bank in partnership with the Belgian Development Cooperation, the Dutch Ministry of Foreign Affairs, the German Federal Ministry for Economic Co-operation and Development and the French Development Agency. The purpose of this initiative is to support innovative entrepreneurial projects by the sub-Saharan African diaspora, based in Europe, that will generate economic and social benefits in their countries of origin.8

Other supportive measures include developing financial intermediaries such as micro-finance institutions, which can collect and channel remittances and capital into existing successful enterprises, and facilitating appropriate institutional development. Particular consideration should be given to exploring means by which homeland export and investment promotion organizations could promote, harness and facilitate diaspora interest in homeland investment or trade.

Reduction of legal obstacles to diaspora entrepreneurship

The reduction of legal obstacles facing diaspora entrepreneurs is of critical importance. In the absence of facilities for periodic visits, it has been argued that diaspora entrepreneurs and investors find it difficult to ensure efficient execution and management of their business projects in home countries (UN DESA 2006). Although countries issue business visas for short-term business-related travel, delays in granting these can be very costly for projects initiated by diaspora entrepreneurs.

There have been calls to address such issues at the multilateral level, in the context of negotiations under the General Agreement on Trade and Services (GATS Mode 4) focusing on the temporary movement of individual service suppliers. At the same time, given the slow pace of negotiations at the multilateral level, there may also need to be complementary bilateral agreements regarding the movement of labour. The precedents here include existing bilateral agreements regarding labour recruitment, such as Spain’s agreement with a number of countries, including Morocco and Romania, to allow their workers to participate in its health and social security systems and the United States setting aside a number of H1B visas for Chile and Singapore as part of its free trade agreements with those countries.

Efforts to facilitate the mobility of entrepreneurs need to be complemented by enlightened immigration and citizenship policies that create opportunities for lengthy legal residence and foster the connectedness
and integration of the diaspora with the country of origin. Measures by countries such as India to include special provisions in their immigration and visa regimes – such as dual nationality – have the purpose of both fostering a sense of connectedness among expatriates and surmounting legal obstacles to their undertaking viable business ventures and investments. On the donor/receiving-country side, there is a need to correct a lack of policy coherence between the development policies and the migration policies of many donor governments, which erodes the potential contribution of diasporas (De Haas 2006).

The viability of return migration

There have been initiatives by both receiving and sending countries to encourage the return migration of diaspora professionals and entrepreneurs. For example, China’s industrial parks are aimed at attracting back entrepreneurs and efforts have also been made in the past by India, the Republic of Korea and other countries to entice back talent. The need to encourage the return of entrepreneurial talent is particularly acute in less developed countries that fail to attract outside investment and require the expertise of the diaspora to assist the development of a domestic private sector.

However, the success of measures to encourage return migration by diaspora entrepreneurs is not clear and has been the subject of debate. On the one hand, instances have been cited of returning migrants stimulating business development. In the Arab Republic of Egypt, the funds brought back by a large proportion of returning migrants in the late 1980s were used to set up enterprises (Ratha 2003). Similarly, in the latter half of the 1990s, returning highly skilled Irish expatriates fuelled the development of the high-tech sector. Having said this, national efforts to encourage return are unlikely to be successful unless the ground-level policy, regulatory, legal and political conditions also move in a direction that is enabling for businesses to function. Similarly, according to De Haas (2006), receiving-country initiatives to support migrants to set up businesses in their country of origin are unlikely to be successful if they are conditional upon return. De Haas argues that the assisted return programmes in France and the Netherlands have been disappointing because few migrants are willing to return as long as investment and political conditions in the home country do not improve. On the other hand, IntEnt’s programme in the Netherlands (aimed at encouraging entrepreneurial migrants to set up business in their country of origin) has been successful because, without imposing return conditionality, it has focused on identifying entrepreneurial talent and nurturing and guiding this without providing grants.
Closing comments

This chapter has attempted to provide a critical overview of the different types of business contribution made by the growing developing country diasporas, the underlying forces determining their impact and the areas requiring greater policy attention. Although drawing upon both an extensive survey of the literature and a dialogue with experts and practitioners, it does not aim to be a complete or definitive analysis. This is not least because a large proportion of evidence in this area is anecdotal and limited in its regional scope. As elaborated in the policy implications section, there is an urgent need for more systematic data-based analysis of the entrepreneurial impact of diasporas. By pulling together, in a holistic and critical manner, the various strands of evidence and thinking in this area, this chapter aims to provide both a foundation for future analysis in a hitherto neglected area and an input into an emerging and increasingly significant policy debate.

Notes

1. Overall, little is known about HTAs or about their impact on enterprise development. However, a sample of Mexicans in the United States found that less than 5 per cent of them remit for collective purposes through HTAs. Hence, the gross impact of HTAs is likely to be small.
3. The Asian Bond Market Initiative was endorsed at the ASEAN+3 Deputies Meeting held in Chiang Mai in December 2002. Its objective is to develop efficient bond markets in Asia.
5. The role and significance of diasporas appear to vary according to the economic sector and the informational content of their activities. To elaborate, their potential contribution seems to be greater where a flow of ideas and market knowledge carry a premium, which is usually the case in higher-value-added segments of the economy.
6. The World Bank, the International Monetary Fund and the Inter-American Development Bank are the most prominent multilateral contributors in this area. The Multilateral Investment Fund of the IDB has been at the forefront of innovative programming to connect remittances to SME development. The World Bank has identified areas for research and policy on remittances. Several national governments have also taken leading roles in this area, in particular the United Kingdom, the United States, France, Sweden and Denmark.
7. At the 2006 Ad-Hoc Expert Group Meeting on “Strengthening the Business Sector and Entrepreneurship in Developing Countries”, it was claimed that close to 200 businesses in selected countries in Asia, Africa and the Caribbean “have been started as a result of the IntEnt program and that on average IntEnt entrepreneurs have been more successful in sustaining their businesses than starters that have not been similarly supported” (UN DESA 2006: para. 28).
8. Further information can be obtained from the D-MADE website at <http://www.dmade.org/> (accessed 16 July 2010).

REFERENCES


Why is diaspora potential so elusive? Towards a new generation of initiatives to leverage countries’ talent abroad

Yevgeny Kuznetsov

Introduction

“All happy families resemble one another; each unhappy family is unhappy in its own way” – the famous beginning of Leo Tolstoy’s novel Anna Karenina contrasts the diversity and heterogeneity of failures yet highlights basic similarities among human success stories.

Would this observation apply to a quite different, yet not totally dissimilar area of human endeavour? Would it apply to a high-risk high-return firm, a child conceived by a highly driven, usually not totally rational entrepreneur and supported by an angel or venture investor? I asked this question of a (arguably small, so no pretence of statistical accuracy here) number of entrepreneurs and early-stage venture capitalists. Their opinion was surprisingly similar: every success – because it leverages some unique features and traits – is unique; if anything, failures resemble one another.

But why even ask these questions, interesting and provocative as they are, in a book about the mobilization of highly skilled diaspora members? In a nutshell, the chapter draws a parallel between venture entrepreneurs developing their high-risk high-return venture with the help of a network of professional service providers and investors and “overachiever” diaspora members constructing, with the support of their own problem-solving networks, a project with their home-country’s institutions. The focus is on first-generation (and sometimes second-generation) “overachievers” – diaspora members who left their home country and achieved extraordinary success in their new country of residence. By
definition, overachievers have already gained status in life. Therefore, when they look at their home country for new professional opportunities, they have the luxury of sharing status, reputation, professional and financial resources with their home country, rather than seeking to enhance their status, as might be expected from diaspora members in the early stages of their professional career. Focusing on the first generation implies that, for practical purposes, the person in question remains part of a home country, sharing the same social networks and idiosyncrasies associated with shared experiences of going to the same school and university.

“Overachievers” are similar to venture capitalists in a number of ways. First, they tend to undertake ventures in their home country in spite of obstacles such as a poor investment climate and corrupt governments. They often have unusually long planning horizons and above-average capabilities that allow them to become first movers. Moreover, their projects tend to involve technological and/or organizational innovation and sometimes facilitate institutional change. They also tend to implement open-ended projects that cannot be defined at their inception and in this respect rely on search networks as problem-solving tools.

These basic similarities provide two types of insight. First, there are varying degrees of success and failure, to the extent that it is often difficult to draw the line between the two. Out of 1,000 promising project ideas, venture capitalists invest in 10. Out of these 10, 6 or perhaps 7 will fail (the project will prove unviable) and one will be a “home run”, a star, whose success pays for all other projects. The remaining two or three are of particular interest. They are so-called “living dead” – companies whose revenues are sufficient to pay the expenses but that carry little profit. Many diaspora programmes are “living dead”: they are not failures and they generate enough interest to maintain their funding, yet their development impact is very limited.

Second, the story of diaspora engagement with home countries – much like the story of venture entrepreneurship – is about leveraging heterogeneity. In diaspora programmes we are only after a limited segment of the overall diaspora that is the highly skilled member. Also, only a small, better-performing segment of a country’s institutions is interested and capable of developing joint projects. One consequence of this heterogeneity perspective is that the overall size of skilled diasporas is a mere background condition and, as such, cannot determine the impact of a country’s talent abroad on its home-country institutions. The law of large numbers still applies in the sense that larger diasporas are more likely to produce larger numbers of first-generation overachievers. Yet that does not predict the professional composition of “overachievers” or their willingness to get involved, and also not the development impact of their engagement. There are simply too many intervening factors, and many of them are subject to policy influence.
The chapter is structured in the following way. I first set the stage by providing examples elucidating parallels between the diaspora discourse and the venture capital perspective. After outlining the heterogeneity perspective of this chapter and its analytical underpinnings, I present lessons learned of a new emerging generation of programmes – programmes that are capable of discerning and leveraging the heterogeneity of both diasporas and home-country institutions. In the last section, I provide conclusions.

The objective of the chapter is to develop an appreciative theory of diaspora engagement with home countries. It therefore theorizes on the basis of a wide range of evolving cases and draws on experiences of a nascent South–South network of practitioners involved in diasporas of highly skilled pilots. These experiences range from South Africa, New Zealand and Scotland to Armenia, Argentina, Chile and Mexico. Hence the chapter attempts to provide plausible hypotheses relevant to a policy-maker rather than conclusive empirical evidence of the type familiar to a migration scholar.

Why focus on “overachievers”? A hierarchy of diaspora impact

In 1997, Ramón L. García, a Chilean applied geneticist and biotechnology entrepreneur with a PhD from the University of Iowa, contacted Fundación Chile, a private–public entity charged with technology transfer in the area of renewable resources. García was the CEO of InterLink Biotechnologies, a Princeton-based company he co-founded in 1991. After jointly reviewing their portfolios of initiatives, Fundación and InterLink founded a new, co-owned company to undertake long-term R&D projects. These projects were needed to transfer technologies to Chile that were key to the continuing competitiveness of its rapidly growing agribusiness sector. Without García’s combination of deep knowledge of Chile, advanced US education, exposure to US managerial practice and experience as an entrepreneur, the new company would have been inconceivable.

The fact that skilled expatriates can create enormous benefits for their countries of origin has come to sudden attention in recent years through the conspicuous contributions that the large, highly skilled, manifestly prosperous and well-organized Chinese and Indian diasporas have made to their home countries. But García’s collaboration with Fundación Chile suggests that diasporas do not need to be large and voluminous to produce an impact: 10 cases of “Ramón García” could transform entire sectors of the economy in relatively small countries such as Chile. Moreover, García’s collaboration with Fundación Chile suggests that even sparsely populated, informal diaspora networks linking small home countries with
their talent abroad have some institutional resources, and may prove capable of developing more.

As of January 2008, García had created three biotech firms with Fundación Chile. ChileGlobal – a network of about 100 overachievers of Chilean origin – was established in 2005 to institutionalize the contributions that “Ramón García’s” can make to the Chilean innovation system. However, the story does not end but rather begins here. Starting in 2007, every December ChileGlobal organizes a workshop to promote mentoring relationships between innovation start-ups in Chile and Chilean “overachievers” abroad. As a sign of recognition of both ChileGlobal and the Chilean diaspora members, key participants at the workshop were received by Alejandro Foxley, the Foreign Minister and Vice-President, who requested them to lead an informal working group, including public agencies active in this area, to examine issues of Chile’s institutional environment that need to be addressed.

In this endeavour, the Chileans can study (yet not copy) a now-famous Taiwan Province of China experience of creating an early-stage venture capital industry. When the Taiwan Province of China government decided to promote venture capital (VC) industry at the beginning of the 1980s, it had neither the capabilities nor a blueprint to do that. Many were opposed to the idea because the concept of VC was foreign to traditional practice in Taiwan Province of China, in which family members closely controlled all of a business’s financial affairs. Entrenched interests in maintaining the status quo were strong. Through a process of intense interactions with expatriates from Taiwan Province of China in Silicon Valley, new institutions such as Seed Fund (with an initial allocation of NT$800 million, later complemented by an additional NT$1.6 billion) provided matching capital contributions to private VC funds. Two American-style venture funds – H&Q Asia Pacific and Walden International Investment Group – were created in the mid-1980s. They were managed by US-educated overseas Chinese who received invitations to relocate to Taiwan Province of China. Once the first venture funds proved successful, domestic information technology (IT) firms created their own VC funds. Once those started to pay off, even conservative family groups started to invest in VC funds and IT businesses.

A search network consisting initially of key dynamic and forward-looking members of the Taiwan Province of China government and leading overseas Chinese engineers in Silicon Valley was central in the emergence of this modern VC industry in a place dominated by conservative and risk-averse business groups. This network did not have a blueprint, yet it did have a role model (Silicon Valley) and a clear idea of “what to do next”. By defining each subsequent step along the road, the network became wider and eventually incorporated sceptics and opponents.
The extension of diaspora entrepreneurs’ projects from co-founding joint firms in their home country to co-creating institutional infrastructure so that these firms could flourish is natural and almost matter-of-fact. The initial objectives of Ramón García and his peers from Taiwan Province of China were both modest and specific: to advance their professional interests by setting up technology firms in their home countries. Yet, as the constraints of the home-country institutional environment became apparent to them, they engaged in advancing institutional reform to remedy some of the constraints. The successful growth of knowledge-based firms and the creation of an appropriate institutional environment became two sides of the same coin. Innovation entrepreneurship has blossomed into institutional and policy entrepreneurship.

It is significant that only a small number of “overachievers” with knowledge, motivation and institutional resources are involved in this transition. As already noted, “overachievers” bring their status and resources to their undertaking in their home country; they do not seek it from their home country.3 In comparison, although remittances have a visible poverty reduction impact on millions of small savers, their institutional impact is at best negligible and sometimes even negative.4 Remittances can also on occasion be channelled into investment in small-scale enterprises.

Figure 9.1 illustrates a hierarchy of diaspora impacts, rising from remittances (subsistence agenda) at the base of the pyramid to institutional reform (self-actualization agenda) at its pinnacle. The Taiwan Province of

![Figure 9.1 A hierarchy of diaspora impact.](image-url)
China example illustrates the diaspora’s potential for improving the institutional environment for innovation entrepreneurship. Saxenian (2006) and Saxenian and Sabel (2008) provide further examples related to private sector development from India and Israel. Similarly, experienced members of the Irish diaspora played a critical role in the set-up and initial stages of institutional life of IDA Ireland – now a recognized best practice in the promotion of foreign direct investment.

Analytical framework: The heterogeneity of home-country institutions and diasporas

In the established perspective, diasporas are viewed as a source of tangible help and resources (remittances, philanthropic contributions, investments and, recently, under the influence of the India example, technological and organizational knowledge) and that tends to exclude discussion of a country’s talent abroad in incremental institutional development. For instance, Riddle et al. (2008) discuss how investment promotion agencies target investments from diasporas, yet they do not even consider the possibility that diaspora members could, following the Irish example, contribute to the institutional development of investment promotion agencies themselves.

To ask such questions one first needs a theory of institutional development at home, a view that helps to identify entry points for diaspora contributions. The central concept of such a theory is the heterogeneity of home-country institutions – the co-existence of (relatively) well-functioning institutions with dysfunctional ones. The example of Chile provides a good illustration in this regard. Its institutional framework is far from perfect, yet it does have a segment that performs well enough to take calculated risks in developing new programmes and approaches, to be accountable for such calculated risk-taking and to ensure continuity of performance with the change of administrations.

The heterogeneity of public sector institutions is matched by the heterogeneity of the diasporas of the highly skilled. Only a few are experienced, successful and resourceful enough to engage in a dialogue about creating innovation firms and institutional dynamics. But these few individuals are enough to trigger a process of reform. Search networks match better-performing and dynamic segments of diasporas and home-country institutions.

In contrast, the received literature treats the diaspora, the national economy and its institutions as unified, homogeneous entities. As Saxenian and Sabel (2008: 385) note: “the new Argonauts are only part of the Diaspora, their expertise is in specific industries, and they collaborate with particular agencies or policymakers. This differentiation means that economic and institutional change begins in certain locations and/or do-
WHY IS DIASPORA POTENTIAL SO ELUSIVE?

Diaspora members can become “Archimedean levers” to initiate change and introduce new institutions. Usually two issues are at play. The local elite’s expertise is often entrenched. Diaspora members, in contrast, are engaged in local circumstances but their expertise is not entrenched. They have familiarity with local circumstances, credibility and the trust of local actors yet they are not part of the established and vested interests. Recall my Taiwan Province of China example of VC industry. Overachievers in Silicon Valley not only brought expertise on VC industries, they also helped me to make the case to establish that industry in Taiwan Province of China in the first place and that was done with little help, in fact in the face of overt resistance from a conservative financial sector in Taiwan Province of China. Before catching up one needs to wake up, and the diaspora overachievers are sometimes indispensable in providing a wake-up call: they have a rare combination of credibility, motivation and expertise to do that. This is not to say that diasporas cannot themselves become entrenched. Diaspora organizations can pursue narrow objectives with little consideration of the interests of the country they presumably represent. Long-distance nationalism of diasporas (see Kapur 2006) can be unproductive and detrimental. A tendency of diaspora organizations to become entrenched and pursue narrow objectives is one reason I focus on informal diaspora networks and individual “overachievers”, whose motivations are presumably pragmatic and diverse.

The second consideration relates to the so-called learning or switching costs of introducing a new institution. In the medium term, a new institution (say, a private credit bureau) can benefit all stakeholders, yet in the short run there are switching costs for actors (such as local banks) to learn new skills and routines and to overcome initial resistance to innovation. The switching costs can be high. Many international firms have attempted to establish private credit bureaus in Armenia but were deterred by high switching costs. Only a diaspora overachiever from California, with the usual combination of profit maximization and intrinsic motivation to get involved in Armenia, had a planning horizon long enough to make the switching profitable and worthwhile.

Ultimately, it is the dynamic segments of home-country institutions that will do the work (however crucial the Silicon Valley overachievers were in triggering the VC industry in Taiwan Province of China, it was a set of new national programmes and procedures that made the difference). The diaspora members help to perform the search for individuals, expertise and institutions to articulate a missing agent of development. This is the essence of the Archimedean lever hypothesis, which requires close attention to heterogeneity of both diasporas and home-country institutions.
The next section will examine a key question of the institutional design of diaspora engagement that takes into account this heterogeneity – how to turn spontaneously emerging diaspora networks into search networks.

**Turning diaspora networks into search networks: Triggering guided serendipity**

How does the matching of dynamic segments of (typically first-generation) diaspora talent and dynamic segments of the government occur? To put it another way, how do search networks emerge and get institutionalized? My hypothesis is that this process of emergence and institutionalization goes through three stages (see Table 9.1).

In the first stage, informal networks between individual champions, typically overachievers, emerge. Continuing the example of Ramón García of the Chilean diaspora, he shared his proposals with many government agencies, but with little success until he found a like-minded individual – the CEO of Fundación Chile. Crucially, the ability to act innovatively and think “out of the box” stems both from personal reputation and credibility, not necessarily linked to an official position (overachievers maintain

<table>
<thead>
<tr>
<th>Characterization of better-performing segments</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Informal networks</strong></td>
<td>Individual champions, usually “overachievers”, from the government, diaspora and private sector</td>
</tr>
<tr>
<td><strong>Some institutionalization</strong></td>
<td>The champions (personalities) create institutional platforms to institutionalize interactions</td>
</tr>
<tr>
<td><strong>Institutionalized networks</strong></td>
<td>A process of matching of diaspora members and institutions in home countries to generate and support joint projects</td>
</tr>
</tbody>
</table>

- Ireland in the 1970s
- India in the 1970s and 1980s
- Most middle-income and many low-income countries now
- Taiwan Province of China experience with early-stage venture capital
- Mexico’s “Red de Talentos” Diaspora initiatives promoted by private sector associations such as The Indus Entrepreneurs
- GlobalScot
- ChileGlobal
their credibility and networks even if they are fired), and from the ability to leverage the resource conferred by an official position. This duality allows flexibility and opens the door to the institutionalization of personal and informal networks.

The following example from Mexico illustrates the second stage of evolution of search networks – their partial institutionalization. Mexico’s National Council of Science and Technology (CONACYT) views the 1 million tertiary-educated Mexicans in the United States (about 400,000 of them in managerial positions) as a unique opportunity that Mexico has not even started to explore. Hence, with advisory assistance from the World Bank, CONACYT started “Red de Talentos para la Innovación” (a network of talents for innovation) – its own search network similar to ChileGlobal and GlobalScot.

However, it very rapidly found itself in a no-win situation. By their very nature, search networks are interdisciplinary and inter-organizational: they bridge boundaries and design new projects by finding previously unnoticed connections. This is why bridge organizations such as Fundación Chile and Scottish Enterprise (Scotland’s highly capable local economic development agency) are so critical: they serve as incubators of search networks. But in Mexico there is nothing similar to Fundación Chile. Moreover, there is no tradition of meaningful inter-organizational communication and joint action. There is no dearth of inter-ministerial councils to coordinate issues, but they tend to be cartels of established interests, an arena where each agency protects its turf. Moreover, in a corporativist structure every such action was mandated from the very top, and breakdowns in the corporativist system resulted in governance paralysis at a federal level. To proceed, the Red de Talentos programme required creative and day-to-day collaboration between the Ministry of Foreign Affairs, the Ministry of the Economy and CONACYT. A high-ranking official in CONACYT found a simple yet brilliant solution. He instituted a series of meetings of the relevant agencies which were held on Saturdays. The fact that the meetings were outside the established routines helped to open a meaningful discussion and to define a new agenda of concerted action. Management of the programme is undertaken by the Mexican Enterprise Accelerator in San Jose, California, which was established by the Ministry of the Economy. All these represent the seeds of a possible future Fundación Chile yet to be created in the Mexican context. Individual champions remain the key players; should they leave their positions, the future of the programme is in doubt. Yet they engage their respective organizations in their projects: the programme finds an institutional home, receives budget allocations and gains the other attributes of an institutionalized experiment. This is an example of how diaspora search networks help formalize other networks while
making them more effective as a means for incubating new programmes as governance structures as well as new projects.

A third stage – a fully institutionalized search network – is illustrated with the example of GlobalScot. GlobalScot is a highly innovative and very successful programme to form a network of about 950 high-powered Scots all over the world and to use their expertise and influence as “antennas”, “bridges” and springboards to generate a surprising variety of projects in Scotland. Interestingly, although GlobalScot relies on all the strengths of Scottish Enterprise (its home organization), even GlobalScot failed to utilize the ideas and connections from GlobalScot members. GlobalScot is now increasingly forging connections between its members and businesses in Scotland, bypassing Scottish Enterprise.

Tellingly, starting from its inception in 2001, the evolution of the programme was full of surprises. Invitations to highly placed Scots to join the network were signed by the First Minister of Scotland, and it was expected that only a small proportion of these very busy and successful individuals would respond positively. In reality, the positive response rate was close to 90 per cent. Yet fewer than 200 out of 950 (about 20 per cent) are involved actively in projects with Scottish businesses – a dynamic segment within the network itself – and there is no way of predicting from the outset which particular “overachievers” will form this dynamic segment.

A crucial observation is that full formalization of diaspora search networks is typically not desirable, particularly in the context of a developing economy. An institutional home is desirable, but many informal features (characteristic of the second stage of the evolution) should remain. Full institutionalization can easily result in the stifling of creativity and the capture of a hitherto vibrant network by vested interests. In short, the interests of powerful organizations may take over the dynamic searches of diaspora members (for examples from India and South Africa, see Kapur 2006, 2010; and Marks 2006).

The framework of Figure 9.2 juxtaposes the individual initiative and creativity of a champion (or a group of champions) and the organizational support they need. Typically, diaspora initiatives do many useful things while they remain small (the “hit the wall” situation). The organizational support they receive may indeed stifle creativity: there are a number of initiatives with significant resources that result in a flurry of activities but with little impact on home-country institutions (the “living dead” situation). The framework of Figure 9.2 helps to chart a trajectory of the institutionalization of diaspora initiatives to help them arrive at the elusive synergy between creativity and the individual initiative of project champions and effective and non-bureaucratic organizational support of
WHY IS DIASPORA POTENTIAL SO ELUSIVE?

projects (the title “guided serendipity” helps to capture the paradox I am after).

GlobalScot (and perhaps ChileGlobal) is a rare example of “guided serendipity” – of institutionalized yet evolving search networks. However, for every case of “guided serendipity” there are hundreds, if not thousands, of cases of “hit the wall” situations or, worse still, “living dead” diaspora programmes.

Towards a new generation of diaspora initiatives

How can tiny but informal networks be institutionalized, while minimizing the unavoidable “living dead”? Centralized schemes, particularly those managed by the government, have proved to be of very limited efficacy in terms of achieving this objective. To make room for bottom-up creativity and initiative while ensuring the sharing of best practice, one could conceive of a country-wide diaspora contest. Such a contest would provide matching funds to organizations in a country (think of a large heterogeneous country such as India) interested in articulating and running

![Figure 9.2 A diagnostic monitoring framework for diaspora initiatives: The trade-off between a decentralized initiative and organizational support. Source: Kuznetsov (2008).](image-url)
diaspora/global knowledge networks that would advance their own missions and objectives. For instance, an organization might be interested in setting up a mentoring network to assist a medium-term Indian technology start-up to enter new international markets. It would then formulate a proposal for the diaspora contest, which would be considered for receiving matching fund contributions.

The operational details would obviously differ from country to country, but such a contest fund would have clear eligibility criteria and could, for instance, support institutionalized diaspora or global knowledge initiatives for a period of up to three years with a limit of US$100,000 contribution per year and could support 6–10 focused global search initiatives with the help of the diaspora. This number of institutionalized initiatives or networks is large enough to reflect the heterogeneity of the circumstances and objectives of India’s home-country organizations, but manageable in terms of monitoring the portfolio of the initiatives and sharing best practices.

This scheme would provide support to existing and promising diaspora/home-country initiatives, would articulate and support new institutionalized initiatives, and would enable intensive technical assistance to ensure a high-promise portfolio of projects, diagnostic monitoring and sharing of best practices. Within this framework, each individual initiative will attempt to create an institutionalized yet focused search network with diaspora participation. Ideally, each focused search network (within a portfolio of initiatives to be supported by the contest) would be characterized by the following features:

- **The ability to identify, bet on and manage strategic first movers.** Strategic first movers are individuals with a longer than usual planning horizon. They are not philanthropists, yet they have more patience about seeing returns on their effort and investment. These individuals (typically overachievers) are crucial because a firm, or other new organization they create in the home country, provides a demonstration effect for others.

- **The ability to discern, rely upon and leverage heterogeneity.** The energies of strategic first movers are utilized by home-country organizations. These could be weak and dysfunctional but there are always institutional segments that are performing better, are dynamic and are forward looking. A new generation of diaspora programmes is predicated on the ability to recognize and leverage the typically substantial internal diversity of developing countries. To put it another way, a new generation of programmes works with certain segments of public sector organizations.

- **The ability to manage surprises** (continuous error detection and correction). A diaspora network that is live and evolving generates surprises
by definition. All the more important then to have a benchmarking framework that allows one network to be compared with another – for instance, ChileGlobal with GlobalScot. Figure 9.2 discussed earlier is one such benchmarking framework because it allows the detection of a problem situation that could potentially arise as nascent diaspora networks grow.

- **A focus on mentoring as a key feature in supporting joint projects between diasporas and home-country organizations.** Another way to describe the search function of diaspora members is to characterize them as mentors. In other words, they do not do the work but they help home-country organizations do their work better. In contrast, diaspora contributions are often requested precisely to close gaps in the performance of home-country organizations. Although this might work in the short run, in the medium and long run such objectives are counter-productive.

The recommendations for the international development community with respect to designing a new generation of diaspora programmes are as follows:

- **Focus on joint projects between exceptional stakeholders in home countries and diaspora individuals, rather than execute “capacity-building” or “help”**. A crucial point is the heterogeneity of both diasporas and home-country institutions. A good project links better-performing and forward-looking segments of a home country’s institutional setting with similarly dynamic diaspora individuals. It then formulates and implements a joint agenda against all the odds, problems and obstacles. Better-performing segments always exist, even where institutions are generally dysfunctional. A good diaspora project leverages this heterogeneity. This is one reason that it is difficult to do it right on a massive scale.

- **Perform surveys as a means to fine-tune actual diaspora initiatives and give a priority to focused “high-resolution” empirical work.** Because the diaspora agenda is a fairly new one for development organizations, their first impulse is to take stock of diaspora members. Hence their studies are bound to count diaspora groups and correlate their sizes with financial flows such as investments. At best, such aggregate studies at a macro level provide useful background information. Counting diaspora members is based on the premise of “representative” diaspora members. If one disaggregates diasporas by level of education and other indicators, these are still likely to be too low level of resolution to discern “overachievers” for innovation and institutional development impact. Overachievers are, for every diaspora community, counted in dozens not thousands. An example of relevant empirical work is a database of highly influential Indians and their career trajectories.
abroad and at home. Tellingly, the database starts from home-country institutions – these are individuals who occupy (or occupied) important positions in India. Additionally, it is constructed in the context of a specific issue: shedding light on the political economy of diaspora–India interactions (Kapur 2010).

- Be humble and ambitious at the same time. This is a paradox that makes sense only if one considers the time scale. One is humble in the short run, with the pragmatic objective of getting a few tangible joint projects going between the diaspora and its home country. Yet one is ambitious in the long run because the stakes are high: the stakes are economic reform and institutional changes resulting in a “critical mass” of promising and demonstration cases. For instance, it is almost invariably counterproductive to make return migration a short-term objective. Develop joint projects first and, if those projects develop well, the expatriate talent will have both the motivation and the context to come back. This is one example of how the humble agenda translates into an ambitious one.

Conclusions: The diaspora as part of a home country

This chapter has put forward the hypothesis that the increased salience of diaspora networks to home economies goes beyond direct economic impacts. Diasporas of the highly skilled can contribute to institution-building through multiple incremental contributions that lead to the transformation of private and public sector institutions.

The central concept of this chapter is the heterogeneity of home-country institutions and diasporas. Search networks are able to match the better-performing and dynamic segments of diasporas and home-country institutions, which can result in a diversity of impacts. In this chapter, I constructed a hierarchy of impacts, echoing Abraham Maslow’s hierarchy of needs and motivations (Maslow 1971). Analytically, the issue is the heterogeneity of both the capabilities of institutions and the motivations of “first movers” – the protagonists of institutional change. In other words, the basic similarities between the Maslow hierarchy of needs and the diversity of joint projects and their impacts (ranging from survival-oriented poverty reduction to far-reaching institutional reforms) are not coincidental.

As this foray into in-depth psychology indicates, the chapter is ambitious and humble at the same time. It is ambitious, because it attempts to enlist and channel all conceivable development resources. Intrinsic motivation is one such resource, and one of the objectives of the chapter was to demystify this motivation, which is still an enigma for economists, by
showing how to leverage it in specific diaspora programmes. The paradoxical statement that diasporas are part of the home country summarizes well the heterogeneity perspective developed in this chapter. To be precise: first-generation diasporas are part of the home country. On the one hand, diasporas are mirrors of the political economy of their home country, its diversity of conditions and its idiosyncrasies of history. This is a continuity perspective. Yet diasporas also accumulate the capacity for change and discontinuity (although not necessarily providential change), which is ever-present and latent in the home country. Relying on variations within existing institutions, diaspora members articulate an “Archimedean lever” with which to leverage reform and change.

On another ambitious note, this chapter contributes to the discussion on the so-called new industrial policy (Kuznetsov and Sabel 2008; Rodrik 2007), viewed as a set of interventions, which is distinct from the “old” functional/horizontal industrial policy of the 1980s and 1990s, yet is capable of avoiding the familiar old pitfalls of “picking winners”. As my example of Mexico highlighted, well-designed diaspora programmes can contribute to the creation of both a new public sector policy and a new industrial policy. Their significance therefore extends beyond the narrowly defined issue of the international mobility of talent.

Yet, at the same time, the chapter is humble in its attention to the detail of exactly how the search networks leading to change are formed and institutionalized in diaspora programmes. Examples were given from countries as diverse as Chile, Taiwan Province of China, Scotland and Mexico, with the familiar benchmarks of Israel, China and India (summarized in Saxenian 2006) in the background. The diversity of examples and their institutional settings is key to my argument. As venture capitalists know only too well, talent is ubiquitous and can overcome almost all obstacles, yet putting it to work requires certain institutional procedures.

All too often, the discussion of diaspora contribution is bifurcated. On the one hand, there is naive optimism about the possibilities of diaspora involvement, which often discounts the fact that diasporas can play a very negative role in development (see Kapur 2006). On the other hand, institutional preconditions – a good investment climate, honest and transparent government, etc. – are emphasized. Typically both claims are advanced simultaneously, making it difficult to understand how high-impact diaspora contributions can happen in a typical institutional environment that is anything but ideal. The chapter has bridged the two perspectives by showing how the engagement of diaspora members can create the institutional context for further and deeper engagement. As credible commitment deepens, so does the institutional reform, which is understood as a step-by-step transformation of certain features of the private and public sectors.
Acknowledgements

Support of the MacArthur Foundation for this research is gratefully acknowledged. This chapter developed, gradually and incrementally, in conversations with Lev Freinkman (Institute of Economic Policy, Moscow, and World Bank), Devesh Kapur (University of Pennsylvania), Charles Sabel (Columbia University) and AnnaLee Saxenian (University of California, Berkeley). Thanks to David Ellerman (University of California, Riverside), Ronald Mendoza (United Nations), Jennifer Brinkerhoff (George Washington University) and participants at the expert group meeting in New York in May 2008 for helpful comments, and Faythe Agnes Calandra (World Bank Institute) for editorial assistance. The views expressed in this chapter are mine alone and should not be attributed to the World Bank.

Notes

2. A search network in this context is defined as a network to identify successive constraints and then people or institutions that could help mitigate, at least in part, the difficulties associated with these constraints.
3. An echo of Nietzsche and Kierkegaard – both of whom emphasized that talent, creativity and impact are the domain of the few, not the masses – makes this characteristic of over-achievers almost part of the definition itself.
4. Remittances serve as institutional shock absorbers ameliorating the demand for institutional change that could have emerged otherwise. Mexico is often cited as an example. For more, see Ellerman (2006) on the negative development impact of remittances, including collective remittances by hometown associations.

REFERENCES


10

Venture capital and fixed-income markets in developing economies

Parag Saxena

Venture capital and fixed-income markets are two factors that can play a significant role in the economic development of a country. However, it appears that most developing economies are not doing enough to effect meaningful change in either factor. This chapter will present the case why policy-makers should make a long-term commitment to developing vibrant venture capital and fixed-income markets, and will suggest some specific levers they should focus on in making this commitment. Finally, I believe that a country’s diaspora can make a material contribution on both factors, and I will outline some specific ideas on how these contributions can work.

The role of venture capital

Developing economies are likely to underestimate the power of developing a robust venture capital environment. Evidence from the United States and the European Union shows that venture-backed companies outperform their non-venture-backed peers in both job creation and economic growth. Strikingly, the degree of outperformance appears to increase in times of recession and economic slowdown, when growth and job creation are most critical to a developing economy.

Many of today’s breakthrough business innovations have come from venture-backed companies. These innovations are not limited to information technology, the “usual suspect” that comes to mind when venture
capital is mentioned, but in fact cover a diverse range of industries such as retail, media, energy and healthcare. As India and China have recently shown, smart money from global capital pools will find high-potential ventures in developing economies once conditions are right. Creating the right conditions is not an easy proposition – it takes time and requires a delicate combination of different elements, including tax incentives, investor protection laws, immigration policies, university incubation and investor education.

Policy-makers in all emerging markets should urgently move down this path, if they are not doing so already. Diasporas can lend a significant helping hand by providing capital – intellectual and financial – and championing the cause with foreign investors.

Why do I believe that venture capital (VC) can play a major role in economic development? Consider the following facts (Global Insight 2007):

- Venture-backed companies account for 9 per cent of all non-government employment in the United States.
- In 2005, US venture-backed companies generated US$2.1 trillion in revenue (see Figure 10.1). For perspective, this was about 17 per cent of US gross domestic product (GDP) in 2005 and is more than two times India’s GDP in 2007.

It is also insightful to compare US venture-backed companies against their non-venture-backed counterparts (Global Insight 2007):
Between 2003 and 2005, a period of relative economic prosperity, venture-backed companies increased employment over three times faster than the average for all companies: 4.15 per cent compound annual growth rate (CAGR) of employment for venture-backed companies vs. 1.3 per cent for all companies (see Figure 10.2). In this same period, venture-backed companies grew sales at 11.3 per cent CAGR, also significantly higher than the 8.5 per cent CAGR for all companies.

Between 2000 and 2003, a period of economic slowdown, overall employment (i.e. across all companies, both venture backed and otherwise) declined by 2.3 per cent CAGR (see Figure 10.3). However, venture-backed companies actually increased employment at 6.5 per cent CAGR in this same period. Meanwhile, the 12.0 per cent CAGR revenue growth from 2000 to 2003 for venture-backed companies was twice that of all companies.

Of course, although the United States is the most mature venture capital market in the world, it took many years for the US venture market to develop to where it stands today. Hence, developing countries can use these facts as both an illustration of the potential impact venture capital can have on their own economies and a target for future growth.

It is well known that venture backing gave us breakthrough information technology (IT) companies such as Google, Apple, Cisco, eBay and
Amazon. A lesser known fact, however, is that innovative venture-backed breakthroughs extend well beyond information technology. Starbucks, MetroPCS, Home Depot, Amgen, Whole Foods, Polycom and FedEx are all venture backed. Here, again, a look at the facts is insightful.

Among venture-backed companies in the United States, media/retail/entertainment tops the job creation list with 2 million people employed in 2005, followed by computers and peripherals, industrial/energy, financial services, software, and biotech/medical devices (see Table 10.1). The takeaway is that developing countries should not think of venture capital as being solely a tool of the IT industry. In fact, venture capital can have and has had an impact on many different economic sectors.

Figure 10.3 Companies backed by US venture capital have driven revenue and employment growth even during economic slowdowns.

Note: 2000–2003 GDP growth (nominal) was 11.7 per cent (3.7 per cent CAGR). Source: Global Insight (2007).

Table 10.1 Venture capital is not just about information technology

<table>
<thead>
<tr>
<th>US VC-backed companies, 2005</th>
<th>Employment (million)</th>
<th>Sales (US$ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Media/entertainment/retail</td>
<td>2.0</td>
<td>299</td>
</tr>
<tr>
<td>Computers and peripherals</td>
<td>1.9</td>
<td>466</td>
</tr>
<tr>
<td>Industrial/energy</td>
<td>1.2</td>
<td>268</td>
</tr>
<tr>
<td>Financial services</td>
<td>0.9</td>
<td>134</td>
</tr>
<tr>
<td>Software</td>
<td>0.9</td>
<td>211</td>
</tr>
<tr>
<td>Biotech/medical devices/</td>
<td>0.4</td>
<td>N/A</td>
</tr>
<tr>
<td>equipment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Global Insight (2007).
In spite of the potential of venture capital funding, developing economies have barely scratched the surface of it. In a McKinsey & Co. survey (McKinsey Global Institute 2007), only about 30 per cent of senior business executives in developing countries believed that companies would use equity financing for new investments, and about 15 per cent believed that lack of access to funding would constrain economic growth over the next three years. We are currently witnessing the emergence of India and China as world economic powers, with 7 per cent or more real GDP growth expected in both markets. The India example shows that, as the regulatory environment became more open, foreign direct investment (FDI) and venture capital investments have exploded. In spite of this unprecedented recent global interest, annual venture capital investment in India is still only about 0.1 per cent of GDP, less than half of the level in the United States (Figure 10.4).

What can developing countries do to create a more favourable environment for venture capital investment? The truth is, there are no magic bullets. However, a long-term commitment to investor-friendly initiatives along the following broad parameters is critical:

- **Tax incentives.** There are three important considerations on this front. First, tax laws should be structured such that they encourage long-term investments (that is, at least 12 or 24 months) and minimize capital gains tax due on such investments. The United States chose to create

![Figure 10.4 India’s venture capital investment levels are still well short of those in the United States. Source: Dow Jones VentureSource, “Quarterly India Venture Capital Report”, 21 February 2008.](image-url)
particularly friendly tax laws for venture capital investors and has seen the benefit of making that choice. Secondly, tax laws should minimize differential treatment between domestic and international investors. Differential tax treatment limits inflows and also creates the need for a cumbersome and expensive regulatory system for monitoring and enforcement. Finally, tax incentives should apply to capital gains from investments made, and not directly to the magnitude of investments made. An experiment in Australia that in effect provided direct tax credits based on the total amounts invested by venture capital funds proved unsuccessful. The reason: such a system reduced the incentives for investment funds to make only the “best bets” that had the highest potential return on investment with respect to venture risk.

- **Investor protection laws.** Lack of financial and operational transparency is a major concern for investors in developing markets. A system that makes regular (that is, quarterly or semi-annual) disclosure and regulatory filing of audited financial information a requirement, even for privately held firms, could help significantly. Also, corporate laws aimed at protecting the rights of minority shareholders are essential (for example, by providing minority investors with strong voting rights on certain decisions pertaining to issues such as the purchase or sale of assets and changes in capital structure). Finally, the legal system’s ability to enforce shareholder agreements and other investor contracts is critical to help minimize the risk of investors falling prey to fraudulent practices or misrepresentation of material information.

- **Immigration policies.** Immigration laws in the United States have played an important, albeit lesser known, role in fuelling the venture capital industry. One way an investor adds value to a company is by helping companies get access to skilled personnel who they might normally not be able to find or attract. In today’s increasingly global environment, it is important that companies can cast their nets wide enough to tap talent pools both domestically and internationally. The very large number of non-US citizens working in Silicon Valley start-ups is an excellent example of this factor.

- **University incubation.** Many successful venture companies in the United States and Europe were initially incubated at local universities. US universities such as Stanford, MIT and Harvard have very well-developed processes for helping students and faculty get potentially breakthrough ideas off the ground. University facilities typically include access to office space, infrastructure, initial seed funding, and legal, financial and business advice. In addition, universities often have strong connections with venture funds to scale up investment in promising ideas. Most importantly, such a set-up not only provides practical support that is critical to potential entrepreneurs with limited resources, but also helps create an environment that encourages entrepreneurial
risk-taking. Although many universities in emerging markets are world class in terms of the quality of students, faculty and research (for example, the Indian Institutes of Technology), very few currently have anything beyond a token ability to incubate start-ups on campus.

- **Investor education.** Foreign investors frequently perceive much higher risk in emerging markets than a rational assessment of the facts would suggest. This is most likely due to “information asymmetry”. Foreign investors simply may not know enough about the investment opportunities and risks associated with a given country or may not trust the credibility of traditional sources of information in emerging countries. To address this problem, organizations looking to promote foreign investment must make investor education a high priority. Much of the current excitement around investing in India and China is owing to the higher degree of comfort that foreign investors have in these countries. This comfort is partly a result of many years of effort by government agencies, by private agencies and, most importantly, by diasporas to build credibility in their adopted country. Furthermore, these groups are willing to “bet” their own money to back ideas emerging from their home country. Of course, investor education has to be fair, balanced and accurate. Over-representing the investment potential in a country to foreign investors is almost certain to do more long-term harm than good when investors discover things are not as advertised.

Venture capital environments tend to be self-propagating once a critical mass is reached. The above initiatives serve as a catalyst to increase the likelihood of reaching such a point.

A country’s diaspora plays a vitally important role in developing an environment conducive to venture capital investment. The most direct form this role takes is the provision of financial capital. About 70 per cent of China’s FDI in 1999 came from Chinese people living abroad. Many “Silicon Valley Indians” are actively seeding start-ups in India. A number of the foreign institutional investors in India and China have members of those countries’ diaspora in key leadership positions. Knowledge and intellectual capital are an equally potent, albeit less direct, contribution that diasporas can make. Successful US-based Indian entrepreneurs advised the Prime Minister and Government of India while developing India’s foreign investment policy. US-based Indians have served on the board of Indian start-ups, giving them the ability to introduce operational, financial and corporate governance practices that make companies globally competitive. On-campus venture incubation programmes at leading Indian universities, such as the Indian Institutes of Technology, are being developed with the advice of experienced US-based alumni. Some of these alumni are opening local educational institutions, such as business schools, to increase the domestic flow of entrepreneurs and managers. All of these contributions make a meaningful difference to increas-
ing the likelihood of a country attaining critical mass in venture capital. A good example of how diasporas can help with the growth of venture capital is The Indus Entrepreneurs (TiE), an organization of Indian professionals that has played an instrumental role in helping form and grow the Indian venture capital industry.

Venture capital is not, as some would believe, merely a channel for creating investor wealth. It is a tool for driving growth, creating jobs and producing innovative products and services that can fundamentally change entire industries. Encouraging venture capital investment may be one of the most potent levers economic policy-makers can pull to drive long-term development in emerging economies. Building a strong environment for venture capital investment should be within reach for most countries. However, it requires the right long-term game plan and the commitment to see it through.

The role of fixed-income markets

Equity markets typically grab the headlines when a developing economy begins to unlock its growth potential. In all this excitement, the state of fixed-income markets is often overlooked. This is a mistake, because deep and strong fixed-income markets can provide a solid base on which a healthy, sustainable economy will come to depend. Developing economies tend to have very shallow fixed-income markets when compared with their more developed peers. In particular, corporate bond markets are often non-existent – the fixed-income markets comprise almost exclusively government debt and bank deposits. This situation is characterized by a high “cost of money” (that is, short- and long-term lending rates) and has the effect of limiting efficient access to capital, which in turn means that companies are often discouraged from making the investments they need for growth.

To start, some data are useful to understand the scale and nature of the problem. The “depth” of fixed-income markets can be compared across different countries by measuring the total fixed-income capital base as a percentage of each individual country’s GDP (in order to normalize scale differences between countries). This comparison method highlights some striking takeaways:

- Fixed-income markets in developed countries such as Japan, the United States, the Euro-zone and the United Kingdom are more than twice as deep as those in developing economies such as Emerging Asia, India, Latin America and Eastern Europe.
- Private debt (for example corporate bonds) is almost non-existent in some high-profile developing economies (see Figure 10.5). For instance, private debt in India is only 2 per cent of GDP, as compared with 145
The "cost of money" (as measured by nominal lending rates averaged across a range of durations) has a strong inverse correlation with the depth of fixed-income markets (measured as a percentage of GDP). Shallow markets tend to have a significantly higher cost of money (see Figure 10.6).

The most immediate result of shallow fixed-income markets is that companies find it hard to raise the capital needed to fund growth and expansion. In Latin America, a region characterized by a shallow fixed-income market and a high cost of money, the following are notable symptoms of this problem (based on McKinsey Global Institute 2007):

- 43 per cent of Latin American companies rely on credit from suppliers to finance growth (vs. 27 per cent of all respondents from all countries);
- 83 per cent of Latin American companies say that more than half of funds for investments come from retained earnings (vs. 66 per cent of all respondents);

Figure 10.5 Developing economies tend to have “shallow” fixed-income markets.

Notes: Includes government and private debt securities, and bank deposits. Eastern Europe: Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Slovenia, Turkey, Ukraine. Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Peru, Uruguay, Venezuela. Emerging Asia: Indonesia, Malaysia, the Philippines, Republic of Korea, Thailand.

for large companies that have the ability to access international debt markets (for example, those in the United States or London), the rate of international debt issuance is nearly twice that of their Asian peers – which suggests that they are unable to raise capital in their own countries.

To attract and channel long-term capital, an economy needs institutions and instruments of enduring quality (see Figure 10.7). These include strong regulatory systems that provide for an independent supervisory agency, protect investors in situations such as bankruptcy or the breaching of debt covenants, and enforce strong corporate governance norms with regular and accurate financial disclosures. Institutional investors, such as pension funds, insurers and mutual funds, that have the scale and expertise needed to build large and diversified fixed-income portfolios, are required to do so. These investors will look for reliable rating agencies (for example, Moody’s or Standard & Poor’s in the United States) to monitor and evaluate the quality of corporate debt. No fixed-income market is possible without government policies that enable and
monitor private debt markets. Finally, technological infrastructure for facilitating depository and clearing systems, trading platforms and payment systems is necessary for an efficient debt market to function.

In practice, many developing economies are too small to facilitate an efficient fixed-income market. Scale is required in order to develop the systems, processes and people that an efficient market is built upon. Without domestic fixed-income markets of the required scale, companies in developing economies are compelled to search for debt capital in international markets such as those in the United States or London. In these markets, they run into the “small fish in a large pond” problem. Companies that are top-tier, reliable firms with good credit profiles in their home country are often too small to be appropriately analysed or understood in international markets. As a result, they have to compensate investors for the higher perceived risk by paying a higher cost of debt.

One way to get around the scale issue is to consider “supranational” debt markets. In principle, this would involve countries within a region (for example Latin America) coming together to create a “pooled debt” market. Such a system could provide the scale required to deploy the systems, processes and people discussed above. In addition, such a market could create a wide list of investment alternatives that enable domestic and foreign investors to diversify their portfolios and reduce risk. The
scale of such a market could facilitate securitization of underlying debt investments, which would further increase investor flexibility and market liquidity. There is no direct example today of a functioning “supranational” debt market.

However, the European Union does provide an illustration of the impact that working in a regional framework can have on the cost of money. Data suggest that the cost of money has indeed come down for EU member countries since the introduction of the Euro marked a move to a regional framework (see Figure 10.8). Of course it is important to keep in mind that there could be a host of factors driving this observation beyond just the increased scale.

**Illustrating the impact of diaspora: The Indus Entrepreneurs**

As highlighted previously, diasporas can play a significant role in the economic development of an emerging economy. Contributions by diasporas can and should go far beyond the “first-order” effect of direct remittances and investments in their home country.
A good example of the impact a diaspora can have is TiE – which formally stands for “The Indus Entrepreneurs”, but is also informally known as “Talent, Ideas and Enterprise” or “The Innovative Ecosystems”. TiE is a non-profit organization founded in 1992 by successful Indian professionals, mostly based in Silicon Valley. The mission of TiE is to foster entrepreneurship globally through a combination of mentoring, networking and education. Since its inception, TiE has grown to 12,000 members in 45 chapters across 10 countries, including the United States, the United Kingdom and India.

People associated with TiE have created businesses with market value of over US$200 billion since 1992. TiECon, an annual conference held in Silicon Valley, is considered by many to be the world’s pre-eminent entrepreneurial forum. In most countries where it operates, TiE has brought together entrepreneurs, business people, government policy-makers, professional service providers, academics and the media with the objective of enhancing the entrepreneurial climate. TiE has also been instrumental in making positive changes in governmental economic policies in several emerging markets. Specifically, TiE is credited with influencing the liberalization of key sectors, including telecoms and venture capital, in India.

TiE’s success has largely been driven by its ability to tap into the intellectual capital and experience available amongst its members. It has also made a meaningful contribution towards establishing India’s reputation among international investors as an attractive locale for investing capital and incubating ventures. As such, it provides a useful case study that other countries can use as a model for engaging a diaspora to help advance economic development initiatives.

Conclusion

I hope this chapter helps demonstrate why venture capital and fixed-income markets should be high on the agenda of all developing economies. Of course, doing justice to either requires detailed planning and a long-term commitment. Each country will need to craft its own unique path. However, there is a lot to be gained from the examples of developed countries, and there is a lot that diasporas can do to help ensure that the right steps are taken.

Acknowledgement

I would like to acknowledge the significant input provided by Harsha Misra in producing this chapter.
REFERENCES

A Kenyan diaspora entrepreneur creating social value through tea: A case study

Wanja Michuki

Entrepreneurship enables economic development because private sector goals are contingent on economic viability. The potential of diaspora entrepreneurs to create economic growth in their home country lies in their ability to identify and develop market opportunities abroad, which in turn facilitate income generation, job creation and skill and knowledge transfer in their home country. For developing countries, the creation of such trade linkages can be instrumental to poverty alleviation.

In 2003, I founded the Highland Tea Company LLC (Highland Tea Co.) in the United States with the twin goals of (1) distributing premium teas from my country, Kenya, in North America and the international marketplace, and, in so doing, (2) promoting sustainable economic and social development amongst small-scale Kenyan tea-farming communities living in poverty. This chapter draws on my experience as a Kenyan diaspora entrepreneur based in the United States.

In this chapter, I discuss the challenges I faced in developing trade linkages to export and distribute branded Kenyan teas in the United States. Using Highland Tea Co. as a case study, I will make suggestions about the areas in which policy can facilitate the growth of entrepreneurial activity amongst diaspora members such that value addition is realized in home countries – through employment generation, knowledge and skills transfer, and social investment. The policy recommendations here can be applied to other agricultural commodities produced in developing countries.
The case for creating social and economic value for Kenyan tea

With export volumes of 323,000 metric tonnes, Kenya is currently the largest exporter of tea in the world, followed by Sri Lanka and China. Approximately 460,000 small-scale tea growers account for 63 per cent of total production (Business Daily Africa 2007). The remaining 37 per cent is grown by large-scale estates managed by multinational firms such as Unilever. In size, small-scale tea farms range between 0.5 and 2.0 acres of land. The Kenya Tea Development Agency (KTDA) manages all the of 59 factories owned by the small-scale tea farmers. In addition, KTDA is the sole marketing agent for the teas produced by the farmers. Through the services provided by KTDA, 75 per cent of teas produced by small-holders are sold for export through the Mombasa auction, 7 per cent are sold to local tea packers, and 18 per cent are sold directly to overseas and local packers. All pricing is pegged to auction prices and, as such, all the tea produced by small-scale farmers is sold at commodity prices. Kenyan tea farmers earn approximately US$0.22/kg compared with average auction prices of US$1.70/kg. In addition, tea income makes up 28 per cent of Kenya’s foreign exchange revenues.

Kenya’s teas – ranked amongst the world’s finest – are widely sought after because they are integral to the blends of commercial packers such as Lipton, Twinings and Tetley. The problem is that Kenyan tea is sold as a generic brand, used for the purpose of blending, and is rarely origin-marked. Therefore, the teas are sold at commodity prices, with value being added by commercial packers who purchase teas at the auction markets. Branded teas are sold wholesale for prices that are four times – or more – higher than auction prices. This presents the opportunity to add social and economic value for Kenyan tea farmers by branding and packaging solely Kenyan teas for the export market.

To ensure that the additional value from packaging and branding is transferred back to the Kenyan tea farmers, from whom we purchase tea, we have employed the Fair Trade model. We source our bulk teas from Fair Trade Certified factories in Kenya. In doing so, we are obligated to (i) purchase teas at auction prices and (ii) contribute a premium of US$0.50/kg into a community fund. This community fund is invested in development projects that facilitate poverty reduction and economic growth in the tea-farming areas we source from. Under Fair Trade, investment projects are democratically selected by a committee of farmers, ensuring that all Fair Trade projects benefit the community at large.

In Kenya, all small-scale tea growers are cooperative owners of the factories in which their teas are processed. Brokers and buyers purchase
teas from the factories, either through the auction market or directly from the factories. The factories are managed by KTDA. KTDA controls the marketing of teas from the factories such that broker and auction buyers must purchase the teas from KTDA – thereby limiting marketing opportunities for diaspora entrepreneurs, who must trade with KTDA in order to sell teas on behalf of farmers. KTDA charges farmers a management fee, which is currently fixed at 2.5 per cent of the total sale proceeds.

Our approach to creating social value is to brand and distribute Kenyan Fair Traded teas at high price points in the rapidly growing specialty tea category. We are able to pay the Fair Trade premium because of the high price points at which our products are sold in the export markets. Consumers will pay a higher price for Fair Trade Certified products. Therefore, not only do we add economic value to tea through branding and packaging, but we also create additional value for farmers through the generation of Fair Trade premiums. Moreover, because Fair Trade standards regulate production methods, factories certified by Fair Trade tend to produce high-quality teas, and therefore realize higher than average prices in the auction markets.

We also created a social programme called “Redefining the Heart of Tea”, which distributed 500 solar-powered Lifeline radios to tea farmers in our sourcing region. The radios are part of a programme that will provide education to the tea-farming community on subjects ranging from market prices, to credit mobilization, to HIV/AIDS.

**Experience creating linkages**

Linkages that facilitate trade are essentially based on creating networks. With Highland Tea Co., the two linkages that have been beneficial to us are: cross-border linkages and distribution linkages.
Cross-border linkages – Sourcing

Because we are members of the small-scale tea-farming community, Highland Tea Co. has a relationship with farmers in our production region. Sourcing from a specific region enables us to:

• contribute directly to a particular community of small-scale tea farmers;
• create brand value by promoting origin marks, such that Kenyan teas will also be differentiated by the regions they are from.

Highland Tea Co.’s presence in both Kenya and the United States has made it relatively simple to deal with exporting the teas to the United States from Kenya.

Distribution linkages – Scaling

When I first introduced Highland Tea Co. products into the marketplace, I did not have a Kenyan precedent before me, and therefore had to build our distribution network from the ground up. Our initial placement in retail outlets was a result of “door-to-door” presentations to specialty food stores, such as Zabar’s and Fairway Markets, in Manhattan.

In order to achieve scale, we needed regional or national distributors who could place our products in supermarket chains. The challenge was to prove to distributors that our teas would sell once placed on supermarket shelves and that we had a supply-chain strategy in place.

Trade shows have been and continue to be an essential platform to network with distributors in the United States. We created linkages with all of our distributors and brokers by networking at specialty food trade shows. We recently expanded our distribution pipeline to 2,000 retail stores through trade show participation.

Sponsored by the East and Central Africa Trade Hub of the United States Agency for International Development (USAID), Highland Tea Co. participated in the Africa Fast Track Trade (AFTT) programme, which was created by the International Executive Service Corps to promote the export success of eligible sub-Saharan countries under the US African Growth and Opportunity Act (AGOA). Between 2005 and 2007, the AFTT programme enabled Highland Tea Co. to participate in trade shows for the specialty food trade in the United States. Through these trade shows we were able to:

• introduce our products to the trade – brokers, distributors, retailers and consumers;
• have pre-arranged product presentation meetings with distributors;
• network with other manufacturers and raw materials suppliers.

The Kenyan Ministry of Foreign Affairs has also begun to undertake the sponsorship of companies that are export-ready in international trade missions. Kenyan embassies and commercial attachés are also focusing
more on identifying marketing opportunities for export-ready firms and facilitating networking with potential buyers.

The ability to continue expanding our market presence is owing to the fact that I have been located in the United States – thereby highlighting the importance of the presence of the diaspora entrepreneur as a point of contact for cross-border trade. In this case, having a diaspora presence has enabled Highland Tea Co. to:

- network and follow up with potential buyers and distributors after networks have been established directly or through trade shows and create distribution deals;
- identify manufacturers and undertake production in the United States (which was a more cost-effective option because we were manufacturing in small quantities as we built our market base);
- communicate with consumers – directly and through the media;
- create market demand and maintain demand and market share.

We are now in the process of moving our manufacturing to Kenya and are able to do so because we have expanded our distribution channels and can now take advantage of the economies of scale in shipping larger volumes to the United States. Transferring our manufacturing to Kenya will create more opportunities for employment generation and the utilization of tea-manufacturing/packaging capacity.

**Skills and knowledge transfer**

Creating the Highland Tea Company brand required an understanding of consumer requirements in the United States. I was able to carry out research with buyers and consumers, and being a consumer myself served me in creating a product that was suitable for the specialty tea market and could therefore sell at high retail price points. In particular, I had to pay attention to packaging, quality and the positioning of our teas as being uniquely Kenyan. This is particularly important because we have observed companies with products that sell in their home country coming to trade shows and not generating any interest because the quality of their product does not meet the standards of consumers and retailers. Many local trade workshops provide some level of advice on packaging, pricing and product placement. However, most advisers have not been through the process of actually developing consumer products, which is a very important element. By introducing higher-quality standards in local production, the diaspora entrepreneur adds value to the products that are being produced locally.

Furthermore, diaspora entrepreneurs are able to observe consumer trends, for example the move towards organic production and Fair Trade
certification. In our case, we lobbied for the Fair Trade certification of the Kanyenya-ini tea factory, where teas from our farm are processed, and our family-owned Karurumo farm is currently undergoing a transition to organic certification. As mentioned earlier, Fair Trade certification also increases the quality of teas produced and, because of the higher prices being realized by Kanyenya-ini tea factory (which is already Fair Trade Certified), other smallholder factories are submitting requests to KTDA for Fair Trade certification. We anticipate that organic certification will also be employed by other farmers.

Facilitating trade

In order to produce the social investment that would create a significant difference for tea-farming communities, it became evident that we would have to sell sizeable volumes of Fair Trade Certified tea. In addition, tea farmers stated that they wanted to increase the amount of tea sold directly from the factories rather than through the auction markets. Therefore, I also embarked on introducing large tea buyers abroad to individual factories. This initiative has been partly successful but has presented several challenges.

Challenges faced

Kenyan regulatory environment

One obstacle to adequately performing the role of market maker is a result of the regulatory environment for tea that exists in Kenya. As mentioned earlier, KTDA has a monopoly on the marketing of teas for small-scale farmers. Currently, private marketing companies cannot work directly with the factories, even though the factories are limited liability companies owned by the farmers. KTDA’s primary market outlet is the auction market and this does not create opportunities where value can be added above the auction prices. Yet private companies that are not competing with the auction sales must still process their transactions with KTDA and not directly with the factories.

There is thus a need to further liberalize the Kenyan tea industry by amending the Tea Act such that the tea sector functions as a liberalized sector and encourages competition in the marketing of Kenyan teas. Diaspora entrepreneurs can create market opportunities but there must be structures that enable their fair compensation. When there are monopolies in home countries, the ability to capitalize on market opportunities abroad is stunted.
Access to capital in the United States

One of my biggest challenges as a diaspora entrepreneur has been accessing capital. Highland Tea Co. has been funded by its owners and this has placed constraints on our growth, particularly in the areas of hiring full-time employees and marketing and advertising.

Maintaining a distribution network can also be expensive. Once products are on the shelves of supermarkets, it is the norm to pay slotting fees for shelf space and also to provide promotional discounts and incentives, and in some cases carry out in-store product demonstrations. Many US-owned start-ups can gain access to grants or Small Business Administration (SBA) loans to fund these expenses; however many diaspora-owned companies do not have the same access because they are not US-owned businesses.

Citizenship

I found that not being a US citizen also placed constraints on the programmes that we could participate in. For instance, certified minority-owned and woman-owned businesses are exempt from paying slotting fees and are given special consideration in getting distribution through large retail chains. However, even though I am a woman and, as an African, I also qualify as a minority, I was not able to participate in such programmes. If I were able to qualify as a woman-owned business, it would equalize the playing field for diaspora entrepreneurs who are not US citizens.

Existing initiatives supporting diaspora entrepreneurs

The Kenyan government, particularly through the Ministry of Foreign Affairs, has recently begun to engage in initiatives and to create structures that will support diaspora entrepreneurs. These include:
1. Introducing diaspora entrepreneurs to potential US trading partners, utilizing networks developed by the Kenyan embassy and commercial attachés.
2. The development of a diaspora database that catalogues Kenyans living in the United States. Several regional diaspora database initiatives have been developed by Kenyan professional associations. Through the Kenyan Mission to the United Nations, the Ministry of Foreign Affairs is working with these regional associations to consolidate their databases and create one that has national representation and would be accessible to the public.
3. Sponsoring the participation of local companies that are export-ready
in trade missions. In this case, there are opportunities to also target diaspora entrepreneurs in the host countries, to enable networking that is essential for the formation of cross-border linkages. Trade assistance programmes through organizations such as USAID provide workshops to educate local companies on how to export products, and they typically focus on:

- marketing strategies (price, placement and promotion);
- the logistics of working with distributors and retailers;
- US trade regulations (AGOA incentives, the Food and Drug Administration, bio-terrorism regulations, product classification coding, etc.);
- the export process (shipping, customs clearance, etc.).

Policy recommendations

*The formation of local and diaspora databases*

The formation of centralized and publicly accessible databases of diaspora professionals and a parallel and comprehensive database of local companies is important to facilitate cross-border linkages and enable diaspora entrepreneurs to network with local companies that can supply products for export. Such an initiative could be spearheaded by government ministries, for example the Ministry of Foreign Affairs. Alternatively, private professional associations such as the Kenya Association of Manufacturers could develop databases. The development of such databases could facilitate:

- networking between the diaspora members and entrepreneurs in home countries;
- the creation of entrepreneur and trade associations;
- the identification of diaspora networks with access to investment capital;
- lobbying for bilateral trade incentives that reduce barriers to entry for products being exported from home countries;
- export-ready firms in home countries to identify diaspora entrepreneurs;
- mentoring, knowledge transfer and networking;
- access to capital.

*Access to capital and credit facilities*

Through embassies and consular offices, governments should make SBA-type facilities and services available to their diaspora entrepreneurs. Such services and funds could be used to:
• develop business plans that will be used to raise operating capital for start-ups;
• provide funds for creating the visibility of products and services via marketing and PR;
• provide a networking forum for entrepreneurs to engage with angel funds and private equity firms that can provide start-up capital in the United States.

Trade assistance to diaspora entrepreneurs

Trade assistance programmes typically do not target diaspora entrepreneurs. For instance, operating from regional hub offices, USAID-sponsored initiatives assist local export-ready companies that can benefit from AGOA. Government initiatives through local ministries also target local export-ready firms that are based in home countries.

Initiatives that engage diaspora entrepreneurs might involve:
1. Including diaspora entrepreneurs in trade missions. For example, if a trade mission of local companies to the United States is organized, diaspora entrepreneurs should also be invited.
2. Creating sector- and industry-specific marketing initiatives within the trade and commercial divisions of embassies; for example, launching a marketing programme for Kenyan tea and coffee that would create consumer awareness and incentivize and support the efforts of diaspora entrepreneurs. For instance, Kenya could launch a campaign similar to the “Juan Valdez” coffee campaign that raised the profile of Colombian coffee in the United States. Diaspora entrepreneurs would create products to capitalize on such initiatives, which should be carried out with diaspora members who understand consumer tastes abroad.

Government-sponsored business plan competitions

Business plan competitions would be tailored to encourage sustainable enterprises that have economic, social and environmental impacts that promote rural development and are sector specific. Such competitions could be structured such that:
• business plans are evaluated on their ability to promote certain Millennium Development Goals by having an impact on special groups, such as women and children;
• fund disbursement is contingent on the formation of partnerships between local entrepreneurs and members of the diaspora, to encourage external trade;
• funding for business plan competitions is co-sponsored by local microfinance organizations and private companies.
Liberalization and deregulation of industries with exportable products

In industries with competitive and comparable advantages, liberalization and deregulation would promote competition and spur entrepreneurial interest. For example, the liberalization of marketing for the Kenyan tea industry would result in the emergence of new players selling Kenyan tea to buyers abroad.

Conclusion

Entrepreneurs within the diaspora can indeed promote economic and social development in their home country, and should therefore be incentivized and encouraged to do so. A physical presence and an understanding of international markets and consumers make them uniquely able to identify market needs and opportunities in countries abroad. Export markets usually add value to commodities or products manufactured in home countries and, with the growing diasporic population, it makes sense to use these market agents to create international trade linkages.

There is a need for centralized structures to be put in place that can attract entrepreneurs in the diaspora – embassies and consular offices are ideal for such tasks. For governments, diaspora entrepreneurs who trade in goods and services produced in the home country should be seen as partners who can participate in poverty alleviation initiatives that could affect entire industries and communities.

REFERENCE

12

ChileGlobal: A talent network for innovation

Molly Pollack

Introduction

Migrants have played an important role in the acceleration of technological change, business development and investment in many countries. Emerging in different ways and for diverse reasons, they have constituted diaspora networks in nation-states such as India, Taiwan Province of China, Ireland, Israel and China, among others. Their impact in most cases has resulted in a technological push, which in turn has helped further the development of their countries. At times when their nations were considered vulnerable, some of these highly skilled migrants have turned out to be pioneer investors as well as facilitators of foreign investment attraction. Additionally, they have constituted bridges between resident and home countries for market connections, technological transfer, coaching of local business and internationalization of local firms.

Studies on “brain drain” and “brain circulation” suggest that it is often unnecessary for successful expatriates to fully return to their country of origin to help their nation’s economic development. However, for this to take place, incentives to facilitate their links with projects, business and other initiatives should be offered. In this context, talent attraction strategies are being undertaken by many countries (World Bank Institute 2007).

Latin America, and Chile in particular, is no exception. Consequently, this chapter looks at the experience of developing a diaspora-based
network as an explicit economic intervention and deals with its development process to date.

The Chilean economy already fulfils basic conditions to enhance innovation. Macroeconomic performance has been strong, legislation on foreign direct investment is relatively investment friendly, and product market regulations are sufficiently pro-competition. However, Chile’s innovation performance is still considered low by the standards of the Organisation for Economic Co-operation and Development, even when compared with countries with similar income levels.

Following other network experiences and encouraged by the World Bank Institute’s Knowledge for Development programme, Chile started a connection among successful Chilean entrepreneurs and executives living and working in foreign countries, with an interest in contributing to Chile’s economic development. The network, called ChileGlobal, was started in 2005. It is run by a Technical Secretariat coordinated by Fundación Chile, a private non-profit institution that has played a significant role in Chile’s technological development. Successful in its endeavours, the network is currently considered a national public interest project financed by Chilean public funds.

With a flexible and participative operational model, ChileGlobal members have actively participated in the choice of the network’s objectives, focus areas and main activities. These have been determined considering member expertise, interests, willingness and commitment.

In 2008, after three years of operation, ChileGlobal showed tangible and positive outcomes. Its targets were consistent with government priorities to boost Chile’s growth potential through innovation. Nonetheless, it currently faces important challenges to be sustainable.

This chapter focuses on the Chilean experience of creating a talent diaspora network. It explores the developmental effects of the mobility of highly skilled entrepreneurs and executives by examining how Chilean expatriates influence economic development in their country of origin both directly, by transferring technology and know-how, as well as indirectly, by influencing public policies and other aspects of the institutional innovation system.

**ChileGlobal: A favourable context**

ChileGlobal’s successful foundation is explained by a convergence of factors in a national and international context. Despite Chile’s positive macroeconomic conditions, it had a clearly identifiable vulnerability in terms of innovation and education, which made it important to search for
creative solutions to further development. The availability and interest of a highly qualified business diaspora, and the successful experience of other countries’ networks, led to the creation of ChileGlobal as a tool to facilitate the incorporation of Chile into the knowledge economy. Finally, interest in hosting this initiative by a leading innovation institution set the framework for a promising start-up.

The Chilean economy

As one of the more successful economies of the Latin American region during 1990 to 2004 (Solimano and Pollack 2004), Chile made significant progress in shifting to a regime of low inflation, a fiscal rule of structural surplus, avoiding fiscal pressures, and public external debt reduction. In the last two decades, Chile accelerated its average rate of economic growth to close to 6 per cent per year (roughly double its historical standard) and reached a per capita income of approximately US$10,000 (in purchasing power parity) (Solimano and Pollack 2004). The Chilean economy is considered successful in terms of its macroeconomic management. Nevertheless, it still faces challenges to support its long-term economic growth on two accounts: (a) ensuring a steady pace of productive growth and technological innovation and (b) having a world-class, qualified human resource base.

According to the World Economic Forum Global Competitiveness Index, Chile is doing well in many aspects when compared with the other 130 countries considered in the study. Chile is ranked number 12 and number 14 in macroeconomic stability and labour market efficiency, respectively. Regarding infrastructure, institutional development and its financial market, Chile ranks between 26 and 31. However, Chile is not doing so well in education and innovation, where it ranks between 42 and 70 (Figure 12.1).

The Chilean diaspora

According to the first Register of Chileans Living Abroad elaborated by Chile’s National Statistics Institute (Instituto Nacional de Estadísticas, INE), more than 800,000 Chilean citizens live overseas. The major outflow was registered during the years 1973–1989, when people left mostly for economic and political reasons to go to the United States, Canada, Argentina, Sweden and Spain (DICOEX and INE 2005).

Highly qualified Chilean professionals migrated from Chile for several reasons: international differences in earnings and development gaps, political reasons and non-pecuniary attractions for professionals from the
sciences and the research world. These factors are particularly relevant for talent engaged in productive activities, such as entrepreneurs, engineers, technical experts, scientists and other professionals. These migrants speak more than one language, resulting in an easier adjustment to their host country and culture. Also, Chilean immigrants are characterized by a high average level of education, usually higher than their host country’s average. An example of this is the average educational level of Chileans residing in North America, which is higher than that of their homologous US or Canadian citizens (see Figure 12.2; DICOEX and INE 2005).

Consequently, there is a Chilean talent elite composed of people who have studied abroad, belong to professional and alumni networks of prestigious universities, and have developed a broad net of contacts with well-placed individuals around the world. These elite members usually move in the national and international circles of academia, business and

Figure 12.1 Global competitiveness indicators for Chile.
Note: Each bar shows Chile’s rank out of 131 countries/economies analysed.
public policy. In the business sector, this group is composed of executives and professionals of multinational corporations and international organizations.

Therefore, among the assets that Chile can mobilize to support national development is a stock of highly skilled Chileans living and working abroad. If they were organized, they could certainly make a significant contribution to their home country as investors, promoters of technology transfer and providers of international support for local firms and entrepreneurs (Solimano and Pollack 2004).

**The host organization**

The institutional choice of Fundación Chile was based on its recognized international experience in technology transfer and innovation. Fundación Chile is a privately owned, non-profit institution, created in 1976 by the government of Chile and the ITT Corporation of the United States, with BHP Billiton (Minera Escondida) becoming a co-founding partner in 2005. Its mission is to introduce innovations and to develop human capital in the Chilean economy’s key clusters through technology management in alliance with local and global knowledge networks.

Network management plays an important part in Fundación Chile’s model, resulting in working relationships with governmental agencies, private sector associations and academic organizations. These characteristics were crucial to enabling the creation and development of the Chile-Global talent network.
ChileGlobal: Mobilizing the Chilean diaspora

ChileGlobal was promoted by the World Bank Institute’s Knowledge for Development programme, an initiative that endorses the creation of expatriate networks. This model seeks to stimulate the participation of emigrants in the development of their country of origin, mitigating the negative effects produced by a country’s brain drain and turning it into “brain circulation” or “brain exchange”.

ChileGlobal was created as an international network of successful Chilean business owners and high-level executives (or those with an affinity to Chile), living and working abroad, with an interest in contributing and sharing in Chile’s economic development. ChileGlobal started as an informal network under a flexible and participative operations model. The original plan was to build an active network of prospective members taking into account their objectives, expectations and commitments.

Up to 2009, ChileGlobal had evolved through four phases: (1) pilot project, (2) expansion and strategic activities, (3) establishment of focus areas and activities, and (4) development and consolidation (see Figure 12.3). These stages were the result of many discussions among members. Their interests, expertise and willingness to contribute have shaped each phase.

In January 2005, the Chilean project started as a six-month pilot programme aiming to involve 6–8 successful Chilean entrepreneurs living in the United States and Canada. The interest and enthusiasm of the entrepreneurs were so strong that, after six months, a total of 30 members were already registered. The acceptance rate for ChileGlobal invitations was close to 100 per cent, a much higher percentage than originally anticipated.

At this stage a tentative operational model was formulated. With this purpose, a number of key persons in the innovation world were consulted. Several brainstorming sessions were organized and a public–private Advisory Committee was formed.

During this period the project was financed by the Chilean National Commission for Scientific and Technological Research (Comisión Nacional de Investigación Científica y Tecnológica, CONICYT) through its World Bank-funded Bicentennial Programme for Science and Technology (Programa Bicentenario de Ciencia y Tecnología, PBCT). After the six months originally considered, the evaluation concluded that the network should continue growing and should be given support to consolidate. Thus, CONICYT fully supported the network until the end of 2007, coinciding with the completion of phase 3. Upon conclusion of the third phase, ChileGlobal received funds from the Chilean Economic Development Agency (Corporación de Fomento de la Producción, CORFO) through
Figure 12.3 Phases of ChileGlobal’s development.
InnovaChile, its innovation promotion agency, a stage that was planned to last until mid-2009.

Initially, the process of identifying potential members of the network was complicated and slow. This was owing to the absence of a database of Chileans living abroad. Identification started through informal contacts with friends, academics and a few entrepreneurs already working with Chilean counterparts. The positive reaction of most of them helps explain the successful start of the project.

Prospective members are considered according to a defined profile. They must be influential people, recognized by their sector, active and resident abroad, motivated and able to participate. Once registered, members receive information about the network, while they provide their profile, interests and expertise. Members are then invited to information and working meetings where their concerns and interests are discussed. At present the network has 100 registered members, concentrated in certain areas of expertise such as information and communication technologies (ICT) and finance (Figure 12.4).

Continuing with the network’s further development, and in response to members’ expectations, ChileGlobal implemented a new project phase for national partners – entrepreneurs and experts residing in Chile who will initiate a new mechanism of interaction with members abroad. Collaborators in the national network will have an opportunity to increase the prospects for their businesses and facilitate technology transfer through the contact network.
Consequently, the key ingredient for an active network is the role played by the Technical Secretariat. This coordinating unit acts as a brokering service to facilitate connections and results. Given previous unsuccessful network development experiences at home and the low level of confidence at the project’s inception, it was no easy task responding to members’ expectations. Once trust increased, the challenge was to gather and package the results as success stories to stimulate further demand. This process has proved to be essential to sustain members’ interest and involvement.

Ultimately, to achieve network success and sustainability it is crucial to engender ownership among members and beneficiaries. As the network evolves, the host institution, in this case Fundación Chile, should avoid a strong presence or intervention level. The organization needs to pledge the investment and infrastructure to establish the model but must not be perceived as the network proprietor.

The development impact of ChileGlobal

The development effects of the international mobility of talent have been widely examined in the literature. One direct impact is a reduction in the stock of human capital and output in the source country and a corresponding increase in the receiving country. Additionally, a loss of welfare for the remaining population in the home country may occur because of externalities resulting from a loss of scarce skills.

The outflow of talent can hold back economic development in sending nations by adversely affecting the development of local science and knowledge, thereby affecting productivity, comparative advantages and growth. In turn, the receiving countries can benefit from increased knowledge gained from the immigration of talent, creating a virtuous circle in which foreign talent combines with domestic talent and capital, strengthening the overall human capital base in the host country.

In the case of Chile, ChileGlobal plays a role in facilitating connections between those who have emigrated from the country, who are characterized by entrepreneurial capacities and a favourable attitude towards risk-taking, and their home country. These links are starting to materialize in contributions to business creation, resource mobilization and innovation – all factors that support rapid economic growth. Members engage in business creation, internship programmes and support for public policies on innovation, among other activities. These factors should have an impact on output growth in sectors where they are contributing, although it is hard to measure yet.
At present, ChileGlobal is concentrated on three areas of action: human capital development, support for public policies on innovation, and business development. Network members regard improvements in these areas to be a necessity to generate and promote conditions that facilitate business and innovative projects at home. All three lines of action are considered to have a significant impact on reducing the two main weaknesses faced by the Chilean economy in order to be able to continue growing at the high rates of the last decade: education and innovation.

*Developing action areas via public–private partnerships*

Through its network operations, ChileGlobal’s Technical Secretariat is responsible for mobilizing and matching members with Chilean counterparts (in the academic, private and public sectors), thereby acting as a broker bringing together supply and demand. Given its limited resources, the Technical Secretariat works via public–private partnerships (PPP) to carry out each programme successfully. Every venture, transaction or internship might have taken place on its own; however, the work carried out by the Technical Secretariat accelerates bureaucratic processes, links organizations with people and resources that might not have come together otherwise, and acts as a trigger for new ideas and relationships.

The PPP is a procurement method, and as such it involves the use of public and/or private sector capital to fund an asset or service that delivers outcomes for both the government agency and the individual or company engaged in the partnership. These partnerships enable the public sector to focus on delivering its core service or capability, while the private sector partner is responsible for supplying the supporting infrastructure, know-how and services. As previously mentioned, because of ChileGlobal’s basic Technical Secretariat infrastructure, initiatives are generated by means of connecting available resources with other agents (see Figure 12.5).

**ProChile**

A clear example is ChileGlobal’s agreement with ProChile (the export promotion agency of the Ministry of Foreign Affairs), by which its geographical nodes were developed and its operations expanded. Through this partnership, ProChile’s commercial offices around the world give ChileGlobal assistance in identifying potential network members. At the same time, ChileGlobal helps ProChile to enhance its mission by sharing members’ knowledge, experience and contacts. Selected members are invited to participate in technological missions and meetings with local entrepreneurs and governmental authorities in order to exchange experiences that contribute to Chile’s technological innovation.
National Commission for Scientific and Technological Research

With regard to financial support for the Technical Secretariat, this was provided initially by CONICYT, which currently supports ChileGlobal’s internship programme, initiated in January 2007. As in the case of ProChile, ChileGlobal works jointly with CONICYT to respond to some of the organization’s particular needs. This support is provided by ChileGlobal members acting as external project evaluators of the national technology consortium competition and as strategic advisers with regard to innovation policy.

The Chilean Economic Development Agency

CORFO has also been a strategic partner of ChileGlobal since its creation. CORFO has actively participated in members’ activities, seminars and workshops and has included members as advisers to agency mission trips, utilizing them as sounding boards for market trends, new projects and new contacts. Similarly to initiatives with CONICYT, members assist in the evaluation of information and communication technology projects. Consequently, given its public interest work, ChileGlobal’s financial support is provided by this institution as of January 2007.

Office for the Chilean Community Abroad

The Office for the Chilean Community Abroad (Dirección para la Comunidad de Chilenos en el Exterior, DICOEX), which is part of the Chilean Ministry of Foreign Affairs, constitutes another relevant partner.
DICOEX’s mandate is to consolidate a permanent connection with all Chilean expatriates around the world. Its network of consulates and government public services collaborates with ChileGlobal on activities that support the objectives of both institutions. DICOEX coordinates visas for the ChileGlobal internship programme, helps to identify and organize expert group events where ChileGlobal members participate as panellists and key speakers on issues related to their expertise, and supports the process of identifying local and international entrepreneurs for the ChileGlobal mentoring programme (see below for more details).

**Human capital development**

Chile still faces serious problems with regard to innovation and education (World Economic Forum 2007). ChileGlobal members consider improvement in these factors to be crucial to advancing the country’s development. They have therefore initiated targeted activities to increase and improve highly skilled human capital in Chile.

Among the initiatives, two should be highlighted: (a) facilitating and organizing internships for young Chileans in members’ enterprises, (b) mentoring Chilean entrepreneurs in new sectors. Additionally, members participate in expert meetings in Chile and other countries and give lectures at Chilean universities.

**Internship programme**

ChileGlobal members offer internships in laboratories or companies related to their organizations. The objective is to support and foster technological development and innovation that will strengthen and/or create new abilities in Chile’s human resources by promoting strong university–company ties and through management training and the adoption of specific technologies. Internships are available for a period of between three months and one year for students in their final year and for MSc and PhD candidates – either Chilean or residents of Chile – specializing in scientific or technological areas. Like the public–private partnerships, the internship programme was jointly developed with company matching funds from CONICYT and the collaboration of DICOEX in the visa process. In the programme’s first year of operation, seven recipients of these fellowships undertook internships in two US companies: Royal Consumer Information Products and Computer Associates Labs. This initiative is ongoing and in the process of consolidation and scaling-up. In fact, other members have already offered internship opportunities in their companies.

At this stage of the network’s development, the overall impact is still difficult to measure. However, concrete results in improving human
capital are clearly having positive effects on productivity. Furthermore, these interns are learning about different entrepreneurial cultures, so they will bring knowledge not only of new technologies but also of the latest managerial approaches, such as social responsibility, tolerance and meritocracy, all factors that need to be incorporated into the Chilean culture if the country is to be competitive in a global world. The latest approaches to entrepreneurial culture have not been incorporated into the Chilean entrepreneurial world yet, and this constitutes an obstacle to innovation and development. In this regard, ChileGlobal is facilitating openness to new ideas in the companies where these interns work on their return to the country.

*Mentoring programme*

Within the mentoring programme, members offer time, experience, contacts, knowledge and skills to help internationalize Chilean companies. The mission of this programme is to increase the exposure of Chilean businesses and entrepreneurs to international business ideas and knowledge and to help those with the potential to grow to choose the most appropriate domestic and international opportunities. Mentorships are available to emerging companies in key sectors of the Chilean economy.

The type of company assistance provided by ChileGlobal members includes: contacts and introductions, strategic advice, advice on technology patenting, acting as technology brokers in negotiations, market entry guidance, business start-up assistance, and help with product development. Supported by DICOEX, ProChile and CORFO, this initiative seeks to match emerging companies working with these agencies and to link them to the most suitable ChileGlobal advisers. In addition, companies seek the support of ChileGlobal members as a result of diffusion activities and/or word of mouth.

*Innovation and public policies*

A third line of action is related to the role of selected members as active participants in policy formulation and projects related to innovation. ChileGlobal members provide key information and strategic advice to government agencies whose main theme is innovation. This may include but is not limited to international business trends and market analysis, providing valuable input to the development of competitive strategies and new public policy approaches.

Among activities in this area, members act as international evaluators for scientific projects presented to government agencies. An example of this is ChileGlobal’s work on project evaluation for special scientific and technological contests. In the case of InnovaChile CORFO, the competi-
tion seeks to support the modernization of Chile’s economic sector through the innovative use of information and communication technologies. Six members of ChileGlobal based in the United States and Canada acted as international experts in a peer review process, evaluating projects remotely or at CORFO’s headquarters in Santiago. Although many projects were presented, only two were approved, in the amount of US$4.7 million. Thus, ChileGlobal members assisted in the transparent allocation of resources while adding a market and technological outlook on the projects approved.

**Business development**

ChileGlobal is a network of business owners, but developing and carrying out successful business transactions involves a major time commitment and a high degree of trust. ChileGlobal’s Technical Secretariat generates numerous business contacts on a daily basis, linking members to counterparts in Chile and vice versa. Confidentiality is always a key issue, thus monitoring these transactions becomes a challenge. Nonetheless, ChileGlobal can take the credit for success stories that include foreign direct investment, technology transfer, human capital development and the support of public subsidies. The cases of Synopsys and Phytomedics illustrate this example.

**Synopsys, Inc.**

Synopsys, Inc. is a world leader in delivering semiconductor design software, intellectual property, design for manufacturing solutions and professional services that companies use to design systems-on-chips and electronic systems. The company’s products enable semiconductor, computer, communications, consumer electronics and other companies that develop electronic products to improve their performance, increase productivity and achieve consistent success from systems to silicon.

After years of expansion, the company had reached annual sales of US$991.9 million (FY 2005) and had 4,852 employees, with various software development centres around the world. It needed to choose whether to expand an existing development centre or to create a new one. Raúl Camposano, Senior Vice President and Chief Technology Officer of Synopsys and member of ChileGlobal, helped push for the decision to set up a centre in Santiago, Chile, with a direct investment of US$5 million. Feasibility studies were conducted by Fundación Chile that later helped this company to obtain Chilean government incentives. Furthermore, to create the highly skilled human capital necessary for this centre, a Synopsys programming course was offered to engineering students at the Universidad de Chile in order for them to later opt for a Synopsys position at the
Santiago development centre. By creating a public–private partnership, new highly skilled jobs were created and fresh capital was invested in the country.

**Phytomedics Chile**

 Triggered by the partnership of two ChileGlobal members, the formation of a technology innovation consortium – constituted by Phytomedics Inc., InterLink Biotechnologies, Fundación Chile, Rutgers University and the University of Illinois – was approved by InnovaChile CORFO in 2008. Its objective is to develop and commercialize natural products derived from Chilean plants with nutraceutical and botanical drug applications. This international consortium created Phytomedics Chile, a company that seeks to establish international alliances for the commercialization of unique high-value-added products.

In order to guarantee scientific security and effectiveness, the company took on the pre-clinical development of selected products for a three-year period with the support of its partners and 50 per cent CORFO co-financing (US$1.5 million in investment). This development scheme and proprietary commercialization, including the transfer of advanced technologies, has been applied to other materials with innovative potential, promoting healthy lifestyles, economic development and the sustainability of the resources utilized. This partnership and link at a national level, with the scientific, technological and managerial capabilities abroad, is key to the success of the project.

**Pilot programme: Angel Investment Network**

Still in line with business development, the particular interest of ChileGlobal members in project investment, together with the current Chilean government incentives, led to the creation of a new pilot programme – an Angel Investment Network with a small group of members.

Angel investors are people who have resources and seek to invest in emerging companies in exchange for a shareholding position within the business. They are usually risk takers, and also look to obtain other benefits besides money (prestige, feeling part of the development of a new wealth-creation activity, etc.), though always with a clear return on investment. Their contributions include financing, business experience and contacts (smart money).

This new programme set up an investment fund for innovative companies with high growth potential. A group was formally assembled with 10 active members who promised to invest on average in five companies for a six-year period. The amounts ranged from US$100,000 to US$250,000 per case. CORFO co-financed this fund by 70 per cent, with the remaining 30 per cent contributed by ChileGlobal members.
Early lessons and future challenges

After five years of operation, important lessons can be learned from this network experience and from knowledge about other similar networks.

It is imperative to recognize that developing countries are exporting talent and that part of their most qualified stock of human wealth is beyond their nation's borders. Furthermore, in a global world this trend will surely continue to grow. Members of diaspora communities may generate important benefits even if they do not return home. They do not need to be investors to make a significant impact in their home country. They actually constitute a sort of bridge between their home and their host country, playing significant roles by providing access to markets, attracting investments and sharing their contacts, expertise and knowledge. Additionally, they can have a key function in helping to formulate innovation strategies, put pioneering themes on the public agenda and give support to new projects and ideas. These facts should lead most countries to design explicit policies to attract talent and make use of their capabilities with the aim of accelerating economic development.

One lesson learned from this experience is the urgent need to have better statistical information on the number of qualified people and the direction of their mobility. The lack of detailed information on the magnitude and characteristics of highly qualified migrants living abroad represented a serious obstacle at the beginning of this project. This limitation is a constraint to the formulation and implementation of policies and programmes to reach this target group in an efficient way. This limitation is applicable to most Latin American countries. Accordingly, they could address this issue in an integrated way as a regional project.

A second lesson is the importance of considering from the beginning of the network how it is going to be sustainable in the long run. The early Chilean experience with mobilizing its business diaspora is encouraging because of the enthusiastic reaction of prospective members and the tangible results observed to date. In its short life, ChileGlobal has already mobilized a number of highly qualified Chilean citizens living abroad, helped create some ventures in Chile involving expatriate business, and launched several examples of good practices. However, it remains to be seen if the sustainability of this effort and its capacity to scale up these initiatives run smoothly. There is optimism in this regard given the results to date and the interest shown by relevant government institutions, including ministries, and by private sector associations.

A third lesson derived from this experience is the great importance of starting a network of talents based on quality and not on quantity, as most networks are usually organized. This choice has proved to be a sound decision, given the need to focus energy and resources on the
development of a small high-quality network that has a high impact. Partnerships with public and private institutions from the innovation world are one of the key factors explaining ChileGlobal’s success. Previous Chilean experiences with migrant networks failed, and one of the main explanations is the diversity of members. With differing profiles and interests, it was a complex process to achieve concrete results. The building of a local network as a counterpart of the international network, initiated during the fourth phase, has had effects on local firms interested in internationalizing.

It is important to point out that ChileGlobal members represent a varying target. Their interests, availability and willingness to contribute are dynamic and may shift over time. This factor has to be considered in order to be able to adjust goals and activities accordingly.

Among the most important challenges for the future are to increase the degree of high-level political support within Chile and to ensure a quick response at home to the expatriate business diaspora’s interests. Unlike the case of GlobalScot and other networks, there is still no effort in Chile to target the immigration of foreign talent and to revise its immigration system to facilitate the entry of people with high education levels and special skills.

One of the difficulties encountered by this network is the follow-up and evaluation of members’ activities. For example, once contacts are made, members are reluctant to communicate their particular results. It is very hard to measure the impact of this project, and defining a methodology remains a great challenge. Hence, the need to seriously promote successful experiences should be highlighted. The diffusion of these experiences is fundamental to increasing new member awareness and to promoting demonstration effects.

Ultimately, a necessary condition for a successful network is the existence of a committed and capable team of professionals who can run the network in an efficient and reliable way. It is therefore crucial to ensure long-term financial support, a situation that currently remains to be solved by the Technical Secretariat.

As a conclusion, it can be stated that, in spite of the difficulties of measuring ChileGlobal’s impact on development at this stage of the initiative, it has to be recognized that the network is having a significant effect on development. This impact is not only a consequence of direct activities (internships, investments, mentoring and support for public policies on innovation), but also the result of the innovative operational mode implemented. The public–private partnership has proved to be efficient and it is one of the main reasons for the high acceptance level the project has encountered among potential members. The commitment of Chileans living abroad has been fundamental to the ability to make use
of their expertise and managerial knowledge. Thanks to their interest and commitment, several success stories can be presented and ChileGlobal is now recognized as a reliable, prestigious and serious project.

Notes

1. Chile was chosen by the World Bank to build a (pilot) network of highly qualified Chilean entrepreneurs and executives living in the United States and Canada because of its good economic performance and the fact of having a reasonably effective public sector. Also, the network is envisaged as contributing to Chilean development.
2. As mentioned, in 2005 the Chilean Ministry of Foreign Affairs and the National Institute of Statistics published a survey of Chileans abroad. However, this survey is more useful for statistical analysis than for contacting individuals.

REFERENCES

DICOEX [Dirección para la Comunidad de Chilenos en el Exterior] and INE [Instituto Nacional de Estadísticas] (2005) Chilenos en el exterior: Donde viven, cuántos son y qué hacen los chilenos en el exterior. Santiago, Chile: DICOEX and INE.
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
<table>
<thead>
<tr>
<th>Government role</th>
<th>Key diaspora challenges</th>
<th>Government activities</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nurturing &amp; embedding</strong></td>
<td>Lack of information about market and operational norms in country of origin</td>
<td>Conducting syndicated industry, consumer and organizational market research</td>
<td>Investment promotion agency activities, such as those of the Afghan Investment Support Agency, PRONicaragua, Ghana Investment Promotion Centre</td>
</tr>
<tr>
<td>Providing information about the business environment</td>
<td>Difficulties navigating red tape in unfamiliar regulatory environment</td>
<td>Disseminating market research and information on the investment process/procedure, one-on-one and via convening events, training seminars, websites and print materials</td>
<td>Convening events for diaspora investors and entrepreneurs, such as those sponsored by Jamaica, Liberia and Tanzania</td>
</tr>
<tr>
<td><strong>Brokering relationships</strong></td>
<td>Difficulties identifying knowledgeable, trustworthy and reliable contacts to assist with human resource management, marketing, market research, legal needs, etc.</td>
<td>Hosting network databases Sponsoring networking events Publishing stories about successful collaborations between local firms and diaspora investors/entrepreneurs</td>
<td>Afghan-American Chamber of Commerce’s Business Matchmaking Conferences India’s Pravasi Bharatiya Divas celebrations GlobalScot’s knowledge network and publications</td>
</tr>
</tbody>
</table>
Cultivating feelings of connectedness

Affecting investment expectations
Concerns about financial, social and emotional returns on investments made in the country of origin
Offering specific incentives for businesses owned and operated by diasporans
Highlighting the non-pecuniary benefits of homeland investment and entrepreneurship, promoting diaspora investment and entrepreneurship as a key to the country-of-origin’s development, emphasizing the important role the diaspora can play in the betterment of their country-of-origin’s economy and society

Intensifying psychological associations with the country of origin
Fears concerning property and other legal rights and protections owing to diaspora status
Lacking a feeling of belongingness or attachment to the country of origin
Extending voting rights to diasporas
Granting non-resident communities representation in national legislatures
Providing special legal status rights for diasporans lacking a passport
Encouraging diaspora organizations to play an advocacy role
Engaging in outreach activities oriented to diaspora youth

China’s and India’s diaspora-specific tax breaks, access to free or cheap land, first priority for location in export-processing zones
Image-building, country-of-origin marketing campaigns executed across promotion channels (print and web advertising, public relations, publicity, etc.) in concert with diaspora organizations
Encouraging diaspora organizations to play a role in the advocacy process, such as in Afghanistan
Establishing polling places in embassies and consulates (e.g. Poland, Ukraine)
Allocating legislative seats for diasporas (e.g. France, Cape Verde)
Granting life-long visas to Persons of Indian Origin (PIOs)
Visits by Center for Exports and Investment of the Dominican Republic to US Dominican organizations
India’s NRI/PIO university
Israel’s heritage community classes in the United States
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 diaporans 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 diaporans 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 another.

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 Symposiaums, 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 mistrustful 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


access to financial services, 44–46
account-to-account remittances, 88–89, 102
ACH. See Federal Reserve Automated Clearing House
ADB. See Asian Development Bank
ADOPEM. See Dominican Association for the Development of Women, Inc.
AFFORD. See African Foundation for Development
Afghan-American Chamber of Commerce, 240–41
Afghan Chamber of Commerce, 243
Afghan Investment Support Agency, 240
Afghanistan
Coca-Cola and, 25, 232
diaspora investment promotion, 240–41
Africa. See also South Africa; West Africa
cultivating feelings of connectedness and belonging, 244
Development Marketplace for African Diaspora in Europe (D-MADE), 166
diaspora entrepreneurship, 147
diaspora equity finance, 151
digital diaspora networks, 153
hometown associations (HTAs), 127
networking and, 163

skills and knowledge transfer, 25
Supporting Entrepreneurs and Enterprise Development in Africa (SEEDA), 130–32
visa policies in, 161
Africa Fast Track Trade (AFTT), 205
African Diaspora Investment Facility, 151
African Diaspora Marketplace competition, 76
African diaspora summit, 163
African Forum for Development in the United Kingdom, 163
African Foundation for Development (AFFORD), 130–32
African Union, 151
AfricaRecruit, 244
AFTT. See Africa Fast Track Trade
AgriMix PLC, 34
Alante Financial, 56, 110
Algeria, 243
altruism, 14, 33, 130, 233
alumni associations, 23
Amazon, 191
Amgen, 191
Angel Investment Network, 226
Apple, 190
Archimedean levers, 177
Argentina
  Chilean diaspora in, 214
  home-country conditions in, 161
ARIAS money transfer software, 51
ARIAS Remittance Settlement Platform, 110
Armenia
  cultivating feelings of connectedness and belonging, 242
  diaspora entrepreneurship, 164
  diaspora equity finance, 151
  diaspora investment, 232
  diversity in diaspora contributions, 158
  home-country conditions in, 161
  investment in high risk home economies, 29
  networking and, 162–63
  switching costs, 177
Armenia SME Investment Fund, 151
ArmenTech (Armenian High-Tech Council of America), 162
Asia
  bond finance, 152
  cost reduction of policies for diaspora development, 117–18
  diversity in diaspora contributions, 158
  fixed-income markets in, 195
  visa policies in, 161
Asian Bond Market Initiative, 152
Asian Development Bank (ADB), 45
  assimilation, 23, 28, 242
Association for Engineers from Latin America, 70
Association for the Promotion of Immigrant Entrepreneurship in Milan (ASIIM), 111
association mania, 22
Association of Filipino Teachers of America, 25, 33
Atikha Foundation, 103–4
ATM-remittance accounts, 101
Banamex, 91, 105
Banamex Aquí, 91
Banco Azteca, 51
Banco de México, 85, 102
Banco de Servicios Financieros (BANSEFI), 102, 104–6, 105f
Banco Hipotecario Dominicano, 106
Bancomer, 105
Bancomer Transfer Services, 107
Banco Popular, 50
BancoSal, 107
Banco Salvadoreño, 107
Banco Solidario, 51
Bangladesh, 21, 43
banked bonuses, 102
Ban Ki-Moon, Secretary-General of the United Nations, 65–66
banks. See also Citibank; micro-finance and remittances
  accelerating financial intermediation projects with, 118–19
  broader financial services, 119
  misperceptions about, 84–85
  partnerships in Nepal, 21
BANSEFI (Banco de Servicios Financieros), 102, 104–6, 105f
Belgian Development Cooperative, 166
Belgium, 166
benchmarking frameworks, 183
Beneficiary Account Registration (BAR), 105
beneficiary banks, 91–92
Bicentennial Programme for Science and Technology (Programa Bicentenario de Ciencia y Tecnología, PBCT), 217
bill payment, 47, 52, 91
Black Africans, 21, 30
Black Caribbeans, 21
Bolivia, 56
bond finance, 151–52, 231
bond markets, corporate, 195
brain circulation, 212
brain drain, 128–29, 134, 212, 217, 237
brain gain, 67, 237
brain waste, 25
Brazil, 149
Bunet Bet coffee shop, 113
business development. See diaspora entrepreneurship
business-oriented diasporans. See entrepreneurial diasporans
business plan competitions, Kenya, 210
business sector strengthening. See diaspora entrepreneurship
Caja Madrid, 50
Calderón Hinojosa, Felipe, 102
Camposano, Raúl, 225
capacity development, 9, 125–41
African Foundation for Development (AFFORD) case study, 130–32
agenda for, 132–38, 133f
diaspora entrepreneurship and, 134–35, 165–66
diaspora/migrant organizations and, 14, 126–28
4Cs of, 128–29, 129f
innovation and entrepreneurship and, 134–35
leadership and management in transnational age, 133–34
leveraging diaspora potential abroad, 183
overall development strategies, 134
overview, 125–26
recommendations for, 135–38, 136–38t
3Ps of, 129–30
Cape Verde, 243
Care Netherlands Nedsom, 34
cash-based remittances, 83, 88
CEMEX, 102
Center for Exports and Investment of the Dominican Republic (Centro de Exportación e Inversión de la República Dominicana, CEI-RD), 243
Central America
collective remittances, 71, 150
home-country conditions in, 162
CGTs. See Citibank Global Transfers
cheque-cashing, 47, 52, 84–85, 101, 110–11
Chile. See also ChileGlobal; Fundación Chile
diaspora entrepreneurship, 164, 166–67
diversity in diaspora contributions, 158
home-country conditions, 161
leveraging diaspora potential abroad, 173–74, 176, 178–79
networking and, 162–63
Chilean Economic Development Agency (Corporación de Fomento de la Producción, CORFO), 217, 222, 224–26
Chilean economy and, 214, 215f
Chilean National Commission for Scientific and Technological Research (Comisión Nacional de Investigación Científica y Tecnológica, CONICYT), 222–23
development impact of, 220–26, 222f
development of, 217–20, 218–19f
Fundación Chile and, 11, 162, 173–74, 178–79, 213, 216, 220, 225–26
future challenges, 227–29
human capital development, 223
innovation and public policies, 224–25
internship programme, 223–24
lessons learned, 227–29
leveraging diaspora potential abroad, 174, 179, 181, 183
mentoring programme, 224
Office for the Chilean Community Abroad (Dirección para la Comunidad de Chilenos en el Exterior, DICOEX), 222–24
Phytomedics Chile and, 226
ProChile and, 221–22, 224
public–private partnerships, 221, 222f, 226
skills and knowledge transfer, 152
Synopsys, Inc. and, 225–26
China
diaspora entrepreneurship, 146–47, 164
diaspora equity finance, 150–51
diaspora investment promotion, 234–35, 240, 247
diversity in diaspora contributions, 156–58
export-processing zones, 241–42
facilitating investment and trade, 153
investor education, 194
leveraging diaspora potential abroad, 173
Office for Overseas Chinese Affairs, 240
private debt in, 196
remittances and, 21
return migration, 167
venture capital and, 189, 192
CHIPS. See Clearing House Interbank Payments System
circular migration, 233. See also return migration
Cisco, 190

Citibank, 7, 81–95
banking remittance beneficiaries, 88–89
barriers to remittance market, 84–86
beneficiary banks, 91–92
comparative money transfer models, 82–83
competitive costs and cross-selling opportunities, 92–93
financial education, 86, 89–90, 90–91
funds transfer product development, 86–88, 87t
inaccessibility of financial products, 85–86
lessons learned and next steps, 90–91
misperceptions about banks, 84–85
misperceptions about remittances, 85
overview, 81–82
segment approach to remittance market, 83–84
streamlining and coordination among banks, 92
Citibank Global Transfers (CGTs), 86
Citi Foundation, 90
Citi Microfinance, 88
Citi Office of Financial Capability, 90
citizenship, 166–67, 208
Clearing House Interbank Payments System (CHIPS), 83
Coca-Cola, 25, 232

Colombia
diaspora organizations, 22–23
home-country political involvement, 243
home-country voting rights, 242–43
“Juan Valdez” coffee campaign, 210

Comisión Nacional de Investigación Científica y Tecnológica (CONICYT).
See Chilean National Commission for Scientific and Technological Research (CONICYT)
Commission on Filipinos Overseas, 33
communications breakthroughs, 4, 147
community organizations, 22. See also hometown associations
Compartamos Banco, 49
competition, improvement of, 117–18
Computer Associates Labs, 223
Comunidad Unida de Chinameca, 32
CONACYT. See National Council of Science and Technology [Mexico]
Confederation of Indian Industry, 241

CONICYT. See Chilean National Commission for Scientific and Technological Research
Construmex, 102–3
Consular Identification Card (Matrícula Consular), 84, 101–2
cooperativas, 91
Coptic Orphans, 34
CORFO. See Chilean Economic Development Agency (Corporación de Fomento de la Producción)
corporate bond markets, 195
corporate social responsibility, 33–34, 224
correspondences, 91
cost of money, 195–96, 199
costs of learning or switching, 177
countries of origin. See also home countries;
receiving societies
conditions in, 161–62
as influencing factor, 23–24
nature of ties with, 158–61
credit unions, 8, 32, 45, 51, 85, 88–89, 91, 104–5, 110, 118–19
Croatia, 243
Cuba
assimilation and economic success, 28
home-country conditions in, 161
investment in high risk home economies, 29
political emigration, 161
Cyprus, 242
d4d approach to remittances, 109
database formation, 12, 183–84, 209, 227
DDI. See direct diaspora investment
debit cards, 107–8
Department for International Development [U.K.], 15, 21
destination countries, 5, 26–28, 42, 66, 83, 89–90, 119, 161–62. See also host countries; host societies
diaspora diversity and. See diaspora diversity and impact on development opportunities and challenges of, 1–15
policies for. See diaspora development policies
remittances and, 43–44
Development Marketplace for African Diaspora in Europe (D-MADE), 166
diaspora development, opportunities and challenges of, 1–15
diaspora development policies, 7–8, 96–124
accelerating financial intermediation projects, 118–19
Atikha Foundation, 103–4
Banco de Servicios Financieros (BANSEFI), 104–6, 105f
Banco Salvadoreño, 107
best practices for leveraging diaspora economic activities, 96–98, 98–99t
competition, improvement of, 117–18
Construmex, 102–3
cost reduction, 117–18
Directo a México, 102
DIR Foundation, 113–14
Dominican Association for the Development of Women, Inc. (ADOPEM), 106–7
donations and, 113–17
Economic Resource Center for Overseas Filipinos (ERCOF), 111–13
engaging banks to provide broader financial services, 119
environment enablers, 120
financial education, 119–20
financial literacy in Moldova, 108–9
G-Xchange, Inc., 100–101
health services, 119–20
hometown associations and, 116–17
ingformality, reduction of, 117–18
Instituto de los Mexicanos en el Exterior (IME), 114–17, 115t
IntEnt, 111–12, 166
investment opportunities, support for, 119
investments and, 111–13
Jamaica National Building Society (JNBS), 107–8
Koop Balikabayani International, 103–4
learning by doing activities, 98–117
lessons learned, 117–23, 123t
L@Red de la Gente, 104–6, 105f
macroeconomic policy, 120–21
Microfinance International Corporation (MFIC), 110–11
migrant outreach policy, 121
recommendations, 117–23, 123t
remittances and, 98–111
skills and knowledge transfer, 121–23
technical assistance for financial and remittance literacy, 120
Thamel International, 109–10
Wells Fargo, 101–2
diaspora diversity and impact on development, 5–6, 19–38
country of origin as influencing factor, 23–24
diaspora characteristics, 20–26, 27t
diaspora characteristics influencing remittances, 20–22
diaspora organizations, 22–23
entrepreneurial diasporans, 32–33
homeland characteristics and, 28–30
labour diasporans, 30–32
receiving society characteristics, 26–28
skilled diasporans, 33–34
skills and knowledge transfer, 24–26
types of diasporans, 30–34, 31t
diaspora economic activities, best practices for leveraging, 96–98, 98–99t
diaspora entrepreneurs, defined, 146
diaspora entrepreneurship, 1–2, 8, 145–70.
See also diaspora investment and entrepreneurship
capacity development and, 134–35, 165–66
collective remittances and, 150
contributions to business development, 148–56
country of origin, nature of ties with, 158–61
diversity in diaspora contributions, 156–63, 159f
financial contributions of, 148–49
home- and host-country conditions and, 161–62
information and analysis, need for, 164–65
investment and trade facilitation, 153–56, 157f
legal obstacles to, reduction of, 166–67
market finance and, 150–52
nature of and reasons for prominence, 146–48
networks and, 162–63
non-financial contributions of, 152
overview, 145–46
policy implications of, 163–67
remittances and, 32–33, 149–50
return migration and, 167
diaspora entrepreneurship (cont.)
- risk mitigation and, 165–66
- skills and knowledge transfer, 152–53, 154–55
- socioeconomic characteristics of, 158, 160

diaspora equity finance, 150–52

diaspora initiatives, new generation of, 181–84

diaspora investment and entrepreneurship, 230–49
- characteristics of investors and entrepreneurs, 231–34, 232
- cultivating feelings of connectedness and belongingness, 239t, 241–44
- development potential of, 234–37
- government roles in strengthening, 237–41, 238–39t
- measuring effectiveness, 247–49
- nurturing and embedding activities, 237–41, 238t
- overview, 230–31
- policy considerations and recommendations, 244–49

diasporans. See also diasporas
- characteristics influencing remittances, 20–22
- characteristics of, 20–26, 27
- country of origin as influencing factor, 23–24
- entrepreneurial, 32–33
- labour, 30–32
- skilled, 33–34
- types of, 30–34, 31
- unbanked and under-banked. See Citibank

diaspora organizations, 22–23, 126–28. See also hometown associations
diaspora philanthropy. See philanthropic donations
diasporas. See also diasporans
- defined, 64–66
- development and, future of, 77
- diversity and impact on development. See diaspora diversity and impact on development
- donations and, 113–17
- as economic engine. See economic opportunity for transnational families
- 4Cs of, 128–29
- framework for conceptualizing, 64–66
- investments and, 111–13
- leveraging of, 69–77, 96–98, 98–99t. See also leveraging diaspora potential potential of. See diaspora entrepreneurship; leveraging diaspora potential
- 3Ps of, 129–30
- as transnational agents of development. See capacity development
typology of, 126–28

DICOEX. See Office for the Chilean Community Abroad
digital diaspora networks, 153
Dirección para la Comunidad de Chilenos en el Exterior (DICOEX). See Office for the Chilean Community Abroad (DICOEX)
direct diaspora investment (DDI), 125–26
Directo a México, 85–86, 102, 105
DIR Foundation, 33, 113–14
diversity in diaspora contributions, 156–63, 159f
D-MADE. See Development Marketplace for African Diaspora in Europe
DolEx Dollar Express, 103
DolEx Vigo, 104
Dominica, 244
Dominican Association for the Development of Women, Inc. (ADOPEM), 106–7
Dominican Republic
- Center for Exports and Investment of the Dominican Republic (CEI-RD), 243
- Citibank and, 86, 88, 91
- diaspora equity finance, 151
diaspora organizations, 22–23
diversity in diaspora contributions, 158
Dominican Association for the Development of Women, Inc. (ADOPEM), 106–7
home-country voting rights, 242–43
donations for community investment, 113–17
dual nationality, 167
Dutch Ministry of Foreign Affairs, 166

East and Central Africa Trade Hub, 205
Eastern Europe
- fixed-income markets in, 195
- money transfer business models in, 49
eBay, 190
Economic Commission for Latin America and the Caribbean (ECLAC), 71
economic opportunity for transnational families, 8, 63–80
diaspora-driven economic engine, 66–67
4+1 Program, 71–77
framework for conceptualizing diasporas, 64–66
future of diaspora and development, 77
GDP and multiplier effect, 68–69
intellectual capital, 67–68
intellectual capital and, 68f
leveraging diasporas for development, 69–77
migrant associations and, 70–71
overview, 63–64
Economic Resource Center for Overseas Filipinos (ERCOF), 112–13
economic value, creation of. See Highland Tea Company
Ecuador
Citibank and, 86, 88–91
money transfer models in, 51
education. See financial education; skills and knowledge transfer
efficacy, 27–28, 30
Egypt
remittances and development, 43
skilled diasporans, 34
electronic payment systems, 100–101
El Salvador
Banco Salvadorenno, 107
home-country voting rights, 243
housing micro-finance in U.S., 53, 56
labour diasporans, 32
MTOs and, 82
remittances and development, 43
small business micro-finance, 55–56
elusiveness of diaspora potential. See leveraging diaspora potential
emigrants. See diasporans
emigration. See diasporas
emotional investment, 236
employment, 12, 21, 23, 25, 55, 112–13, 206, 234, 236, 244. See also job creation
entrepreneurial diasporans, 6, 32–33. See also diaspora entrepreneurship
entrepreneurship. See diaspora entrepreneurship
environment enablers, 120
equity finance, 150–52
ERCOF. See Economic Resource Center for Overseas Filipinos
Eritrea
diaspora entrepreneurship, 164
GDP and multiplier effect, 69
error detection and correction, 182–83
Ethiopia
DIR Foundation, 113
entrepreneurial diasporans, 33
skilled diasporans, 33
Ethiopian North American Health Professionals Association, 33–34
Europe
diaspora entrepreneurship, 147, 166
fixed-income markets in, 195
hometown associations (HTAs), 127
visa policies in, 161
European Union
cost of money and, 199
venture capital and, 188
exclusivity agreements, 118
expatriate knowledge networks, 152–53, 154–55t
export-processing zones, 242
Fair Trade certification, 203, 206–7
family transfers, 20. See also remittances
FAMIX Farm, 34
FDI. See foreign direct investment
FedACH International Mexico Service, 86, 102
Federal Deposit Insurance Corporation (FDIC), 102
Federal Reserve, 85–86, 102
Federal Reserve Automated Clearing House (FedACH), 83, 102
Federation of Zacatecanos Clubs of Southern California, 127
FedEx, 191
financial capital, 128, 131, 166, 194
financial education
Citibank and, 86, 89–90
diaspora development policies for, 119–20
for investors, 194
in Moldova, 108–9
peer-based learning, 134
technical assistance for, 120
virtual training, 153
Wells Fargo and, 101–2
financial services. See also banks; micro-finance institutions
access to, 44–46
leveraging through remittances, 46–49
first movers, 146, 153, 172, 182
fixed income finance, 151–52
fixed-income markets, 195–99, 196–99f
foreign direct investment (FDI), 2, 125, 192, 234–35
4+1 Program, 8, 69–71, 71–77
4Cs of diasporas, 129f
Foxley, Alejandro, 174
France
co-development approach in, 114–15
diaspora entrepreneurship, 163
home-country political involvement, 243
home-country voting rights, 242–43
Migrations et Développement, 163
return migration, 167
French Development Agency, 166
funds transfer product development, 86–88, 87t
Garcia, Ramón L., 173–75, 178
Garcia Zamora, Rodolfo, 71–74
GATS Mode 4. See General Agreement on Trade and Services
GCash, 100
GCIM. See Global Commission on International Migration
GDP and multiplier effect, 68–69
GDP per capita vs. income per natural, 235
General Agreement on Trade and Services (GATS Mode 4), 166
German Federal Ministry for Economic Co-operation and Development, 166
Germany, 166
GFMD. See Global Forum for Migration and Development
Ghana
diaspora investment promotion, 240, 247
Ghana Investment Promotion Centre, 240
Supporting Entrepreneurs and Enterprise Development in Africa (SEEDA), 130
Ghana Investment Promotion Centre, 240
GiroMex, 104
Global Commission on International Migration (GCIM), 64
Global Forum for Migration and Development (GFMD), 132–33
globalization, 4, 63, 92, 147–48. See also economic opportunity for transnational families
GlobalScot, 11, 180–81, 183, 228, 241
Globe Telecom, 100
Gold Pack, 101
Google, 190
government-sponsored business plan competitions, Kenya, 210
Granger, Bob, 109–10
Grenada, 69
Grupo Elektra, 51
Guatemala, 56
“guided serendipity”, 178–81
Guinea Bissau, 69
Guyana, 117
G-Xchange, Inc., 100–101
H1B visas, 156, 166
Habitat for Humanity, 122
Haiti
assimilation and economic success, 28
cultivating feelings of connectedness and belonging, 242
natural disaster relief, 29
hawala operators, 41
health services, policies for, 119–20
heterogeneity, 13, 20, 22, 172–73, 176–78, 181–85
Highland Tea Company, 12, 202–11
access to capital and credit facilities, 209–10
access to capital in United States, 208 challenges faced, 207–8
citizenship and, 208
creating linkages, 204–6
cross-border linkages, 205
database formation, 209
distribution linkages, 205–6
economic value, creation of, 203–8, 204f entrepreneurial diasporans, 33
existing initiatives supporting diaspora entrepreneurs, 208–9
government-sponsored business plan competitions, 210
Kenyan regulatory environment, 207–8
liberalization and deregulation, 211
policy recommendations, 209–11
scaling and, 205–6
skills and knowledge transfer, 206–7
social value, creation of, 203–8, 204f
sourcing and, 205
trade assistance to diaspora entrepreneurs, 210
trade facilitation, 207
highly skilled, non-business-oriented diasporans, 25
high-skilled diasporans, 6, 24–26, 33–34, 148, 162
high-skilled thick networks, 162
“hitting the wall”, 180–81
home countries. See also countries of origin; receiving societies
characteristics of, 28–30
conditions in, 161–62
diaspora entrepreneurship and, 161–62
as influencing factor, 23–24
investment in high risk economies of, 29
leveraging diaspora potential abroad, 184–85
voting rights in, 242
Home Depot, 191
home improvement micro-finance, 54–55, 102–3
home ownership, 27, 102–3
hometown associations (HTAs)
capacity development and, 126–28
collective remittances and, 150
labour diasporans and, 30
in Mexico, 8, 70–77, 162
policies for diaspora development and, 116–17
remittances and, 22
Honduras
diaspora equity finance, 151
diversity in diaspora contributions, 158
hometown associations, 127
New Horizon Investment Club (NHIC), 33, 112–13
Hong Kong, 163
host countries. See also destination countries; host societies
capacity development, 130, 134–35
diaspora diversity and development, 20, 23, 25, 28
diaspora entrepreneurship and, 146, 156, 158, 161–62
economic opportunities for transnational families, 64, 66–67, 70
networks and, 97
See also destination countries; host countries
housing micro-finance, 52–55
H&Q Asia Pacific, 174
HSBC, 232
HTAs. See hometown associations
human capital
ChileGlobal and, 216, 220–21, 225
diaspora entrepreneurship and, 149
diaspora investment and entrepreneurship, 234, 236–37
diaspora diversity and impact on development, 19–20, 25, 29–30, 33
Economic Resource Center for Overseas Filipinos (ERCOF) and, 112
humility, 184
Hungary, 242
IADB. See Inter-American Development Bank
IDA Ireland, 176
IDB-MIF. See Inter-American Development Bank Multilateral Investment Fund
IFAD. See International Fund for Agricultural Development
IME. See Instituto de los Mexicanos en el Exterior
immigrants. See diasporans
immigration. See also diasporas
enlightened policies of, 166–67
social costs of, 5, 42, 103–4
immigration policies, 193
inaccessibility of financial products, 85–86
incentives for skills and knowledge transfer, 122
inclusiveness of financial services, 44–46
income and remittance volume, 21–22
income per natural, 235
India
Citibank and, 86, 89
Confederation of Indian Industry, 241
cultivating feelings of connectedness and belonging, 242
data bases of influential diasporans, 183–84
diaspora entrepreneurship, 146–47, 164, 167
diaspora equity finance, 150–51
diaspora investment, 230–31
India (cont.)
diaspora investment promotion, 234–35, 240, 247
digital diaspora networks, 153
diversity in diaspora contributions, 156–58
economic development in home and host countries, 67
export-processing zones, 242
fixed-income markets in, 195
home-country voting rights, 242
Indus Entrepreneurs (TiE), The, 145, 152, 162, 195
investor education, 194
leveraging diaspora potential abroad, 173, 176
life and homeowners’ insurance, 243
Life Insurance Corporation of India, 243
Ministry of Overseas Indian Affairs, 243
networking and, 162–63
Non-Resident Indians (NRIs), 243–44
Overseas Indian Facilitation Centre, 240
Persons of Indian Origin (PIOs), 243–44
private debt in, 195
Right to Information Act, 243
skills and knowledge transfer, 152
venture capital, 189, 192, 192f
Indian Institutes of Technology, 194
Indus Entrepreneurs (TiE), The, 12, 145, 152, 162, 195
informality, reduction of, 117–18
information asymmetry, 194
information sharing, 152. See also skills and knowledge transfer
information technology (IT) industry, 15, 110, 156, 174, 188, 190–91
InnovaChile, 219, 224, 226
innovation and capacity development, 134–35
Innovative Ecosystems, The. See Indus Entrepreneurs, The
institutional investors, 151, 194, 197
institutionalization of diaspora enterprises, 180, 181f
Instituto de los Mexicanos en el Exterior (IME), 102, 114–17, 115t
insurance
in general, 50, 52, 83, 85, 101
homeowners, 243
life, 106
micro-insurance, 46, 57–58
intellectual capital, 12, 67–68, 68f, 128–29, 131, 194, 200
IntEnt, 111–13, 166–67
Inter-American Development Bank (IADB), 52–54, 58, 106, 116, 149
Inter-American Development Bank Multilateral Investment Fund (IDB-MIF), 106
InterLink Biotechnologies, 173, 226
international ATM-remittance accounts, 101
International Executive Service Corps, 205
International Finance Corporation, 151
International Fund for Agricultural Development (IFAD), 55, 106
International Labour Organization, 108
International Organization for Migration (IOM), 108, 230
International Remittance Program (IRnet), 85
Internet, 4, 21, 120, 152–53, 165, 241, 247–48
Internet-based diaspora networks, 153
Internet-based remittance services, 107
Internet cafes, 69
internship programme, ChileGlobal, 223–24
investment and entrepreneurship.
See diaspora investment and entrepreneurship
investment and trade facilitation, 153–56, 157f
investment clubs, 23, 26
investment-destination countries, 232–33, 236
investments and the diaspora, 111–13
investor education, 194. See also financial education
investor protection laws, 192–93
Investors without Borders, 231
IOM. See International Organization for Migration
Iran
cultivating feelings of connectedness and belonging, 242
investment in high risk home economies, 29
Ireland
cultivating feelings of connectedness and belonging, 242
diaspora entrepreneurship, 147
home-country voting rights, 242
IDA Ireland, 176
leveraging diaspora potential abroad, 176
return migration, 167
IRnet (International Remittance Program), 85
Israel
   cultivating feelings of connectedness and belonging, 244
diaspora investment, 231
diversity in diaspora contributions, 158
home-country voting rights, 243
leveraging diaspora potential abroad, 176
Italy, 8, 111
IT industry, 15, 110, 156, 174, 188, 190–91
ITT Corporation, 11, 216
Ivory Charities Foundation of Southern California, 70
Jamaica
   cultivating feelings of connectedness and belonging, 242
   income per natural vs. GDP per capita, 235
   strengthening diaspora investment, 247
Jamaica National Building Society (JNBS), 107–8
Japan
   fixed-income markets in, 195
   G-Xchange, Inc. and, 100–101
   home-country voting rights, 242–43
   Malaysians living in, 70
   MTOs and, 82
JNBS (Jamaica National Building Society), 107–8
JN Money Services, Ltd., 107
job creation, 72–74, 77, 116, 132, 149, 188, 190–91, 202. See also employment
“Juan Valdez” coffee campaign, 210
Kanyenya-ini tea factory, 207
Karurumo farm, 207
Karzai, Hamid, 243
Kenya. See also Highland Tea Company
diversity in diaspora contributions, 158
mobile money transfers, 100
remittances and, 26
Kenya Association of Manufacturers, 12, 209
Kenyan Ministry of Foreign Affairs, 205
Kenyan Mission to the United Nations, 208
Kenya Tea Development Agency (KTDA), 203, 204, 207
Kiva, 231
Kiwanis clubs, 23
Knowledge for Development programme [World Bank Institute], 213, 217
knowledge networks, 11, 122, 153, 182, 216, 241
knowledge transfer. See skills and knowledge transfer
Koop Balikabayan International, 103–4
Korean-American Scientists and Engineers Association, 25
KPMG, 232
KTDA. See Kenya Tea Development Agency, 203, 204, 207
Kyrgyzstan, 69
labour diasporans, 6, 30–32
La Caixa, 51
Laos, 69
La Quisqueyana, Inc., 106
Latin America
   access to financial services, 45
diaspora entrepreneurship, 147
digital diaspora networks, 153
fixed-income markets in, 195–96
housing micro-finance and remittances, 52–56
skills and knowledge transfer, 152
visa policies in, 161
law of large numbers, 172
leadership and capacity development, 133–34
learning costs, 177
Lebanon
   diversity in diaspora contributions, 158
   networking and, 162–63
Lebanon Business Network, 162, 165
legal obstacles to diaspora entrepreneurship, 166–67
Legatum Fortune Technology Prize, 56
leveraging diaspora potential, 10–11, 171–87
best practices for, 96–98, 98–99t
for development, 69–77
diaspora as part of home country, 184–85
heterogeneity of home-country institutions, 176–78
initiatives for, 181–84
overachievers and, 173–76, 175f
overview, 171–73
search networks and, 178–81, 187t, 181f
Liberia
entrepreneurial diasporans, 32
income per natural vs. GDP per capital, 235
remittances and, 21
US Investor Symposiums, 241
Life Insurance Corporation of India, 243
Lions clubs, 23
literacy, financial. See financial education
Lithuania, 243
“living dead” companies, 172, 181
long-distance phone call service, 85
loss leaders, 92
low-skilled diasporans, 24, 148
L@Red de la Gente, 104–6, 105f
macroeconomic policy, 120–21
Malaysia, 70
management and capacity development, 133–34
managing surprises, 182–83
marginalization, 28
market finance, 150–52
Maslow hierarchy of needs and motivations, 184
Matrícula Consular (Consular Identification Card), 84, 101–2
MDGs. See Millennium Development Goals
medium-skilled diasporans, 24
medium-to-large-scale multinational enterprises (MNEs), 232
megacommunities, 135
mentoring, 14, 174, 182–83, 200, 224
Mexican Enterprise Accelerator, 179
Mexico
Banco de Servicios Financieros (BANSEFI), 104
Citibank and, 86, 88–91
Construmex, 102–3
cultivating feelings of connectedness and belonging, 242
diaspora entrepreneurship, 147, 164
diaspora organizations, 22–23
Directo a México, 85–86, 102, 105
diversity in diaspora contributions, 158
earning potential and remittances in Los Angeles, 21
Federation of Zacatecanos Clubs of Southern California, 127
financial capital and, 128
4+1 Program, 8, 69–71, 71–77
GDP and multiplier effect, 69
home ownership and remittances in Los Angeles, 21
hometown associations (HTAs), 8, 70–77, 117, 127
housing micro-finance, 54
Instituto de los Mexicanos en el Exterior (IME), 114–17, 115t
L@Red de la Gente, 104–6, 105f
money transfer models in, 51
National Council of Science and Technology (CONACYT), 179
networking and, 162–63
Padrino program, 147
Red de Talentos para la Innovación, 179
remittances, 88
remittances, collective, 150
remittances and development, 43, 149
search networks and, 179
Secretaria de Desarrollo Social (SEDESOL), 115, 115t
3×1 Program, 71–72, 114–15, 115t
2×1 Program, 71
Wells Fargo and, 101–2
0×1 Program, 71
Mezcal Agro-Industry, 73
MFIC. See Microfinance International Corporation
MFIs. See micro-finance institutions
Mibanco, 54–55
Micasa, 54
micro-enterprises
entrepreneurial diasporans, 32
Liberia and, 21
skills and knowledge transfer and, 26
micro-finance and remittances, 6–7, 41–62
business case for, 47–49
development and, 43–44
entrepreneurial diasporans and, 32
financial services, inclusiveness of, 44–46
financial services, leveraging through remittances, 46–49
home improvement loans, 54–55
housing loans, 52–54
learning from ongoing projects, 49–56, 50t
linkage of, 51–52
overview, 41–43
small business loans, 55–56
Microfinance International (MFIs). See also Microfinance International Corporation
accelerating financial intermediation projects with, 118–19
access to financial services and, 45–46
capacity building and, 166
Economic Resource Center for Overseas Filipinos, 112
education and health services and, 120
Jamaica National Building Society, 107–8
remittances and, 48–49
skills and knowledge transfer and, 26
Microfinance International Corporation (MFIC), 51–53, 55–56, 110–11
MIF. See Multilateral Investment Fund
migrant associations, 70–71, 126–28. See also hometown associations
migrant outreach policies, 121
migrants. see diasporans
migration. See diasporas
Millennium Development Goals (MDGs), 68, 128, 210
Ministry of Overseas Indian Affairs, 243
minority-owned businesses, 208
minority shareholders’ rights, protection of, 193
MNEs. See medium-to-large-scale multinational enterprises
mobile money transfers, 8, 100–101
mobilization. See also capacity development; ChileGlobal
deliberate intervention and, 163
diaspora characteristics and, 20
country politics and, 243
in Philippines, 104, 149
reasons for, 28–29
social, 8, 45, 97
Mobilizing the Diaspora for Economic and Social Benefits Conference [Tanzania], 241
Moldova
financial literacy in, 108–9
GDP and multiplier effect, 69
saving and credit associations in, 118
MoneyGram, 81, 104
money orders, 41, 47, 84–85, 91, 101
money transfer cards, 107–8
money transfer operators (MTOs), 81–83. See also Citibank
Morocco
cultivating feelings of connectedness and belonging, 242
diaspora entrepreneurship, 166
GDP and multiplier effect, 69
MTOs (money transfer operators), 81–83. See also Citibank
Multilateral Investment Fund (MIF), 149
multiplier effect and GDP, 68–69
MundoCredit, 50
National Arab American Medical Association, 25
National Council of Science and Technology (CONACYT) [Mexico], 179
national policies for diaspora development. See diaspora development policies
natural disaster relief, 29, 32
Nepal
bank partnerships in, 21
home-country voting rights, 242
remittances and development, 43
Thamel.com, 21, 109–10
Thamel International, 109–10
Netherlands
DIR Foundation, 113–14
Dutch Ministry of Foreign Affairs, 166
IntEnt, 111–12, 166–67
return migration, 167
networks. See also ChileGlobal; Highland Tea Company
diaspora entrepreneurship and, 162–63, 165
digital diaspora, 153
Internet-based diaspora, 153
leveraging diaspora potential abroad, 174
leveraging diaspora potential abroad and, 173
migration patterns and, 66
quality of, 227
remittances and, 22–23
skills and knowledge transfer and, 24–25, 152–53, 154–55t
New Horizon Investment Club (NHIC), 33, 112–13
NGOs. See non-governmental organizations
Nicaragua
diaspora investment promotion, 240
PRONicaragua, 240
skills and knowledge transfer, 122
non-bank financial institutions, 47–49
non-business-oriented diasporans, 25
non-diaspora foreign investors and entrepreneurs, 232–33
non-financial contributions of diaspora entrepreneurship, 152
non-governmental organizations (NGOs), 103–4, 110, 127, 133, 149, 161–62, 166
Non-Resident Indians (NRIs), 243–44
nostalgia trade, 109, 113
Office for Overseas Chinese Affairs, 240
Office for the Chilean Community Abroad (Dirección para la Comunidad de Chilenos en el Exterior, DICOEX), 222–24
“one-stop shops”, 240
opportunities and challenges of diaspora development, 1–15
opportunity structures, 20
organic certification, 206–7
Organisation for Economic Co-operation and Development (OECD), 213
organizational specialization, 23
outreach policies, migrant, 121
overachievers, 171–72, 173–76, 175f, 177, 182–83
Overseas Indian Facilitation Centre, 240
Padrino program, 147
Pakistan
disaster relief and, 29
remittances and, 21
Palestine, 29
PBCT. See Bicentennial Programme for Science and Technology
pecuniary interests, 130
peer-based learning, 134
Persons of Indian Origin (PIOs), 243–44
Peru
cost of living, 284
disaster relief and, 29
home-country voting rights, 243
home improvement micro-finance, 54–55
philanthropic donations, 25–26, 113–17, 125–26, 128, 130
Philippines
Atikha Foundation, 103–4
Batang Atikha Savers Club, 104
Atikha Foundation, 103–4
Citibank and, 86, 90
Coco Natur Overseas Filipino Worldwide and Producers’ Cooperative, 104
diaspora entrepreneurship, 149, 164
Economic Center for Overseas Filipinos (ERCOF), 112–13
GDP and multiplier effect, 69
G-Xchange, Inc. and, 100–101
home-country voting rights, 243
home improvement associations, 70
intellectual capital, 67
Koop Balikabayan International, 103–4
mobile money transfers, 8, 100
money transfer operators (MTOs) and, 82–83
remittances and development, 43
return migration, 167
skilled diasporans, 33
Unlad Kabayan Migrant Services Foundation, 149
Wells Fargo and, 101–2
Phytomedics Chile, 226
PIOs. See Persons of Indian Origin
Poland
Citibank and, 86
home-country voting rights, 243
policies for diaspora development. See diaspora development policies
policies to strengthen diaspora investment and entrepreneurship. See diaspora investment and entrepreneurship
political activities, transnational, 25
political capital, 129
political conditions in country of origin, 161
Polycom, 191
poor of debt markets, 198
Portugal, 243
poverty reduction, 132, 202
preconditions for diaspora entrepreneurship, 163–64
Presidential Office for Mexicans Abroad, 147
prestige, 22, 26, 28, 33, 226
private debt, 195
private interests, 130
ProChile, 221–22, 224
productizing remittances, 109
professional associations, 12, 14, 23, 26, 161, 208–9
professional skill transfers, 122
Programa Bicentenario de Ciencia y Tecnología (PBCT). See Bicentennial Programme for Science and Technology (PBCT)
INDEX 267

PRONicaragua, 240
public policies on innovation, 11, 220–21, 224–25, 228
public–private partnerships, 221, 222f, 226
Ravi, Vayalar, 230
receiving societies, 5, 19, 26–28. See also countries of origin; home countries “Red de Talentos para la Innovación”, 179
remittance-decay hypothesis, 22
remittances. See also Citibank; diaspora
diversity and impact on development;
macro-finance and remittances
account-to-account, 88–89
barriers to, 84–86
beneficiary options, 88–89
cash-based, 83, 88
collective, 150
in the diaspora, 98–103
diaspora characteristics influencing, 20–22
diaspora entrepreneurship and, 1–3, 32–33, 149–50
diaspora for development (d4d) approach to, 109
dollar amount of 2009, 41–42
as donations for community investment, 113–17
electronic payment systems for, 100–101
home improvement micro-finance and, 54–55
homeownership and, 27
housing micro-finance and, 52–55
income and, 21–22
Internet-based, 107
micro-finance and. See micro-finance and remittances
misperceptions about, 84–85
mitigating adverse effects of, 120–21
mobile money transfers, 100–101
networking and, 22–23
policies for diaspora development and, 98–111
productizing, 109
retail services for. See Citibank
saving out of, 44–45
social, 67–68, 236
South-North and South-South flows, 41
through the diaspora, 103–9
repatriation, 233. See also return migration
Republic of Korea
bond finance, 152
diversity in diaspora contributions, 158
return migration, 167
“Resource Persons” (RPs), 130
retail remittance services. See Citibank
return migration, 122–23, 167, 184, 233
reunification effect, 22
Riad, Nermien, 34
Right to Information Act [India], 243
risk mitigation, 165–66
Romania
diaspora entrepreneurship, 166
money transfer business models in, 49
Royal Consumer Information Products, 223
RPs. See “Resource Persons”
Russia
cost reduction of policies for diaspora
development, 117–18
home-country voting rights, 243
Rutgers University, 226
“Salvadoreño Emprendedor” debit cards, 107
saving and credit associations (SCAs), 108, 118
saving out of remittances, 44–45
SBA. See Small Business Administration
scaling, 205–6
SCAs. See saving and credit associations
Scotland, 179–81
Scottish Enterprise, 179
search networks, 10–11, 162, 172, 174, 176, 178–81, 178t, 181f, 182, 184–85
Secretaria de Desarrollo Social (SEDESOL), 115, 115t
SEEDA. See Supporting Entrepreneurs and Enterprise Development in Africa
Seed Fund, 174
self-help, 128
semi-skilled knowledge transfers, 122
Serbia
diaspora equity finance, 151
diversity in diaspora contributions, 158
Sierra Leone
Department for International Development [U.K.] and, 15
remittances and, 26
Supporting Entrepreneurs and Enterprise Development in Africa (SEEDA), 130–32
Sierra Leone Consultative and Investment Forum, 26
Silicon Valley, 150–51, 163, 174, 177, 193–94, 200
Silicon Valley Indians, 194
Singapore
diaspora entrepreneurship, 163, 166–67
Malaysian migrants in, 70
skilled diasporans, 6, 33–34. See also
high-skilled diasporans
skills and knowledge transfer
ChileGlobal, 152
diaspora diversity and development, 14,
24–26
diaspora entrepreneurship and, 152–53,
154–55t
Highland Tea Company, 206–7
policies for diaspora development and,
121–23, 123t
Slovakia, 243
Small Business Administration (SBA), 208
small business loans, 55–56
small-to-medium-sized enterprises (SMEs),
46, 55–56, 75, 131, 149, 152, 232
social capital, 4, 14, 20, 68, 129, 131, 236–37
social costs of immigration, 5, 42, 103–4
social mobilization, 8, 45, 97
social recognition. See prestige
social remittances, 66–68, 236
social responsibility, 33–34, 224
social value, creation of. See Highland Tea
Company
Society for Worldwide Interbank Financial
Telecommunications (SWIFT), 7, 47, 83
socioeconomic characteristics of diaspora
entrepreneurship, 158, 160t
Somalia, 34
sourcing, 205
South Africa
home-country voting rights, 242
mobile money transfers and, 100
networking and, 163
South Africa Diaspora Network, 165
South Asia, 21
South-North migration and remittance
flows, 41
South-South migration and remittance
flows, 41
Spain
diaspora entrepreneurship, 166
entrepreneurial skills development
programmes in, 111
home-country voting rights, 243
money transfer business models in, 49–51
Sri Lanka, 69, 203
Starbucks, 191
statistical information, need for, 183–84,
227
stock market investment, 112–13, 231
strategic first movers, 182. See also first
movers
strengthening business sector. See diaspora
entrepreneurship
sub-Saharan Africa
diaspora entrepreneurship, 166
diaspora equity finance, 151
remittances and development in, 3, 43–44
Su Casita, 54
success. See leveraging diaspora potential
Supporting Entrepreneurs and Enterprise
Development in Africa (SEEDA),
130–32
“supranational” debt markets, 198, 199f
surprises, managing of, 182–83
surveys, 183–84, 227
Sweden, 243
sweep accounts, 101
SWIFT. See Society for Worldwide
Interbank Financial
Telecommunications
switching costs, 177
Synopsys, Inc., 225–26, 232
Taiwan Province of China
diaspora entrepreneurship, 163–64
diaspora equity finance, 150–51
diversity in diaspora contributions, 158
home-country voting rights, 243
skills and knowledge transfer, 152
venture capital (VC) industry in, 174–77
Tajikistan, 3, 69
Talent, Ideas and Enterprise. See Indus
Entrepreneurs, The
Tanzania, 241
tax incentives, 192–93
technological breakthroughs in transport
and communications, 4, 147
TechnoServe, 55–56
text messages and remittances, 100
Thamel.com, 21, 109–10
Thamel International, 109–10
thick networks, 162
thin networks, 162
3Ps of diasporas, 129–30
3x1 Program, 71–72, 114–15, 115t
TIE. See Indus Entrepreneurs, The
TOKTEN. See Transfer of Knowledge Through Expatriate Nationals
Tomás Rivera Policy Institute, 73
trade, business diaspora facilitation of, 154, 157f
trade shows, 205
training. See financial education; skills and knowledge transfer
Transfer of Knowledge Through Expatriate Nationals (TOKTEN), 153
transnational families, economic opportunity for. See economic opportunity for transnational families
transnational housing loan programmes, 53–55
transnational political activities, 25
transport breakthroughs, 4, 147
travel booking service, 85
trickle-up effect, 112
triple bottom line initiatives, 104
2x1 Program, 71
United Nations Development Programme (UNDP), 1, 153
United States
Citibank and, 90–91
diaspora entrepreneurship, 166
fixed-income markets in, 195
Microfinance International Corporation (MFIC), 110
money transfer operators (MTOs) and, 82
venture capital, 188–94, 189–91f, 192f
United States Agency for International Development (USAID), 107, 165, 205, 209–10
university incubation, 193–94
university twinning, 25
Unlad Kabayan Migrant Services Foundation, 149
UN Millennium Development Goals (MDGs), 68, 128, 210
USAID. See United States Agency for International Development
US Investor Symposiums [Liberia], 241
Venezuela, 243
venture capital in developing economies, 12, 188–95, 189–92f, 191t, 231
venture capital industry, 174–76
venture capital initiatives, 150–52
Viet Nam, 32
virtual training, 153
visas, 156, 161, 166–67, 223, 243
voluntary organizations, 23
volunteer skill-transfer partnerships, 122
voting rights, 242–43
Walden International Investment Group, 174
Wells Fargo, 100–102
Wells Fargo International Remittance Accounts, 101
West Africa, 45. See also Africa
Western Union, 8, 72–73, 75, 81, 107
Whole Foods, 191
woman-owned businesses, 208
women, empowerment of, 106–7
World Bank, 7, 151, 165–66, 213, 217
World Bank Institute, 158
World Council of Credit Unions, 85
0×1 Program, 71
Zimbabwe, 242