

# Strengthening the business sector and entrepreneurship: the potential of diasporas

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# Context and Background

- Recurring theme within the Monterrey Consensus is the importance of having a well-functioning business sector
- Strong interest by UN member governments in FFD/DESA workshop on diasporas and business development in October 2006
- FFD/DESA and UNDP are collaborating in organizing follow-up work. Outcomes to be presented at follow-up International Conference in Doha at end 2008

# Diaspora Entrepreneurs

- Some return home; others facilitate ventures from overseas
- Are different in certain respects from other foreign investors i.e. longer term horizon, greater emotional considerations, go beyond pure investing, larger connections and often better informed
- Arguably generate a greater social capital per unit of investment than other foreign investors

# Drivers of Increasing Diaspora Entrepreneurship

- Breakthrough in transport and communications; liberalization of trade and financial flows; impact of economic reform in home countries
- Increasing desire among countries, as reflected in policies, to engage with diasporas – evident in all the main regions [e.g. dual nationality in India, encouragement of return migration in China, increased policy attention in Latin America and parts of Africa etc]
- Looking ahead, increasing demand for skilled workers in developed world will enhance influence of diasporas in longer-term

# Financial and Non-Financial Business Contributions of Diasporas

- Business contributions of diasporas can be both financial and non-financial
- Financial and non-financial initiatives are interrelated and serve to strengthen access to finance in medium term

# Diaspora Contributions: Financial

- Includes collective/individual remittances, equity finance, bond finance, and various other tools to finance start-ups.
- Many successful examples, but question marks over initiatives to channel remittances into productive enterprises, ability of Home Town Associations to directly become involved in business generation, and efficacy of venture capital in some emerging economies.

# Financial Contributions: Some Examples

- Equity finance: visible in development of high-technology sectors in India and China, and start-up and SME investment funds in countries such as Israel, Serbia, Armenia, Dominican Republic etc. Importance of venture capital in some instances.
- Remittances: experiences of Multilateral Investment Fund of IADB, UNLAD in Philippines, and work of Microfinance International Corporation
- Collective remittances: some Home Town Associations becoming directly involved in generating businesses
- Bond finance: few instances of directly generating businesses (possible exception of Korea), but could be more prevalent in future.

# Diaspora Contributions: Non-Financial

- Can have equally important impact on entrepreneurship and business development. Consists of transfer of knowledge, skills/training, and facilitation of investment and trade.
- Transfer of knowledge etc can be facilitated through formal networks, that require resources and institutional capacity to be effective [e.g., UNDP's TOKTEN, digital diaspora networks in Asia, Africa and Latin America]
- Investment and trade can be facilitated through transmitting information, lowering reputation barriers and acting as 'first movers'.

# Non-Financial Contributions: Some Examples

- Achievements of Indian diaspora in promoting education, facilitating investment and generating outsourcing opportunities. Contribution of TiE.
- Contribution of ethnic Chinese in facilitating bilateral trade. Research by Newland (2004), econometric studies etc.
- Other examples include success of Chile Global, Highland Tea Company (Kenya) and similar cases in Ireland, Israel and Korea.

# Nature of Contribution

- Success stories relate to selected set of economies – is a wide diversity in diaspora experiences. Most evidence relates to impact of higher-skilled immigrants
- Even within this group of successful cases, the type of contribution varies in line with the nature of diasporas, type of industry, and economic/social/political conditions in country of origin – compare China and India

# Explaining the Diversity in Diaspora Business Contribution

- Socio-economic differences: skill levels, length of time away from homeland, relationship with homeland
- Conditions in homeland: investment climate, institutional arrangements, and legal recognition of diasporas
- Conditions in host country: advantages of locating in dynamic economies
- Ability to network: among other things, can be influenced by above factors

# Policy Implications: Some Preconditions

- Understanding the limitations of policy: easier to 'support' than 'initiate' diaspora business engagement, importance of exogenous factors (e.g. Chinese experience)
- Key home country preconditions: enabling investment climate; institutional/legal conditions

# Policy Implications: Strengthen Availability and Quality of Information and Analysis

- Strengthen data on extent and impact of diaspora business contributions
- Undertake further research on: a) impact of diasporas across skill and occupation levels b) types, contributions and drivers of networks, across skills and sectors c) efficacy of various kinds of incentives for diaspora investment
- Proposal for central online facility to highlight best practices and promote greater cross-fertilization of ideas – highlighted in October 2006 experts meeting at United Nations.

## Policy Implications: Other Possible Areas of Government and Donor Support

- Risk mitigation: possibilities should be explored
- Enhance capacity in diaspora networks and home country institutions: e.g. World Bank support for South African Diaspora Network. Aim to support viable ventures.
- Reduce legal obstacles to operations of diaspora entrepreneurs: examples from India, Netherlands and Switzerland.

# Other Relevant Issues

- Return migration: should it be encouraged?
- Widening and mainstreaming the role of the diaspora: integrating them into development policy, programs and dialogue.

**THE END**