Globalization has not only given rise to an accelerated flow of goods and services around the world but has also fostered an increase in the movement of people across borders. In their new countries-of-residence, migrants often acquire new knowledge, skills, social contacts, and financial resources. Even though they may be far from home, migrants often maintain social and psychological connections to their countries-of-origin. They often encourage their children and grandchildren to continue these homeland connections. “Diasporans” are individuals who “reside outside of their perceived homeland, whether independent or not. They regard themselves, or are regarded by others, as members or potential members of the national community of their homeland, a standing retained regardless of the actual status of their citizenship inside or outside...
their homeland.” Diaspora capital—human, social, and financial—may be a useful development resource for migrant-sending countries, many of which are among the most capital needy in the world.

Today, a host of actors engaged in poverty-reduction activities—policymakers, NGOs, socially responsible businesses, and academics—are asking the question: How can diaspora capital be mobilized and utilized in development activities? Researchers at The George Washington University have formed an interdisciplinary research group, called the GW Diaspora Capital Investment Project, to examine an increasingly popular way diasporans are contributing to development: by investing their capital in existing businesses and setting up new ventures in their countries-of-origin. The research team explores the underlying motivations for this transnational economic behavior, estimates the market potential for various diaspora investment alternatives, and identifies policy and marketing best practices for national governments, aid agencies, multilaterals, and NGOs seeking to cultivate and facilitate diaspora investment and entrepreneurship.

Diasporas in the 21st Century
Coined in the third century, the term diasporas originates from the Greek word διασπορά, “a scattering or sowing of seeds.” Traditionally the term was limited to the Jewish dispersion. But since the early 1990s, many dictionaries have expanded the definition to include any body of people living outside their traditional homeland.

This broader definition reflects the changing magnitude and nature of global migration. Since 1975, world migration has more than doubled. Today, approximately 3 percent (150 million people) of the world’s population are migrants, of which many have emigrated from a developing country to a developed country. One in ten persons living in a developed country today is a migrant.

Innovations in transportation and communication technologies now allow migrants to psychologically and physically connect with their countries-of-origin in ways that were virtually unimaginable in the past. Declining costs in air and other transportation modes make it easier for immigrants and their descendants to visit their countries-of-origin and have inspired the development of “heritage tourism.” Global media provide immigrants with a constant stream of information about their origin countries. Ethnic bulletin boards, cyber communities, and e-commerce sites on the internet offer migrants an opportunity to socially connect not just with each other but also with family, friends, and other individuals in their country-of-origin.

For many diasporans, the experiences and opportunities they are exposed to in their countries-of-residence inspire them to seek ways to contribute to the development of their countries-of-origin. Some join diaspora advocacy groups, lobbying the governments of their countries-of-residence on behalf of development issues in their countries-of-origin. Other diasporans strive to enhance the development of their countries-of-origin by engaging in philanthropic activities, raising money in the countries-of-residence, or volunteering their time for social and environmental organizations located in the countries-of-origin.

But, increasingly, diasporans are searching for avenues to extend their development impact beyond politics and philanthropy. They seek ways to leverage the human, social, and financial capital they have acquired to make investments and establish new businesses in their countries-of-origin.

Diaspora Investment & Entrepreneurship
For many developing countries, individuals living in the diaspora earn relatively higher incomes compared to those earned by individuals living in the country-of-residence.
These higher incomes increase the potential for investment and entrepreneurial activity among diaspora populations as higher incomes may result in greater amounts of disposable income available for economic investment. This is particularly true when an origin country’s income per natural (i.e., the mean income per person of those born in the origin country regardless of current country-of-residence) substantially exceeds its gross domestic product (GDP) per capita. In a 2008 study, Clemens and Pritchett estimate that income per natural exceeds GDP per capita by 10 percent or more in almost thirty countries. In some smaller countries with large emigration, the differential is much higher. For example, the difference between income per natural and GDP per capita exceeds 103 percent in Guyana, 81 percent in Jamaica, 60 percent in Albania, and 51 percent in Liberia.³

Many diasporans remit money back home to friends or family. In 2006 more than 1.5 billion separate remittance transactions were made, mostly in increments of US$100, $200, or $300. Taken together, these remittance payments account for a substantial flow of cross-border capital: Global total remittance flows in 2006 were estimated to be US$300 billion. Diaspora remittances are key sources of capital inflow for many developing countries. In 2006 remittance flows to developing countries totaled US$167 billion, a sum two times the amount of development aid sent to those countries from all sources. India, China, Mexico, France, and the Philippines are among the world’s largest recipients of remittances. In some smaller countries, such as Moldova, Latvia, and Haiti, remittances comprise the largest share of the total economy.

But many diasporans seek ways to become more economically invested in the economies of their countries-of-origin beyond making remittance payments. Bal Joshi, is a prime example. Born in Nepal but educated and now living in the United States, Joshi created Thamel.com,⁴ a web portal allowing Nepalese diasporans to purchase goods and services online from Nepalese suppliers and have them delivered to the homes of friends and family living in Nepal. Joshi’s investment has generated many benefits for his home country. Thamel.com has created more than four hundred new jobs, improved the operational efficiencies and quality control of its local suppliers, and broadened the array of goods and services its suppliers provide to consumers. Thamel.com suppliers earn more than 30 percent of most local suppliers in terms of annual sales; during festivals Thamel.com suppliers earn on average 50 percent more than their competitors.

Diaspora investments do not always involve the internet. Some diasporans set up service operations, such as restaurants, retail chains, consulting companies, or tourism-oriented enterprises. Others create manufacturing facilities in their home country, producing goods for local and/or export sale, or establish subsidiaries for businesses based in other countries. In some cases, these investments are made by “diaspora foreign direct investors,” or diasporans who already own and operate a business based outside their country-of-origin. But in many other instances, the service or manufacturing operation established by the diasporan is a new venture, or an example of “diaspora entrepreneurship.”

The development impact of diaspora investment is often discussed in terms of the growth of emerging giants, China and India. As an article in Foreign Policy aptly noted, “With the help of the diaspora, China has won the race to be the world’s factory. With the help of the diaspora, India could be the world’s technology lab.” But, the impact of diaspora investment and entrepreneurship extends beyond the emerging markets of China and India. Diaspora investment and entrepreneurship are particularly important for nations that might be deemed less attractive by non-diaspora investors because of small domestic market size, inadequate infrastructure, or less-attractive structural characteristics. Diaspora investment also plays an important role in the reconstruction of many post-conflict countries. The positive economic impact of diaspora homeland investment flows in Afghanistan, Liberia, Sierra Leone, and other post-conflict environments have been recognized by the United Nations.

Even developing country governments that are underwhelmed with foreign direct investment (FDI) as a whole have begun seeking creative ways of encouraging diaspora investment. Skeptics of FDI as an economic development tool often voice concerns that FDI is not always efficiently invested. They argue that it crowds out domestic investment; displaces local firms in production, service, and financial markets; generates a reduction in local competition; and leads to lower quality products and inflated prices in local markets.

Many governments believe that diaspora investment has a greater chance of yielding business operations that are more beneficial for development than non-diaspora FDI because diaspora investment and entrepreneurship often is not just driven by the quest for profit maximization; social and emotional motivations also play a role. Some seek the potential emotional satisfaction they receive by “helping out the homeland” or feel it is their duty or obligation to contribute to the country-of-origin
economy. In many cases, investing in the country-of-origin is deemed an honorable activity within diaspora communities or by friends and family back in the country-of-origin. The social recognition a diasporan receives by investing in the origin country may also be a key motivating factor.

These nonpecuniary investment motivations may incentivize diasporans to make investment decisions that may or may not generate immediate rich profit rewards but instead may sew the seeds of an investment in the country’s long-term economic and social development. For example, diasporans’ emotional and social investment concerns may make them more likely to keep their capital in the investment-destination country rather than repatriate profits. They may be more likely to reinvest in their established operations or use the profits to establish additional new ventures in the country-of-origin economy. Diaspora investments may also be less vulnerable to capital flight in a time of crisis.

The emotional and social drivers of diasporans’ investment interest may inspire diaspora investors and entrepreneurs to serve as economic change agents, leveraging their investment and new venture creation to strengthen the country-of-origin economy. One of the main goals of diaspora economic activity in the country-of-origin may be to generate employment—for their family, friends, local community, or nation. Thus, diaspora investors and entrepreneurs may be more likely to establish greenfield activities rather than merely merge with or acquire existing firms in the country-of-origin economy. They may prefer local inputs and employees over imported products and labor, making them more likely to strengthen and cultivate local supply chains.

The presence of diaspora investors and entrepreneurs in the country-of-origin’s economy also may contribute to the internationalization of domestic firms in the country-of-origin by enhancing local firms’ transnational social capital. Diaspora investors and entrepreneurs often share market information about their country-of-residence with other entrepreneurs and firms in the country-of-origin, such as information about import and operational regulations, consumer demand, and competitive intelligence. Domestic firms can utilize connections that they have with diaspora investors and entrepreneurs to tap into the

**Diaspora Capital Investment Project**

**What Are the Necessary Facilitating Institutions?**

IntEnt Field & Survey Studies

**Pre-Investment**

**Investment**

**Post-Investment**

**What Is the Market Potential?**

**What Are the Psychological Drivers?**

Diaspora Investment Motivation Study

**How Can Govts Attract DDI & D-Entrep?**

UN Cross-National Policy Comparison Study

**What Is the Effect on Institutions & Development?**

Change-Agent Case Study Project

**What Are the Different Business Environment Perceptions & Firm Performance?**

Matched Sample Study
diaspora investor/entrepreneurs’ transnational networks to identify business leads, opportunities, and financing in markets abroad. Diaspora investors and entrepreneurs can serve as reputational intermediaries for domestic firms in foreign markets.

Migrants who venture abroad often gain knowledge and skills that are lacking in the country-of-origin. When they return to invest or start a new business, they remit this acquired human capital back to the origin country, thereby turning “brain drain” into “brain gain.” Diaspora investors and entrepreneurs also serve as transnational knowledge linkages, contributing to the diffusion of technology and production know-how from individuals in the country-of-origin to the country-of-residence.

Diasporans may be interested in investing in their home countries but may be inhibited or unable to do so due to a lack of available time, financial resources, know-how, and/or other constraints. New investment vehicles are becoming available that allow diasporans an opportunity to invest in their countries-of-origin quickly, easily, and with small amounts of capital—all without ever leaving their country-of-residence. For example, diasporans can lend money to firms back in their home country at below-market rates of interest through organizations like Kiva and Investors without Borders. Some diaspora organizations have established venture capital funds that purchase equity in businesses in the country-of-origin. Some governments, such as those of Israel and India, have targeted bond offerings to their diaspora communities abroad. In some cases, diasporans invest in companies listed on the stock exchange of their country-of-origin or purchase mutual funds consisting of companies from their home country.

The GW Diaspora Capital Investment Project
Existing research concerning diaspora investment and entrepreneurship is scant, and the majority of current scholarship is theoretical or based on anecdotal evidence. Thus, the policy and marketing efforts undertaken by governments, aid agencies, multilaterals, and NGOs are being crafted and executed based mostly on hope and conjecture, without the benefit of rich and robust scientific data. The GW Diaspora Capital Investment Project (GW-DCIP) seeks to fill this information vacuum.

Formed in 2006 by GW professors, Drs. Liesl Riddle and Tjai Nielsen, the GW-DCIP is a collaborative research effort of faculty and students from a variety of academic disciplines across the university, including economics, international affairs, international business, management, and public administration. The research team is engaged in several different studies of diaspora investment and entrepreneurship designed to probe the phenomenon longitudinally from the pre-investment, investment, and post-investment phases (see Figure 1). GW-DCIP is part of GW’s Diaspora Program, a broader research initiative at the university exploring the relationship between diasporas, development, and policy.

The first goal of the research initiative is to better understand to what extent and why diasporans are interested in investing in their home countries. In this line of inquiry, the GW-DCIP aims to estimate the market potential within and across given diaspora groups for various investment categories, such as setting up service or manufacturing facilities, purchasing home country bonds, or contributing to venture capital or lending funds in their countries-of-origin. A central objective of this research is to identify whether diasporans interested in investing or starting a new company in their country-of-origin fit a particular demographic profile or share similar psychological motivations for investment.
GW-DCIP has created the Diaspora Investment Motivation Survey to generate answers to these questions. Currently, GW-DCIP is working with organizations in Afghan, Lebanese, and Liberian diaspora in the United States to administer the survey in their respective communities. Although the Diaspora Investment Motivation Survey could be administered to any diaspora community, GW-DCIP is focusing their data collection efforts on these post-conflict countries because of the significant capital requirements necessary to rebuild and develop these countries. The team plans to extend the Diaspora Investment Motivation Survey to Afghan, Lebanese, and Liberian diaspora communities outside of the United States and to other diaspora groups in the next phase of research to broaden the database and enhance the generalizability and comparability of the study findings.

The GW-DCIP also is engaged in research to identify ways that governments can attract diaspora investment and entrepreneurship through marketing and other promotional efforts. The study team was commissioned by the United Nations to conduct a cross-national comparison of policies to promote diaspora investment and entrepreneurship for a forthcoming volume on diasporas and development. In 2009, working in conjunction with the World Bank’s Foreign Investment Advisory Service, GW-DCIP will administer a survey to all national investment promotion agencies in the world to catalog the various services and organizational changes these agencies have put in place to encourage and support diaspora investment, and to assess the perceived effectiveness of these programs.

GW-DCIP is particularly interested in identifying ways to turn diaspora investment and entrepreneurship interest into meaningful investment in the country-of-origin. Discerning the obstacles that nascent diaspora investors and entrepreneurs face is an important first step. But in some cases, facilitating institutions—organizations that provide potential investors and entrepreneurs with the skills and knowledge that they need to overcome those obstacles and bring their investment or new venture to life—may be necessary to generate sufficient diaspora investment activity. GW-DCIP has conducted field studies with IntEnt, a business incubator located in the Netherlands, to better understand the hurdles that new diaspora investors and entrepreneurs face and the role that business incubators can play in helping turn diasporans’ investment interest into an investment reality. Longitudinal field studies with recipients of IntEnt’s business incubator services also are planned to shed light on how the challenges and needs of diaspora investors and entrepreneurs change over time during the investment process.

Most importantly, GW-DCIP investigates the ways in which diaspora investment and entrepreneurship affect the political, economic, and social development of their countries-of-origin. The team is currently developing a compendium of exploratory in-depth case studies of diaspora investors and entrepreneurs whose investments have brought about significant positive change in their respective countries-of-origin. Collected for teaching and research purposes, the case studies illuminate commonalities in investment motivation and vision and contrasting avenues for innovative change and development impact.

The team has also begun to investigate other post-investment related issues. For example, a pilot study

Migrants remit their acquired human capital back to the origin country, thereby turning “brain drain” into “brain gain.”

PHOTO: DR. ELIZABETH CHACKO
utilizing an industry matched sample has been launched in Ghana to explore performance and other differences among diaspora foreign investment firms, non-diaspora foreign investment firms, and local firms.

Conclusion

“No gold did they find,  
Underneath any stone  
They touched and turned,  
Yet  
Every stone they touched,  
Into solid gold they turned.”  
—Vishwamitra Ganga Aashutosh

Reciting this quote in an address at the Pravasi Bharati Divas (Non-Resident Indian Day) in New York City on 23 September 2007, Vayalar Ravi, India’s minister for overseas Indian affairs, eloquently described the hopes that many have for the development potential of diaspora investment and entrepreneurship. The GW-DCIP hopes to provide data that will better inform diaspora investment and entrepreneurship promotion efforts and enhance academic understanding of the diaspora investment phenomenon.

Endnotes

1 Yoshi Shain, Kinship and Diasporas in International Affairs (Ann Arbor, MI: University of Michigan Press, 2007), 11.


4 http://www.thamel.com


6 http://www.kiva.org

7 http://investorswithoutborders.wordpress.com


ABOUT THE AUTHOR

Liesl Riddle is an associate professor of international business and international affairs and is the co-director of the GW Diaspora Program at The George Washington University. Riddle has written extensively on diasporas and development, international entrepreneurship, and trade and investment promotion. She has conducted fieldwork in Egypt and Turkey and in diaspora communities in the United States and Europe and is a member of a United Nations’ advisory panel concerning diaspora investment and entrepreneurship policies. Riddle holds master’s degrees in Middle Eastern studies, and marketing and international business, and she received her doctorate in sociology.