Global Migration Group
Acting together in a world on the move

GMG Issues brief no. 1: Facilitating positive development impacts of diaspora engagement in skills transfers, investments and trade between countries of residence and origin

Introduction

In recent years, diaspora or expatriate communities, including migrants as well as second or third generation immigrants who maintain ties with their parents' or grandparents' homeland, have received increasing policy attention as part of the international discourse on international migration and development.

Many diaspora communities maintain transnational ties, connecting countries and communities. They can call on multiple networks, relate to different identities and share a sense of belonging to more than one community and country. There is a growing recognition that diaspora resources can be leveraged to facilitate increased trade, investment, technology, skills, and cultural linkages between different countries, and that they are important development actors. There is also a growing recognition among the governments of countries where transnational communities both reside and originate from, that the true potential of these communities can only be realised through policies that engage the diaspora, regulatory frameworks that facilitate, rather than hinder, the transfer of diaspora resources, their mobility, and policies that enhance the contributions of the diaspora in the countries of destination including social inclusion and integration of these communities to allow diaspora members to reach their full potential.

Policies such as dual citizenship and mutual recognition of skills in receiving countries can increase the contribution of the diaspora because when transnational communities are able to hold more than one citizenship or nationality, they will be able to derive benefits, such as entitlement to tax exemptions and access to investment benefits that such legal status confers upon nationals. The enhanced mobility that citizenship or permanent residency in more than one country provides also enhances the role of diaspora members as bridge-builders between countries and communities and enables them to participate in public life. Origin countries that allow for dual citizenship also benefit because their migrants are more willing to adopt the host country's citizenship, which can improve their earnings and thus their ability to send remittances and invest in the origin country.[1]

The resources of diaspora populations that transcend borders are immensely varied and range from skills, knowledge and ideas to cultural capital, finance and trade links, contributing to social and economic development both in countries of origin and the countries where these communities reside. Women's international migration is an important global phenomenon, and the effect of social and financial remittances by women can be far-reaching. Women migrant workers often save and remit a larger proportion of their earnings than men migrant workers, and more regularly and consistently. Their remittances are normally invested in family well-being, food, shelter, healthcare,

[1] Plaza, Sonia and Dilip Ratha, 2011.*Diaspora for Development*, ed. Sonia Plaza and Dilip Ratha. Washington, DC: World Bank.

education and small businesses, thus contributing to human capital formation, job creation and entrepreneurship, poverty reduction and greater resilience in crises.

The importance that is being attached to diaspora is reflected in the fact that several governments have started to put in place policies and programmes designed to facilitate the contributions that diaspora members make to their communities of both residence and origin. More than 30 governments[2] have established dedicated diaspora ministries that have led the way in coordinating actions on both the executive and legislative fronts to facilitate diaspora engagement and programmes that target diaspora as development actors, with many more government establishing departments or focal points dedicated to diaspora issues. More and more countries have adopted or are considering dual citizenship, as a means of mobilizing diaspora and their resources for both countries.[3] Active government participation in IOM's recent Diaspora Ministerial Conference[4] served to highlight the impetus by governments in this area of policy.

What government models have facilitated skills transfers or temporary return of diaspora entrepreneurs?

A number of countries have mobilized skills amongst diaspora professionals through such international programmes as IOM's Migration for Development in Africa programme (MIDA), and UNDP's Transfer of Knowledge Through Expatriate Nationals (TOKTEN) programme that operates under the United Nations Volunteer Programme. These programmes seek to place professionals into public and private institutions in key development sectors. Also, pioneering programmes mobilizing the diaspora aim to support reconstruction efforts in various post-crisis environments, often through temporary assignments in key sectors, such as in Somalia.[5]

Indeed, under such programmes the return of diaspora members to their countries of origin may not necessarily be long term: assignments can be shorter term and now increasingly diaspora members are engaging on a "virtual" basis through online mentoring and support from a distance. Such programmes have generally been assessed as being successful in transferring knowledge and skills to targeted institutions[6]. Longer term placements are often preferred by host institutions, as shown in an evaluation of the Rwandan TOKTEN programme in 2005–07, which involved visits by 47 volunteers to teach and provide technical assistance, finding that an average stay of less than two months and the variety of responsibilities constrained the transfer of knowledge to counterparts in host institutions[7].

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[2] I. Omelaniuk *Diasporas and Development: Bridging Societies and States* (Diaspora Ministerial Conference 18–19 June 2013) International Dialogue on Migration N°22 (IOM, Geneva, 2013)

[3] For example, under India's Overseas Citizenship of India (OCI) Scheme, most persons of Indian origin who migrated and acquired the citizenship of another country, are eligible for overseas citizenship which entitles them to a multiple entry, multi-purpose, life-long visa to visit India, enter universities and undertake some investment and business there.

[4] IOM Conference on *Diasporas and Development: Bridging Between Societies and States* held in Geneva on 18 and 19 June 2013

[5] Qualified Expatriate Somali Technical Support – Migration for Development in Africa (QUESTS-MIDA) – a joint initiative a joint initiative among Somali authorities, UNDP Somalia and IOM

[6] See for example a report on the Temporary Return of Qualified Nationals project implemented by IOM Netherlands focusing on the placement of diaspora members in Afghanistan (K. Kuschminder 2011 "The Role of the Diaspora in Knowledge Transfer and Capacity Building in Post-Conflict Settings", Maastricht Graduate School of Governance, Maastricht).

[7] Evaluation conducted by Touray in 2008

Some governments have been able to tap their expatriates and develop some form of mentor-sponsor model in certain sectors or industries. The skills of the diaspora can be tapped by establishing knowledge exchange networks. These networks provide knowledge, mentoring expertise and finance (venture capital). China, Chile, India, Ireland and Scotland have developed professional and business networks amongst the diaspora. In some countries, encouraging the growth of private sector networks may be more effective than direct government involvement in establishing links to the diaspora. Governments can help facilitate diaspora networks through the Internet, professional associations, embassies abroad, and cultural events.

What government measures work efficiently as incentives for diaspora investments and trade?

Transnational communities will spontaneously transfer resources and strengthen links between their countries of origin and destination if the right conditions are in place. Remittances and savings constitute only a part of total private capital flows across borders by transnational communities, it also includes direct investments made by diaspora members in business activities.[8] Members of diaspora communities will often be in the prime position to take advantage of new economic opportunities in the countries where they both reside and originate from, and they are more willing to invest as a result of their personal ties. This will often be done in spite of administrative, regulatory and other constraints.

Diaspora may use the “insider” information they have regarding their countries to invest directly. They will often be the “first responders” in countries recovering from crisis, despite acute economic, political and other circumstances, and provide vital human and financial resources to a country’s recovery.[9] Investing personal wealth in such countries will entail great personal risk, often without the backing of international financial institutions. In such circumstances, experienced and qualified diaspora members can play an important role in helping re-establish a regulatory framework that governs investment and business transactions.[10]

While diaspora members may be more willing than other investors to take risks in their own country, an adequate investment climate remains important. According to the findings of case studies and interviews with the African diaspora (World Bank, 2011), procedures governing business licenses, registrations, and exports and imports remain complicated, often with excessive red tape and customs delays. Some diaspora associations even reported barriers to shipping donated goods, citing, for example, cumbersome import procedures for donated books. Access to financial and seed

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[8] A. Terrazas, Diaspora investment in developing and emerging country capital markets: patterns and prospects. In: K. Newland (ed.), Diasporas: New Partners in Global Development Policy (Migration Policy Institute, Washington, D.C, 2010).

[9] D. Ratha. 2007. “Leveraging Remittances for Development.” Policy Brief, Migration Policy Institute Washington, DC. And D. Ratha. 2010. “Mobilize the Diaspora for the Reconstruction of Haiti.” *SSRC Feature: Haiti, Now and Next*, Social Science Research Council, New York. (http://www.ssrc.org/features/pages/haiti-now-and-next/1338/1438/)

[10] OECD (Organisation of Economic Co-operation and Development). 2010. “The Contribution of Diaspora Return to Post-Conflict and Fragile Countries. Key Findings and Recommendations.” Partnership for Democratic Governance. OECD. Paris.

capital is a particular challenge for diaspora communities, particularly migrant entrepreneurs, because their mobility may hamper their credit history, and their length of residence may prevent their opening bank accounts. Long-term residence status or nationality is often a prerequisite. If these barriers are removed, more trade and investment will flow. Governments can encourage diaspora investment by introducing special measures and programmes in a variety of fields.

Information provision is a key catalyst to spur the transfer of diaspora resources between various countries. With more than 10 million expatriates abroad, the Philippines Government this year is setting up a one-stop online portal for diaspora engagement ("BaLinkBayan"). It will offer information on investments, businesses, products, philanthropic activities, and volunteer work especially in the medical field, as recommended by respective agencies in the country's towns, cities and provinces. Diaspora conventions and fairs hosted by trade departments of country embassies and consulates are important to reach out to potential diaspora investors and foster partnerships among them and the private sector. Malta has commenced preparations for its 4th World Convention of the Maltese Living Abroad in 2015. Russia has held four international Congresses of its diaspora to inform and attract them back to Russia. Indonesia just held its Second Diaspora Congress last August.

Several countries are now ensuring that their strategies to attract their diaspora are an integral part of their national development strategies. Guinea has a plan of action specifically to create a conducive business environment to encourage its diaspora members to invest in certain sectors. Mauritius' circular labour migration agreements are linked to the Government's sectoral reform efforts that open up more opportunities for job or business start-ups for the diaspora. The Government of Ethiopia has been particularly successful in attracting investment from its diaspora through incentives in the housing sector, and the opportunity to benefit from the same incentives offered to domestic investors through the issue of an ID card that grants foreign nationals of Ethiopian origin these benefits. The last ten years have seen some 3,000 investment projects worth approximately USD1.2 billion. In Bangladesh, the Expatriates Welfare Bank offers incentives for diaspora-based private sector initiatives, and the Investment Corporation of Bangladesh is promoting a Bangladesh fund to mobilize diaspora wealth for development. The goal is to tap the diaspora to benefit from and further support business, trade and investment linkages[11].

How can private-public partnerships facilitate novel investment vehicles such as diaspora bonds, diaspora investment funds or matching-funds instruments?

The issue of co-funding diaspora-initiated business ventures and development initiatives was raised by various governments and other stakeholders during the recent IOM Diaspora Ministerial Conference. It was recognised that matching grants were a tried and tested model of co-funding that had met with varied success. An example is the recent initiative of the Moroccan Government to establish a matching fund scheme with banks for diaspora investment projects in Morocco, "MDM

[11] I. Omelaniuk *Diasporas and Development: Bridging Societies and States* (Diaspora Ministerial Conference 18–19 June 2013) International Dialogue on Migration N°22 (IOM, Geneva, 2013)

INVEST", whereby a personal investment by diasporas of up to 25 percent of the project cost attracts matched funding of 10 percent by the Government and up to 65 percent credit by a bank.

Global marketplaces for diaspora groups to compete for funds (mostly matching) for development-oriented small and medium enterprises in high development impact sectors were seen as an effective way to bring together diaspora entrepreneurs, development agencies, funding entities, NGOS, and private sector.[12]

There has not been a systematic evaluation of the matching grant schemes. However, a preliminary evaluation of the African Development Market Place showed:

a) an *ex ante* evaluation strategy is needed at preparation for a diaspora matching grant. It can have large returns for policy learning as data quality is likely to improve by access to a baseline survey;

b) matching grant schemes need to be better tailored to diaspora capabilities (e.g. limited to those with entrepreneurship experiences?); and

c) training activities need to link more to the support offered (to increase the duration of the impact).

The findings from the evaluation are no different from those of the World Bank's "Development Marketplace" programme: e.g. when working with small grants and small businesses, support and capacity building are needed to prepare the business plans. The importance of a mentor for providing guidance along the way of the project was also an important finding of the World Bank.[13]

A number of governments, NGOs and international organisations have devoted resources to mentoring members of transnational communities with business start-up ideas. The Belgian Fondation Abeo has established a web portal financed by the Government of Belgium dedicated to linking African diaspora entrepreneurs residing in Europe to sources of funding in selected countries of origin[14]. The *Enterprising Migrants* programme of the Government of the Netherlands provides coaching to pre-selected business candidates in African diaspora communities in the Netherlands and assistance in finding financial start up grants or bank guarantees.

Some governments have focused attention on assisting potential diaspora entrepreneurs with the preparation of well-thought out business plans which are often seen as crucial to helping them realise the viability of their ideas. In some cases, these business plans can often be used to unlock sources of funding targeting entrepreneurs from transnational communities. Germany's Centre for International Migration and Development (CIM) runs projects that incorporate training on preparation of business plans into the wider mentoring of potential business people in the diaspora[15].

[12] For a more detailed summary of these initiatives see the background paper for RT Session 1.2: Supporting Migrants and Diaspora as Agents of Socioeconomic Change- GFMD 2012, Mauritius http://www.gfmd.org/documents/mauritius/gfmd12_mauritius12_rt_1-2-background_paper_en.pdf

[13] Inter-American Dialogue, Evaluation report: "Assessment African Diaspora Marketplace", November 4, 2011

[14] www.guide-enterprise.org

[15] Centre for International Migration and Development project *"Support and Mentoring of Entrepreneurs"*

Initiatives to mobilize financial resources:

Reducing remittance fees: The World Bank has been collaborating with the G20 in the area of reducing the costs of remittances. The G20 DWG has recommended a target reduction in remittance fees by 5 percentage points by 2014. A tool for monitoring changes in remittance costs is the Bank's *Remittance Prices Worldwide database*. The Bank is examining ways to link remittances to saving and investment products for households and to bond financing for governments and major intermediary banks. The World Bank is also working with the Financial Action Task Force (FATF) on anti-money laundering and countering the financing of terror (AML/CFT) regulations that can affect the channels and costs of remittances; this topic is on the radar screen of several members of the G20. The Bank leads a Global Remittances Working Group (following a request from the G8) comprising governments, remittance service providers and NGOs.

Mobilization of diaspora savings: Diaspora Bonds

Diaspora members already invest in real estate and entrepreneurial businesses but in small amounts. But without formal financial instruments to organize and focus that investment, it will remain a piecemeal endeavour that can only affect development indirectly. As one option, many countries are considering the issuance of diaspora bonds to tap into the wealth of their diasporas. A diaspora bond is a retail saving instrument marketed to diaspora members.[16]

The World Bank Group is supporting initiatives to leverage remittances and savings from the diaspora for development. A **Task Force on Diaspora Bonds** has been established to provide technical assistance to countries to tap into the substantial financial resources of the diasporas. It will provide technical assistance on:

a) The marketing and timing of bond issuance, based on an analysis of the diaspora's size, income, and savings, as well as attitudes towards the country of origin;

b) The financial structuring of the instruments, including pricing, currency denomination, credit rating, legal compliance, SEC registration, and possible enhancements like guarantees; and

c) The preparation of development projects aimed at attracting diaspora bond financing, including arrangements to help strengthen governance and mitigate risk.

Understanding and reaching out to transnational communities

Appropriate outreach strategies towards diaspora can only be devised if data is available on who the diaspora are, where they reside, in what numbers, and their socio-economic profile. Diaspora communities belonging to one country are not homogeneous, and can be strikingly different to each other based on multiple factors such as political affiliation or regional divide. To understand a

[16] Ketkar, S., and D. Ratha. 2009a. *Innovative Financing for Development.* Washington, DC: World Bank. 2009b. "New Paths to Funding." *Finance and Development* (June): 43–45. International Monetary Fund, Washington, DC. 2010. "Diaspora Bonds: Tapping the Diaspora during Difficult Times." *Journal of International Commerce, Economics and Policy* 1 (2): 252.

particular transnational community, surveys need to be conducted to ascertain its linkages to the various countries it is connected to, and its willingness and potential to engage in development, and to improve the understanding of communication pathways within diaspora communities. Without such data, it is not possible to effectively engage with these communities[17]. In the past decade, IOM has conducted more than 50 such surveys. Among the first diaspora surveys were those undertaken in the United Kingdom of the various diaspora communities resident there. In countries where diaspora members reside, host institutions are increasingly working with and supporting diaspora associations who in turn provide valuable support to their communities. Many countries where diaspora communities reside recognise that a successful diaspora community is one that is fully integrated in that country while remaining part of the community of its origin country[18] . The World Bank has also taken surveys of diaspora associations in Washington, D.C., Denmark, London, New York, Paris and Pretoria.[19]

Outreach often requires countries of origin to establish and strengthen their embassies and consulates, including training labour attachés, whose portfolios now increasingly include service provision to these communities.

Conclusions/recommendations:

The networks, knowledge and resources that transnational communities possess can facilitate trade, and investment, and the transfer of technology and skills between and amongst different countries. Diaspora communities may be more ready and willing to invest in the countries they are connected to on the basis of their first-hand knowledge and personal ties. Governments can empower this process by removing regulatory and other constraints, and by putting in place policies that enhance the contributions of the diaspora. Some of the measures that governments can adopt include:

- The creation of conducive business environments that promote investment through the removal of administrative barriers and measures that facilitate trade and investment such as simplification of export and import regulations and procedures governing business licenses;
- Dual citizenship or other forms of preferential status that confer better access to financial capital funds and investment benefits. Such measures will also enable greater mobility of diaspora members and the ability to participate in the public life of both their adopted and native countries;
- The provision of mentoring support and the creation of knowledge exchange networks that provide access to expertise and capital. To assist this process governments can encourage the development of diaspora associations, professional networks and the involvement of the private sector;
- The provision of information on investment and philanthropic opportunities through online portals, diaspora conventions and business fairs;

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[17] It is important that these surveys include gender perspectives and collect and analyze sex-disaggregated data and gender statistics.

[18] IOM Conference on *Diasporas and Development: Bridging Between Societies and States* held in Geneva on 18 and 19 June 2013

[19] Plaza, Sonia and Dilip Ratha, 2011.Diaspora for Development, ed. Sonia Plaza and Dilip Ratha. Washington, DC: World Bank.
http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/DfD_FullReport.pdf

- Developing measures to co-fund diaspora business initiatives and provide matching grants based on a systematic evaluation of diaspora capabilities;
- Measures to prompt reductions in remittance costs through linking remittances to savings and other investment products; addressing the issue of anti-money laundering regulations that can affect the availability of remittance channels and costs; and cost comparison databases;
- The development of financial instruments such as diaspora bonds and other savings mechanisms based upon diaspora analyses and financial structuring that mitigate risk.

The contributions of diaspora members can be particularly significant in countries that are recovering from crisis. The international community has recognised and should continue to facilitate the mobilisation of the vital human and financial resources that diaspora communities possess to support reconstruction efforts.

To assess the contributions that diaspora communities can make to development and to better understand their diaspora communities, governments should undertake the necessary step of collating data and knowledge about where they live, how they are organised and their ability to engage. Diaspora mapping and surveys are an effective means of doing so.

In countries where they reside, policies that promote the social inclusion and integration of transnational communities are an important prerequisite to ensure that diaspora members can realise their true potential and become effective partners in development.