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**Research Report**

## Engaging diaspora direct investors: The four elements of successful policy regimes

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## **Columbia FDI Perspectives**

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### **Engaging diaspora direct investors: The four elements of successful policy regimes**\*

by

Daniel Naujoks \*\*

Many migrants and diaspora actors engage in cross-border investment in firms in their country of (ancestral) origin.<sup>1</sup> Although such diaspora investments can be critical sources of capital, technology and know-how,<sup>2</sup> FDI policy regimes have focused too little on these flows, and policies often rely on mere anecdotes.

Studies suggest that diaspora investment creates more local employment, is more stable and has more significant spillover effects than other FDI.<sup>3</sup> While recent studies have not confirmed these impacts,<sup>4</sup> diaspora investments are on average smaller than non-diaspora FDI, and often reach regions that are less attractive to other foreign investors.<sup>5</sup>

Diaspora investments may also be “low hanging fruits” in home countries’ investment-promotion efforts that, with the right incentives and policy framework, add to the existing pool of foreign capital. As many governments seek investment from emigrant populations, the [UN Global Compact for Migration](#) encourages countries to develop targeted support programs facilitating diaspora investment.

60% of countries have at least one policy specifically to attract diaspora investors.<sup>6</sup> Half streamline bureaucratic procedures or allow transferability of financial assets. 42% provide tax exemptions or other financial incentives, and one-third have established preferential allotments of permits and licenses. One in four countries provides diaspora investors preferential access to credit. These practices are particularly prevalent in Latin America, where 4 out of 5 countries have adopted such schemes, followed by more than two-thirds of governments in Asia, Africa and Oceania. Only Europe trails behind, with fewer than one-third of countries adopting such measures.

The key to successful diaspora investment-promotion policies is fourfold:

- Public policies aimed at encouraging diaspora FDI are regularly based on anecdotes and assumptions. It is paramount to obtain data on the composition, potential and preferences of diaspora investors. Ethiopia, India, Senegal, and Tunisia are among the few countries that track diaspora investment. However, even in these countries, records are mostly limited to financial transactions that are declared as diaspora investments or take advantage of certain

government benefits. In addition, instead of measuring actual investments, data are generally based on proposed and approved investment licenses. To further complicate measurement, in addition to diaspora actors investing their own funds, migrants managing foreign enterprises can induce their firms' investments in their country of origin. Diaspora actors thus may be intermediaries for non-diaspora FDI. Importantly, diaspora investors should be treated as regular investors. Naïve assumptions of diaspora investors being predominantly motivated to “give back” lead to policy design flaws.

- Policy frameworks should use a mix of measures. These include traditional investment incentive tools, such as covering certain costs, exempting investments from specific taxes, securing transactions, streamlining bureaucratic procedures, and creating virtual or in-person business-to-business platforms. Promotion activities should also showcase previous examples of diaspora investments to potential future investors. It may often be more effective to establish benefits and procedures for *all foreign investors*, while specifically targeting diaspora investors in outreach and dissemination strategies.
- Policies must be scaled to have an impact—and impacts must be monitored. Certain policies' lack of scale is often based on a combination of insufficient analysis that underpins such measures, and insufficient promotion of rights, processes and investment opportunities to actual and potential investors. It is essential to stop judging policies by their intention; instead, their impact on the volume, composition and effect of inward diaspora investments must be rigorously assessed.
- To implement the above-mentioned recommendations, it may be advisable to create institutions specifically targeting diaspora investors. Often, it will make sense to integrate these within general investment promotion agencies. In some cases, they may be created within diaspora ministries or as stand-alone entities. These institutions can map diaspora populations and their capability and willingness to invest in their home countries, create meaningful communication platforms and design, and implement and monitor policies, including geotargeting of diaspora communities who settle in specific geographic areas.

Diaspora FDI is not a “cure-all” for capital-starved economies. And there is no reason to believe that its impacts would be uniform across economic and social contexts. However, the right mix of policies and programs can facilitate additional flows of capital, technology and know-how—and thus lead to significant development benefits.

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<sup>1</sup> Diasporic actors are persons who originate from a country, self-identify with that country and maintain meaningful cultural and social relationships with the country. However, policy definitions often rely merely on ancestry.

<sup>2</sup> Diaspora actors may also engage in portfolio investment, investing in capital accounts, diaspora sovereign bonds, and real estate. Migrant remittances can be linked to diaspora FDI but are a different form of monetary transfer.

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<sup>3</sup> Liesl Riddle and Tjai M.Nielsen, “Policies to strengthen diaspora investment and entrepreneurship: Cross-national perspectives,” in Krishnan Sharma et al., eds., *Realizing the Development Potential of Diasporas* (Tokyo: UN University Press, 2011), pp. 23–51.

<sup>4</sup> Benjamin A.T. Graham, *Investing in the Homeland: Migration, Social Ties, and Foreign Firms* (Ann Arbor: University of Michigan Press, 2019).

<sup>5</sup> Daniel Naujoks, “Paradigms, Policies and Patterns of Indian Diaspora Investments”, in Radha S. Hegde and Ajaya K. Sahoo, eds., *Routledge Handbook of the Indian Diaspora* (Milton Park: Routledge, 2018), pp. 90-103.

<sup>6</sup> Or 59 out of 99 countries with data, [UN, World Population Policies 2019: International Migration Policies \(New York: UN, 2019\)](#).

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