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August 2015

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ABSTRACT

Migration, Entrepreneurship and Development: A Critical Review

We provide an assessment of the state of scholarly and policy debates on migrant entrepreneurs in development. They are often described as super-entrepreneurs who contribute to development through (i) being more entrepreneurial than natives; (ii) providing remittances that fund start-ups in their countries of origin and (iii) returning entrepreneurial skills to their home countries when they re-migrate. We evaluate these three views and conclude that the empirical evidence to support the notion of the migrant as a super-entrepreneur is weak. We further argue that the evidence is less ambiguous on the general development contribution of migration over and above its contribution through entrepreneurship. The implication is that removal of discriminatory barriers against migrants and against migrant entrepreneurs in labour, consumer and financial markets will promote development in both sending and receiving countries, not least through reducing the shares of migrants that are reluctant entrepreneurs.

JEL Classification: J60, L26, O15, F22

Keywords: migration, entrepreneurship, development, remittances

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1 Introduction

Entrepreneurship and migration are at the very top of many national and international agendas. It is easy to see why: globally there are probably a billion entrepreneurs (measured in terms of self-employment) and more than 232 million cross-border migrants (United Nations, 2013). The development impacts of both migrants and entrepreneurs are therefore likely to be substantial. For instance, migrant remittances are estimated to be around US dollar 550 billion annually (more than 2 times the volume of aid) (World Bank, 2013). It contributes significantly to poverty reduction in some countries (Adams and Page, 2005). In the same vein entrepreneurs invest billions and create substantial numbers of jobs. Both migration and entrepreneurship, including transnational entrepreneurship have therefore attracted attention from policy-makers, donors, NGOs and others interested in their possible impacts on poverty reduction and development.

The problem is that entrepreneurship and migration policies often do more harm to the poor and to development, than good. Naudé (2010, 2011) has dealt with the relationship between entrepreneurship and development and growth, and the difficulties that well-meaning but poorly-informed policies cause. Not all entrepreneurs create sustainable or substantial jobs: most do not innovate much and substantial numbers of firms fail after only a few years. In such a context of heterogeneity, policies are often ineffective; and often may have undesired outcomes. For example, easing entry restrictions for potential entrepreneurs may result in a large pool of entrepreneurs with insufficient entrepreneurial ability and skills, which in combination with asymmetric information about their skills and ability can result in a general contraction of finance from banks (who do not want to lend to entrepreneurs with poor ability) (de Meza and Webb, 1987). Much scarce resources are being spent on providing training and education to prospective entrepreneurs with little, and even opposite than intended, outcomes. Often participants of such programs only realize what it means to be an entrepreneur during the course and as such their aspirations change because of this additional knowledge, even discouraging some who had initially planned to start their own business (Oosterbeek et al., 2010).

In the case of migration, poorly-informed policies have also created and continue to create harm. Stricter border controls to prevent irregular migration from Africa to Europe, for example, have not stopped migration flows, but instead led to a diversification of migration routes and to a much more dangerous migration journey (de Haas, 2009). The debate on the economic development implications of migration is a long-standing and often emotional one.

Recently there has been more attention in this debate on the role of migrant entrepreneurs. They are often hailed as akin to super-entrepreneurs with consequent high expectations for their role in business start-ups and job creation. The problem is that this may mask and even exacerbate bad immigration policies. For instance in justifying too much of a focus on attracting certain types of migrant entrepreneurs, or training return migrants to be entrepreneurs, rather than facilitating migrants' access to wage employment and the formal economy.

The super-entrepreneur view of migrants is based on three stylized facts or beliefs regarding migrants: (i) migrants are more entrepreneurial than natives; (ii) migrant remittances can fund start-ups in the countries of origin; (iii) return migration can bring valuable entrepreneurial skills to developing home countries. A more nuanced discussion on these relationships is necessary and in this paper we provide a review of the existing evidence on these stylized facts in the context of the broader debate on the role of migration in development.

The remainder of the paper will proceed as follows. In section 2 we discuss the relationship between migration, development and entrepreneurship, considering the three stylized facts mentioned. Then in section 3 we evaluate the empirical evidence in this regard. Section 4 considers the implications the empirical evidence has for immigration policies. Section 5 concludes with a summary and recommendations.

2 The Migration-Development-Entrepreneurship Nexus

A discussion of migrant entrepreneurship and its implications for development requires background on the broader context of migration and development. Migrant entrepreneurs are, perhaps foremost as we will argue, *migrants*, and their impact on development will very much hinge on the channels through which they can change development outcomes, directly or indirectly. Entrepreneurship is but one of these channels; often an overrated one. Furthermore, migrants decisions, including whether and when to migrate and their occupational choices are a function of development. The migration and development literature is however substantial. In what follows we will give a brief summary of the different channels through which migration may impact development and analyze how being entrepreneurial may matter or not.

We first argue that migration has a significant impact on development (broadly defined). Then we discuss the salient facts that may lead some to consider migrant entrepreneurs as super-entrepreneurs, after which we confront this view with empirical evidence.

2.1 Does Migration Matter for Development?

[de Haas \(2010\)](#) provides a critical overview of the literature on migration and development and shows that this body of work has vacillated between pessimism and optimism over time. Based on the neoclassical theory of migration, opinion in the 1950s and 1960s was that migration had a generally positive impact on development reflecting a virtuous circle of labour mobility that would eventually even-off in the long-term ([Castles, 2008](#)). The Lewis and Harris-Todaro models, for example, assume out-migration from low productivity areas to be essential for rising productivity ([Harris and Todaro, 1970](#); [Lewis, 1954](#)). This view changed in the 1970s and 1980s, during which period migration became more widely seen as being part of a vicious circle of under-development, which widened

the gap between core and periphery countries. Migration was blamed for maintaining economic dependencies between rich and poor countries by causing a brain-drain from poor to rich economies. Just before the recent (2013-2015) rise in immigration to Europe (mainly as a result of conflict in the Middle East and Eastern Africa after the Arab Spring) the pendulum had started to swing back towards a more positive assessment of the development impact of migration, with notions of a brain-gain being modified to account for a brain-circulation (Mountford, 1997; Saxenian, 2006; Docquier and Rapoport, 2011).

Recent theorizing on migration and development is based on the New Economics of Labour Migration (NELM) and livelihood approaches (de Haas, 2010) which take a more holistic view of migration and development. Different aspects of migration, such as the role of diasporas have surfaced and migrants are seen as agents of development, leading to more nuanced research. For instance, migration have been established to have brain-drain effects only for some of the poorest countries (Maria and Stryszowski, 2009; Beine et al., 2008). In addition new evidence suggests that out-migration of highly skilled individuals have substantial benefits, mainly for ‘the migrants themselves, who benefit through massive gains in income and through greater human capital (Gibson and McKenzie, 2012) [p.371]. Migration has also been found to contribute to raising living standards of those left behind (Acosta, 2007; Adams, 1991, 2004, 2006; Adams and Page, 2003, 2005; Itzigsohn, 1995; Taylor et al., 2005) as well as increased human capital, brain-gain and better return to human capital investments (Mountford, 1997; Stark and Wang, 2002).

The role of remittances has been the subject of special scrutiny given their sheer volume. Remittances have significant welfare impacts on countries with large out-migration, for example Jamaica and El Salvador (Giovanni et al., 2014) although this is more the case when low-skilled individuals migrate than in the case of higher-skilled migrants, who tend to remit less in per capita terms than low skilled migrants (Adams, 2009). Remittances can also facilitate increases in household spending on education (Cox-Edwards and Ureta, 2003; Acosta, 2007), health services (Hildebrandt and McKenzie, 2005; Mansuri, 2007) and savings or investments (de Haas, 2005). There is no conclusive evidence that remittances unambiguously promote macro-economic growth (Yang, 2011).

Others have argued that out-migration does not only lead to higher levels of trade (Egger et al., 2012; Fairlie and Lofstrom, 2013; Rauch and Trindade, 2002) and FDI (Kugler and Rapoport, 2011) to developing countries, but also contributes through ‘social remittances’. Social remittances are ideas, behaviors, identities, and social capital that flow from receiving- to sending-country communities (Levitt, 1998) [p.927]. They can be transferred to the origin country through modern communication methods such as telephone, internet and mail, through migrants’ temporary return visits to their origin country or through permanent return. Migrants transfer their know-how and skills to family members or friends living in the origin country and this knowledge can then be utilized by individuals or households in the home country.

In this context, Docquier et al. (2011) and Spilimbergo (2008) show that the level of emigration is related to political developments in the home-country. Migrants can contribute to the diffusion of democratic values and norms either directly upon return or through contacts with relatives, or indirectly through social networks connecting the diasporas with groups in the origin country (Docquier et al., 2011). Some have even

argued that return migrants can increase the demand for political accountability and so improve governance in their home countries (Batista and Vincente, 2010). However, the opposite can also hold; Stel (2013) for instance finds in the case of the Lebanese Diaspora, migrants often play an active role in entrenching political power in their home country.

This brief review illustrated a number of potential channels through which migration can impact development in both sending and receiving countries. Migration movements have implications on the macro-level of both countries as well as on the micro (individual or household) and meso (community) level. One of the channels through which migration may affect economic growth is through the entrepreneurial behaviour of migrants.

2.2 Are Migrant Entrepreneurs Super-Entrepreneurs?

We conclude from the previous section that migration has the potential to contribute to development. But not all individuals and all countries benefit automatically from migration: there is much country and individual heterogeneity in migration-development outcomes. In this respect de Haas (2010) has cautioned against simplified assumptions about the relationship between migration and development. He points out that there ‘is no automatic mechanism by which international migration leads to development (p.240). This means that policies may matter very much in migration: and moreover that migration policies may do much harm to development by distorting outcomes. Because of the nature of the public and policy debates on migration (characterized very often by a high degree of subjectivity), the need for an automatic mechanism of development through migration has concentrated attention in recent years on the role on migrants as entrepreneurs and facilitators of entrepreneurship.

Herein, migrants are often expected to be super-entrepreneurs. Proponents of this view have pointed to the successes of migrant entrepreneurs in China and the USA to argue that migrants may not need formal wage jobs. For instance it has been pointed out that in successful developing countries, such as China, 25 percent of migrants are self-employed (Giulietti et al., 2011). Saxenian (2002, 2006) and others have praised the role of immigrants in the development of Silicon Valley, where close to one third of the technology businesses were run by immigrant owners by the end of the 1990s.

Several countries have introduced policies specifically targeting migrant entrepreneurs by introducing specific visa regulations for this group. They are seen as having high potential to contribute to the local economy and are therefore welcomed in countries like the Netherlands, Germany and many others (OECD, 2011). These policies are selective in terms of admitting those migrants that bring sufficient human and/or financial capital and that are likely to make a contribution to the economy of the respective country (Marchand and Siegel, forthcoming).

Why are migrant entrepreneurs seen as ‘super-entrepreneurs’? The main argument is based on selection. Migrant entrepreneurs may be less risk averse, as is evident in their decision to migrate, itself a risky activity (Neville et al., 2014). And they have been argued to be more able to spot opportunities for new businesses as they already

spotted opportunities for migration (Hart, 2009). On the other hand, immigrants may be found more proportionately amongst the self-employed because they may be excluded from more formal wage opportunities, hence they may be driven into self-employment and forced to become creative and problem-solving (Brixy et al., 2013). An additional argument for the ‘super-entrepreneur view, which is particularly applied to return migrant entrepreneurship, is that of capital accumulation through the migration experience. Migrants are seen to have access to supplementary sources of support, training and financing, as often migrants increase their educational level and/or gain new skills, save more money and extend their social network while living abroad (de Haas, 2006; OECD, 2008).

These super-entrepreneurs and the diaspora communities of which they are part can contribute to their home countries’ development (Riddle et al., 2010; Wei and Balasubramanyam, 2006). For instance Vorderwuelbecke (2012) states that migrant entrepreneurs often maintain strong social ties with their homeland community, with positive benefits such as the transfer of business and technological know-how, information exchange and remittances [p.43]. This extends the accepted view in the literature that migrant communities can foster greater volumes of international trade between sending and receiving countries (Vaaler, 2011).

Migrant entrepreneurs can also promote direct investment in their home countries as transnational entrepreneurs: according to Riddle et al. (2010) around 20 per cent of FDI to India between 1991 and 2001 was from its diaspora. However, the role of Indian (and Chinese) diasporas may be unique; in the case of other countries Gibson and McKenzie (2012) found a negligible role of (highly skilled) migrants in fostering FDI to their home countries. Because a large proportion of migration is return migration, the role of return migrants occupational decisions has attracted a growing body of research. In this view the decision to migrate and to start a business upon return is often made simultaneously (Démurger and Xu, 2011; Dustmann and Kirchkamp, 2002; Rapoport, 2002). As such larg(er) proportions of return migrants may become entrepreneurs (Marchetta, 2012; Mesnard, 2004; Dustmann and Kirchkamp, 2002). A further analysis of this evidence will be presented in section 3.3 below.

In conclusion, a positive view of migrant entrepreneurs has gained acceptance within the broader migration-development nexus. Within this many subscribe explicitly or implicitly to a view that migrant entrepreneurs are super-entrepreneurs who will benefit development in home and destination countries through their greater prowess as entrepreneurs, their remittances, their trans-national entrepreneurial activity and their business acumen. In the next section we examine whether these views are supported by empirical evidence.

3 Re-evaluating the Stylized Facts

3.1 Are immigrants really more entrepreneurial than natives?

Despite the *a priori* reasons for suspecting that migrants may be more entrepreneurial than natives, as discussed in section 2.2, the empirical evidence is not strong. For instance, a recent [OECD \(2010\)](#) review finds that migrant entrepreneurship, as measured by self-employment rates, is more common than non-migrant entrepreneurship in only 13 out of 25 countries in the OECD. In other words in about half of the OECD countries, migrants *are less likely than natives to be self-employed*. Moreover, in the countries with larger immigrant populations, such as Germany, Italy, Spain, Switzerland and the Netherlands, migrants are much less likely than natives to be self-employed ([OECD, 2010](#)). In the case of migrants in Germany, [Brixy et al. \(2013\)](#) even found that migrants believe less often that they have the necessary skills to run a business and that they were not more risk averse than non-migrants. And in the case of the Netherlands, [Jansen et al. \(2003\)](#) find the rate of entrepreneurship amongst the native Dutch population as well as of the Turkish immigrant population to be almost twice as high as amongst immigrant populations from Morocco, Suriname and the Antilles.

The only study to compare start-up rates (early entrepreneurial activity) amongst migrants and non-migrants across countries is the 2012 Global Entrepreneurship Monitor (GEM). It found that rates of early entrepreneurial activity (start-up rates) are similar between migrants and non-migrants, and that start-up rates of migrants are just as heterogeneous across countries as that of non-migrants. For instance the GEM found that only 1.8 per cent of early entrepreneurial activity in Sub-Saharan Africa is undertaken by first generation migrants, while the corresponding share is 11 per cent and 10 per cent in the USA and Western Europe respectively ([Vorderwuelbecke, 2012](#)).

Self-employment *per se* may be a poor measure of entrepreneurship. Many argue that what fundamentally characterizes entrepreneurs is their innovativeness, their creative destruction to use Schumpeters term. So how well do migrant entrepreneurs do in terms of innovation? It has been pointed out that migrant entrepreneurs may be disproportionately represented, at least in the United States, amongst high-growth and highly innovative enterprises ([OECD, 2011](#); [Saxenian, 2002](#); [Wadhwa et al., 2007](#)) and biotech firms ([Stephan and Levin, 2001](#)) as well as public venture-backed US companies ([Anderson and Platzer, 2006](#)) and high-impact companies ([Hart and Acs, 2011](#)). In the 2012 GEM survey on average 20 per cent of migrant-owned enterprises expected to create 10 or more jobs in the next five years, compared to only 14 per cent of non-migrant owned enterprises ([Vorderwuelbecke, 2012](#)).

As far as innovation is concerned, around 16 per cent of high-tech firms in a recent USA sample had a migrant owner, and moreover a migrant owner with skills in science and engineering ([Hart, 2009](#)). [Hunt and Gauthier-Loiselle \(2009\)](#), using USA patent data, found that ‘immigrants account for 24 per cent of patents, twice their share in the population, and that the skilled immigrant patenting advantage over skilled natives is entirely accounted for by immigrants’ disproportionately holding degrees in science and

engineering [p.4]. Despite the clear contributions that migrant entrepreneurs have made to innovation in the USA, [Hart and Acs \(2011\)](#) cannot find evidence that migrant owned high-tech firms in the USA are more likely to register patents or spend more on research and development than native owned firms. Supporting this point, the survey by [Hart \(2009\)](#) of high-tech entrepreneurship (the most innovative form of entrepreneurship) in the USA concluded that ‘most previous studies have overstated the role of immigrants in high-tech entrepreneurship’ [p.3].

The 2012 GEM survey attempted to measure the innovation of enterprises as the number of new products or services they introduced across 69 countries, taking into account whether the enterprises in question were owned by a migrant or non-migrant. Analyses of the survey results could not find significant differences between the innovativeness of migrant and non-migrant entrepreneurs ([Vorderwuelbecke, 2012](#)).

As a final measure of the entrepreneurial prowess of migrants, one may compare the average performance of migrant enterprises to that of non-migrants. Using performance measures such as sales growth and profits from new Canadian start-ups, [Neville et al. \(2014\)](#) find that migrant enterprises are not generally better performing than those of non-migrants and that very often immigrant-owned firms underperformed. Only in the case of migrant firms that export do they find superior performance, suggesting to them that these migrant firms may have better international networks. The usual suspects in firm performance such as experience, skills, gender, access to finance and growth orientation were found to apply in equal measure to both migrant and non-migrant enterprises. Similarly [Dai and Lui \(2009\)](#) finds that in the case of China’s Zhongguancun Science Park (ZSP) return migrants who export more, due to their international networks, performed better than non-migrants.

[Saxenian \(2002, 2006\)](#) and others have argued that the development of high-tech sectors and innovation clusters in countries such as China, India and Taiwan resulted due to the remigration of entrepreneurs (transnational entrepreneurs) from places like Silicon Valley and elsewhere in the USA. More recently [Kenney et al. \(2012\)](#) challenged this interpretation, concluding from a historical overview of the creation and establishment of ICT industries in these countries that return migrants were not critical in their establishment. They conclude that the roles of native entrepreneurs and governments were more essential for the emergence and establishment of these industries than return migrants and that ‘the importance of the returnees is more likely in deepening home country industrial development and connections to the US’ [p.395].

3.2 Are migrant remittances likely to fund entrepreneurship in their home countries?

In the new economics of labor migration (NELM) the decision to migrate is seen not as only a decision an individual makes, but a decision that is taken at the household level to deal with risks, market imperfections and obstacles in their environment. If for instance, a lack of liquidity and/or poorly functioning financial markets obstruct households to establish business enterprises, migration of some family members and their

remittances may be a way of overcoming these financial constraints, making it possible for them to invest in agricultural innovations, land and housing, and small businesses (Lucas and Stark, 1985).

The literature on the impact of remittances on development contains controversial findings. It contains on one hand a somewhat pessimistic view of the role of remittances, recognizing negative effects such as moral hazard (Chami et al., 2003) and exchange rate appreciation and reduced export competitiveness (Amuado-Dorantes and Pozo, 2004; Bourdet and Falck, 2006). On the other hand a more optimistic view emphasizes that remittances can contribute to poverty reduction, consumption smoothing and household expenditure (Acosta, 2007; Adams, 2006). Remittances can also raise household spending on education (Cox-Edwards and Ureta, 2003; Acosta, 2007) and health services (Hildebrandt and McKenzie, 2005; Mansuri, 2007). In addition, part of remittances that are received by households may be used for savings or investments (de Haas, 2005). Giuliano and Ruiz-Arranz (2009) show that in some countries with underdeveloped financial systems remittances are used to overcome credit and liquidity constraints and are invested into small business development. They find that when the development of the financial sectors is lower the contribution of remittances to economic growth is stronger (Giuliano and Ruiz-Arranz, 2009).

The empirical evidence on the effectiveness of remittances to encourage entrepreneurship in migrant sending countries is, however, also mixed. For instance Amuado-Dorantes and Pozo (2004) show that in the case of the Dominican Republic receiving remittances does not lead to an increased likelihood of owning a business, but rather the opposite. Remittance receipt is associated with a reduced likelihood of business operations. It has also been observed that households, who already operate a business, are more likely to receive remittances from abroad (Amuado-Dorantes and Pozo, 2004). Vasco (2013) studying migration and remittances in the case of rural Ecuador finds that ‘neither migration nor remittances have any effect on the odds of a household owning a rural business’ [p.37]. Ang et al. (2009) also do not find a significant effect of remittances on productive investments in the Philippines.

In the case of Mexico, on the other hand, remittances have been found to be a significant source of capital for micro-enterprises (López-Córdova and Olmedo, 2006). Investments in businesses are seen increasingly in Mexican households and communities receiving remittances from the United States (Massey and Parado, 1998). Woodruff and Zenteno (2007) also find that SMEs in Mexico benefit financially from having links to migrant networks in the USA and that in the case of high-tech firms they also grow faster as a result, suggesting that migrant networks can alleviate financial constraints. In the case of Nicaragua, Funkhouser (1992) establish that remittances have a small positive effect on self-employment in receiving households. In El Salvador, in contrast, remittances did not seem to impact self-employment activities in a household survey conducted in 2000. International remittances were, however, significantly and positively associated with business ownership. These effects were particularly strong in rural areas and among females (Acosta, 2007).

Yang (2008) estimates the responses of Filipino households to economic shocks in the destination country of migrated household members. He shows that a positive shock

leads to increased levels of investment in entrepreneurship in the origin households. Vaaler (2011) find evidence that remittances support venture capital funds and firm start-ups in home countries, especially when they come from migrants living in migrant communities abroad. The effects decrease when the remittances are sent by highly educated migrants Vaaler (2011).

Besides the direct use of remittances for business investments, remittances might also indirectly contribute to the ability of a recipient household to engage in business activities. A stable remittance income may be considered a positive attribute in the evaluation of creditworthiness of a households when it comes to access to microloans or small business loans (Ratha, 2007). Especially in contexts where households face high income volatility and shocks otherwise, remittances can also favor income smoothing and as such make households more attractive borrowers (Mohapatra et al., 2011).

Overall, however, most of the literature on development and migration seems to concur that remittances are largely used to fund consumption (de Haas, 2010) which is not necessarily a bad thing for households in the poorest countries (Yang, 2011). Whether remittances are used for business investments and self-employment activities is highly dependent on the context as is shown by the mixed evidence on the relationship between the two. It seems that it matters where the remittances come from, where they go and who is then responsible for the way they are used in the receiving household. As such more research is necessary in order to really understand the interactions between remittances and entrepreneurship and to establish under what conditions migrant remittances are likely to fund entrepreneurship in their home countries.

3.3 Are return migrants more likely to be entrepreneurial than non-migrants?

While there is a growing literature on the development impact of the rising flow of remittances to poorer countries, it is only fairly recently that attention has been paid to the potential of return migrants to start up enterprises in their home countries. This reflects the greater awareness of the fact that most migration is not permanent, but temporary (Mesnard, 2004). Hence, migrants may learn while away from their home country or region, as well as gather savings and build foreign networks, all of which may alleviate constraints on starting a new enterprise upon return (Marchetta, 2012; Rapoport, 2002). However, while abroad migrants may lose contact with their networks at home, and hence experience a depreciation of their social capital, which may make it more difficult to establish a new enterprise. Accordingly, to the extent that credit constraints and lack of skills and experience are obstacles to entrepreneurship in developing countries, and social capital is not as crucial, one may expect return migrants to be more likely to be able to start up new firms than non-migrants (Wahba and Zenou, 2012).

How valid is this expectation? Black and Costaldo (2009) report that the literature is not unambiguously supporting this expectation and moreover that the types of businesses started up by return migrants most often do not have a significant development impact. Gibson and McKenzie (2012) find micro-economic evidence from five developing countries

that return migration is common, and that although return migrants share knowledge gained, they are not more productive as entrepreneurs or in wage labor back home than non-migrants.

There are several studies investigating differences in entrepreneurial activities between return migrants and non-migrants. The most common finding relates to financial capital, and more specifically the role of savings accumulated abroad in the launch of a small business upon return. For instance, both [Arif and Irfan \(1997\)](#) and [Piracha and Vadean \(2010\)](#) find strong indication that return migrants are more likely to be self-employed in business in comparison to non-migrants in Pakistan and Albania respectively. Using data from Ghana and Côte d'Ivoire [Black and Costaldo \(2009\)](#) find that return migrants are more likely to start a new enterprise if they had accumulated savings and stayed abroad longer. This trend was found to be stronger among poorer migrants. They also found that any formal education received by migrants while abroad to be insignificant for the entrepreneurship decision once they have returned. Similar results were obtained for Bosnia-Herzegovina, Bulgaria, Georgia, the Kyrgyz Republic, Romania and Tajikistan by [Lianos and Pseiridis \(2009\)](#) and by [McCormick and Wahba \(2001\)](#) for Egypt. [Ilahi \(1999\)](#), [Dustmann and Kirchkamp \(2002\)](#) and [Mesnard \(2004\)](#) arrive at a similar conclusion showing return migrants are particularly prone to invest savings from abroad in business ventures back home, suggesting temporary migration may at times be employed as a strategy to overcome credit constraints faced in the country of origin.

In the case of rural to urban migration in China, [Démurger and Xu \(2011\)](#) found that return migrants were more likely than non-migrants to start up an enterprise and that the likelihood of this was enhanced by the amount of savings accumulated and the experience gained as measured by the frequency of job changes. Also for China, [Giulietti et al. \(2013\)](#) found that not only are return migrants more likely than non-migrants to start up a business, but that they also promote entrepreneurship amongst family members who did not migrate suggesting that knowledge and experience may be skills required in China's rural areas to stimulate entrepreneurship.

[Wahba and Zenou \(2012\)](#) using migration data from Egypt also find that experience, savings and duration abroad matter, and that the loss of social capital due to being out of the country does not outweigh the benefits of finance and experience in starting up a firm. In the case of Egypt their evidence indicate that return migrants could indeed be more likely to become self-employed; however, they do recognize that the decision of a migrant to return could be a decision made simultaneously to that of becoming an entrepreneur, which would upwardly bias the propensity of return migrants to be found in entrepreneurship; they find evidence of such an upward bias in their data ([Wahba and Zenou, 2012](#)). Similar evidence of bias, and of the simultaneity in the decisions to migrate and become entrepreneurial, is found by [Batista et al. \(2014\)](#) in the case of return migration in Mozambique.

Problems faced by studies into the occupational choice of return migrants and the probability that they enter into entrepreneurship are due to endogeneity and simultaneity in the decisions to migrate and to start a new enterprise, and due to the fact that the total population of return migrants are not available. Little has been done in the way of controlled (or natural) experiments, and properly matched panel data is still scarce,

although a number of studies have used bivariate probit models and instrumental variables methods to deal with endogeneity issues. As a result of these shortcomings and given the relatively few studies on the topic, a recent survey on migration and development concluded that there is still much scope for further research on the determinants and impacts of return migration and entrepreneurship (Gurgand et al., 2012).

4 Discrimination and Poor Policies

An individual's decision to become an entrepreneur or not has been studied by economists as an occupational choice. In empirically studying this occupational choice the evidence tends to suggest that the occupational choices of migrants is not significantly different from that of non-migrants. Both migrants and non-migrants would be more or less likely to be entrepreneurs as a result of their individual characteristics (schooling, experience), household or community level factors (size of household, cultural background), institutional determinants (access to finance) and the business environment. It therefore does not seem from existing evidence that migrant entrepreneurs face significant other challenges, apart from discrimination.

Migrant entrepreneurs, like migrants in general, suffer from various forms of discrimination (Jansen et al., 2003; Zhou, 2004). A large number of authors mention that migrants often face discrimination in formal labor markets, which then drives them into (necessity) self-employment (Bruder and Raethke-Doepfner, 2008). This can be due to structural discrimination (the need for a visa for example); taste discrimination (when employers prefer not to employ workers of a certain ethnicity due to amongst others racial or ethnic stereo-typing and language barriers) and statistical discrimination (when employers and job seekers have asymmetrical information about their quality)(Bruder and Raethke-Doepfner, 2008). Rising xenophobia has been found to push disproportionate numbers of migrants with limited English proficiency into self-employment in the United States (Mora and Davila, 2007). That discrimination and xenophobia foster self-employment amongst migrants is thus acknowledged. Hence entrepreneurship can be used as a way to circumvent these obstacles (OECD, 2010) [p.9] as a way for migrants to overcome social exclusion and integrate better with their host community (Constant et al., 2007) as well as a way to improve their socioeconomic mobility (Zhou, 2004).

A number of studies have attempted to quantify the impact of labor market discrimination on the occupational choices of migrants in China, where legal discrimination, through for instance the Hukou system, is well known. Frijters et al. (2011) find that if there would be no discrimination against migrants in urban China, the number of self-employed migrants would fall by 16 per cent, a significant proportion. Thus, when they have a choice, migrants may often prefer wage employment to being self-employed. This conclusion is supported by the empirical patterns of migrant self-employment in the OECD (OECD, 2010) as well as studies from e.g. Germany which find that it is more likely for less educated migrants to be self-employed than for higher educated migrants (Constant and Zimmermann, 2006).

Migrants also face discrimination in consumer markets which in turn create a demand for the goods and services migrant entrepreneurs can provide, often in ethnic enclaves (Jansen et al., 2003). Hence ethnic enclaves often act as a pull factor for migrants to enter into self-employment (Price and Chacko, 2009).

Finally, migrant entrepreneurs themselves do face discrimination, especially when trying to gain access to finance (Zhang, 2008). As a result, migrant entrepreneurs may be very vulnerable to external shocks because they are often in entrepreneurship because they lack access to wage employment (Brixy et al., 2013). In other words they are necessity entrepreneurs (Constant and Zimmermann, 2006). Moreover, they often have access only to types of businesses, e.g. in trade and services, that are more exposed to external economic shocks (OECD, 2010). The GEM study, however, could not find evidence across 69 countries that migrants are more likely to be necessity entrepreneurs than non-migrants (Vorderwuelbecke, 2012). This does not mean that it is not the case; certainly the finding that migrant entrepreneurs often perform worse than non-migrants may suggest they indeed face more difficulties (Neville et al., 2014).

It should be stressed that a selection of migrant entrepreneurs occurs before migrants even enter the host country. As the link between migration and entrepreneurship receives more attention by policy-makers, a growing number of countries are introducing specific policy measures for this group. As immigrant entrepreneurs are a heterogeneous group running different types of businesses, policies should ideally be equally diverse in order not to exclude potential future entrepreneurs (Collins, 2003). However, considering policies currently implemented it is evident that the diversity of this population is not addressed. While overall the share of immigrants entering a country on an entrepreneur visa is relatively small, the bulk of immigrant entrepreneurs does not qualify for this type of visa, likely due to a lack of capital and experience, and usually enters the country through another channel. Some of these might still migrate with the intention of starting their own business. Particularly among highly skilled immigrants there may also be people with high entrepreneurial ability. In some cases, however, policy hinders this. Migrants entering on a work visa, for example, may not be allowed to start a business while on this specific visa. This may be a waste of their potential contribution to the local economy. An example from the Netherlands is that of ‘knowledge migrants who are only allowed to work for their current employer. They are not allowed to start their own business next to this employment while on a knowledge migrant visa. It is common for academics to start their own (consultancy) business next to their University work; this type of entrepreneurship is however restricted in the case of the Netherlands (Marchand and Siegel, forthcoming).

When looking at return migrants and entrepreneurship it can be observed that policies and programs are also sometimes developed based on overly positive assumptions. An example of this is the fact that increasingly voluntary return programs contain entrepreneurship components of different format. Some simply provide in-kind or financial support, while others also offer training. The fact that this support is often given to people with no prior experience in running a business and maybe even no interest in doing so, can in this context be seen as a form of positive discrimination. It is, however, the case that evaluations of such programs are largely lacking. In order to increase the efficiency and effectiveness of such programs, more evidence is necessary.

Overall it can be seen that there are several factors that on the one hand drive migrants into entrepreneurship, such as the discrimination on the labour market, while on the other hand, access to finance and policies often hinder potential entrepreneurs to put their plans into action. Other policies and programs drive migrants into entrepreneurship who are not necessarily suited for this.

5 Concluding Remarks

Migration is an important mechanism for raising the welfare of individuals and households in developing countries through for example remittances and knowledge transfers (Gibson and McKenzie, 2012). Migrants also contribute to the economy of their host countries through their contributions to the labour market, paying taxes and social contributions and overall economic growth (OECD, 2014). One way in which migrants may contribute to the economy in both home and host country is through entrepreneurial activities. Based on the theoretical notion that migrants, like entrepreneurs, tend to be less risk averse they are often seen as ‘super-entrepreneurs. The discussion on the linkages between migration and entrepreneurship need to be more nuanced. Hence this paper tried to bring together the existing state of knowledge on three the stylized facts on migration and entrepreneurship: (i) migrants are more entrepreneurial than natives; (ii) migrant remittances can fund start-ups in the countries of origin; (iii) return migration can bring valuable entrepreneurial skills to developing home countries.

We found that the evidence is mixed on the question whether immigrants are more likely to be self-employed than natives as well as whether immigrant entrepreneurs outperform their native counterparts. Although highly context-specific, it is clear from the existing evidence that entrepreneurship is not a natural choice for all immigrants. However, migrants are disproportionately represented amongst high-growth and highly innovative US firms. This may be explained by the fact that immigrants in the US for example also disproportionally hold advanced degrees.

Immigrants also often face discrimination in the destination country. This may either prevent potential entrepreneurs from actively pursuing business activities or drive immigrants into necessity entrepreneurship that may otherwise prefer wage-employment. Discrimination on the side of employers leads to such effects. Non-discrimination policies would be beneficial in order to ensure maximization of productivity and the contributions of migrants to the local economy. On the other hand, immigrants often face more difficulties in obtaining credit than their native counterparts. As this is usually caused by a lack of applicable collateral rather than discrimination this is more difficult to address with policy. In order to support promising new immigrant entrepreneurs start-up funds requiring less securities are an option that can be considered.

Notwithstanding the strong evidence in favor of the development impact of migration, immigration policies are frequently predicated on as-yet-unsubstantiated assumptions (Neville et al., 2014) [p.56]. For instance, much of current immigration policies in Europe and other advanced economies are based on the belief that the type of migration a

country promotes can influence the scope of entrepreneurship (OECD, 2010) [p.16] and that preference should be given to high-skilled immigrants and immigrant entrepreneurs/investors. Even though more than 30 countries have specific immigration policies that target the attraction of entrepreneurs (Neville et al., 2014) not much is known about the effect of such policies. In fact, the impact of many of these programmes (e.g. entrepreneurship visas) seems to be negligible (OECD, 2010) although some countries programmes, such as Chiles Start-Up Chile programme has attracted attention from the media and from policy-makers elsewhere (Goube, 2014). Overall, it is, however, clear that not enough research has been done on this and in particular on who is actually attracted by such policies and incentives for entrepreneurs. It may very well be the case that they are not attractive enough to attract those migrants that could be super-entrepreneurs.

Given that migrant entrepreneurs have not been proven to be super-entrepreneurs in this paper and given that there is a significant demand for low-skilled workers in most advanced economies, particularly in Europe (de Haas, 2009) (including a structural demand for more workers in general, given declines in population growth), imposing policies based on the view of migrants as super-entrepreneurs is likely to be sub-optimal. The costs of misunderstanding the potential of migrant entrepreneurs, or raising immigration barriers, and of not doing more to allow their integration into wage employment, is thus likely to be costly.

Turning the lens to the origin countries of migrants, the literature points out that remittances are largely used for consumption smoothing rather than investment in businesses. Largely depending on the business as well as migration context, the evidence on the usage of remittances for such activities is mixed. It seems that it matters where the remittances come from, where they go and who is then responsible for the way they are used in the receiving household. It is, however, also clear that remittances are a mechanism for overcoming credit constraints and therefore can enable entrepreneurial behavior in situations where it may otherwise be impossible.

Regarding the third stylized fact that we questioned, we found that research on the occupational choice and business activities of return migrants show that capital accumulated abroad does positively impact entrepreneurship among this group. Increased human capital through education and work experience as well as financial capital, accumulated savings, has been found to be main contributing factors as is the migration experience itself. The loss of social capital in the origin country can largely be compensated through these positive effects. Overall our understanding of the entrepreneurial behaviours of returnees is hampered by insufficient empirical evidence; hence the need for further research, specifically accounting for double selection effects in emigrating, returning and entrepreneurship.

Policies and programs aiming at return migrant entrepreneurs are also often developed based on overly positive assumptions. While some migrants may indeed want to return and become an entrepreneur this is not the case for all returnees on which entrepreneurship is forced. For example, voluntary return programs increasingly contain entrepreneurship components of different format. Such support is often given to people with no prior experience in running a business and maybe even no interest in doing so. Given that it is known that return migration and entrepreneurship have been found

to have positive interactions in some cases it is necessary to understand better where support may be beneficial in the process. In order to maximize the positive impacts of such programs continuous evaluations of their impacts and proper targeting of the efforts are essential. It is, however, the case that evaluations of such programs are largely lacking.

Overall, it can be said that there is much more nuanced evidence on the linkages between migration and entrepreneurship than one may think. However, it is important to note that this evidence shows that the theoretical assumptions about the entrepreneurial capacities of migrants may outweigh the actual effects. There is evidence on some of the positive interlinkages between migration and entrepreneurship such as the share of migrants among high-growth entrepreneurs or the positive outcomes of those return migrants choosing to become entrepreneurs. At the same time, it is also clear that evidence on many aspects of the migration-entrepreneurship nexus is limited. In particular, it is important to understand that not all migrants are entrepreneurs and that different kinds of migrants are much more likely to end up in entrepreneurship, with different success rates. More research along these lines is therefore necessary so that the dialogue is not so much on migration and entrepreneurship, but rather on, for example, highly skilled migrants and entrepreneurship, forced return migrants and entrepreneurship, or immigrants and necessity versus opportunity entrepreneurship. Different kinds of migration as well as different kinds of entrepreneurship ultimately also have different implications for development. Further research along these lines is therefore needed in order to fully understand the dynamics guiding the interactions between migration, entrepreneurship and development.

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