



E-Policy Brief Nr. 6:

Diaspora Entrepreneurship

&

Development

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Introduction

Migration and development are interrelated processes which will be the focus of policy debates and actions in the coming years.¹ They will also play an important role in development cooperation. These processes will shape new patterns and trends in current development cooperation. The nexus between migration and development shows a focus on migrants as development actors. This new and migrant inspired development sector is different from the traditional development cooperation sector, which has typically been the domain of governments and practitioners from Northern countries. Bringing together these two types of development can help to stimulate the positive development impacts of migration in a more comprehensive and sustainable way.

In the context of migration and development, development practitioners and policymakers are showing increasing interest towards the role of diaspora entrepreneurship.² In other words, there is a growing understanding that diaspora entrepreneurs can play a greater role in the overall development of their respective countries of origin. Entrepreneurship, migration and development: These topics have recently gained importance, especially when perceived as three interlinked issues. Migrants not only contribute to business development in their home countries by sending remittances, but also by direct

investments and knowledge transfer. Eventually, a strong and growing business sector creates jobs, generates income, and therefore contributes to poverty alleviation.

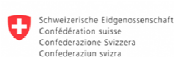
A great number of diaspora are active in the field of development cooperation and are busy with entrepreneurial activities in home and host countries. Their specific knowledge about important aspects of entrepreneurship in the home country, such as customs, markets and products as well as intercultural issues, gives them an added value for both development cooperation and entrepreneurship.

Many developing countries have experienced huge economic growth over the last couple of years. Countries like Ghana, Ethiopia, Angola, Indonesia and the Philippines, reflect GDP growth rates of 10% per year or more. The last years, when the financial crisis has afflicted the world, many economies of the North have been facing a phase of stagnation or even depression. However, one thing has become clear globally: small and medium enterprises (SMEs) are the type of organisation most likely to survive - e.g. 99.8% of all enterprises in the European Union are SMEs; in Germany alone, SMEs contribute 12.1 million jobs to the labour market.

It is thus surprising that European SMEs are hesitant to get engaged in emerging economic regions of the South. But, European SMEs often lack knowledge about ins and outs of the markets, business and investment climate and local etiquette, as well as contacts and language skills. With regard to this, diaspora groups could be a valuable source of knowledge for European SMEs who might

¹ See for instance IOM (2012) Migration & Development, MPI (2012) Migrants, Migration, and Development, and IMI Oxford (2012) Migration and Development.

² Newland K. and H. Tanaka (2010) *Mobilizing Diaspora Entrepreneurship for Development*. (Washington DC: Migration Policy Institute).





wish to establish business relations in countries of the South. Diaspora has specific knowledge, skills, and the cultural background to take on a bridge building role and thereby overcome constraints, and link the different markets. Still today both Diaspora organizations themselves and SMEs are not necessarily aware of this potential.³

According to recent World Bank figures, the value of remittances sent by diaspora to their families in developing countries reached \$ 325 billion in 2010.⁴ However, in comparison to remittances, business activities provide diaspora with more direct control over their funds. The lack of ability for diaspora to control development projects that are financed through remittances can be dissatisfying; therefore, establishing and contributing to one's own business can indeed produce more effective control over the investment.⁵

2. Added Value

As outlined in the introduction, the link between entrepreneurship, diaspora and development, is a valuable one which is gaining more importance in the global development arena. But what can be seen exactly as the added value that the diaspora can bring in when working in this field?

Firstly, the diaspora not only provide their countries of origin with substantial financial resources through remittances,

but also transfer important non-financial values. Such as:

- New ideas & technological skills
- Human capital
- Democratic values and practices
- Peace-making tools and techniques
- Innovative entrepreneurship and trade practices

It is important to be aware of the fact that such non-financial transfers can contribute to, for example, peace and social stability, improvement of human rights, stimulation of knowledge, strengthening governments, facilitate brain-gain, etc. The diaspora not only transfers money, but also ideas. Not only are they likely to bring typical corporate ideas to their home countries, but also ideas of a just society. The diaspora can emphasize a bottom-up approach in which local needs and demands are valued in order to ensure a more social and inclusive approach. This will contribute to the development of social businesses.

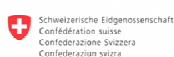
Secondly, the diaspora have a unique position as brokers between their countries of origin and countries of destination. In this light one can think of the following characteristics:

- the diaspora have knowledge on the entrepreneurial climate in the home country
- the diaspora are more aware on local culture and habits

³ Report Conference on Building Bridges. Diaspora for Business & Development, 14th April 2012

⁴ World Bank (2011)

⁵ Newland K. and H. Tanaka (2010)





- the diaspora have useful language skills
- the diaspora have connections and relationships that can be valuable
- the diaspora tend to have a more risk taking mentality to start up a new business in fragile or war prone areas⁶

For example, with its specific knowledge - both culturally and practically - and contacts, the diaspora can help European businesses to overcome their hesitation to engage in markets of the South.

Thirdly, diaspora actors tend to think more out of the box and are often more open to different kinds of business, such as South-South cooperation than people who remained in the countries of origin. Cooperation with neighbouring countries is very often much more efficient than solely North-South collaboration and the diaspora can play a role in promoting this.⁷

In addition to the afore mentioned factors, a recent study of the Migration Policy Institute (MPI) in Washington, indicates four reasons that give support for the argument that *diaspora entrepreneurship* can potentially contribute to the *economic development* in countries of origin.⁸

Firstly, diaspora entrepreneurship advances business development, job creation and innovation. The investments in entrepreneurial activities made by diaspora can – directly and indirectly – create jobs and facilitate competition that can lead to innovation, more businesses and increased job opportunities. Economic development includes change and as such, entrepreneurs are great agents to advocate the change. Secondly, Diaspora Direct Investment (DDI) creates economic, social, and political capital through global networks. Since developing countries are often in an isolated position from global flows of trade, finances and knowledge, diaspora entrepreneurs, can provide networks in both their countries of origin and destination. Thirdly, diaspora entrepreneurship taps into social capital through cultural and linguistic understanding. The knowledge of local (business) culture, norms and values, and language expertise creates social capital by virtue of cultural and linguistic understanding. Fourthly, entrepreneurship and economic development are positively linked. Research has shown that a strong positive correlation exists between higher level of entrepreneurship and higher level of economic development.⁹ However, there should be a distinction made between necessity and opportunity entrepreneurs since entrepreneurship in all its forms does not automatically contribute to the economic development

⁶ Newland K. And H. Tanaka (2010) Mobilizing Diaspora Entrepreneurship for Development. (Washington DC: Migration Policy Institute).

⁷ Conference on Building Bridges: Diaspora for Business & Development, 14th of April 2012. Final Report

⁸ Newland K. and H. Tanaka (2010)

⁹ Acs, Z. (2006) How is Entrepreneurship Good for Economic Growth?, *Innovations*: 96-107.





of countries of origin. According to the Global Entrepreneurship Monitor (GEM) research project, necessity entrepreneurship does not have an effect on economic development; however, opportunity entrepreneurship has proven to have a positive and significant effect.¹⁰

3. Constraints

In their home countries, the factor that decreases the willingness of diaspora to invest in business activities is often the poor business environment. In addition to this factor, there are many constraints that can hamper diaspora incentives to invest in their home country. Such as:

- Bad infrastructure
- Bureaucracy
- Lack of information
- Constraining laws and policies
- Prevailing corruption
- Difficulties encountered at customs such as delays, blockages etc.
- Lack of macroeconomic stability
- Lack of funding possibilities
- Trade barriers
- A lack of legal security
- A lack of trust in government institutions.¹¹

¹⁰ Acs, Z. and A. Varga (2005) Agglomeration, Entrepreneurship and Technological Change, *Small Business Economics*. For more info on GEM, see <http://www.gemconsortium.org/>

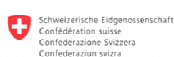
¹¹ de Haas, H. (2005) International Migration, Remittances and Development: myths and facts, *Third World Quarterly* 26 (8), pp 1269-1284.

As can be seen the constraints are numerous and quite difficult to overcome. A recent study argues that there are four factors that determine decisions to invest or not: a minimum amount of money remitted or saved, a minimum level of local development, the presence of suitable investment opportunities, and the existence of specific household arrangements.¹² Furthermore, underdeveloped public and commercial services, lack of infrastructure (e.g. roads, schools and financial institutions), crime, living costs, taxation, and laws and regulations are among those factors that are seen to affect the decisions to invest.¹³

In order to overcome these constraints, supportive measures are necessary. In the following paragraph enabling factors will be addressed as well as supportive measures, especially highlighting conducive policy options.

¹² Galetto, V. (2010) Migration and Productive Investment: A Conceptual Framework. In *Diaspora for Development in Africa* by Plaza, S. and D. Ratha (ed.) (Washington DC: The World Bank).

¹³ Plaza, S. and D. Ratha (2010) Harnessing Diaspora Resources in Africa. In *Diaspora for Development in Africa* by Plaza, S. and D. Ratha (ed.) (Washington DC: The World Bank).





4. Supportive measures and policy recommendations

In the recent past, governments and international (development) organisations dealing with development issues, have started to focus more on giving support to an enabling environment for entrepreneurship in developing countries within their programs of poverty reduction and economic development. For instance, World Bank and the United Nations Industrial Development Organization (UNIDO) have set up new programs to facilitate private sector development and entrepreneurship policies, and have started to provide technical assistance to Small and Medium Enterprises (SMEs).¹⁴

Furthermore, it is very important to invest in helping diaspora entrepreneurs to recognize and tap into opportunities that will promote business activities.¹⁵ This could be done by facilitating education, training and funding in order to increase the diasporas' ability to invest in business. The task of the government is to create an enabling business environment through suitable policies and regulations. Policies that support diaspora entrepreneurs can be very valuable, particularly since the effects of globalization, e.g. internet and inexpensive ways of travelling, create more opportunities for diaspora to

contribute to the economic development of their respective home countries.

These favorable policies should be rolled out in both host and home countries. Support in home country is especially needed for returning diaspora actors who might become important business actors. Governments of home countries should also create structures and policies that promote South-South mobility. As this trend will also be a supportive factor in business development. When creating new policies, governments should avoid short term planning, but consider sustainability and continuity in order to successfully support business development with diaspora actors. Furthermore, a bottom-up approach should be followed with input and collaboration from the diaspora actors themselves. Governments should acknowledge their experience and expertise.¹⁶

It is important to mention that these measures will not be sufficient: diaspora actors need to show initiative and personal will in the first place. For example, they could create an independent transparent platform for exchanging business ideas and the implementation of these. Diaspora actors need to organize themselves and create one information channel towards the government. The diaspora needs a proper

¹⁴ Acs, Z. and N. Virgill (2009) Entrepreneurship in Developing Countries, *Jean Economic Research Papers* (Friedrich Schiller University and Max Planck Institute of Economics: Jena, Germany)

¹⁵ Ibid.

¹⁶ Jonne Kuusisto (2012) *Diaspora Entrepreneurship for Development: The Hague, The Netherlands*





representation towards the government, which will also lead to an increased visibility and recognition of them. The money generated by diaspora and their added value to entrepreneurship will make them an interesting party for development cooperation as well as the private sector.

Finally, in a study done by Newland and Tanaka six additional factors that facilitate entrepreneurship are described.¹⁷ The first is a strong economy. This will lead to more business start-ups, a more friendly legal and regulatory system and a better access to financial services. The second is the implementation of diaspora engagement policies. Diaspora can be provided with information on entrepreneurship, tax breaks, lower import barriers and a special legal status. However, one has to be careful that these stimulating policies do not interfere with the current markets and its players. The third factor is good governance – e.g. a low level of corruption. The fourth is access to financial services, for example through micro-finance schemes. The fifth factor concerns favorable socio-cultural perceptions of entrepreneurship. Being an entrepreneur has different values in different countries. The last factor is a critical mass of human and social capital. People with a higher accumulation of knowledge and education tend to be more entrepreneurial.

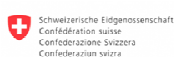
¹⁷ Newland K. and H. Tanaka (2010)

5. EU & Good practice examples

Currently, a research is being carried out by ADPC within the framework of the EADPD project, which already gives us some interesting good practices in the EU. With regard to the EU a difference between the European countries can be seen in terms of size and capacity of diaspora African entrepreneurs, business, and SME's. It appears that the success of diaspora businesses are related to a good policy climate and enabling conditions of the specific host country. As mentioned before in this e-policy brief, this is one of the important factors of successful entrepreneurship. The research shows that most favorable measures were to be found in North-western Europe countries such as Norway, Denmark, Germany, UK, Netherland, and Belgium; to a lesser extent in southern European countries of France, Italy, Spain, Portugal, and least in the central and eastern European countries.

However, the European commission itself recognizes that sometimes diaspora have difficulties realizing their entrepreneurial potentials in its member states. In the common agenda for integration (Com 2005, 389), the Commission recommended that all member states should support migrant entrepreneurship, namely through facilitated access to banking and credit service¹⁸. Some

¹⁸ A Common Agenda for Integration Framework for the Integration of Third-Country Nationals in the European Union. COMMISSION OF THE EUROPEAN





business support services for immigrants are already being provided in many European countries.

The majority of good practices identified in the research are to be found in the enabling environment aimed at empowering African and other immigrant entrepreneurs by strengthening their human, social or financial resources. The empowerment actions are mainly focused on enhancing the human capital of promising enterprises (providing information, education, services, training and advices). The use of social networking was an important aspect of this. Measures introduced by some EU member states, to improve financial services provision is a strong point to mention, for example material assistance like computers. A lot of institutions are supporting co-development projects and programs and offer funds the diaspora can apply for in countries like Germany, UK, Norway, Denmark, Sweden, Finland and Belgium. We can highlight the case of Sweden, as one good practice to recognize and facilitate diasporas important role in the development of their home countries. It developed different programs to engage diasporas as investors, mentors and entrepreneurs. Also, with regard to political actions it aimed to facilitate diaspora engagement through promoting “circular migration”¹⁹.

COMMUNITIES. Brussels, 1.9.2005(Com 2005, 389).

¹⁹ See Madubuko A. Diakite. *‘African Diaspora in Sweden: Unfinished History’* (2005) Lund: Sweden

At the broader level Europe needs more entrepreneurs and a better climate for business if it wants to successfully implement the Lisbon strategy.²⁰ Also, it has to create more and better growth and employment, and in order to promote entrepreneurship, all groups in the society have to be involved. It is possible to conclude that African diaspora entrepreneurial initiatives are, in many ways, the most secure way for immigrants and their families to improve their living standard. The success of these business and entrepreneurial initiatives in Europe bring enormous gain for various actors: for immigrants and their families, for consumers and resident workers, and for both resident and home countries. Thus, both the European and African governments should create favorable conditions and, at the same time reproduce good practices to support the work of other Diaspora groups.

²⁰ The Lisbon Strategy intended to deal with the low productivity and stagnation of economic growth in the EU, through the formulation of various policy initiatives to be taken by all EU member states. The broader objectives set out by the Lisbon strategy were to be attained by 2010. It was adopted for a ten-year period in 2000 in Lisbon, Portugal by the European Council. It broadly aimed to "make Europe, by 2010, the most competitive and the most dynamic knowledge-based economy in the world"





6. Concluding remarks

When reading this E-policy brief, it is hardly surprising that development practitioners and policymakers are showing increasing interest towards the role of diaspora entrepreneurship. Their added value is evident: cultural and linguistic knowledge, necessary connections, familiarity with the business climate, etc. But also the spin-off of their actions are not to be underestimated: advanced business development, job creation, innovation. Even on a macro level one can see positive developments take place, such as a possible contribution to peace and social stability, improvement of human rights, stimulation of knowledge, strengthening governments, facilitate brain-gain, etc.

Regardless the fact that the added value of diaspora is obvious in relation to business & development, still support is needed to stimulate this process. Focus should therefore be on supportive measures such as: a favorable climate for entrepreneurship through suitable policies and regulations; development of education, training and funding in order to increase the diasporas' ability to invest in business; the fight against corruption.

To conclude, it is important that the potential of African diaspora for the promotion of business and entrepreneurship is recognized. This will require specific policies and an enabling environment to harness their potential

and to ensure that they receive specific support they need to develop.

