

WHAT WE KNOW ABOUT DIASPORAS AND ECONOMIC DEVELOPMENT

By Kathleen Newland and Sonia Plaza

Executive Summary

Diasporas¹ can and, in many cases, do play an important role in the economic development of their countries of origin or ancestry. Beyond sending remittances, they can also promote trade and foreign direct investment (FDI), create businesses and spur entrepreneurship, and transfer new knowledge and skills. While some policymakers continue to see their nationals abroad as a loss, more and more are recognizing that an engaged diaspora can be an asset — or even a counterweight to the emigration of skilled and talented migrants. Yet while some governments have worked with diaspora members on discrete projects, relatively few governments have succeeded in proactively engaging their diasporas to find areas of mutual interest for practical collaboration.

The impact of diaspora engagement is felt strongly in the following areas, among others:

- **Trade.** There are demonstrable links between the presence of a diaspora and increased trade, as diaspora members create connections between producers and consumers in countries of origin and destination. Diaspora populations also buy the products of their countries of origin and introduce these products to new markets in the countries of settlement.
- **Investment.** Diasporas invest directly in their countries of origin and persuade non-diaspora investors to do the same, boosting investor confidence in (and knowledge of) emerging and undeveloped markets. Tools such as diaspora bonds have helped mobilize diaspora wealth for development.
- **Skills and knowledge transfers.** Diasporas often gain valuable skills, experiences, and contacts abroad that they can “transfer” back to their country of origin by seeding businesses and entrepreneurship, training and mentoring native workers, and boosting emerging industries.

The impact of diaspora engagement is difficult to assess, as it is inherently difficult to disentangle causation from correlation, and to quantify the impact of elusive goods like skills and knowledge transfers. *What we know* is that governments can do more to remove obstacles and create opportunities for diasporas to engage in economic development, by taking specific actions to understand where and who the diaspora populations are, build solid relationships with diaspora partners and facilitate their involvement in the country of origin, consolidate their sense of belonging, and build institutions to implement coherent diaspora engagement policies. We also know that diaspora policies work best when diasporas are engaged as full partners — in other words, when diaspora engagement is a two-way street.

I. Introduction

Dozens of countries have set up high-level governmental bodies, or even full ministries, to interact with their diaspora populations abroad, and both donor governments and international organizations have established programs to implement diaspora engagement strategies. Diasporas have also been both subjects and participants in international discussions. In 2012, the African Union organized the first African Global Diaspora Summit, at which governments of member states of the African Union, along with governments from Caribbean, South American, and Latin American countries and representatives of the African diaspora signed a formal declaration to collaborate politically, socially, and economically. In 2013, the International Organization for Migration (IOM) held the first global conference of diaspora ministers, recognizing the importance of a policy arena that is new to many governments. Over 500 delegates attended the conference, with more than 30 governments represented at the ministerial level. Diaspora contributions to development have also been on the agenda of the annual Global Forum on Migration and Development since 2007, and the UN General Assembly's High-Level Dialogues on Migration and Development in 2006 and 2013.

There is mounting evidence that diasporas do indeed play important roles in promoting the development of their countries of origin or ancestry, as will be demonstrated below — and these roles go far beyond the transfer of remittances. Diasporas are, of course, the source of the enormous remittance flows that augment the income of recipient households and increase the source of development finance in their

countries of origin.² But governments of countries of origin also increasingly recognize their diasporas as sources of knowledge, skills, investment, and business connections. In addition, diasporas may bring new attitudes, practices, and demands that jolt their homelands out of developmental inertia. While they are often highly motivated to invest in environments that others may find too risky, they also have the advantage of distance from the vested interests and, in some cases, dysfunctional systems of the country of origin. Diasporas also connect their countries of origin or ancestry with global networks of research and technology that are essential to development in the knowledge economy.

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Government bodies in countries of diaspora destination or settlement have been slower to recognize diasporas as partners in development programs, but projects to incorporate diaspora views, resources, and knowledge in donors' development policies are becoming more common. Some destination countries, including Canada, France, Germany, Italy, Spain, and the United States, as well as the European Union, among other governments and institutions, are becoming more interested in working with the diasporas residing in their countries, and are devoting resources to helping diasporas promote the development of their countries of origin. Some of their initiatives are at the initial stage of implementation and remain to be assessed. Other programs, such as those promoting return, have not been successful at all.³ In addition, donor agencies such as the United Kingdom's Department for International Development (DfID) and Germany's Agency for Technical Cooperation (GTZ) have invested in research that creates a more solid basis for evidence-

based policymaking. The World Bank's Knowledge Platform on Migration and Development (KNOMAD) will augment and consolidate the knowledge base on diaspora engagement and a number of other issues in migration and development.

What do states expect from greater diaspora engagement? Policymakers look to members of the diaspora to help overcome some of the constraints that inhibit economic development: lack of investment and international business acumen, lack of professional and technical skills, isolation from global networks of knowledge, and exclusion from global supply chains, among others. One important expectation is that by offering a channel of access to such networks and resources, an engaged diaspora will act as a counterweight to the emigration of skilled, talented, or simply energetic people from developing countries.⁴ Currently, emigration of migrants with tertiary education is very high, at 24 percent, in low-income countries, and is particularly high in *small* low-income countries. But if the people who leave retain a connection with the country of origin — and nurture this connection in their children and subsequent generations — their global connections may prove to be a valuable asset.

Diasporas do not act in a vacuum, and they alone cannot overcome major structural obstacles to development. However, they have demonstrated in many settings that they can operate businesses, create civic institutions, and change social practices even in settings afflicted by war, natural disasters, limited infrastructure, or poor governance. Diasporas do not sit and wait for ideal circumstances to arrive — even finding opportunity in limitations. For example, the London-based, Sudanese-born communications entrepreneur Mohamed (Mo) Ibrahim

overcame Africa's lack of land-based infrastructure by establishing mobile telephone networks serving 21 million subscribers in 14 African countries, became a billionaire in the process, and has since devoted much of his fortune to promoting good governance in Africa.⁵

Controversies and Misunderstandings

The great divide in diaspora policy is between those policymakers who think of diasporas as assets or partners and those who regard them as losses or even threats. Some governments or departments within governments (such as in South Africa and Moldova's Department of Labor), and even some development agencies, continue to regard the diaspora as a population that is lost to the country of origin, and focus policy on enticing members to return or persuading people not to leave. Others (such as Senegal and the Philippines) pursue bilateral agreements with receiving countries to allow their citizens to migrate legally for work, and focus on protecting the rights of migrants.

But relatively few governments invest in really understanding their diasporas, maintain meaningful communication with them, and find areas of mutual interest for practical collaboration. Some countries simply look to their diasporas to provide funds or donate their expertise and contacts, without giving much thought to creating incentives for them to do so. Some diaspora members will "give back" to their homelands out of sentiment without asking much in return, but diaspora policies work best when engagement is a two-way street, in which all parties see clear rewards (whether psychic

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or material) from working together.

A second misunderstanding is that, too often, policymakers assume that diaspora engagement is not susceptible to policy intervention. It is true that in the overwhelming majority of cases, the dense web of ties between diasporas and countries of origin is the creation of individuals and groups acting on their own initiative, rather than a product of government intervention. Policy interventions that, for example, direct diaspora resources to more “productive” uses than supporting their relatives have largely failed. But these experiences should not lead to the conclusion that governments can do little or nothing to promote diaspora involvement in development. They can do much more than most do now if they focus on removing obstacles and creating opportunities rather than trying to manage diaspora resources directly, making it easier for members of the diaspora to engage in economically productive activities.

II. Evidence of the Development Outcomes of Diaspora Engagement

The impact of diasporas on economic development has multiple dimensions, making itself felt in three areas in particular: (1) trade, (2) investments, and (3) the transfer of skills and knowledge. Investments may include foreign direct investment (FDI); indirect (portfolio) investment through stocks, bonds, and deposit accounts; and the growth of specific sectors such as tourism or information technology through means other than direct investment.

A. Trade

Evidence of strong correlations between the presence of a diaspora residing in a country and trade ties to the country of that diaspora’s origin have slowly accumulated.⁶ One study of Canada’s trade with 136 partner countries in the 1980-92 period showed that a 10 percent increase in immigration from a particular country was associated with a 1 percent increase in exports to that country, and a 3 percent increase in imports from it.⁷ Similar

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studies of the United Kingdom and 48 trading partners, and of American states’ exports to 28 countries of origin, also found strong links between the presence of a diaspora and increased trade.⁸ Diaspora

populations consume the products of their countries of origin and introduce such products to their country of settlement. In the case of El Salvador, for example, the diaspora’s purchases of traditional products from El Salvador account for as much as 10 percent of the country’s total exports, according to Manuel Orozco.⁹

B. Investment

Diasporas play a similar dual role when it comes to investment, both investing directly in their countries of origin and persuading non-diaspora investors to do the same. A study published by the World Bank mapped the stock of African migrants in Organization for Economic Cooperation and Development (OECD) countries against investment from these countries into the migrants’ countries of origin, and found a very strong indication that the existence of migrant networks increases both direct investment and

portfolio investment.¹⁰

It is notable that FDI is the only inward flow of foreign exchange to developing countries that consistently surpasses remittances (although it is less stable). It is unevenly distributed among countries, however, with China accounting for the lion's share in recent years. (For most low-income countries, remittances remain the top source of hard currency inflows). As China emerged as a manufacturing powerhouse in the 1990s and 2000s, FDI was a major factor, and as much as half of it was estimated to originate within the Chinese diaspora: it accounted for about half of the GBP 26 billion (US \$48 billion) in FDI that flowed into China in 2002, for example.¹¹ Political scientist David Leblang used statistical methods to test the hypothesis that diaspora networks influence global investment by reducing transaction and information costs, and found that "even after controlling for a multitude of factors, diaspora networks have both a substantively significant effect and a statistically significant effect on cross-border investment."¹²

The role of the diaspora is particularly important to economies that have yet to gain the confidence of foreign investors, and especially to those emerging from war. Although the precise proportion is not known, most of the investment now going into Somalia appears to be derived from the diaspora. Exposure to diaspora members often enhances the reputation of the country of origin and gives investors greater confidence in the quality of its labor force and business climate; moreover, diaspora members who reach positions of responsibility in a corporation are in a position to steer foreign investments to the country where they know the lan-

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guage, culture, and business networks well. Citigroup's large number of Indian-origin senior executives has smoothed its way to becoming one of the two largest foreign banks operating in India.

Within any diaspora, it is likely that only a small minority will have the inclination, skills, and knowledge to become direct investors in their ancestral homeland, but many others may be willing to invest some part of their savings in trusted financial instruments indirectly — by buying shares in a fund, buying a bond, or putting funds into a deposit account in a country-of-origin bank. Senegal has established an investment fund for Senegalese abroad, which has financed 804 projects worth a total of 20 billion CFA francs (\$40 million).¹³ Liberia is considering a similar arrangement. Non-resident Indian (NRI) deposit accounts have brought substantial funds into India — over \$40 billion by the end of 2008; amounting to between one-sixth and one-third of the country's external debt.¹⁴

Migrants and diaspora members often have substantial savings; in the aggregate, these funds could have an impact on development in the country of origin. The World Bank calculates that diasporas originating in developing countries have savings that amounted to almost \$400 billion in 2009 — an amount roughly equal to remittance flows.¹⁵ A few countries, including Ethiopia, India, Israel, and Kenya have issued bonds designed particularly for the diaspora market, and the first two of these have been quite successful in raising money from the diaspora. In Israel's case, the \$25 billion raised was designated for ambitious infrastructure projects. In India, the first diaspora bond issue helped stave off a balance-of-payments cri-

sis after sanctions were imposed following India's first nuclear test; India's two bond issues raised \$11 billion.¹⁶ The World Bank has set up a task force on diaspora bonds, which will help other countries use this method to create homeland investment opportunities for migrants and their descendants.

C. Skills and Knowledge Transfers

For many countries, the diaspora acts as a brain trust, connecting critical components of the public and private sectors to expertise not available within the country and compensating to some degree for the departure of highly skilled emigrants. Some skills and knowledge-transfer initiatives rely on the temporary (and occasionally permanent) return of skilled diaspora members to the country of origin to teach and train — although these initiatives are hard to scale up because of their high cost and the difficulty of detaching professionals from their regular jobs abroad for meaningful periods of time.

In many developing countries, the medical professions have felt very keenly the inability to train and retain adequate numbers of health-care workers with appropriate skills. In some countries, health infrastructure is so poorly funded that badly needed medical professionals are unable to find work, or have no access to the kinds of training that will allow them to perform at high levels professionally. Medical professionals who have received advanced training and practiced abroad are able to bring new training, skills, equipment, and know-how (for example, in hospital administration) to their countries of origin — resources that they would not have been able to access had they remained at home. Second and later-generation diaspora members may also volunteer their services, and help fund medical services and innovations, in their

ancestral homelands.

Many public as well as private health-care facilities have turned to medical professionals in the diaspora to help fill gaps in medical training and services. For example, in an IOM-managed project known as Migration for Development in Africa (MIDA), the Ghana health project reached 21,000 health workers and students who took part in training and education programs provided by over 100 Ghanaian diaspora health professionals resident in Europe. In a similar project, FINNSOM Health Northern Somalia, medical professionals of Somali origin from Finland volunteered for 58 assignments to 20 host institutions in Somaliland and Puntland (with a special focus on female health professionals to address women's health needs). Both projects were demand-driven, with local institutions and health authorities identifying the needs in their areas.¹⁷ Ethiopia has initiated an extremely ambitious project to build 13 new hospitals, and is relying heavily on medical professionals in the diaspora to train the new staff.

Other initiatives emphasize the development of diaspora networks whose activities are not dependent on physical presence in the country of origin. Chile, for example, has been able to work with highly skilled Chileans abroad through ChileGlobal — the Talent Network for Innovation. ChileGlobal promotes and facilitates the development of key economic clusters in Chile by reinforcing their links with Chileans residing abroad who contribute their time, experience, contacts, knowledge, and skills to help globalize Chilean companies. Through its network of about 400 influential Chilean members abroad, ChileGlobal designs and finances business projects that introduce innovations in both the production and services sectors, boost human capital to augment productivity, and promote

technology and knowledge transfers to and from Chile. By 2011, it had helped create 76 companies with more than 50 domestic and international partners (including private corporations, universities, and institutes of technology), retaining part ownership in 23 of them.¹⁸ Among these companies were leaders in biotechnology and information technology.

Other initiatives follow the model of business incubators. A recent example was established by the Peruvian-American Center for Entrepreneurial Development, and provides logistics, infrastructure, and training to business owners. The Peruvian diaspora in New Jersey will provide advice to firms in Peru. A consortium of business, academic, and immigrant-led organizations in the United States and Peru are collaborating on an initiative they hope will assist small-business entrepreneurs in both countries.¹⁹

The examples of particular sectors of developing economies that have benefited from diaspora engagement are too numerous to describe comprehensively here. Most people are probably aware of the role of the Indian diaspora in helping to develop the information technology sector in India, led by the success of Indian engineers and entrepreneurs in Silicon Valley.²⁰ The story of India's domination of the global diamond-cutting and diamond jewelry industry, in which the diaspora based in Antwerp, Belgium played the key role, is less well known, but is compellingly recounted by Devesh Kapur.²¹ By 2005, India accounted for 55 percent of global net exports of cut and polished diamonds. These industries in India employ over 1 million people and generated more than \$21 billion in export revenue by 2008 (about 13 percent of total export revenue)²² — up from \$40 million in 1968.²³

India currently has a 65 percent share of the world diamond market in terms of its value, an 85 percent share in terms of volume, and a 92 percent share of product.²⁴ Without the penetration of the Indian diaspora into the closed world of diamond trading in Antwerp, the flow of rough diamonds to India would not have been possible.

Migration and mobility significantly contribute to poverty reduction as well as increased access to education, health services, and food security.

The private hospital sector is another area in which the Indian diaspora has stimulated growth, including in medical tourism. An Indian cardiologist practicing in the United States, Dr. Prathap Reddy, returned to India and opened a 150-bed

private hospital in Chennai in 1983. Since then, his Apollo Hospitals group has grown to 8,500 beds in 50 hospitals (seven of which have Joint Commission International accreditation), and is one of the largest health-care groups in Asia. The Apollo hospital network has pioneered telemedicine to take higher-quality care to India's villages, as well as robotic surgery and medical tourism. It has spearheaded the vertical integration of medical services, from health insurance to hospital administration to diagnostic services and many others. And it is also active in public health initiatives to promote heart health as well as many other philanthropic projects.²⁵

In each of these areas of diaspora initiative, the government of India has been a secondary actor, although most of the enterprises took off once India began its economic liberalization program in 1991. The government has taken steps to facilitate diaspora investment generally, for example creating a "one-stop shop" to simplify the bureaucratic and administrative requirements for diaspora investors. Lately, to promote and consolidate India's position in the diamond industry in the face of growing competition from China, the government has established

several special economic zones to facilitate the trade. (India mines very few diamonds, so must import rough diamonds, and 90 percent of its output of cut diamonds and diamond jewelry is exported).²⁶ India is a good example of the role that diasporas can play in promoting global industries, and of the observation that diasporas do not always wait for government policy to be perfect before taking initiative. But India also illustrates that governments can promote development by taking specific actions to support diaspora investment in economic sectors with high growth potential.

III. Gaps or Contradictions in Evidence

These examples show the positive relationship between diasporas and economic development, but some evidence gaps remain. The data needed to track diaspora contributions are simply not available consistently, broadly, and over long periods of time. Most statistical evidence is gathered by tracking correlations *ex post facto*, as with many of the studies cited above. Correlations are highly suggestive, but cannot, of course, demonstrate causality. Case studies like the Indian industries described above are also suggestive, but limited in their ability to support broad generalizations about the impact of diasporas. Data on FDI, for example, is not separated out by diaspora origin; nor is portfolio investment, except that which moves into diaspora bonds or diaspora funds.

Most government financial incentives to attract diaspora investment are relatively small and have had uncertain results that are difficult to assess. Would the investments have been made anyway? Are the

incentives distorting the market? Are non-diaspora members sending money abroad and enlisting a diaspora member to act as a front in order to benefit from diaspora incentives? (This practice is known as “round-tripping” and believed to be quite significant in China). Governments are largely unable to measure “diaspora direct investment” in a way that can distinguish it from other FDI, except through very small programs such as Mexico’s “1x1” or Moldova’s “PARE 1+1,” both matching-grant initiatives aimed at stimulating diaspora collaboration in small and medium enterprises. Some of the other benefits are inherently hard to measure, and many are long-term and complex. For example, what is reputational enhancement worth to a country? In general, it is difficult to quantify the impact of skills and knowledge transfer, especially in the short term.

Another potential obstacle to successful diaspora engagement is that most diasporas are heterogeneous. Governments intending to engage them can only succeed by recognizing this fact and designing policies that address the interests and needs of individuals and groups within the diaspora

— while still serving the interests of the country of origin as a whole. Policies that privilege the diaspora in isolation from larger national purposes are likely to generate resentment from the

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non-diaspora citizenry. A country’s population, however, is likely to consider the protection of the diaspora against abuses and the continued maintenance of language and culture in the diaspora, as appropriate national (and governmental) goals. Indeed, the protection of citizens — and in some cases, their descendants — abroad is a domestic political issue capable of influencing the outcome of elections in some countries

— as for example in the Philippines.

IV. Recommendations

Diaspora strategy has a number of critical ingredients. These include identifying goals, mapping diaspora location and skills, fostering a relationship of trust with the diaspora, maintaining sophisticated means of communication with the diaspora, and ultimately creating opportunities and clearing obstacles for diasporas to contribute to national development. Government offices can also serve as a channel of communications between the diaspora and potential partners in the country of origin — for example, linking diaspora investors and entrepreneurs with good business opportunities there. Governmental diaspora-focused entities in countries of origin — whether ministries, departments, or special offices — need to play a dual role, both facilitating diaspora contributions to the homeland, and serving the diaspora. The two goals are compatible, but both have resource implications which may force difficult decisions on governments.

Donor governments (and multilateral donors) should consider providing seed money, technological assistance, and logistical support to build and strengthen diaspora networks that have a strong developmental potential, such as those devoted to cooperation in business or information technology. Support for networking should not be confined to the economic sphere, but should also extend to peace-building and reconciliation networks.

In sum, actions that governments (both of countries of origin and destination) and other stakeholders can take to establish systematic cooperation with diasporas include:

- Developing sound methodologies for mapping the diaspora and preparing

“diaspora profiles,” in order to understand the socioeconomic and demographic characteristics of diasporas, their attitudes, and possible areas of interest for collaboration.

- Implementing policies to facilitate diaspora involvement over a wide range of policy arenas. These include easier access to legal status in host country, dual citizenship, lower visa costs for accompanying family members, improved capacity and efficiency of consular networks and support, availability of quality transport between countries, reduced bureaucratic procedures and administrative hurdles for cross-border transactions, banking services, and facilities in host and home countries).
- Coordinating the work of different departments within embassies and government ministries to increase efficiency in building relationships with diasporas and their networks.
- Engaging with key stakeholders such as chambers of commerce, investment promotion agencies, trade associations, business councils, universities, banks, and private firms.
- Designing financial instruments to attract diaspora savings (e.g., diaspora bonds).
- Building the capacities of existing services and institutions dealing with migration and diaspora issues.

Most importantly, donor agencies need to overcome a blind spot that downplays the importance of migration as a factor in development. The IOM, World Bank, some regional organizations (including the European Union), regional development banks (in particular the InterAmerican Development Bank), and a few national development agencies (in Germany, Switzerland, and the United Kingdom in the 2000s) have led the way on this issue, sponsoring research and

implementing projects that elucidate the role of diasporas as agents of development. There is as yet no coordinating body, although the Global Forum on Migration and Development (GFMD) has kept diaspora engagement on its agenda in each of its meetings, and provides a platform for sharing experience and information. Meanwhile, diasporas continue to send money, make investments, and create connections that help their

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countries of origin to erode the constraints on their development. The private sector and civil-society organizations continue to create initiatives that bridge countries of origin and destination, and often benefit both. With more systematic cooperation from governments of origin and destination, as well as from international organizations, they may do even more.

ENDNOTES

- 1 Diasporas encompass emigrants and their descendants who maintain a connection to their countries of origin or ancestry.
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The Migration Policy Institute (MPI) is an independent, nonpartisan, nonprofit think tank dedicated to the study of the movement of people worldwide. The institute provides analysis, development, and evaluation of migration and refugee policies at the local, national, and international levels. It aims to meet the rising demand for pragmatic responses to the challenges and opportunities that migration presents in an ever more integrated world.

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About MPI's Migrants, Migration, and Development Program

Governments, multilateral agencies, and development specialists have rediscovered the connections between migration and development. Research focuses on the actual and potential contributions of migrant communities to sustainable development or the reduction of poverty in their countries of origin; the findings, however, have not been systematically translated into policy guidance.

The Migration Policy Institute is deeply engaged in efforts to encourage a multilateral discussion and exchange of experience through the Global Forum on Migration and Development and the UN High-Level Dialogue on International Migration and Development.